BANCFIRST CORP /OK/
Form 10-K
February 26, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2018	Commission File Number 0-14384

BANCFIRST CORPORATION

(Exact name of registrant as specified in its charter)

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

101 North Broadway, Oklahoma City, Oklahoma 73102

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (405) 270-1086

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 Par Value Per Share	NASDAQ Global Select Market System

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the Common Stock held by nonaffiliates of the registrant computed using the last sale price on June 30, 2018 was approximately $1,122,037,373.

As of January 31, 2019, there were 32,612,788 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the 2019 Annual Meeting of Stockholders of the registrant (the "2019 Proxy Statement") to be filed pursuant to Regulation 14A are incorporated by reference into Part III of this report.

BANCFIRST CORPORATION

ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. Business.

General

BancFirst Corporation (the “Company”) is a financial holding company headquartered in Oklahoma City, Oklahoma and registered under the Bank Holding Company Act of 1956, as amended (the “BHC Act”). It conducts virtually all of its operating activities through its wholly-owned subsidiary, BancFirst (the “Bank” or “BancFirst”), a state-chartered bank headquartered in Oklahoma City, Oklahoma. The Company also owns 100% of the common securities of BFC Capital Trust II (a Delaware business trust), 100% of Council Oak Partners LLC, an Oklahoma limited liability company engaging in investing activities, 100% of BancFirst Insurance Services, Inc., an Oklahoma business corporation operating as an independent insurance agency and 100% of BancFirst Risk & Insurance Company, a captive insurance company regulated by the Oklahoma Insurance Department.

The Company was incorporated as United Community Corporation in July 1984 to become a bank holding company. In June 1985, it merged with seven Oklahoma bank holding companies that had operated under common ownership and the Company has conducted business as a bank holding company since that time. Over the next several years, the Company acquired additional banks and bank holding companies, and in November 1988 the Company changed its name to BancFirst Corporation. Effective April 1, 1989, the Company consolidated its 12 subsidiary banks and formed BancFirst. Over the intervening decades, the Company has continued to expand through acquisitions and de-novo branches. The Company currently has 107 banking locations serving 58 communities throughout Oklahoma.

The Company’s strategy focuses on providing a full range of commercial banking services to retail customers and small to medium-sized businesses in both the non-metropolitan trade centers and cities in the metropolitan statistical areas of Oklahoma. The Company operates as a “super community bank”, managing its community banking offices on a decentralized basis, which permits them to be responsive to local customer needs. Underwriting, funding, customer service and pricing decisions are made by presidents in each market within the Company’s strategic parameters. At the same time, the Company generally has a larger lending capacity, broader product line and greater operational scale than its principal competitors in the non-metropolitan market areas (which typically are independently owned community banks). In the metropolitan markets served by the Company, the Company’s strategy is to focus on the needs of local businesses that seek more responsive services than are available at larger institutions.

The Bank maintains a strong community orientation by, among other things, selecting members of the communities in which the Bank’s branches operate to local consulting boards that assist in marketing and providing feedback on the Bank’s products and services to meet customer needs. As a result of the development of broad banking relationships with its customers and community branch network, the Bank’s lending and investing activities are funded almost entirely by core deposits.

The Bank centralizes virtually all of its processing, support and investment functions in order to achieve consistency and operational efficiencies. The Bank maintains centralized control functions such as operations support, bookkeeping, accounting, loan review, compliance and internal auditing to ensure effective risk management. The Bank also provides, on a centralized basis, certain specialized financial services that require unique expertise.

The Bank provides a wide range of retail and commercial banking services, including: commercial, real estate, energy, agricultural and consumer lending; depository and funds transfer services; collections; safe deposit boxes; cash management services; trust services; retail brokerage services; and other services tailored for both individual and corporate customers. Through its Technology and Operations Center, the Bank provides item processing, research and other correspondent banking services to financial institutions and governmental units.

The Bank’s primary lending activity is the financing of business and industry in its market areas. Its commercial loan customers are generally small to medium-sized businesses engaged in light manufacturing, local wholesale and retail trade, commercial and residential real estate development and construction, services, agriculture and the energy industry. Most forms of commercial lending are offered, including commercial mortgages, other forms of asset-based financing and working capital lines of credit. In addition, the Bank offers Small Business Administration (“SBA”) guaranteed loans through BancFirst Commercial Capital, a division established in 1991.

Consumer lending activities of the Bank consist of traditional forms of financing for automobiles, home equity loans and other personal loans. Residential loans consist primarily of home loans in non-metropolitan areas, which are generally shorter in duration than typical mortgages and reprice within five years.

The Bank’s range of deposit services include checking accounts, Negotiable Order of Withdrawal (“NOW”) accounts, savings accounts, money market accounts, sweep accounts, club accounts, individual retirement accounts and certificates of deposit. Overdraft protection and auto draft services are also offered. Deposits of the Bank are insured by the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation (“FDIC”).

Trust services offered through the Bank’s Trust and Investment Management Division (the “Trust Division”) consist primarily of investment management and administration of trusts for individuals, corporations and employee benefit plans. In addition, the Trust Division serves as bond trustee and paying agent for various Oklahoma municipalities and governmental entities.

Insurance services offered through BancFirst Insurance Services, Inc. consists of business and personal insurance, employee benefits, surety bonds and claims and risk management.

BancFirst has the following principal subsidiaries: Council Oak Investment Corporation, a small business investment corporation, Council Oak Real Estate, Inc., a real estate investment company, BancFirst Agency, Inc., a credit life insurance agency and BFTower, LLC (which owns a 42.6% ownership interest in SFPC, LLC, a parking garage). All of these companies are Oklahoma corporations.

The Company had approximately 1,906 full-time equivalent employees at December 31, 2018, compared to approximately 1,782 full-time equivalent employees at December 31, 2017. Its principal executive offices are located at 101 North Broadway, Oklahoma City, Oklahoma 73102, telephone number (405) 270-1086.

Market Areas and Competition

The banking environment in Oklahoma is very competitive. The geographic dispersion of the Company’s banking locations presents several different levels and types of competition. In general, however, each location competes with other banking institutions, savings and loan associations, brokerage firms, personal loan finance companies and credit unions within their respective market areas. The communities in which the Bank maintains offices are generally local trade centers throughout Oklahoma. The major areas of competition include interest rates charged on loans, underwriting terms and conditions, interest rates paid on deposits, fees on non-credit services, levels of service charges on deposits, completeness of product lines and quality of service.

Management believes the Company is in an advantageous competitive position operating as a “super community bank.” Under this strategy, the Company provides a broad line of financial products and services for small to medium-sized businesses and consumers through full service community banking offices with decentralized management, while achieving operating efficiency and product scale through product standardization and centralization of processing and other functions. Each full-service banking office has senior management with significant lending experience who exercise substantial autonomy over credit and pricing decisions. This decentralized management approach, coupled with continuity of service by the same staff members, enables the Bank to develop long-term customer relationships, maintain high-quality service and respond quickly to customer needs. The majority of its competitors in the non-metropolitan areas are much smaller, and do not offer the range of products and services nor have the lending capacity of BancFirst. In the metropolitan communities, the Company’s strategy is to be more responsive to, and more focused on, the needs of local businesses that are not served effectively by larger institutions. As reported by the FDIC, the Company’s (including First Bank & Trust and First Bank of Chandler acquired January 11, 2018) market share of deposits within the state of Oklahoma was 7.82% as of June 30, 2018 and 7.69% as of June 30, 2017.

Marketing to existing and potential customers is performed through a variety of media advertising, direct mail and direct personal contacts. The Company monitors the needs of its customer base through its Product Development Group, which develops and enhances products and services in response to such needs. Sales, customer service, compliance and product training are coordinated with incentive programs to sell the Bank’s products and services.

Operating Segments

The Company has four principal business units: metropolitan banks, community banks, other financial services and executive operations and support. For more information on the Company's Operating Segments, see Note (21), "Segment Information," to the Company's Consolidated Financial Statements.

Control of Company

Affiliates of the Company beneficially own approximately 42% of the outstanding shares of the Company's common stock as of January 31, 2019. Under the Company's Bylaws, holders of a majority of the outstanding shares of common stock are able to elect all of the directors and approve significant corporate actions, including business combinations. Accordingly, while the Company's affiliates do not have legal control, i.e., a majority of the outstanding shares of common stock, they have effective control of the Company.

Supervision and Regulation

Banking is a complex, highly regulated industry. The Company's growth and earnings performance and those of the Bank can be affected by management decisions and general and local economic conditions and by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. These authorities include, but are not limited to, the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), the FDIC and the Oklahoma State Banking Department.

The primary goals of the bank regulatory framework are to maintain a safe and sound banking system and to facilitate the conduct of monetary policy. This regulatory framework is intended primarily for the protection of a financial institution's depositors, rather than the institution's stockholders and creditors. The following discussion describes certain of the material elements of the regulatory framework applicable to bank holding companies and financial holding companies and their subsidiaries and provides certain specific information relevant to the Company, which is both a bank holding company and a financial holding company. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed. Further, such statutes, regulations and policies are continually under review by Congress and state legislatures, and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to the Company, including changes in interpretation or implementation thereof, could have a material effect on the Company's business.

Regulatory Agencies

In the U.S., banking is regulated at both the federal and state level. Since 1863, commercial banks in the United States have been able to choose to organize as national banks with a charter issued by the Office of the Comptroller of the Currency ("OCC") or as state banks with a charter issued by a state government. The choice of charter determines which agency will supervise the bank: the primary supervisor of nationally chartered banks is the OCC, whereas state-chartered banks are supervised jointly by their state chartering authority and either the FDIC or the Federal Reserve Board, depending upon whether the state-chartered bank is a member of the Federal Reserve System. The Company's banking subsidiary, BancFirst, is chartered by the State of Oklahoma and at the state level is supervised and regulated by the Oklahoma State Banking Department under the Oklahoma Banking Code. BancFirst has elected not to be a member of the Federal Reserve System and, consequently, is supervised and regulated by the FDIC at the federal level. The Bank's deposits are insured by the Deposit Insurance Fund ("DIF") of the FDIC to the extent provided by law.

As a financial holding company and a bank holding company, the Company is subject to comprehensive regulation by the Federal Reserve Board under the BHC Act, as amended by the Gramm-Leach-Bliley Act of 1999 (the "GLB Act"), the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and other legislation, as well as other federal and state laws governing the banking business. The BHC Act provides generally for regulation of financial holding companies and bank holding companies such as the Company by the Federal Reserve Board, and for functional regulation of banking activities by bank regulators, securities activities by securities regulators, and insurance activities by insurance regulators. Additionally, the Company is under the jurisdiction of the Securities and Exchange Commission ("SEC") and is subject to the periodic reporting, information, proxy solicitation, insider trading, corporate governance and other restrictions and requirements of the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company's common stock is listed on the NASDAQ Global Select Market System under the trading symbol "BANF," and is subject to the listing and marketplace rules of the NASDAQ Stock

Market, Inc. (the “NASDAQ”).

The Federal Reserve Board supervises non-banking activities conducted by companies directly and indirectly owned by the Company. In addition, the Company’s non-banking subsidiaries are subject to various other laws, regulations, supervision and examination by other regulatory agencies, all of which directly or indirectly affect the operations and management of the Company and its ability to make distributions to stockholders.

Bank Holding Company and Financial Holding Company Activities

The BHC Act generally limits the activities in which the Company and its non-banking subsidiaries may engage, to managing or controlling banks and to a range of activities that are considered to be closely related to banking. The list of activities permitted by the Federal Reserve Board includes, among other things: lending; operating a savings institution, mortgage company, finance company, credit card company or factoring company; performing certain data processing operations; providing certain investment and financial advice; underwriting and acting as an insurance agent for certain types of credit-related insurance; leasing property on a full-payout, non-operating basis; selling money orders; real estate and personal property appraising; providing tax planning and preparation services; and, subject to certain limitations, providing securities brokerage services for customers. These activities may also be affected by other federal legislation.

Bank holding companies that have elected to be treated as financial holding companies, such as the Company, may engage in a broader range of activities considered "financial in nature."

“Financial in nature” activities include securities underwriting, dealing and market making, sponsoring mutual funds and investment companies, insurance underwriting and agency, merchant banking and other activities that the Federal Reserve Board, in consultation with the Secretary of the U.S. Treasury, determines from time to time to be financial in nature or incidental to such financial activity or is complementary to a financial activity and does not pose a safety and soundness risk.

To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be “well capitalized” and “well managed.” A depository institution subsidiary is considered “well capitalized” if it satisfies the requirements for this status discussed in the section captioned “Capital Requirements,” included elsewhere in this item. A depository institution subsidiary is considered “well managed” if it received a composite rating and management rating of at least “satisfactory” in its most recent examination. A financial holding company’s status will also depend upon it maintaining its status as “well capitalized” and “well managed” under applicable Federal Reserve Board regulations. If a financial holding company ceases to meet these capital and management requirements, the Federal Reserve Board’s regulations provide that the financial holding company must enter into an agreement with the Federal Reserve Board to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the Federal Reserve Board may impose limitations or conditions on the conduct of its activities, and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the Federal Reserve Board. If the company does not return to compliance within 180 days, the Federal Reserve Board may require divestiture of the holding company’s depository institutions. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.

In order for a financial holding company to commence any new activity permitted by the BHC Act or to acquire a company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least “satisfactory” in its most recent examination under the Community Reinvestment Act. See the section captioned “Community Reinvestment Act” included elsewhere in this item.

The Federal Reserve Board has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve Board has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

Federal and state laws impose notice and approval requirements for mergers and acquisitions of other depository institutions or bank holding companies. The BHC Act requires the prior approval of the Federal Reserve Board for the direct or indirect acquisition by a bank holding company of more than 5% of the voting shares or substantially all of the assets of a commercial bank or its parent holding company (including a financial holding company). Additionally, under the Bank Merger Act, the prior approval of the Federal Reserve Board or other appropriate bank regulatory authority is required for a bank to merge with another bank, purchase the assets or assume the deposits of another bank. In determining whether to approve a proposed bank acquisition or merger, bank regulatory authorities will consider, among other factors, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant’s performance record under the Community Reinvestment Act (see the section captioned “Community Reinvestment Act” included elsewhere in this item) and its compliance with fair housing and other consumer protection laws and the effectiveness of the subject organizations in combating money laundering activities.

Dividend Restrictions

The principal source of the Company's liquidity is dividends from the Bank. Various federal and state statutory provisions and regulations limit the amount of dividends the Company's subsidiary bank and certain other subsidiaries may pay without regulatory approval. The payment of dividends by its subsidiary bank may also be affected by other regulatory requirements and policies, such as the maintenance of adequate capital. If, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in, or is about to engage in, an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice. The appropriate federal regulatory authorities have stated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve Board has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

Under the Dodd-Frank Act, institutions with average total consolidated assets greater than $10 billion are required to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two stress scenarios provided by the federal bank regulators. The company-run stress tests are conducted using data as of December 31 of the preceding calendar year and scenarios released by the agencies. Capital ratios reflected in the stress test calculations are an important factor considered by the Federal Reserve Board in evaluating whether proposed payments of dividends or stock repurchases may be an unsafe or unsound practice. The rules apply to institutions with average total consolidated assets greater than $10 billion and, accordingly, do not currently apply to the Company, which had total consolidated assets at December 31, 2018 of approximately $7.6 billion. However, while the Federal Reserve Board has stated that smaller banking organizations such as the Company are not required or expected to conduct the types of stress-testing specifically mandated by the rules, they continue to emphasize that all banking institutions, regardless of size, should have the capacity to analyze the potential impact of adverse outcomes on their financial condition.

Transactions with Affiliates

The Company and the Bank are deemed affiliates of each other within the meaning of the Federal Reserve Act, and covered transactions between affiliates are subject to certain restrictions, including compliance with Sections 23A and 23B of the Federal Reserve Act and their implementing regulations. These regulations limit the types and amounts of covered transactions engaged in by a financial institution and its affiliates, and generally require those transactions to be on an arm's-length basis. "Covered transactions" are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve Board) from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In general, these regulations require that any such transaction by a financial institution with an affiliate must be secured by designated amounts of specified collateral and must be limited to certain thresholds on an individual and aggregate basis.

Federal law also limits a bank's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. In addition, the terms of such extensions of credit may not involve more than the normal risk of non-repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons individually and in the aggregate.

Source of Strength

Federal Reserve Board policy requires bank holding companies to act as a source of financial and managerial strength to their subsidiary banks and, under appropriate circumstances, to commit resources to support each such subsidiary bank. This support may be required at times when the bank holding company may not have the resources to provide the support. If a bank holding company was unable to pay mandated assessments in support of its subsidiary bank, the FDIC could order the sale of the bank holding company's stock in the subsidiary bank to cover the deficiency.

Capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and certain other indebtedness of the subsidiary bank. In addition, in the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of its subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Capital Requirements

The Company and the Bank are each required to comply with applicable capital adequacy standards established by the Federal Reserve Board and the FDIC. The current risk-based capital standards applicable to the Company and the Bank are based on the December 2010 final capital framework for strengthening international capital standards, known as Basel III, of the Basel Committee on Banking Supervision (the “Basel Committee”). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country’s supervisors in determining the supervisory policies they apply. The requirements are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Prior to January 1, 2015, the risk-based capital standards applicable to the Company and the Bank were based on the 1988 Capital Accord, known as Basel I, of the Basel Committee. In July 2013, the federal bank regulators approved final rules (the “Basel III Capital Rules”) implementing the

Basel III framework as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depositary institution subsidiaries, including the Company and the Bank, as compared to the general risk-based capital rules under Basel I. The Basel III Capital Rules became effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period for certain provisions).

As an additional means to identify problems in the financial management of depository institutions, the Federal Deposit Insurance Act (the “FDI Act”) requires federal bank regulatory agencies to establish certain non-capital safety and soundness standards for institutions for which they are the primary federal regulator. The standards relate generally to operations and management, asset quality, interest rate exposure and executive compensation. The agencies are authorized to take action against institutions that fail to meet such standards.

Basel III Capital Rules Effective January 1, 2015.

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

Under the Basel III Capital Rules, the initial minimum capital ratios are as follows:

• 4.5% CET1 to risk-weighted assets.

• 6.0% Tier 1 capital to risk-weighted assets.

• 8.0% Total capital to risk-weighted assets.

• 4.0% Tier 1 capital to average quarterly assets (known as the “leverage ratio”).

The Basel III Capital Rules also require a “capital conservation buffer”, composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and increased by 0.625% on each subsequent January 1, until it reached 2.5% on January 1, 2019. The Basel III Capital Rules also provide for a “countercyclical capital buffer” that is only applicable to certain covered institutions and does not have any current applicability to the Company or the Bank. The capital conservation buffer is designed to absorb losses during periods of economic stress and effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of CET1 to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the countercyclical capital buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The enactment of the Basel III Capital Rules has increased the Company’s required capital levels and those of the Bank from levels previously required. Management believes that as of December 31, 2018, the Company and the Bank would have met all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements had been in effect at such date.

As of January 1, 2019, the Basel III Capital Rules requires the Company and the Bank to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, (iii) a minimum ratio of total capital to risk-weighted assets of at least 10.5%; and (iv) a minimum leverage ratio of 4%. As of December 31, 2018, the Company had a CET1 ratio of 14.87%, a Tier 1 ratio of 15.35%, a total capital ratio of 16.29% and a leverage ratio of 11.09%. As of December 31, 2018, the Bank had a CET1 ratio of 12.78%, a Tier 1 ratio of 13.15%, a total capital ratio of 14.09% and a leverage ratio of 9.49%.

Liquidity Coverage Ratio

The liquidity framework under the Basel III Capital Rules (the "Basel III liquidity framework") applies a balance sheet perspective to establish quantitative standards designed to ensure that a banking organization is appropriately positioned to satisfy its short- and long-term funding needs. One test to address short-term liquidity risk is referred to as the liquidity coverage ratio ("LCR"), designed to calculate the ratio of a banking entities' ratio of high-quality liquid assets to its total net cashflows over a 30-day time horizon. The other test, referred to as the net stable funding ratio ("NSFR"), is designed to promote more medium- and long-term asset funding by incenting banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt, as well as increase the use of long-term debt as a funding source. The Basel III liquidity framework was implemented as a minimum standard on January 1, 2015, with a phase-in period ending January 1, 2019.

In September 2014, the federal bank regulators approved final rules implementing the LCR for advanced approaches banking organizations (i.e., banking organizations with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance sheet foreign exposure) and a modified version of the LCR for bank holding companies with at least $50 billion in total consolidated assets that are not advanced approach banking organizations, neither of which would apply to the Company or the Bank. In the second quarter of 2016, the federal banking regulators issued a proposed rule that would implement the NSFR for certain U.S. banking organizations to ensure they have access to stable funding over a one-year time horizon. The proposed rule would not apply to U.S. banking organizations with less than $50 billion in total consolidated assets such as the Company and the Bank.

Following the enactment of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 ("EGRRCPA"), the Federal Reserve Board stated in July 2018 that it would no longer require bank holding companies with less than $100 billion in total consolidated assets to comply with the modified version of the LCR. In addition, in October 2018, the federal bank regulators proposed to revise their liquidity requirements so that banking organizations that are not global systemically important banks and have less than $250 billion in total consolidated assets and less than $75 billion in each of off-balance-sheet exposure, nonbank assets, cross-jurisdictional activity and short-term wholesale funding would not be subject to any LCR or NSFR requirements.

Prompt Corrective Action

The FDI Act requires federal bank regulatory agencies to take “prompt corrective action” with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. A depository institution’s treatment for purposes of the prompt corrective action provisions will depend upon how its capital levels compare to various capital measures and certain other factors, as established by regulation.

Under this system, the federal banking regulators have established five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, in which all depository institutions are placed. The federal banking regulators have specified by regulation the relevant capital levels for each of the categories. Under certain circumstances, a well-capitalized, adequately capitalized or undercapitalized institution may be treated as if the institution were in the next lower capital category. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. A depository institution that is undercapitalized is required to submit a capital restoration plan. Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies by federal bank regulatory agencies, including termination of deposit insurance by the FDIC, restrictions on certain business activities and appointment of the FDIC as conservator or receiver. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized.

A bank will be (i) “well capitalized” if the institution has a total risk-based capital ratio of 10.0% or greater, a CET1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) “adequately capitalized” if the institution has a total risk-based capital ratio of 8.0% or greater, a CET1 capital ratio of 4.5% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 4.0% or greater and is not “well capitalized”; (iii) “undercapitalized” if the institution has a total risk-based capital ratio that is less than 8.0%, a CET1 capital ratio less than 4.5%, a Tier 1 risk-based capital ratio of less than 6.0% or a leverage ratio of less than 4.0%; (iv) “significantly undercapitalized” if the institution has a total risk-based capital ratio of less than 6.0%, a CET1 capital ratio less than 3.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 3.0%; and (v) “critically undercapitalized” if the institution’s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank’s capital category is determined solely for applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank’s overall financial condition or prospects for other purposes.

The FDI Act generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be “undercapitalized.” “Undercapitalized” institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution’s capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution's total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized."

"Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

The appropriate federal banking agency may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. The FDIA provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice. The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

The Company believes that, as of December 31, 2018, the Bank was "well capitalized" based on the aforementioned ratios.

Deposit Insurance Assessments

The deposits of the Bank are insured by the FDIC in the standard insurance amount of $250,000 per depositor for each account ownership category. This insurance is funded through assessments on the Bank and other insured depository institutions. The FDIC's risk-based assessment system requires members to pay varying assessment rates depending upon the level of the institution's capital and the degree of supervisory concern over the institution.

The FDIC insures the deposits of federally insured banks up to prescribed statutory limits for each depositor, currently $250,000 per depositor for each account ownership category. This insurance is funded through assessments on all insured depository institutions that are paid into the Deposit Insurance Fund ("DIF"). The amount of FDIC assessments paid by each insured depository institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. The FDIC's deposit insurance premium assessment is based on an institution's average consolidated total assets minus average tangible equity. The Bank is generally unable to control the amount of premiums that it is required to pay for FDIC insurance. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking, if required. If there are additional bank or financial institution failures or if the FDIC otherwise determines to increase assessment rates, the Bank may be required to pay higher FDIC insurance premiums. Any future increases in FDIC insurance premiums may have a material and adverse effect on the Bank's, and hence the Company's, earnings.

The Company's FDIC insurance expense totaled $2.4 million, $2.3 million and $2.9 million in 2018, 2017 and 2016, respectively. FDIC insurance expense includes deposit insurance assessments as well as Financing Corporation ("FICO") assessments. All FDIC-insured depository institutions must pay an annual FICO assessment to provide funds for the payment of interest on bonds issued by FICO during the 1980s to resolve the thrift bailout. FDIC-insured depository institutions paid an average FICO assessment of 39 cents for each $100 of assessable deposits in 2018.

As insurer, the FDIC is authorized to conduct examinations of and to require reporting by DIF-insured institutions. It also may prohibit any DIF-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the DIF. The FDIC also has the authority to take enforcement actions against insured institutions.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged or is engaging in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement entered into with the FDIC. The Company does not know of any practice, condition or violation that might lead to termination of deposit insurance for its banking subsidiary.

Safety and Soundness Standards

The FDI Act requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits and such other operational and managerial standards as the agencies deem appropriate. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the “prompt corrective action” provisions of the FDI Act. See “--Prompt Corrective Action” above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Federal Banking Agency Compensation Guidelines

The Federal Reserve Board reviews, as part of its regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not “large, complex banking organizations.” These reviews are tailored to each organization based on the scope and complexity of the organization’s activities and the prevalence of incentive compensation arrangements. The findings of this supervisory initiative will be included in reports of examination. Deficiencies will be incorporated into the organization’s supervisory ratings, which can affect the organization’s ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization’s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In June 2010, the Federal Reserve Board, OCC and FDIC issued a comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization’s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization’s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk-management and (iii) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors.

During the second quarter of 2016, the U.S. financial regulators, including the Federal Reserve Board and the SEC, proposed revised rules on incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets (which would include the Company and the Bank). The proposed revised rules would establish general qualitative requirements applicable to all covered entities, which would include (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements; and (v) mandating appropriate record-keeping. Under the proposed rule, larger financial institutions with total consolidated assets of at least $50 billion would be subject to additional requirements applicable to such institutions' "senior executive officers" and "significant risk-takers." These additional requirements would not be applicable to the Company or the Bank.

The scope, content and application of the U.S. banking regulators' policies on incentive compensation continue to evolve. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of the Company and the Bank to hire, retain and motivate key employees.

Cybersecurity

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures, to reliably authenticate customers accessing internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. Failure to observe the regulatory guidance could subject the Company and the Bank to various regulatory sanctions, including financial penalties.

In the ordinary course of business, the Bank relies on electronic communications and information systems to conduct its operations and to store sensitive data. It employs an in-depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. The Bank employs a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyber attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date, the Bank has not detected a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, the Bank's systems and those of its customers and third-party service providers are under constant threat and it is possible that the Bank could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by the Bank and its customers. See Item 1A. Risk Factors for a further discussion of risks related to cybersecurity.

Fiscal and Monetary Policies

The Company's business and earnings are affected significantly by the fiscal and monetary policies of the federal government and its agencies. The Company is particularly affected by the policies of the Federal Reserve Board, which regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the Federal Reserve Board are (a) conducting open market operations in United States government securities, (b) changing the discount rates of borrowings of depository institutions, (c) imposing or changing reserve requirements against depository institutions' deposits and (d) imposing or changing reserve requirements against certain borrowings by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. The policies of the Federal Reserve Board may have a material effect on the Company's business, results of operations and financial condition.

Privacy Provisions of the GLB Act

Federal banking regulators, as required under the GLB Act, have adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial services companies and conveyed to outside vendors.

Anti-Money Laundering and the Patriot Act

The USA Patriot Act of 2001 (the “Patriot Act”) is intended to strengthen the ability of U.S. law enforcement agencies and intelligence communities to work together to combat terrorism on a variety of fronts. The Patriot Act substantially broadened the scope of the U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued a number of implementing regulations, which apply various requirements of the Patriot Act to financial institutions such as the Bank. Those regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and have significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act also requires federal bank regulators to evaluate the effectiveness of an applicant in combating money laundering in determining whether to approve a proposed bank acquisition. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Office of Foreign Assets Control Regulation

The U.S. Treasury Department's Office of Foreign Assets Control, or OFAC, administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries.

Banking regulators examine banks for compliance with the economic sanctions regulations administered by OFAC. Financial institutions are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious financial, legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (the "CRA"), requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practices. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the CRA. Furthermore, banking regulations take into account CRA rating when considering approval of a proposed transaction. During its last examination in 2018, a rating of "satisfactory" was received by the Bank. In April 2018, the U.S. Department of Treasury issued a memorandum to the federal banking regulators with recommended changes to the CRA's implementing regulations to reduce their complexity and associated burden on banks. The Company will continue to evaluate the impact of any changes to the regulations implementing the CRA.

Consumer Laws and Regulations

Banks and other financial institutions are subject to numerous laws and regulations intended to protect consumers in their transactions with banks. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act and these laws' respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices, restrict the Company's ability to raise interest rates and subject the Company to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which we operate and civil money penalties. Failure to comply with consumer protection requirements may also result in the Company’s failure to obtain any required bank regulatory approval for merger or acquisition transactions the Company may wish to pursue or its prohibition from engaging in such transactions even if approval is not required.

The Consumer Financial Protection Bureau (“CFPB”) is a federal agency responsible for implementing, examining and enforcing compliance with federal consumer protection laws. The CFPB focuses on:

- Risks to consumers and compliance with the federal consumer financial laws, when it evaluates the policies and practices of a financial institution.
- The markets in which firms operate and risks to consumers posed by activities in those markets.
- Depository institutions that offer a wide variety of consumer financial products and services.

- Depository institutions with a more specialized focus.
- Non-depository companies that offer one or more consumer financial products or services.

The CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit “unfair, deceptive or abusive” acts and practices. Abusive acts or practices are defined as those that materially interfere with a consumer’s ability to understand a term or condition of a consumer financial product or service or take unreasonable advantage of a consumer’s (i) lack of financial savvy, (ii) inability to protect himself in the selection or use of consumer financial products or services, or (iii) reasonable reliance on a covered entity to act in the consumer’s interests. The CFPB can issue cease-and-desist orders against banks and other entities that violate consumer financial laws. The CFPB may also institute a civil action against an entity in violation of federal consumer financial law in order to impose a civil penalty or injunction. The CFPB has examination and enforcement authority over all banks with more than $10 billion in assets, as well as their affiliates. Banking regulators take into account compliance with consumer protection laws when considering approval of a proposed transaction.

Interstate Banking and Branching

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act, as amended by the Dodd-Frank Act (the “Riegle-Neal Act”), a bank holding company may acquire banks in states other than its home state, subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, prior to or following the proposed acquisition, control no more than 10% of the total amount of deposits of insured depository institutions nationwide and no more than 30% of such deposits in that state (or such amount as set by the state if such amount is lower than 30%).

The Riegle-Neal Act also authorizes banks to merge across state lines, thereby creating interstate branches. Banks are also permitted to either acquire existing banks or to establish new branches in other states where authorized under the laws of those states. Effective July 21, 2011, the Dodd-Frank Act also required that a bank holding company or bank be well-capitalized and well-managed (rather than simply adequately capitalized and adequately managed) in order to take advantage of these interstate banking and branching provisions.

Depositor Preference

The FDI Act provides that, in the event of the “liquidation or other resolution” of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors with respect to any extensions of credit they have made to such insured depository institution.

Changes in Laws, Regulations or Policies

Banking is a heavily regulated industry. Additional initiatives may be proposed or introduced before Congress and other government bodies in the future. Such proposals, if enacted, may further alter the structure, regulation and competitive relationship among financial institutions and may subject the Company to increased supervision and disclosure and reporting requirements. In addition, the various bank regulatory agencies often adopt new rules, regulations, and policies to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulatory changes in policy may be enacted or the extent to which the business of the Company would be affected thereby.

State Regulation

BancFirst is an Oklahoma-chartered state bank. Accordingly, BancFirst's operations are subject to various requirements and restrictions of Oklahoma state law relating to loans, lending limits, interest rates payable on deposits, investments, mergers and acquisitions, borrowings, dividends, capital adequacy and other matters. However, Oklahoma banking law specifically empowers a state-chartered bank such as BancFirst to exercise the same powers as are conferred upon national banks by the laws of the United States and the regulations and policies of the Office of the Comptroller of the Currency, unless otherwise prohibited or limited by the State Banking Commissioner or the State Banking Board. Accordingly, unless a specific provision of Oklahoma law otherwise provides, a state-chartered bank is empowered to conduct all activities that a national bank may conduct.

National banks are authorized by the GLB Act to engage, through "financial subsidiaries," in any activity that is permissible for a financial holding company and any activity that the Secretary of the Treasury, in consultation with the Federal Reserve Board, determines is financial in nature or incidental to any such financial activity, except (1) insurance underwriting, (2) real estate development or real estate investment activities (unless otherwise permitted by law), (3) insurance company portfolio investments and (4) merchant banking. The authority of a national bank to invest in a financial subsidiary is subject to a number of conditions, including, among other things, requirements that the bank must be well managed and well capitalized (after deducting from the bank's capital outstanding investments in financial subsidiaries). The GLB Act provides that state nonmember banks, such as BancFirst, may invest in financial subsidiaries (assuming they have the requisite investment authority under applicable state law), subject to the same conditions that apply to national bank investments in financial subsidiaries.

As a state nonmember bank, BancFirst is subject to primary supervision, periodic examination and regulation by the State Banking Board and the FDIC, and Oklahoma law provides that BancFirst must maintain reserves against deposits as required by the FDI Act. The Oklahoma State Bank Commissioner is authorized by statute to accept an FDIC examination in lieu of a state examination. In practice, the FDIC and the Oklahoma State Banking Department alternate examinations of BancFirst. If, as a result of an examination of a bank, the Oklahoma Banking Department determines that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the bank's operations are unsatisfactory or that the management of the bank is violating or has violated any law or regulation, various remedies, including the remedy of injunction, are available to the Oklahoma Banking Department. Oklahoma law permits the acquisition of an unlimited number of wholly-owned bank subsidiaries so long as aggregate deposits at the time of acquisition in a multi-bank holding company do not exceed 20% of the total amount of deposits of insured depository institutions located in Oklahoma.

In addition to the provisions of the GLB Act that authorize state nonmember banks to invest in financial subsidiaries (assuming they have the requisite investment authority under applicable state law) on the same conditions that apply to national banks, Federal Deposit Insurance Corporation Improvement Act ("FDICIA") provides that FDIC-insured state banks such as BancFirst may engage directly or through a subsidiary in certain activities that are not permissible for a national bank, if the activity is authorized by applicable state law, the FDIC determines that the activity does not pose a significant risk to the DIF and the bank is in compliance with its applicable capital standards.

Securities Laws

The Company's common stock is publicly held and listed on the NASDAQ Global Select Market, and the Company is subject to the periodic reporting, information, proxy solicitation, insider trading, corporate governance and other requirements and restrictions of the Securities Exchange Act of 1934 and the regulations of the SEC promulgated thereunder as well as listing requirements of the NASDAQ. In addition, the Dodd-Frank Act includes provisions that affect corporate governance and executive compensation at most United States publicly traded companies, including the Company.

The Company is also subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

- required executive certification of financial presentation;
- increased requirements for board audit committees and their members;
- enhanced disclosures of controls and procedures and internal control over financial reporting;
- enhanced controls over, and reporting of, insider trading and
- increased penalties for financial crimes and forfeiture of executive bonuses in certain circumstances.

Available Information

The Company maintains a website at www.bancfirst.bank. The Company provides copies of the most recently filed 10-K, 10-Q and proxy statements, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the Company electronically files the material with, or furnishes it to, the SEC. The website also provides links to the SEC's website (http://www.sec.gov) where all of the Company's filings with the SEC can be obtained immediately upon filing. You may also request a copy of the Company's filings, at no cost, by writing or telephoning the Company at the following address:

BancFirst Corporation

101 N. Broadway

Oklahoma City, Oklahoma 73102

ATTENTION: Randy Foraker

Executive Vice President

(405) 270-1044

1A. Risk Factors

In the course of conducting our business operations, we are exposed to a variety of risks that are inherent to the financial services industry. The following discusses some of the key inherent risk factors that could affect our business and operations. The risks and uncertainties described below are not the only ones we are facing. Other factors besides those discussed below or elsewhere in this report also could adversely affect our business and operations, and the risk factors discussed below should not be considered a complete list of potential risks that may affect us. Further, to the extent that any of the information contained in this report constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

Risks Related to Our Business

Changes in economic conditions, especially in the State of Oklahoma, pose significant challenges for us and could adversely affect our financial condition and results of operations.

Our business is affected by conditions outside our control, including the rate of economic growth in general, the level of unemployment, increases in inflation and the level of interest rates. Economic conditions affect the level of demand for and the profitability of our products and services. A slowdown in the general economic activity, particularly in Oklahoma, could negatively impact our business. Our bank subsidiary operates exclusively within the State of Oklahoma and, unlike larger national or superregional banks that serve a broader and more diverse geographic region; our lending is also primarily concentrated in the State of Oklahoma. As a result, our financial condition, results of operations and cash flows are subject to changes in the economic conditions in our state. Our continued success is largely dependent upon the continued growth or stability of the communities we serve. A decline in the economies of these communities could negatively impact our net income and profitability. Additionally, declines in the economies of these communities and of the State of Oklahoma in general could affect our ability to generate new loans or to receive repayments of existing loans, and our ability to attract new deposits, adversely affecting our financial condition.

We may be adversely affected by declining crude oil prices.

Recent years have been marked by significant volatility in market oil prices. Decreased market oil prices have compressed margins for many U.S. and Oklahoma-based oil producers, particularly those that utilize higher-cost production technologies such as hydraulic fracking and horizontal drilling, as well as oilfield service providers, energy equipment manufacturers and transportation suppliers, among others. As of December 31, 2018, the price per barrel of crude oil was approximately $54 compared to a high of over $100 in 2014 and a low of approximately $30 at the beginning of 2016. If oil prices drop below the marginal cost of production for an extended period, we would expect to experience weaker energy loan demand and increased losses within our energy portfolio. Furthermore, a prolonged period of low oil prices could also have a negative impact on the energy producing economies and, in particular, the economies of states such as Oklahoma, where the energy industry is a significant driver of economic activity. Although as of December 31, 2018, reserve-based and service energy loans comprised less than 4% of our loan portfolio, the impact of lower oil prices could have an indirect impact on our other loan portfolio segments, for example, commercial real estate (“CRE”).

A substantial portion of our loan portfolio is secured by real estate, in particular commercial real estate. Deterioration in the real estate markets could lead to losses, which could have a material negative effect on our financial condition and results of operations.

Loans secured by real estate constitute a significant portion of our loan portfolio. At December 31, 2018, this percentage was 64.8% compared to 64.4% at December 31, 2017. While our record of asset quality has historically been solid, we cannot guarantee that our record of asset quality will be maintained in future periods. The ability of our borrowers to repay their loans could be adversely impacted by a significant change in market conditions, which not only could result in our experiencing an increase in charge-offs, but also could necessitate increasing our provision for loan losses. In addition, because one to four family residential and commercial real estate loans represent the majority of our real estate loans outstanding, a decline in tenant occupancy due to such factors or for other reasons could adversely impact the ability of our borrowers to repay their loans on a timely basis, which could have a negative impact on our financial condition and results of operations.

If a significant number of customers fail to perform under their loans, our business, profitability and financial condition would be adversely affected.

There are inherent risks associated with our lending activities. As a lender, we face the risk that a significant number of our borrowers will fail to pay their loans because of other factors, including the impact of changes in interest rates and changes in the economic conditions in the markets where we operate. If borrower defaults cause losses in excess of our allowance for loan losses, it could have an adverse effect on our business, profitability and financial condition. We have established an evaluation process designed to recognize loan losses as they occur. While this evaluation process uses historical and other objective information, the classification of loans and the estimation of loan losses are dependent to a great extent on our experience and judgment. If charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and capital, and may have a material adverse effect on our financial condition and results of operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” located elsewhere in this report for further discussion related to our process for determining the appropriate level of the allowance for loan losses. We cannot assure you that our future loan losses will not have any material adverse effects on our business, profitability or financial condition.

Technological advances in payment processing is expected to negatively impact our interchange revenue.

Interchange fees, or “swipe” fees, are charges that merchants pay to the processors who, in turn, share that revenue with us and other card-issuing banks for processing electronic payment transactions. Rapid, significant technological changes continue to confront the payments industry. Technological advances and the growth of e-commerce have made it possible for non-depository institutions to offer products and services that traditionally were banking products, and for financial institutions and other companies to provide electronic and internet-based financial solutions for processing electronic payment transactions. These include developments in smart cards, e-commerce, mobile and radio frequency and proximity payment devices, such as contactless cards. Ongoing or increased competition in payment processing may restrict our ability to generate interchange revenue in the future. For the year ended December 31, 2018, debit card interchange revenue represented 23.8% of our noninterest income.

New consumer protection laws may reduce our noninterest income.

We are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. The Dodd-Frank Act established the Consumer Financial Protection Bureau ("CFPB") with powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive acts and practices.” The CFPB also has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets for certain designated consumer laws and regulations. The other federal banking agencies enforce such consumer laws and regulations for banks and savings institutions under $10 billion in assets. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices and restrict our ability to raise interest rates and charge NSF fees. A significant portion of our noninterest income is derived from service charge income, including NSF fees, which represented 25.0% of our noninterest income for the year ended December 31, 2018. Violations of applicable consumer protection laws can also result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys’ fees.

Fluctuations in interest rates could reduce our profitability.

We realize income primarily from the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-earning assets will be more sensitive to changes in market interest rates than our interest-bearing liabilities, or vice versa. Changes in market interest rates either could positively or negatively affect our net interest income and our profitability, depending on the magnitude, direction and duration of the change. If interest rates decline, our net interest margin could experience compression.

We are unable to predict fluctuations of market interest rates, which are affected by, among other factors, changes in inflation rates, economic growth, money supply, government debt, domestic and foreign financial markets and political developments, including terrorist acts and acts of war. Our asset-liability management strategy, which is designed to mitigate our risk from changes in market interest rates, may not be able to mitigate changes in interest rates from having a material adverse effect on our results of operations and financial condition.

Changes in monetary policies may have an adverse effect on our business.

Our results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve Board. Actions by monetary and fiscal authorities, including the Federal Reserve Board, could have an adverse effect on our deposit levels, loan demand or business earnings. See “Item 1 - Business-Supervision and Regulation.” Our profitability is greatly dependent upon our earning a positive interest spread between our loan and securities portfolio, and our funding deposits and borrowings. Changes in the level of interest rates, a prolonged unfavorable interest rate environment or a decrease in our level of deposits that increases our cost of funds could negatively affect our profitability and financial condition.

The repeal of federal prohibitions on payment of interest on business checking accounts could increase our interest expense.

All federal prohibitions on the ability of financial institutions to pay interest on business checking accounts were repealed as part of the Dodd-Frank Act beginning on July 21, 2011. Our interest expense will increase and our net interest margin will decrease if we begin offering interest on business checking accounts to attract additional customers or maintain current customers, which could have a material adverse effect on our business, financial condition and results of operations.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. Information security breaches and cybersecurity-related incidents may include, but are not limited to, attempts to access information, including customer and company information, malicious code, computer viruses and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service or other events. These types of threats may derive from human error, fraud or malice on the part of external or internal parties, or may result from accidental technological failure. Further, to access our products and services our customers may use computers and mobile devices that are beyond our security control systems. Our technologies, systems, networks and software and those of other financial institutions have been, and are likely to continue to be, the target of cybersecurity threats and attacks, which may range from uncoordinated individual attempts to sophisticated and targeted measures directed at us. The risk of a security breach or disruption, particularly through cyber-attack or cyber intrusion, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased.

Our business requires the collection and retention of large volumes of customer data, including personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. The integrity and protection of that customer and company data is important to us. Our collection of such customer and company data is subject to extensive regulation and oversight. Our customers and employees have been, and will continue to be, targeted by parties using fraudulent e-mails and other communications in attempts to misappropriate passwords, bank account information or other personal information or to introduce viruses or other malware through “Trojan horse” programs to our information systems and/or our customers' computers. Though we endeavor to mitigate these threats through product improvements, use of encryption and authentication technology and customer and employee education, such cyber attacks against us or our merchants and our third party service providers remain a serious issue. The pervasiveness of cybersecurity incidents in general and the risks of cyber crime are complex and continue to evolve. More generally, publicized information concerning security and cyber-related problems could inhibit the use or growth of electronic or web-based applications or solutions as a means of conducting commercial transactions.

Although we make significant efforts to maintain the security and integrity of our information systems and have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because attempted security breaches, particularly cyber-attacks and intrusions, or disruptions will occur in the future, and because the techniques used in such attempts are constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is virtually impossible for us to entirely mitigate this risk. While we maintain specific "cyber" insurance coverage, which would apply in the event of various breach scenarios, the amount of coverage may not be adequate in any particular case. Furthermore, because cyber threat scenarios are inherently difficult to predict and can take many forms, some breaches may not be covered under our cyber insurance coverage. A security breach or other significant disruption of our information systems or those related to our customers, merchants and our third party vendors, including as a result of cyber-attacks, could (i) disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our customers; (ii) result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of confidential, sensitive or otherwise valuable information of ours or our customers; (iii) result in a violation of applicable privacy, data breach and other laws, subjecting us to additional regulatory scrutiny and expose us to civil litigation, governmental fines and possible financial liability; (iv) require significant management attention and resources to remedy the damages that result; or (v) harm our reputation or cause a decrease in the number of customers that choose to do business with us. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

We rely on certain external vendors.

We are reliant upon certain external vendors to provide products and services necessary to maintain our day-to-day operations. These third party vendors are sources of operational and informational security risk to us, including risks associated with operational errors, information system interruptions or breaches and unauthorized disclosures of sensitive or confidential client or customer information. If these vendors encounter any of these issues, or if we have difficulty communicating with them, we could be exposed to disruption of operations, loss of service or connectivity to customers, reputational damage and litigation risk that could have a material adverse effect on our business and, in turn, our financial condition and results of operations.

Failure to keep pace with technological change could adversely affect our results of operations and financial condition.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving our customers, the effective use of technology increases our efficiency and enables us to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market area. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, we cannot assure you that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

Maintaining or increasing our market share depends on market acceptance and regulatory approval of new products and services.

Our success depends, in part, upon our ability to adapt our products and services to evolving industry standards and consumer demand. There is increasing pressure on financial services companies to provide products and services at lower prices. In addition, the widespread adoption of new technologies, including Internet-based services, could require us to make substantial expenditures to modify or adapt our existing products or services. A failure to achieve market acceptance of any new products we introduce, or a failure to introduce products that the market may demand, could have an adverse effect on our business, profitability or growth prospects.

Changes in consumer use of banks and changes in consumer spending and savings habits could adversely affect our financial results.

Technology and other changes now allow many customers to complete financial transactions without using banks. For example, consumers can pay bills and transfer funds directly without going through a bank. This process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and income generated from those deposits. In addition, changes in consumer spending and savings habits could adversely affect our operations, and we may be unable to timely develop competitive new products and services in response to these changes.

We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations.

We are subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal or state legislation could have a substantial impact on us and our results of operations. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes. Other changes to statutes, regulations or regulatory policies or supervisory guidance, including changes in interpretation or implementation of statutes, regulations, policies or supervisory guidance, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, policies or supervisory guidance could result in enforcement and other legal actions by federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, the revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties and/or reputational damage. In this regard, government authorities, including the bank regulatory agencies, are pursuing aggressive enforcement actions with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

See the section captioned “Supervision and Regulation” included in Item 1. Business, located elsewhere in this report.

Our recent results may not be indicative of future results.

We may not be able to sustain our historical rate of growth or may not be able to grow our business at all. Various factors, such as poor economic conditions, changes in interest rates, regulatory and legislative considerations and competition may also impede or inhibit our ability to expand our market presence. If we experience a significant decrease in our rate of growth, our results of operations and financial condition may be adversely affected due to a high percentage of our operating costs being fixed expenses.

Competition with other financial institutions could adversely affect our profitability.

We face vigorous competition from banks and other financial institutions, including savings and loan associations, savings banks, finance companies and credit unions. A portion of these banks and other financial institutions have substantially greater resources and lending limits, larger branch systems and other banking services that we do not offer. To a limited extent, we also compete with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. When new competitors seek to enter one of our markets, or when existing market participants seek to increase their market share, they sometimes undercut the pricing and/or credit terms prevalent in that market. This competition may reduce or limit our margins on banking and trust services, reduce our market share and adversely affect our results of operations and financial condition.

There can be no assurance that the integration of our acquisitions will be successful or will not result in unforeseen difficulties that may absorb significant management attention.

Our completed acquisitions, or any future acquisition, may not produce the revenue, cost savings, earnings or synergies that we anticipated. The process of integrating acquired companies into our business may also result in unforeseen difficulties. Unforeseen operating difficulties may absorb significant management attention, which we might otherwise devote to our existing business. Also, the process may require significant financial resources that we might otherwise allocate to other activities, including the ongoing development or expansion of our existing operations. Additionally, we may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be negatively affected.

If we pursue a future acquisition, our management could spend a significant amount of time and effort identifying and completing the acquisition. If we make a future acquisition, we could issue equity securities, which would dilute current stockholders' percentage ownership, incur substantial debt, assume contingent liabilities and be required to record an impairment of goodwill or any combination of the foregoing.

Changes in accounting standards could impact our financial statements and reported earnings.

Accounting standard-setting bodies, such as the Financial Accounting Standards Board, periodically change the financial accounting and reporting standards that affect the preparation of the consolidated financial statements. These changes are beyond our control and could have a meaningful impact on our consolidated financial statements.

Our accounting estimates and risk-management processes may not be effective in mitigating risk and loss.

We maintain an enterprise risk-management program that is designed to identify, quantify, monitor, report and control the risks that it faces. These include interest-rate risk, credit risk, liquidity risk, operational risk, reputational risk and compliance and litigation risk. While we assess and improve this program on an ongoing basis, there can be no assurance that its approach and framework for risk-management and related controls will effectively mitigate risk and limit losses in our business. To comply with generally accepted accounting principles, management must sometimes exercise judgment in selecting, determining and applying accounting methods, assumptions and estimates. This can arise, for example, in determining the allowance for loan losses or the fair value of assets or liabilities. The judgments required of management can involve difficult, subjective, or complex matters with a high degree of uncertainty, and several different judgments could be reasonable under the circumstances and yet result in significantly different results being reported. See “Critical Accounting Policies and Estimates” in Part II, Item 7. If management’s judgments later prove to have been inaccurate, we may experience unexpected losses that could be substantial.

Additionally, the processes we use to estimate our probable loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for determining our probable loan losses are inadequate, the allowance for loan losses may not be sufficient to support future charge-offs. If the models we use to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. Any inability to provide reliable financial reports or prevent fraud could harm our business. The Sarbanes-Oxley Act of 2002 requires management and our auditors to evaluate and assess the effectiveness of our internal control over financial reporting. These requirements may be modified, supplemented or amended from time to time. Implementing these changes may take a significant amount of time and may require specific compliance training of our personnel. We have in the past discovered, and may in the future discover, areas of our internal control over financial reporting that need improvement. If our auditors or we discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market’s confidence in our financial statements and have an adverse effect on our stock price. We may not be able to effectively and timely implement necessary control changes and employee training to ensure continued compliance with the Sarbanes-Oxley Act and other regulatory and reporting requirements. Our historic growth and our planned expansion through acquisitions present challenges to maintaining the internal control and disclosure control standards applicable to public companies. If we fail to maintain effective internal controls, we could be subject to regulatory scrutiny and sanctions, our ability to recognize revenue could be impaired and investors could lose confidence in the accuracy and completeness of our financial reports. We cannot assure you that we will continue to fully comply with the requirements of the Sarbanes-Oxley Act or that management or our auditors will conclude that our internal control over financial reporting is effective in future periods.

The soundness of other financial institutions could have a material adverse effect on our business, growth and profitability.

Financial services institutions are interrelated because of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose our business to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral we hold cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on our financial condition and results of operations.

We are subject to liquidity risk.

Liquidity is the ability to fund increases in assets and meet obligations as they come due, all without incurring unacceptable losses. Banks are especially vulnerable to liquidity risk because of their role in the transformation of demand or short-term deposits into longer-term loans or other extensions of credit. We, like other financial-services companies, rely to a significant extent on external sources of funding (such as deposits and borrowings) for the liquidity needed in the conduct of our business. A number of factors beyond our control, however, could have a detrimental impact on the level or cost of that funding and thus on our liquidity. These include market disruptions, changes in our credit ratings or the sentiment of our investors, the loss of substantial deposit relationships and reputational damage. Unexpected declines or limits on the dividends declared and paid by our subsidiaries also could adversely affect our liquidity position. While our policies and controls are designed to ensure that we maintain adequate liquidity to conduct our business in the ordinary course even in a stressed environment, there can be no assurance that our liquidity position will never become compromised. In such an event, we may be required to sell assets at a loss in order to continue our operations. This could damage the performance and value of our business, prompt regulatory intervention and harm our reputation, and if the condition were to persist for any appreciable period of time, our viability as a going concern could be threatened. See “Quantitative and Qualitative Disclosures About Market Risk—Liquidity Risk” in Part II, Item 7A for a discussion of how we monitor and manage liquidity risk.

We have businesses other than banking.

In addition to commercial banking services, we provide life and other insurance products, as well as other business and financial services. We may in the future develop or acquire other non-banking businesses. As a result of other such businesses, our earnings could be subject to risks and uncertainties that are different from those to which our commercial banking services are subject. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition and results of operations.

We may need to raise additional capital in the future, and such capital may not be available when needed or at all.

We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, particularly if our asset quality or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control and our financial performance. Economic conditions and the loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve Board.

We cannot assure that such capital will be available on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, depositors or counterparties participating in the capital markets, or a downgrade of our debt ratings, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Moreover, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital, and we would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our businesses, financial condition and results of operations.

We rely heavily on our management team, and the unexpected loss of key managers may adversely affect our operations.

Our success to-date has been strongly influenced by our ability to attract and to retain senior management experienced in banking and financial services. Our ability to retain executive officers and the current management teams of each of our lines of business will continue to be important to the successful implementation of our strategies. We do not have employment or non-compete agreements with these key employees. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business and financial results.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property’s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

The FASB's ASU 2016-13 will result in a significant change in how we recognize credit losses and may have a material impact on our financial condition or results of operations.

In June 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2016-13, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss model, or CECL. Under the CECL model, we will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will materially affect how we determine our allowance for loan losses and could require us to materially increase our allowance. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses as expectations of future events change from time to time. If we are required to materially increase our level of allowance for loan losses for any reason, such increase could adversely affect our results of operations.

The new CECL standard will become effective for us for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. We are currently evaluating the impact the CECL model will have on our accounting, but we expect to recognize a one-time cumulative-effect adjustment to our allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. We cannot yet determine the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on our financial condition or results of operations since that determination must be based on expectations that might exist at a future date.

Risks Associated with Our Common Stock

Our stock price can be volatile.

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things: actual or anticipated variations in quarterly results of operations; recommendations by securities analysts; operating and stock price performance of other companies that investors deem comparable to us; news reports relating to trends, concerns and other issues in the financial services industry; perceptions in the marketplace regarding us and/or our competitors; new technology used, or services offered by competitors; significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors; failure to integrate acquisitions or realize anticipated benefits from acquisitions; changes in government regulations; and geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of our operating results.

The trading volume in our common stock is less than that of other larger financial services companies.

Although our common stock is listed for trading on the NASDAQ Global Select Market, the trading volume in our common stock is generally less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

We may not continue to pay dividends on our common stock in the future.

We have historically paid a common stock dividend. However, as a bank holding company, our ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve Board regarding capital adequacy and dividends. Additionally, our ability to declare or pay dividends on our common stock may also be subject to certain restrictions in the event that we elect to defer the payment of interest on our junior subordinated deferrable interest debentures. There can be no certainty that our common dividend will continue to be paid at the current levels. It is possible that our common dividend could be reduced or even cease to be paid. In such case, the trading price of our common stock could decline, and investors may lose all or part of their investment.

Our directors and executive officers own a significant portion of our common stock and can influence stockholder decisions.

Our directors and executive officers, as a group, beneficially owned approximately 38% of our outstanding common stock as of January 31, 2019. As a result of their ownership, the directors and executive officers have the ability for all practical purposes, by voting their shares in concert, to control the outcome of any matter submitted to our stockholders for approval, including the election of directors, which requires only a majority vote. The directors and executive officers may vote to cause us to take actions with which our other stockholders do not agree.

Our amended certificate of incorporation, as well as certain provisions of banking law and Oklahoma corporate law, could make it difficult for a third party to acquire our company.

Oklahoma corporate law and our amended certificate of incorporation contains provisions that could delay, deter or prevent a change in control of our management or us. Together, these provisions may discourage transactions that otherwise could provide for the payment of a premium over prevailing market prices of our common stock, and also could limit the price that investors are willing to pay in the future for shares of our common stock. Additionally, provisions of federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. These provisions effectively inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock inherently involves risk for the reasons described in this “Risk Factors” section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The principal offices of the Company are located at 101 North Broadway, Oklahoma City, Oklahoma 73102.

On August 31, 2018 the Company’s wholly-owned subsidiary, BFTower, LLC, completed the purchase of Cotter Ranch Tower in Oklahoma City. Cotter Ranch Tower was subsequently renamed BancFirst Tower. The Company plans to move its headquarters to this location as soon as renovations are complete.

The Company owns substantially all of the properties and buildings in which its various offices and facilities are located. These properties include the main bank, a technology and operations center and 106 bank branches. BancFirst also owns properties for future expansion. There are no significant encumbrances on any of these properties. (See Note 6 - “Premises and Equipment, Net and Other Assets” to the Consolidated Financial Statements for further information on the Company’s properties).

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

None.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Common Stock Market Prices and Dividends

The Company's Common Stock is listed on the NASDAQ Global Select Market System ("NASDAQ/GS") and is traded under the symbol "BANF". As of January 31, 2019, there were 270 holders of record of our Common Stock. At that date, there were approximately 7,000 beneficial owners of our Common Stock.

Future dividend payments will be determined by the Company's Board of Directors in light of the earnings and financial condition of the Company and the Bank, their capital needs, applicable governmental policies and regulations and such other factors as the Board of Directors deems appropriate.

BancFirst Corporation is a legal entity separate and distinct from the Bank, and its ability to pay dividends is substantially dependent upon dividend payments received from the Bank. Various laws, regulations and regulatory policies limit the Bank's ability to pay dividends to BancFirst Corporation, as well as BancFirst Corporation's ability to pay dividends to its stockholders. See "Liquidity and Funding" and "Capital Resources" under "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Description of Business-Supervision and Regulation" and Note (15) of the Notes to Consolidated Financial Statements for further information regarding limitations on the payment of dividends by BancFirst Corporation and the Bank.

Stock Repurchases

In November 1999, the Company adopted a Stock Repurchase Program (the "SRP"). The SRP may be used as a means to increase earnings per share and return on equity, to purchase treasury stock for the exercise of stock options or for distributions under the Deferred Stock Compensation Plan, to provide liquidity for optionees to dispose of stock from exercises of their stock options and to provide liquidity for stockholders wishing to sell their stock. All shares repurchased under the SRP have been retired and not held as treasury stock. The timing, price and amount of stock repurchases under the SRP may be determined by management and approved by the Company's Executive Committee. At December 31, 2018, there were 148,736 shares remaining that could be repurchased under the Company's November 1999 Stock Repurchase Program. The amount approved is subject to amendment. The Stock Repurchase Program will remain in effect until all shares are repurchased.

The following table provides information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of the Company's common stock during the three months ended December 31, 2018.

Period	Total Number of	Average Price	Total Number of	Maximum Number of

	Shares Purchased	Paid Per Share	Shares Purchased as Part of Publicly Announced Plan	Shares That May Yet Be Purchased Under the Plan at the End of the Period
October 1, 2018 to October 31, 2018	—	—	—	300,000
November 1, 2018 to November 30, 2018	22,118	$ 55.27	—	277,882
December 1, 2018 to December 31, 2018	129,146	$ 51.82	—	148,736

Equity Compensation Plan Information

Information regarding stock-based compensation awards outstanding and available for future grants as of December 31, 2018 is presented in the table below. All of the Company's stock-based compensation plans have been approved by the Company's stockholders. Additional information regarding stock-based compensation plans is presented in Note 13 – Stock-Based Compensation in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data located elsewhere in this report.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))
Equity compensation plans approved by security holders	1,360,047	$ 28.10	345,676

Performance Graph

The Company’s performance graph is incorporated by reference from “Company Performance” contained on the last page of this 10-K report.

Item 6. Selected Financial Data.

The following table sets forth certain historical consolidated financial data as of and for the five years ended December 31, 2018. The historical consolidated financial data has been derived from our audited consolidated financial statements. The historical consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements and the related notes included elsewhere in this report.

	At and for the Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except per share data)				
Income Statement Data					
Net interest income	$260,476	$227,139	$203,828	$188,792	$181,351
Provision for loan losses	3,802	8,512	11,519	7,675	3,072
Noninterest income	125,199	118,070	107,032	105,808	96,413
Noninterest expense	222,121	200,392	191,404	185,715	183,521
Net income	125,814	86,439	70,674	66,170	63,887
Balance Sheet Data					
Total assets	$7,574,258	$7,253,156	$7,018,952	$6,692,829	$6,574,972
Debt Securities	772,132	464,291	463,264	546,641	513,356
Total loans (net of unearned interest)	4,984,150	4,728,168	4,409,550	4,245,773	3,860,831
Allowance for loan losses	51,389	51,666	48,693	41,666	40,889
Deposits	6,605,495	6,415,045	6,248,057	5,973,358	5,904,704
Junior subordinated debentures	26,804	31,959	31,959	31,959	26,804
Stockholders' equity	902,789	775,629	711,094	655,510	609,314
Per Common Share Data					
Net income – basic	$3.85	$2.72	$2.27	$2.13	$2.07
Net income – diluted	3.76	2.65	2.22	2.09	2.02
Cash dividends	1.02	0.80	0.74	0.70	0.65
Book value	27.69	24.32	22.49	21.02	19.65
Tangible book value (non-GAAP)(1)	24.74	22.28	20.36	18.78	17.86
Reconciliation of Tangible Book Value per Common Share (non-GAAP)(2)					
Stockholders' equity	$902,789	$775,629	$711,094	$655,510	$609,314
Less goodwill	79,749	54,042	54,042	54,042	44,962
Less intangible assets, net	16,470	11,082	13,330	15,695	10,635
Tangible stockholders' equity (non-GAAP)	$806,570	$710,505	$643,722	$585,773	$553,717
Common shares outstanding	32,603,926	31,894,563	31,621,870	31,194,892	31,009,026
Tangible book value per share (non-GAAP)	$24.74	$22.28	$20.36	$18.78	$17.86
Selected Financial Ratios					
Performance ratios:					
Return on average assets	1.66 %	1.22 %	1.04 %	1.01 %	1.00 %
Return on average stockholders' equity	14.59	11.52	10.32	10.38	10.92

Cash dividends payout ratio	26.49		29.44		32.70		32.92		31.40	
Net interest spread	3.26		3.20		3.08		2.98		2.94	
Net interest margin	3.70		3.44		3.25		3.12		3.09	
Efficiency ratio	57.59		58.05		61.57		63.04		66.07	
Balance Sheet Ratios:										
Average loans to deposits	74.63	%	72.22	%	71.44	%	67.34	%	63.64	%
Average earning assets to total assets	92.90		93.41		93.10		93.02		92.71	
Average stockholders' equity to average assets	11.37		10.56		10.11		9.76		9.19	
Asset Quality Ratios:										
Nonperforming and restructured loans to total loans	0.76	%	0.84	%	0.80	%	1.11	%	0.88	%
Nonperforming and restructured assets to total assets	0.59		0.61		0.56		0.83		0.64	
Allowance for loan losses to total loans	1.03		1.09		1.10		0.98		1.06	

Allowance for loan losses to nonperforming and restructured loans	136.29	130.62	137.27	88.50	120.05
Net charge-offs to average loans	0.08	0.12	0.10	0.17	0.03

(1) Refer to the "Reconciliation of Tangible Book Value per Common Share (non-GAAP)" Table
(2) Tangible book value per common share is stockholders' equity less goodwill and intangible assets, net, divided by common shares outstanding.
This amount is a non-GAAP financial measure but has been included as it is considered to be a critical metric with which to analyze and
evaluate the financial condition and capital strength of the Company. This measure should not be considered a substitute for operating results determined in accordance with GAAP.

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CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST MARGIN ANALYSIS

Taxable Equivalent Basis

(Dollars in thousands)

	December 31, 2018			December 31, 2017			December 31, 2016		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
ASSETS									
Earning assets:									
Loans (1)	$4,966,965	$263,577	5.31%	$4,547,207	$222,900	4.90%	$4,298,245	$205,111	4.76%
Securities – taxable	448,271	8,808	1.96	425,372	7,171	1.69	443,907	5,229	1.17
Securities – tax exempt	25,677	771	3.00	31,909	1,134	3.55	39,491	1,484	3.75
Federal funds sold and interest-bearing deposits with banks	1,609,030	30,694	1.91	1,635,248	18,138	1.11	1,510,843	7,908	0.52
Total earning assets	7,049,943	303,850	4.31	6,639,736	249,343	3.76	6,292,486	219,732	3.48
Nonearning assets:									
Cash and due from banks	185,380			176,364			175,066		
Interest receivable and other assets	405,730			341,549			336,491		
Allowance for loan losses	(52,087)			(49,269)			(45,168)		
Total nonearning assets	539,023			468,644			466,389		
Total assets	$7,588,966			$7,108,380			$6,758,875		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Transaction deposits	$790,587	$2,461	0.31%	$775,851	$1,160	0.15%	$785,090	$808	0.10%
Savings deposits	2,513,244	29,462	1.17	2,311,512	12,251	0.53	2,110,602	7,018	0.33
Time deposits	746,189	8,539	1.14	674,132	5,379	0.80	705,055	4,812	0.68

Short-term borrowings	5,159	95	1.84	1,776	17	0.97	1,799	7	0.38
Junior subordinated debentures	31,747	2,171	6.84	31,959	2,122	6.64	31,959	2,096	6.54
Total interest-bearing liabilities	4,086,926	42,728	1.05	3,795,230	20,929	0.55	3,634,505	14,741	0.40
Interest-free funds:									
Noninterest-bearing deposits	2,605,280			2,534,876			2,415,972		
Interest payable and other liabilities	34,198			27,696			25,212		
Stockholders' equity	862,562			750,578			683,186		
Total interest free funds	3,502,040			3,313,150			3,124,370		
Total liabilities and stockholders' equity	$7,588,966			$7,108,380			$6,758,875		
Net interest income		$261,122			$228,414			$204,991	
Net interest spread			3.26%			3.20%			3.08%
Effect of interest free funds			0.44%			0.24%			0.17%
Net interest margin			3.70%			3.44%			3.25%

For these computations, information is shown on a taxable-equivalent basis assuming a 21% tax rate in 2018 and a 35% tax rate for prior years.

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

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis presents factors that the Company believes are relevant to an assessment and understanding of the Company’s financial position and results of operations for the three years ended December 31, 2018. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto and the selected consolidated financial data included herein.

FORWARD-LOOKING STATEMENTS

The Company may make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 with respect to earnings, credit quality, corporate objectives, interest rates and other financial and business matters. Forward-looking statements include estimates and give management’s current expectations or forecasts of future events. The Company cautions readers that these forward-looking statements are subject to numerous assumptions, risks and uncertainties, including economic conditions; the performance of financial markets and interest rates; legislative and regulatory actions and reforms; competition; as well as other factors, all of which change over time. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as “believes”, “anticipates”, “expects”, “intends”, “targeted”, “continue”, “remain”, “will”, “should”, “may” and other similar expressions are intended to identify forward-lookin statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- Local, regional, national and international economic conditions and the impact they may have on the Company and its customers and the Company’s assessment of that impact.
- Changes in the mix of loan geographies, sectors and types or the level of non-performing assets and charge-offs.
- Inflation, interest rate, crude oil price, securities market and monetary fluctuations.
- The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company must comply.
- Impairment of the Company’s goodwill or other intangible assets.
- Changes in consumer spending, borrowing and saving habits.
- Changes in the financial performance and/or condition of the Company’s borrowers.
- Technological changes.
- Acquisitions and integration of acquired businesses.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.
- The Company’s success at managing the risks involved in the foregoing items.

Actual results may differ materially from forward-looking statements.

SUMMARY

The Company’s net income for 2018 was $125.8 million, or $3.76 per diluted share, compared to $86.4 million, or $2.65 per diluted share for 2017 and $70.7 million, or $2.22 per diluted share for 2016. On January 11, 2018, the Company completed the acquisitions of two Oklahoma banking corporations. Consequently, 2018 included one-time acquisition related expenses of approximately $2.6 million. Net income for 2017 included a write down of deferred tax assets of $4.3 million due to the signing of the Tax Cuts and Jobs Act, which reduced the corporate tax rate beginning in 2018. Net income in 2017 also included a gain of $2.5 million, net of income tax and fees, from the sale of an investment by Council Oak Investment Corporation, a wholly-owned subsidiary of BancFirst, and the effects of favorable resolutions of three problem loans, which resulted in principal recovery of $894,000 and unaccrued interest income of $2.7 million. Net income for the year ended December 31, 2016 included a gain on the sale of other real estate owned totaling $1.2 million.

In 2018, net interest income was $260.5 million, compared to $227.1 million in 2017 and $203.8 million in 2016. The Company’s net interest margin increased to 3.70% for 2018, compared to 3.44% for 2017 and 3.25% for 2016. The increase in margin was primarily due to the increase in the federal funds rate throughout 2017 and 2018 and the two acquisitions in 2018. Internal loan growth and the increase in the federal funds rate of 75 basis points during 2017 contributed to the higher net interest income and margin in 2017. The provision for loan losses was $3.8 million in 2018 compared to $8.5 million in 2017 and $11.5 million in 2016. The higher provision in 2017 was primarily driven by downgrades of a few commercial loans and loan growth. The higher provision in 2016 was largely due to loan downgrades related to the oil and gas service industry during the year. Net charge-offs to average loans for 2018 was 0.08%, compared to 0.12% for 2017 and 0.10% for 2016. Noninterest income totaled $125.2 million in 2018 compared to $118.1 million in 2017 and $107.0 million in 2016. The increase in noninterest income in 2018 was due to increases in insurance commissions, debit card usage fees and non-sufficient funds fees. The increase in noninterest income in 2017 was due to the $4.4 million gain from the sale of an investment mentioned above, increases in trust revenue, insurance commissions, debit card usage fees and non-sufficient funds fees. Noninterest expense was $222.1 million in 2018 compared to $200.4 million in 2017 and $191.4 million in 2016. The increase in noninterest expense in 2018 was primarily due to salary increases and the two acquisitions in 2018. The increase in noninterest expense in 2017 was primarily due to salary increases and compensation expense related to the sale of the previously mentioned investment. The effective income tax rate for tax year ended 2018 was 21.2% compared to 36.6% for the tax year ended 2017 and 34.5% for the tax year ended 2016.

The Company's assets at year-end 2018 totaled $7.6 billion, compared to $7.3 billion at December 31, 2017 and $7.0 billion at December 31, 2016. The increase in total assets was primarily related to the acquisitions during 2018. Debt securities were $772.1 million, an increase of $307.8 million from December 31, 2017. The increase in debt securities was primarily related to a purchase of short-term treasury securities in December 2018 with approximate maturities of six months. Loans totaled $5.0 billion compared to $4.7 billion for 2017 and $4.4 billion for 2016. Total deposits were $6.6 billion for 2018, $6.4 billion for 2017 and $6.2 billion for 2016. The Company's liquidity remained high, as its average loan-to-deposit ratio was 74.6% for 2018 compared to 72.2% for 2017 and 71.4% for 2016. Stockholders' equity was $902.8 million compared to $775.6 million for 2017 and $711.1 million for 2016. Average stockholders' equity to average assets was 11.37% at December 31, 2018, compared to 10.56% at December 31, 2017 and 10.11% at December 31, 2016.

Asset quality remained strong. Nonperforming and restructured assets were 0.59% of total assets at December 31, 2018, compared to 0.61% at December 31, 2017 and 0.56% at December 31, 2016. The allowance for loan losses as a percentage of total loans was 1.03% for 2018 compared to 1.09% for 2017 and 1.10% for 2016. The allowance for loan losses as a percentage of nonperforming and restructured loans was 136.3% for 2018 compared to 130.6% for 2017 and 137.3% at year-end 2016.

During 2018, the Company repurchased 151,264 shares of its common stock at an average price of $52.32 under the Company's stock repurchase program.

On August 31, 2018, BFTower, LLC, a wholly-owned subsidiary of BancFirst, purchased the Cotter Ranch Tower in Oklahoma City for the Company's corporate headquarters for $21.0 million. Cotter Ranch Tower was subsequently renamed BancFirst Tower. BancFirst Tower consists of an aggregate of 507,000 square feet, has 36 floors and is the second tallest building in Oklahoma City. The tower will remain an income producing property as approximately 55% is currently leased to outside tenants. BancFirst Tower will allow the Company to consolidate operations from three locations to one and will improve operational efficiencies. Upon consolidation, the Company expects to initially occupy approximately 35% of the Tower, resulting in approximately 90% total occupancy. Renovations on BancFirst Tower will be completed over the next two years and are expected to cost approximately $60 million. The renovation costs include substantial deferred maintenance including HVAC, plumbing, electrical, elevators, building skin and roof while also including much needed improvements to both the interior and exterior common areas including the lobby, underground and outdoor plaza. The total purchase price and renovation costs were determined to be favorable to other alternatives, such as constructing new corporate headquarters. On December 14, 2018, BFTower LLC, purchased a 42.6% ownership interest in SFPG, LLC, which is the owner of a 1,5689 space parking garage adjacent to BancFirst Tower, for $9.8 million.

On January 11, 2018, the Company completed the previously announced acquisitions of two Oklahoma banking corporations. First Wagoner Corporation and its subsidiary bank, First Bank & Trust Company, and First Chandler Corp. and its subsidiary bank, First Bank of Chandler, had combined total assets of approximately $378 million. The Company exchanged a combination of cash and stock for these transactions.

On July 31, 2017, the Company completed a two-for-one stock split of the Company’s outstanding shares of common stock. The stock was issued in the form of a dividend on July 31, 2017 to shareholders of record of the outstanding common stock as of the close of business record date of July 17, 2017. Stockholders received one additional share for each share held on that date. This was the second stock split for the Company since going public in 1993. All share and per share amounts in the consolidated financial statements and related notes have been retroactively adjusted to reflect this stock split for all periods presented.

Effective June 1, 2017, the Company organized a new wholly-owned captive insurance company named BancFirst Risk & Insurance Company. It insures certain risks of the Company and has entered into reinsurance agreements with a risk-sharing pool.

During 2016, the Company repurchased 200,000 shares of its common stock at an average price of $27.62 under the Company’s stock repurchase program.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company’s significant accounting policies are described in Note (1) to the consolidated 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, which affect the amounts reported in the financial statements and the related disclosures. These estimates relate principally to the allowance for loan losses, income taxes, intangible assets and the fair value of financial instruments. Such estimates and assumptions may change over time and actual amounts realized may differ from those reported. The following is a summary of the accounting policies and estimates that management believes are the most critical.

Allowance for Loan Losses

The allowance for loan losses is management’s estimate of the probable losses incurred in the Company’s loan portfolio through the balance sheet date.

The allowance for loan losses is increased by provisions charged to operating expense and is reduced by net loan charge-offs. The amount of the allowance for loan losses is based on past loan loss experience, evaluations of known impaired loans, levels of adversely classified loans, general economic conditions and other environmental factors. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The majority of the Company’s impaired loans are collateral dependent. For collateral dependent loans, the amount of impairment is measured based upon the fair value of the underlying collateral and is included in the allowance for loan losses.

The amount of the allowance for loan losses is first estimated by each business unit’s management based on their evaluation of their unit’s portfolio. This evaluation involves identifying impaired and adversely classified loans. Specific allowances for losses are determined for impaired loans based on either the loans’ estimated discounted cash flows or the fair values of the collateral. Allowances for adversely classified loans are estimated using historical loss percentages for each type of loan adjusted for various economic and environmental factors related to the underlying loans. An allowance is also estimated for non-adversely classified loans using a historical loss percentage based on losses arising specifically from non-adversely classified loans, adjusted for various economic and environmental factors related to the underlying loans. Each month the Company’s Senior Loan Committee reviews each business unit’s allowance, and the aggregate allowance for the Company and, on a quarterly basis, adjusts and approves the appropriateness of the allowance. In addition, annually or more frequently as needed, the Senior Loan Committee evaluates and establishes the loss percentages used in the estimates of the allowance based on historical loss data, and giving consideration to their assessment of current economic and environmental conditions. To facilitate the Senior Loan Committee’s evaluation, the Company’s Asset Quality Department performs periodic reviews of each of the Company’s business units and reports on the adequacy of management’s identification of impaired and adversely classified loans, and their adherence to the Company’s loan policies and procedures.

The process of evaluating the appropriateness of the allowance for loan losses necessarily involves the exercise of judgment and consideration of numerous subjective factors and, accordingly, there can be no assurance that the estimate of incurred losses will not change in light of future developments and economic conditions. Different assumptions and conditions could result in a materially different amount for the allowance for loan losses.

Income Taxes

The Company files a consolidated income tax return. Deferred taxes are recognized under the balance sheet method based upon the future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities, using the tax rates expected to apply to taxable income in the periods when the related temporary differences are expected to be realized.

The amount of accrued current and deferred income taxes is based on estimates of taxes due or receivable from taxing authorities either currently or in the future. Changes in these accruals are reported as tax expense, and involve estimates of the various components included in determining taxable income, tax credits, other taxes and temporary differences. Changes periodically occur in the estimates due to changes in tax rates, tax laws and regulations and implementation of new tax planning strategies. The process of determining the accruals for income taxes necessarily involves the exercise of considerable judgment and consideration of numerous subjective factors.

Management performs an analysis of the Company's tax positions annually and believes it is more likely than not that all of its tax positions will be utilized in future years.

Intangible Assets and Goodwill

Core deposit intangibles are amortized on a straight-line basis over the estimated useful lives of seven to ten years and customer relationship intangibles are amortized on a straight-line basis over the estimated useful life of three to eighteen years. Mortgage servicing rights are amortized based on current prepayment assumptions. Goodwill is not amortized, but is evaluated at a reporting unit level at least annually for impairment or more frequently if other indicators of impairment are present. At least annually in the fourth quarter, intangible assets, excluding mortgage servicing rights, are evaluated for possible impairment. Impairment losses are measured by comparing the fair values of the intangible assets with their recorded amounts. Any impairment losses are reported in the statement of comprehensive income. Mortgage servicing rights are adjusted to fair value periodically, if impaired.

The evaluation of remaining core deposit intangibles for possible impairment involves reassessing the useful lives and the recoverability of the intangible assets. The evaluation of the useful lives is performed by reviewing the levels of core deposits of the respective branches acquired. The actual life of a core deposit base may be longer than originally estimated due to more successful retention of customers, or may be shorter due to more rapid runoff. Amortization of core deposit intangibles would be adjusted, if necessary, to amortize the remaining net book values over the remaining lives of the core deposits. The evaluation for recoverability is only performed if events or changes in circumstances indicate that the carrying amount of the intangibles may not be recoverable.

The evaluation of goodwill for possible impairment is performed by comparing the fair values of the related reporting units with their carrying amounts including goodwill. The fair values of the related business units are estimated using market data for prices of recent acquisitions of banks and branches.

The evaluation of intangible assets and goodwill for the year ended December 31, 2018, 2017 and 2016 resulted in no impairments.

Fair Value of Financial Instruments

Debt securities that are being held for indefinite periods of time, or that may be sold as part of the Company's asset/liability management strategy, to provide liquidity or for other reasons, are classified as available for sale and are stated at estimated fair value. Unrealized gains or losses on debt securities available for sale are reported as a component of stockholders' equity, net of income tax. Debt securities that are determined to be impaired, and for which such impairment is determined to be other than temporary, are adjusted to fair value and a corresponding loss is recognized in earnings.

The estimates of fair values of debt securities and other financial instruments are based on a variety of factors. In some cases, fair values represent quoted market prices for identical or comparable instruments. In other cases, fair values have been estimated based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of year-end or that will be realized in the future.

Future Application of Accounting Standards

See Note (1) of the Notes to Consolidated Financial Statements for a discussion of recently issued accounting pronouncements and their expected impact on the Company's financial statements.

Segment Information

See Note (21) of the Notes to Consolidated Financial Statements for disclosure regarding the Company's operating business segments.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income, which is the Company's principal source of operating revenue, increased in 2018 by $33.3 million, to a total of $260.5 million, compared to an increase of $23.3 million in 2017. In 2018, net interest income increased primarily due to the increase in the federal funds rate of 75 basis points during 2017 and 100 basis points during 2018 and the two acquisitions in 2018. In

2017, net interest income increased due to internal loan growth and the increase in the federal funds rate of 75 basis points during 2017.

Net interest margin is the ratio of taxable-equivalent net interest income to average earning assets for the period. The Company's net interest margin increased to 3.70% for 2018, compared to 3.44% for 2017 and 3.25% for 2016. The increase in the net interest margin in 2018 was primarily due to the increase in the federal funds rate described above and the two acquisitions in 2018. Net interest margin increased in 2017 due to increased loans and federal funds rate described above.

Changes in the volume of earning assets and interest-bearing liabilities and changes in interest rates, determine the changes in net interest income. The following volume/rate analysis summarizes the relative contribution of each of these components to the changes in net interest income in 2018 and 2017. See "Maturity and Rate Sensitivity of Loans" for additional discussion.

VOLUME/RATE ANALYSIS

Taxable Equivalent Basis

	Change in 2018			Change in 2017		
	Total	Due to Volume(1)	Due to Rate	Total	Due to Volume(1)	Due to Rate
	(Dollars in thousands)					
INCREASE (DECREASE)						
Interest Income:						
Loans	$40,677	$ 20,370	$20,307	$17,790	$ 11,609	$6,181
Investments—taxable	1,637	(89)	1,726	1,942	(279)	2,221
Investments—tax exempt	(363)	(262)	(101)	(350)	(314)	(36)
Interest-bearing deposits with banks and federal funds sold	12,556	(250)	12,806	10,231	655	9,576
Total interest income	54,507	19,769	34,738	29,613	11,671	17,942
Interest Expense:						
Transaction deposits	1,301	4	1,297	352	(58)	410
Savings deposits	17,211	1,118	16,093	5,234	840	4,394
Time deposits	3,160	560	2,600	567	(197)	764
Short-term borrowings	78	33	45	10	—	10
Junior subordinated debentures	49	(15)	64	26	—	26
Total interest expense	21,799	1,700	20,099	6,189	585	5,604
Net interest income	$32,708	$ 18,069	$14,639	$23,424	$ 11,086	$12,338

(1) The effects of changes in the mix of earning assets and interest-bearing liabilities have been combined with the changes due to volume.

Provision for Loan Losses

The Company's provision for loan losses was $3.8 million for 2018, compared to $8.5 million for 2017 and $11.5 million for 2016. The higher provision in 2017 was primarily driven by downgrades of a few commercial loans and loan growth. The higher provision for 2016 was largely due to loan downgrades related to the oil and gas service industry during the year. The Company establishes an allowance as an estimate of the probable inherent losses in the loan portfolio at the balance sheet date. Management believes the allowance for loan losses is appropriate based upon management's best estimate of probable losses that have been incurred within the existing loan portfolio. Should any of the factors considered by management in evaluating the appropriate level of the allowance for loan losses change, the Company's estimate of probable loan losses could also change, which could affect the amount of future provisions for loan losses. Net loan charge-offs were $4.1 million for 2018 compared to $5.5 million for 2017 and $4.5 million for 2016. The net charge-offs equated to 0.08%, 0.12% and 0.10% of average loans for 2018, 2017 and 2016, respectively. A more detailed discussion of the allowance for loan losses is provided under "Loans."

Noninterest Income

Noninterest income was $125.2 million in 2018 versus $118.1 million in 2017 and $107.0 million in 2016. Total noninterest income increased $7.1 million in 2018, or 6.0%. This compares to an increase of $11.0 million in 2017, or 10.3%. The increase in noninterest income in 2018 was due to growth in debit card usage fees, non-sufficient funds fees and insurance commissions. The increase in noninterest income in 2017 was due to the $4.4 million gain from the sale of an investment by Council Oak Investment Corporation, increases in trust revenue, insurance commissions, debit card usage fees and non-sufficient funds fees. The Company's operating noninterest income has increased in each of the last five years due to improved pricing strategies, enhanced product lines, acquisitions and internal deposit growth. The Company had fees from debit card usage totaling $29.4 million, $26.2 million and $24.1 million for the years 2018, 2017 and 2016, respectively. This represents 23.5%, 22.2% and 22.5% of the Company's noninterest income for the years 2018, 2017 and 2016, respectively. In addition, the Company had non-sufficient funds fees totaling $31.3 million, $28.8 million and $26.9 million in 2018, 2017 and 2016, respectively. This represents 25.0%, 24.4%, and 25.1% of the Company's noninterest income for the years 2018, 2017 and 2016, respectively.

The Company recognized a net gain of $47,000 during 2018, primarily due to Accounting Standard Update 2016-01 adopted on January 1, 2018, which requires the change in fair value of equity securities to be recognized through net income. The Company recognized a gain of $4.4 million from the sale of an investment by Council Oak Investment Corporation, a wholly-owned subsidiary of BancFirst in 2017. During 2016, the Company recognized a net loss on the sale of securities of $59,000. The Company's practice is to maintain a liquid portfolio of securities and not engage in trading activities. The Company has the ability and intent to hold debt securities classified as available for sale that were in an unrealized loss position until they mature or until fair value exceeds amortized cost.

The Company earned $2.9 million on the sale of loans in 2018 compared to $2.9 million in 2017 and $2.8 million in 2016.

Noninterest Expense

Total noninterest expense increased by $21.7 million, or 10.8% to $222.1 million for 2018. This compares to an increase of $9.0 million, or 4.7%, for 2017. The increase in noninterest expense in 2018 was primarily due to salary increases and acquisition related costs. The increase in noninterest expense in 2017 was primarily due to salary increases and compensation expense related to the sale of the Council Oak investment.

Noninterest expense included deposit insurance expense, which totaled $2.4 million for the year ended December 31, 2018, compared to $2.3 million for the year ended December 31, 2017 and $2.9 million for the year ended December 31, 2016.

Income Taxes

Income tax expense totaled $33.9 million in 2018, compared to $49.9 million in 2017 and $37.3 million in 2016. The effective tax rates for 2018, 2017 and 2016 were 21.2%, 36.6% and 34.5% respectively. The primary reasons for the difference between the Company's effective tax rate and the federal statutory rate were tax-exempt income, nondeductible amortization, federal and state tax credits and state tax expense. The increase in 2017 was due to the $4.3 million write down on deferred tax assets due to the signing of the Tax Cuts and Jobs Act, which instituted a 21% corporate tax rate in 2018.

Certain financial information is prepared on a taxable equivalent basis to facilitate analysis of yields and changes in components of earnings. Average balance sheets, comprehensive income statements and other financial statistics are also presented on a taxable equivalent basis.

Impact of Inflation

The impact of inflation on financial institutions differs significantly from that of industrial or commercial companies. The assets of financial institutions are predominantly monetary, as opposed to fixed or nonmonetary assets such as premises, equipment and inventory. As a result, there is little exposure to inflated earnings by understated depreciation charges or significantly understated current values of assets. Although inflation can have an indirect effect by leading to higher interest rates, financial institutions are in a position to monitor the effects on interest costs and yields and respond to inflationary trends through management of interest rate sensitivity. Inflation can also have an impact on noninterest expenses such as salaries and employee benefits, occupancy, services and other costs.

Impact of Deflation

In a period of deflation, it would be reasonable to expect widely decreasing prices for real assets. In such an economic environment, assets of businesses and individuals, such as real estate, commodities or inventory, could decline. The inability of customers to repay or refinance their loans could result in loan losses incurred by the Company far in excess of historical experience due to deflated collateral values.

FINANCIAL POSITION

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

Cash consists of cash and cash items on hand, noninterest-bearing deposits and amounts due from other banks, reserves deposited with the Federal Reserve Bank, and interest-bearing deposits with other banks. Federal funds sold consist of overnight investments of excess funds with other financial institutions. Due to the Federal Reserve Bank's intervention into the funds market that has resulted in a low overnight funds rate, the Company has continued to maintain the majority of its excess funds with the Federal Reserve Bank. The Federal Reserve Bank pays interest on these funds based upon the lowest target rate for the maintenance period, which increased 1.00% during 2018 from 1.50% to 2.50% and increased 0.75% during 2017 from 0.75% to 1.50%.

The amount of cash, federal funds sold and interest-bearing deposits with the Federal Reserve Bank carried by the Company is a function of the availability of funds presented to other institutions for clearing, and the Company's requirements for liquidity, operating cash and reserves, available yields and interest rate sensitivity management. Balances of these items can fluctuate widely based on these various factors. The aggregate of cash and due from banks, interest-bearing deposits with banks and federal funds sold decreased $334.3 million from December 31, 2017 to December 31, 2018, and decreased $92.6 million from December 31, 2016 to December 31, 2017. The decrease in 2018 was primarily due to an increase in debt securities. The decrease in 2017 was due to an increase in loans.

Securities

For the year ended December 31, 2018, total debt securities increased $307.8 million, or 66.3%, to $772.1 million. This compares to an increase of $1.0 million, or 0.2%, in 2017 and a decrease of $83.4 million, or 15.3%, in 2016. The increase in debt securities during 2018 was primarily related to a purchase of short-term treasury securities in December 2018 with approximate maturities of six months. The decrease in 2016 was due primarily to maturities. Debt securities available for sale represented 99.8% of the total securities portfolio at December 31, 2018, compared to 99.5% of total securities portfolio at December 31, 2017 and 99.1% of the total securities portfolio at December 31, 2016. Securities available for sale had a net unrealized loss of $2.9 million at December 31, 2018, compared to a net unrealized loss of $3.1 million at December 31, 2017 and a net unrealized gain of $153,000 at December 31, 2016. These unrealized gains and losses are included in the Company's stockholders' equity as accumulated other comprehensive income, net of income tax, in the amounts of a loss of $2.1 million, a loss of $2.3 million, and a gain of $94,000 for December 31, 2018, 2017 and 2016, respectively. The unrealized losses in 2018 and 2017 are primarily due to the Federal Reserve increasing interest rates throughout the last two years.

SECURITIES

	December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Held for Investment (at amortized cost)			
Mortgage-backed securities	$133	$187	$252
States and political subdivisions	795	1,605	3,613
Other securities	500	500	500
Total	$1,428	$2,292	$4,365
Estimated fair value	$1,433	$2,303	$4,403
Available for Sale (at estimated fair value)			
U.S. Treasury, other federal agencies and mortgage-backed securities	$743,293	$419,629	$417,857
States and political subdivisions	27,411	42,370	41,042
Total	$770,704	$461,999	$458,899
Total Debt Securities	$772,132	$464,291	$463,264
Equity securities	7,521	5,704	6,569
Total Securities	$779,653	$469,995	$469,833

The Company does not engage in securities trading activities. Any sales of debt securities are for the purpose of executing the Company's asset/liability management strategy, eliminating a perceived credit risk in a specific security, or providing liquidity. Debt securities that are being held for indefinite periods of time, or that may be sold as part of the Company's asset/liability management strategy, to provide liquidity, or for other reasons, are classified as available for sale and are stated at estimated fair value. Unrealized gains or losses on debt securities available for sale are reported as a component of stockholders' equity, net of income tax. Debt securities for which the Company has the intent and ability to hold to maturity are classified as held for investment and are stated at cost, adjusted for amortization of premiums and accretion of discounts computed under the interest method. Debt securities that are determined to be impaired, and for which such impairment is determined to be other than temporary, are adjusted to fair value and a corresponding loss is recognized. Gains or losses from sales of debt securities are based upon the book values of the specific securities sold.

Declines in the fair value of held for investment and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Management has the ability and intent to hold the debt securities classified as held for investment until they mature, at which time the Company will receive full value for the securities. Furthermore, the Company also has the ability and intent to hold the debt securities classified as available for sale for a period of time sufficient for a recovery of cost. As of December 31, 2018, the Company had net unrealized losses due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value of those securities having unrealized losses is expected to recover as the securities approach their maturity date or repricing date, or if market yields for similar investments decline. Furthermore, as of December 31, 2018, management had no intent or requirement to sell before the recovery of the unrealized loss; therefore, no significant impairment loss was realized in the Company's consolidated statement of comprehensive income.

The Company invests in equity securities without readily determinable fair values. Beginning January 1, 2018, upon adoption of ASU 2016-01, these securities are reported at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The realized and unrealized gains and losses are reported as securities transactions in the noninterest income section of the consolidated statements of comprehensive income. For periods prior to January 1, 2018, equity securities were classified as available-for-sale and stated at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income (loss), net of tax. Equity securities are reported in other assets on the balance sheet. The Company reviews its portfolio of equity securities for impairment at least quarterly.

MATURITY DISTRIBUTION OF DEBT SECURITIES

The following maturity distribution of debt securities table summarizes the weighted average maturity and weighted average taxable equivalent yields of the debt securities portfolio at December 31, 2018. The Company manages its debt securities portfolio for liquidity, as a tool to execute its asset/liability management strategy, and for pledging requirements for public funds. Consequently, the average maturity of the portfolio is relatively short. Securities maturing within five years represent 95.7% of the total portfolio. For the interest rate sensitivity of debt securities see the table in item 7A.

	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years		Total	
	Amount	Yield*	Amount	Yield*	Amount	Yield*	Amount	Yield*	Amount	Yield*
	(Dollars in thousands)									
Held for Investment										
Mortgage-backed securities	$3	3.53%	$130	5.73%	$—	— %	$—	— %	$133	5.68%
State and political subdivisions	720	3.26	75	2.85	—	—	—	—	795	3.23
Other securities	—	—	—	—	500	1.76	—	—	500	1.76
Total	$723	3.27	$205	4.70	$500	1.76	$—	—	$1,428	2.95
Percentage of total	50.6 %		14.4 %		35.0 %		— %		100.0 %	
Available for Sale										
U.S. Treasury other federal agencies and mortgage-backed securities	$403,044	2.21%	$312,363	2.31%	$27,770	3.11%	$116	3.02%	$743,293	2.29%
State and political subdivisions	7,938	2.53	14,553	3.33	3,722	5.26	1,198	3.74	27,411	3.38
Total	$410,982	2.21	$326,916	2.36	$31,492	3.36	$1,314	3.65	$770,704	2.32
Percentage of total	53.3 %		42.4 %		4.1 %		0.2 %		100.0 %	
Total debt securities	$411,705	2.22%	$327,121	2.36%	$31,992	3.34%	$1,314	3.65%	$772,132	2.33%
Percentage of total	53.3 %		42.4 %		4.1 %		0.2 %		100.0 %	

* Yield on a taxable equivalent basis

Loans

The Company has historically generated loan growth from both internal originations and bank acquisitions. Total loans held for investment increased $254.0 million, or 5.4%, to $5.0 billion in 2018 compared to an increase of $321.8 million, or 7.3%, in 2017 and an increase of $168.2 million, or 4.0%, in 2016. Loans increased in 2018 due to acquisitions. Loans increased in 2017 and 2016 due to internal growth.

Composition

The Company's loan portfolio was diversified among various types of commercial and individual borrowers. Commercial loans were comprised principally of loans to companies in real estate, light manufacturing, retail and service industries. Consumer loans were comprised primarily of loans to individuals for automobiles.

LOANS BY CATEGORY

	December 31, 2018		2017		2016		2015		2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)									
ommercial, nancial and other	$1,425,386	28.64 %	$1,395,460	29.55 %	$1,170,963	26.61 %	$1,116,883	26.39 %	$1,053,486	27.35
eal estate— construction	451,224	9.07	437,277	9.26	420,884	9.57	403,664	9.54	356,621	9.26
eal estate— one to four amily	979,170	19.68	875,766	18.55	846,360	19.23	821,251	19.41	766,362	19.90
eal state—farmland, multifamily nd commercial	1,792,127	36.02	1,729,119	36.62	1,682,321	38.23	1,606,614	37.96	1,407,750	36.55
onsumer	328,069	6.59	284,373	6.02	279,704	6.36	283,636	6.70	267,179	6.94
otal	$4,975,976	100.00 %	$4,721,995	100.00 %	$4,400,232	100.00 %	$4,232,048	100.00 %	$3,851,398	100.00

Commercial, Financial, Other

Commercial, financial, and other loans represent loans for working capital, facilities acquisition or expansion, purchase of equipment and other needs of commercial customers primarily located within Oklahoma. Loans in this category include commercial and industrial, oil and gas, agriculture and state and political subdivisions.

Commercial loans are underwritten individually and represent on-going relationships based on a thorough knowledge of the customer and the customer's industry and market. While commercial loans are generally secured by the customer's assets including real property, inventory, accounts receivable, operating equipment, interest in mineral rights and other property and may also include personal guarantees of the owners and related parties, the primary source of repayment of the loans is the on-going cash flow from operations of the customer's business. Agriculture loans typically have annual or semi-annual principal payments to correspond to the timing of revenue.

The majority of loans originated within the energy sector support oil and gas production, are primarily secured by those producing properties and are governed by a borrowing base agreement that is tested timely and regularly. The Company also originates loans to businesses and individuals in the energy services sector, which includes loans for the fabrication, sale and service of various energy service equipment, site preparation and mapping services, disposal services, etc. These loans are primarily secured by accounts receivable, inventory and/or equipment.

At December 31, 2018, commercial, financial and other loans totaled $1.4 billion. Approximately $1.0 billion were commercial and industrial loans, $94.7 million were oil and gas production and equipment loans, $136.3 million were agriculture loans and the remaining were either state and political subdivisions or other loans.

Real Estate

Real estate loans consist of loans for both commercial and consumer customers and include construction, farmland, one-to-four family residences, multifamily residential properties and commercial. These loans are made on real property, such as office buildings, apartment buildings, shopping centers, industrial property, hotels, farmland and residential property. Such loans are usually secured by mortgages or other liens on the related real property. Interest rates may be fixed or variable, and the loans may be structured for full, partial or no amortization of principal.

Commercial real estate loans are for the construction of buildings or other improvements to real estate and property held by borrowers generally for investment purposes primarily within Oklahoma. The Company generally requires collateral values in excess of the loan amounts, demonstrated cash flows in excess of expected debt service requirements, equity investment in the project and a portion of the project already sold, leased or permanent financing already secured. Real estate or interests in real estate taken as collateral is primarily confined to either property located within the state of Oklahoma or properties owned by customers domiciled in the state of Oklahoma. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Loans on farmland are typically structured similar to commercial real estate loans but frequently are set for annual principal payments. Such loans may be for purchase, refinance of purchase or ongoing operation of family-owned or small corporate farming enterprises. Loans on multi-family properties are amortizing loans supported by rental incomes from the property.

Residential construction includes loans to builders for speculative or custom homes, as well as direct loans to individuals for construction of their personal residence. Custom construction and self-construction loans typically will have commitments in place for long-term financing at the completion of construction. Speculative construction loans generally will have periodic curtailment plans beginning after completion of construction and a reasonable time for sales to have occurred.

Residential development loans include loans to develop raw land into a residential development. Advances on the loans typically include land costs, hard costs (grading, utilities, roads, etc.), soft costs (engineering fees, development fees, entitlement fees, etc.) and carrying costs until the development is completed. Upon completion of the development, the loan is typically repaid through the sale of lots to homebuilders.

Long-term one-to-four family residential real estate loans retained in the Bank have variable interest rates. Fixed-rate loans in this category are financed through the Bank’s Mortgage Lending Department and sold into the secondary market. Some 15-year fixed-rate loans in this category may be retained by the Bank.

At December 31, 2018, real estate loans were approximately 65% of total loans. The Company is subject to risk of future market fluctuations in property values relating to these loans. The Company attempts to manage this risk through rigorous loan underwriting standards.

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Consumer

Consumer loans are loans to individuals for household, family and other personal expenditures. Commonly, such loans are made to finance purchases of consumer goods, such as automobiles, boats, household goods, vacations and education. Interest rates and terms vary considerably depending on many factors, including whether the loan is secured or unsecured. The Company originates consumer loans utilizing a computer-based credit scoring analysis to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by line and staff personnel. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis.

MATURITY AND RATE SENSITIVITY OF LOANS

The following table presents the Maturity and Rate Sensitivity of Loans at December 31, 2018. Many of the loans with maturities of one year or less are renewed at existing or similar terms after scheduled principal reductions. Also approximately 43% of loans had adjustable interest rates at December 31, 2018.

	Maturing			
	Within One Year	After One But Within Five Years	After Five Years	Total
	(Dollars in thousands)			
Commercial, financial and other	$953,198	$381,821	$90,367	$1,425,386
Real estate—construction	375,370	53,180	22,674	451,224
Real estate—one to four family	223,627	276,996	478,547	979,170
Real estate—farmland, multifamily and commercial	612,436	592,514	587,177	1,792,127
Consumer	31,512	243,975	52,582	328,069
Total	$2,196,143	$1,548,486	$1,231,347	$4,975,976
Loans with predetermined interest rates	$780,417	$1,203,010	$853,556	$2,836,983
Loans with adjustable interest rates	1,415,726	345,476	377,791	2,138,993
Total	$2,196,143	$1,548,486	$1,231,347	$4,975,976
Percentage of total	44.1 %	31.1 %	24.8 %	100.0 %

The information relating to the maturity and rate sensitivity of loans is based upon contractual maturities and original loan terms. In the ordinary course of business, loans maturing within one year may be renewed, in whole or in part, at interest rates prevailing at the date of renewal.

Nonperforming and Restructured Assets

During 2018, nonperforming and restructured assets increased $600,000 to $44.6 million. This compares to an increase of $4.6 million for 2017 and a decrease of $16.0 million for 2016. The Company's level of nonperforming and restructured assets has continued to be relatively low, equating to 0.59%, 0.61% and 0.56% of total assets at December 31, 2018, 2017 and 2016, respectively. The decrease in nonperforming and restructured assets in 2016 was due to one relationship that was re-evaluated and removed from restructured loans due to sustained improvement in financial condition, performance and the commercially reasonable nature of its structure.

Nonaccrual loans decreased in 2018 compared to 2017 primarily due to one relationship that was moved to accrual status due to improvement in financial condition. Nonaccrual loans had small increases during 2016 and 2017. During 2015, nonaccrual loans increased due to the downgrade of a single commercial loan. The Company's nonaccrual loans are primarily commercial and real estate loans. Nonaccrual loans negatively impact the Company's net interest margin. A loan is placed on nonaccrual status when, in the opinion of management, the future collectability of interest or principal or both is in serious doubt. Interest income is recognized on certain of these loans on a cash basis if the full collection of the remaining principal balance is reasonably expected. Otherwise, interest income is not recognized until the principal balance is fully collected. Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately $2.3 million for 2018, $1.8 million for 2017 and $2.0 million for 2016. Only a small amount of this interest is expected to be ultimately collected.

Restructured loans increased $8.5 million in 2018, increased $3.0 million in 2017 and decreased $13.4 million in 2016, as shown in the table below. The increase in restructured loans during 2018 was due primarily to one relationship identified as a troubled debt restructuring. The decrease in restructured loans in 2016 was due to one relationship that was re-evaluated and removed from restructured loans due to sustained improvement in financial condition, performance and the commercially reasonable nature of its structure. 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 troubled debt restructurings whose terms were modified during the period were not considered material.

The classification of a loan as nonperforming does not necessarily indicate that loan principal and interest will ultimately be uncollectible; although, in an economic downturn, the Company’s experience has been that the level of collections decline. The above normal risk associated with nonperforming loans has been considered in the determination of the allowance for loan losses. At December 31, 2018, the allowance for loan losses as a percentage of nonperforming and restructured loans was 136.29%, compared to 130.62%, at the end of 2017 and 137.27%, at the end of 2016. The level of nonperforming loans and loan losses could rise over time as a result of adverse economic conditions.

Other real estate owned consists of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure and premises held for sale. These properties are carried at the lower of the book values of the related loans or fair values based upon appraisals, less estimated costs to sell. Write-downs arising at the time of reclassification of such properties from loans to other real estate owned are charged directly to the allowance for loan losses. Any losses on bank premises designated to be sold are charged to operating expense at the time of transfer from premises to other real estate owned. Decreases in values of properties subsequent to their classification as other real estate owned are charged to operating expense. Other real estate owned and repossessed assets decreased during 2016 primarily due to the sale of two properties.

NONPERFORMING AND RESTRUCTURED ASSETS

	December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Past due 90 days or more and still accruing	$1,916	$2,893	$1,962	$1,841	$1,135
Nonaccrual	22,603	31,943	31,798	30,096	16,410
Restructured	13,188	4,720	1,713	15,143	16,515
Total nonperforming and restructured loans	37,707	39,556	35,473	47,080	34,060
Other real estate owned and repossessed assets	6,873	4,424	3,866	8,214	8,079
Total nonperforming and restructured assets	$44,580	$43,980	$39,339	$55,294	$42,139
Nonperforming and restructured loans to total loans	0.76 %	0.84 %	0.80 %	1.11 %	0.88 %
Nonperforming and restructured assets to total assets	0.59 %	0.61 %	0.56 %	0.83 %	0.64 %

Potential problem loans are performing loans to borrowers with a weakened financial condition or which are experiencing unfavorable trends in their financial condition, which causes management to have concerns as to the ability of such borrowers to comply with the existing repayment terms. The Company had approximately $8.0 million, $7.7 million and $7.5 million of these loans at December 31, 2018, 2017 and 2016, respectively. Potential problem loans are not included in nonperforming and restructured loans. In general, these loans are adequately collateralized and have no specific identifiable probable loss. Loans, which are considered to have identifiable probable loss potential, are placed on nonaccrual status, are allocated a specific allowance for loss or are directly charged-down, and are reported as nonperforming.

Allowance for Loan Losses/Fair Value Adjustments on Acquired Loans

The allowance for loan losses is management's estimate of the probable losses incurred in the Company's loan portfolio through the balance sheet date. Management's process for determining the amount of the allowance for loan losses is described under Critical Accounting Policies and Estimates. At December 31, 2018, the Company's allowance for loan losses represented 1.03% of total loans, compared to 1.09% at December 31, 2017 and 1.10% at December 31, 2016. The overall credit quality of the Company's loan portfolio has remained stable. Net charge-offs were $4.1 million, $5.5 million and $4.5 million for the years ended 2018, 2017 and 2016, respectively. The amount of net loan charge-offs is relatively low, equating to 0.08%, 0.12% and 0.10% of average total loans for the years ended December 31, 2018, 2017 and 2016, respectively. If unforeseen adverse changes occur in the national or local economy, or in the credit markets, it would be reasonable to expect that the allowance for loan losses would increase in future periods.

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Balance at beginning of period	$51,666	$48,693	$41,666	$40,889	$39,034
Charge-offs:					
Commercial, financial and other	(2,332)	(5,081)	(3,353)	(5,212)	(933)
Real estate	(1,474)	(961)	(431)	(1,338)	(868)
Consumer	(1,197)	(923)	(1,123)	(775)	(818)
Total charge-offs	(5,003)	(6,965)	(4,907)	(7,325)	(2,619)
Recoveries:					
Commercial, financial and other	468	1,114	165	222	805
Real estate	192	130	85	60	366
Consumer	264	182	165	145	231
Total recoveries	924	1,426	415	427	1,402
Net charge-offs	(4,079)	(5,539)	(4,492)	(6,898)	(1,217)
Provision charged to operations	3,802	8,512	11,519	7,675	3,072
Balance at end of period	$51,389	$51,666	$48,693	$41,666	$40,889
Average loans	$4,966,965	$4,547,207	$4,298,245	$3,930,470	$3,643,018
Total loans	$4,984,150	$4,728,168	$4,409,550	$4,245,773	$3,860,831
Net charge-offs to average loans	0.08%	0.12%	0.10%	0.17%	0.03%
Allowance to total loans	1.03%	1.09%	1.10%	0.98%	1.06%
Allocation of the allowance by category of loans:					
Commercial, financial and other	$15,640	$17,187	$15,247	$13,161	$14,056
Real estate	32,647	30,741	30,192	25,522	24,257
Consumer	3,102	3,738	3,254	2,983	2,576
Total	$51,389	$51,666	$48,693	$41,666	$40,889
Percentage of allowance in each category to total allowance:					
Commercial, financial and other	30.43%	33.27%	31.31%	31.59%	34.38%
Real estate	63.53	59.50	62.01	61.25	59.32
Consumer	6.04	7.23	6.68	7.16	6.30
Total	100.00%	100.00%	100.00%	100.00%	100.00%

The fair value adjustment on acquired loans consists of an interest rate component to adjust the effective rates on the loans to market rates and a credit component to adjust for estimated credit exposures in the acquired loans. The interest rate component was $2.2 million at December 31, 2018 and zero at December 31, 2017. The credit component of the adjustment was $7.6 million at December 31, 2018 and $1.2 million at December 31, 2017, while the acquired loans outstanding were $294.6 million and $120.0 million, respectively.

Intangible Assets, Goodwill and Other Assets

Identifiable intangible assets and goodwill totaled $96.2 million, $65.1 million and $67.4 million at December 31, 2018, 2017 and 2016, respectively.

Other assets include the cash surrender value of key-man life insurance policies. The balance of cash surrender value of key-man life insurance policies was $75.7 million, $73.1 million and $70.3 million at December 31, 2018, 2017 and 2016, respectively.

Liquidity and Funding

The Company's principal source of liquidity and funding is its broad deposit base generated from customer relationships. The availability of deposits is affected by economic conditions, competition with other financial institutions and alternative investments available to customers. Through interest rates paid, service charge levels and services offered, the Company can affect its level of deposits to a limited extent. The level and maturity of funding necessary to support the Company's lending and investment functions is determined through the Company's asset/liability management process. In addition to deposits, short-term borrowings comprised primarily of federal funds purchased and repurchase agreements provide additional funding sources. The Company currently does not rely heavily on long-term borrowings and does not utilize brokered CDs. The Company maintains federal funds lines of credit with other banks and could also utilize the sale of loans, securities and liquidation of other assets as sources of liquidity and funding.

Historically, the Bank has more liquidity than its peers do. This liquidity positions the Bank to respond to increased loan demand and other requirements for funds, or to decreases in funding sources. The liquidity of BancFirst Corporation, however, is dependent upon dividend payments from the Bank and its ability to obtain financing. Banking regulations limit bank dividends based upon net earnings retained by the Bank and minimum capital requirements. Dividends in excess of these limits require regulatory approval. At January 1, 2019, the Bank had approximately $140.3 million of equity available for dividends to BancFirst Corporation without regulatory approval. During 2018, the Bank declared four common stock dividends totaling $33.8 million and two preferred stock dividends totaling $1.9 million.

Deposits

Total deposits increased $190.5 million to $6.6 billion, an increase of 3.0% in 2018, compared to an increase of $167.0 million or 2.7% in 2017, and an increase of $274.7 million or 4.6% in 2016. Total deposits increased during 2018 primarily due to acquisitions. Total deposits increased during 2017 due to internal growth. Total deposits increased during 2016 primarily due to an influx of funds at the end of the year. The Company's core deposits provide it with a stable, low-cost funding source. The Company's core deposits as a percentage of total deposits were 98.1%, 98.2% and 98.0% at December 31, 2018, 2017 and 2016, respectively. Noninterest-bearing deposits to total deposits were 39.6% at December 31, 2018, compared to 39.8% at December 31, 2017 and 40.4% at December 31, 2016.

ANALYSIS OF AVERAGE DEPOSITS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Average Balances					
Demand deposits	$2,605,280	$2,534,876	$2,415,972	$2,317,639	$2,197,474
Interest-bearing transaction deposits	790,587	775,851	785,090	734,529	750,603
Savings deposits	2,513,244	2,311,512	2,110,602	2,052,161	1,992,673
Time deposits	746,189	674,132	705,055	732,183	783,958
Total deposits	$6,655,300	$6,296,371	$6,016,719	$5,836,512	$5,724,708

PERCENTAGE OF TOTAL AVERAGE DEPOSITS AND AVERAGE RATES PAID

	2018 % of Total	Rate	2017 % of Total	Rate	2016 % of Total	Rate	2015 % of Total	Rate	2014 % of Total	Rate
Demand deposits	39.15 %		40.27 %		40.16 %		39.71 %		38.39 %	
Interest-bearing transaction deposits	11.88	0.31%	12.32	0.15%	13.05	0.10%	12.59	0.10%	13.11	0.10%
Savings deposits	37.76	1.17	36.71	0.53	35.08	0.33	35.16	0.23	34.81	0.23
Time deposits	11.21	1.14	10.70	0.80	11.71	0.68	12.54	0.66	13.69	0.71
Total deposits	100.00%		100.00%		100.00%		100.00%		100.00%	
Average rate paid on interest-bearing deposits		1.00%		0.50%		0.35%		0.29%		0.31%

MATURITY OF TIME DEPOSITS

The following table shows the maturity of time deposits of $100,000 or more:

	December 31, 2018 (Dollars in thousands)
Three months or less	$ 69,553
Over three months through six months	60,924
Over six months through twelve months	98,893
Over twelve months	120,548
Total	$ 349,918

At December 31, 2018, 65.5% of the Company’s time deposits of $100,000 or more mature in one year or less.

Short-Term Borrowings

Short-term borrowings, consisting primarily of federal funds purchased and repurchase agreements are another source of funds for the Company. The level of these borrowings is determined by various factors, including customer demand and the Company’s ability to earn a favorable spread on the funds obtained. Short-term borrowings totaled $1.7 million at December 31, 2018 and $900,000 at December 31, 2017.

Long-Term Borrowings

The Company has a line of credit from the Federal Home Loan Bank (“FHLB”) of Topeka, Kansas to use for liquidity or to match-fund certain long-term fixed-rate loans. The Company’s assets, including residential first mortgages of $775.3 million, are pledged as collateral for the borrowings under the line of credit. As of December 31, 2018, the Company had the ability to draw up to $619.1 million on the FHLB line of credit based on FHLB stock holdings of $553,400 with no advances outstanding. In addition, the Company has a revolving line of credit with another financial institution with the ability to draw up to $10.0 million with no advances outstanding. This line of credit has a variable rate based on prime rate minus 25 basis points and matures in 2020.

Capital Resources

Stockholders’ equity totaled $902.8 million at December 31, 2018, compared to $775.6 million at December 31, 2017. In addition to net income of $125.8 million, other changes in stockholders’ equity during the year ended December 31, 2018 included $41.7 million related to common stock issuances and $1.4 million related to stock-based compensation, that were partially offset by $33.4 million in dividends, $7.9 million in common stock repurchases and reduction in unrealized gains of $430,000. The Company’s average stockholders’ equity to average assets for 2018 was 11.37%, compared to 10.56% for 2017 and 10.11% for 2016. The Company’s leverage ratio and total risk-based capital ratios at December 31, 2018 were well in excess of the regulatory requirements. Banking institutions are generally expected to maintain capital well above the minimum levels. Junior subordinated debentures are included in BancFirst Corporation’s Tier I capital.

See Note (11) of the Notes to Consolidated Financial Statements for disclosures regarding the Company’s Junior Subordinated Debentures.

See Note (15) of the Notes to Consolidated Financial Statements for a discussion of capital ratio requirements.

On January 20, 2017, the Company filed with the Securities and Exchange Commission ("SEC") an automatic shelf registration statement on Form S-3, which became effective upon filing with the SEC. Under the shelf registration, the Company may offer and sell, from time to time, an indeterminate amount of its common stock in one or more future offerings.

In November 1999, the Company adopted a Stock Repurchase Program (the "SRP"). The SRP may be used as a means to increase earnings per share and return on equity, to purchase treasury stock for the exercise of stock options or for distributions under the Deferred Stock Compensation Plan, to provide liquidity for optionees to dispose of stock from exercises of their stock options and to provide liquidity for stockholders wishing to sell their stock. All shares repurchased under the SRP have been retired and not held as treasury stock. The timing, price and amount of stock repurchases under the SRP may be determined by management and approved by the Company's Executive Committee. At December 31, 2018, there were 148,736 shares remaining that could be repurchased under the SRP. For the year ended December 31, 2018, the Company repurchased 151,264 shares of its common stock for $7.9 million at an average price of $52.32 per share under the SRP. For the year ended December 31, 2016, the Company repurchased 200,000 shares of its common stock for $5.5 million at an average price of $27.62 per share under the SRP.

Future dividend payments will be determined by the Company's Board of Directors considering the earnings, financial condition and capital needs of the Company and the Bank, applicable governmental policies and regulations and such other factors as the Board of Directors deems appropriate. While no assurance can be given as to the Company's ability to pay dividends, management believes that, based upon the anticipated performance of the Company, regular dividend payments will continue in 2019.

Related Party Transactions

See Note (18) of the Notes to Consolidated Financial Statements for disclosures regarding the Company's related party transactions.

CONTRACTUAL OBLIGATIONS

The Company has various contractual obligations that require future cash payments. The following table presents certain known payments for contractual obligations, by payment due period, as of December 31, 2018.

	Payment Due By Period					
	Less Than One Year	1 to 3 Years	3 to 5 Years	Over Five Years	Indeterminate Maturity	Total
	(Dollars in thousands)					
Junior subordinated debentures (1)	$1,872	$3,744	$3,744	$45,182	$ —	$54,542
Operating lease payments	1,049	1,358	429	499	—	3,335
Time deposits	458,373	176,314	71,255	4	—	705,946
Low income housing partnership commitments	7,111	9,328	402	483	—	17,324
Total contractual cash obligations	$468,405	$190,744	$75,830	$46,168	$ —	$781,147

(1) Includes principal and interest

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Market risk refers to the risk of loss arising from adverse changes in interest rates, foreign currency exchange rates, commodity prices and other relevant market rates and prices, such as equity prices. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. Due to the nature of its operations, the Company is primarily exposed to interest rate risk arising principally from its lending, investing, deposit and borrowing activities and, to a lesser extent, liquidity risk.

Interest rate risk on the Company's balance sheet consists of repricing, option and basis risks. Repricing risk results from the differences in the maturity or repricing of asset and liability portfolios. Option risk arises from "embedded options" present in many financial instruments such as loan prepayment options, deposit early withdrawal options and interest rate options. These options allow customers opportunities to benefit when market interest rates change, which typically results in higher costs or lower revenue for the Company. Basis risk refers to the potential for changes in the underlying relationship between market rates and indices, which subsequently result in a narrowing of the profit spread on an earning asset or liability. Basis risk is also present in administered rate liabilities, such as savings accounts, negotiable order of withdrawal accounts and money market accounts where historical pricing relationships to market rates may change due to the level or directional change in market interest rates.

The Company seeks to reduce volatility in its net interest margin and net interest income through periods of changing interest rates. Accordingly, the Company’s interest rate sensitivity and liquidity are monitored on an ongoing basis by its Asset and Liability Committee (“ALCO”). ALCO establishes risk measures, limits and policy guidelines for managing the amount of interest rate risk and its effect on net interest income and capital. A variety of tools are used to evaluate the magnitude of interest rate risk, the distribution of risk, the level of risk over time and the exposure to changes in certain interest rate relationships.

The ALCO also utilizes an earnings simulation model as a quantitative tool in measuring the amount of interest rate risk associated with changing market rates. The model quantifies the effects of various interest rate scenarios on projected net interest income over the next 12 months. These simulations incorporate assumptions regarding changes in interest rates and the maturity and repricing of earning assets and interest-bearing liabilities.

The ALCO uses gap analysis to monitor interest rate sensitivity based on the maturity and repricing frequencies of its earning assets and interest-bearing liabilities. This analysis indicates that the Company's position is asset-sensitive, with a positive gap of $86 million for the zero to 12-month interval at December 31, 2018, which was 1.22% of total assets.

The ALCO continuously monitors and manages the balance between interest rate-sensitive assets and liabilities. The objective is to manage the impact of fluctuating market rates on net interest income within acceptable levels. In order to meet this objective, management may lengthen or shorten the duration of assets or liabilities.

As of December 31, 2018, the model simulations projected that a 100 and 200 basis point increase would result in positive variance in net interest income of 2.50% and 5.01%, respectively, relative to the base case over the next 12 months. Conversely, the model simulation projected that a decrease in interest rates of 100 basis points would result in a negative variance in net interest income of 3.19% relative to the base case over the next 12 months.

The following table presents the Company's financial instruments that are sensitive to changes in interest rates, their expected maturities and their estimated fair values at December 31, 2018.

	Avg.	Expected Maturity / Principal Repayments at December 31,							
	Rate	2019	2020	2021	2022	2023	Thereafter	Balance	Fair Value
		(Dollars in thousands)							
Interest Sensitive Assets									
Loans	5.31%	$2,493,416	$784,835	$612,312	$409,450	$330,680	$345,283	$4,975,976	$4,952,548
Debt securities	2.02	458,266	79,545	113,729	30,866	90,733	6,019	779,158	772,137
Federal funds sold and interest-bearing deposits	1.91	1,195,824	—	—	—	—	—	1,195,824	1,195,824
Interest Sensitive Liabilities									
Savings and transaction deposits	0.97	3,285,673	—	—	—	—	—	3,285,673	3,258,723
Time deposits	1.14	458,373	122,653	53,661	39,979	31,276	4	705,946	702,385
Short-term borrowings	1.84	1,675	—	—	—	—	—	1,675	1,675
Junior subordinated debentures	6.84	—	—	—	—	—	26,804	26,804	29,549
Off Balance Sheet Items									
Loan commitments		—	—	—	—	—	—	—	2,158
Letters of credit		—	—	—	—	—	—	—	421

The expected maturities and principal repayments are based upon the contractual terms of the instruments. Debt securities are stated at par value. Prepayments have been estimated for certain instruments with predictable prepayment rates. Savings and transaction deposits are assumed to mature all in the first year as they are not subject to withdrawal restrictions and any assumptions regarding decay rates would be very subjective. The actual maturities and principal repayments for the financial instruments could vary substantially from the contractual terms and assumptions used in the analysis.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

Stockholders, Board of Directors and Audit Committee

BancFirst Corporation

Oklahoma City, Oklahoma

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of BancFirst Corporation (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 22, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2013.

/s/ BKD, LLP

Oklahoma City, Oklahoma
February 26, 2019

BANCFIRST CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	December 31, 2018	2017
ASSETS		
Cash and due from banks	$228,431	$216,104
Interest-bearing deposits with banks	1,195,824	1,541,771
Federal funds sold	—	700
Securities held for investment (fair value: $1,433 and $2,303, respectively)	1,428	2,292
Securities available for sale at fair value	770,704	461,999
Loans held for sale	8,174	6,173
Loans (net of unearned interest)	4,975,976	4,721,995
Allowance for loan losses	(51,389)	(51,666)
Loans, net of allowance for loan losses	4,924,587	4,670,329
Premises and equipment, net	174,362	134,088
Other real estate owned	6,690	4,136
Intangible assets, net	16,470	11,082
Goodwill	79,749	54,042
Accrued interest receivable and other assets	167,839	150,440
Total assets	$7,574,258	$7,253,156
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$2,613,876	$2,550,150
Interest-bearing	3,991,619	3,864,895
Total deposits	6,605,495	6,415,045
Short-term borrowings	1,675	900
Accrued interest payable and other liabilities	37,495	29,623
Junior subordinated debentures	26,804	31,959
Total liabilities	6,671,469	6,477,527
Commitments and contingent liabilities (Note 19)		
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, 40,000,000 shares authorized; shares issued and outstanding: 32,603,926 and 31,894,563, respectively	32,604	31,895
Capital surplus	149,709	107,481
Retained earnings	722,615	638,580
Accumulated other comprehensive loss, net of income tax of $(731) and $(795), respectively	(2,139)	(2,327)
Total stockholders' equity	902,789	775,629

Total liabilities and stockholders' equity	$7,574,258	$7,253,156

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

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands, except per share data)

	Year Ended December 31,		
	2018	2017	2016
INTEREST INCOME			
Loans, including fees	$263,093	$222,022	$204,467
Securities:			
Taxable	8,808	7,171	5,229
Tax-exempt	609	737	964
Federal funds sold	291	61	1
Interest-bearing deposits with banks	30,403	18,077	7,908
Total interest income	303,204	248,068	218,569
INTEREST EXPENSE			
Deposits	40,462	18,790	12,638
Short-term borrowings	95	17	7
Junior subordinated debentures	2,171	2,122	2,096
Total interest expense	42,728	20,929	14,741
Net interest income	260,476	227,139	203,828
Provision for loan losses	3,802	8,512	11,519
Net interest income after provision for loan losses	256,674	218,627	192,309
NONINTEREST INCOME			
Trust revenue	12,829	12,002	10,630
Service charges on deposits	70,847	65,552	62,233
Securities transactions (includes accumulated other comprehensive income reclassifications of $9, $(17) and $15, respectively)	47	4,060	(59)
Income from sales of loans	2,902	2,921	2,825
Insurance commissions	18,926	16,811	15,559
Cash management	13,123	11,155	10,616
Gain (loss) on sale of other assets	575	(60)	46
Other	5,950	5,629	5,182
Total noninterest income	125,199	118,070	107,032
NONINTEREST EXPENSE			
Salaries and employee benefits	139,547	125,149	119,662
Occupancy, net	13,491	12,591	12,313
Depreciation	10,537	9,603	10,114
Amortization of intangible assets	3,009	2,188	2,269
Data processing services	4,956	4,654	4,796
Net expense (income) from other real estate owned	239	421	(747)
Marketing and business promotion	8,028	7,389	7,236
Deposit insurance	2,427	2,261	2,904
Other	39,887	36,136	32,857

Total noninterest expense	222,121	200,392	191,404
Income before taxes	159,752	136,305	107,937
Income tax expense	33,938	49,866	37,263
Net income	$125,814	$86,439	$70,674
NET INCOME PER COMMON SHARE			
Basic	$3.85	$2.72	$2.27
Diluted	$3.76	$2.65	$2.22
OTHER COMPREHENSIVE INCOME			
Unrealized losses on securities, net of tax of $139, $861 and $897, respectively	$(423)	$(2,431)	$(1,424)
Reclassification adjustment for (gains)/losses included in net income, net of tax of $2, $(7) and $6, respectively	(7)	10	(9)
Other comprehensive loss, net of tax of $(64), $854 and $903, respectively	(430)	(2,421)	(1,433)
Comprehensive income	$125,384	$84,018	$69,241

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

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands, except share data)

	Year Ended December 31,					
	2018		2017		2016	
	Shares	Amount	Shares	Amount	Shares	Amount
COMMON STOCK						
Issued at beginning of period	31,894,563	$31,895	31,621,870	$31,622	31,194,892	$31,194
Shares issued for stock options	127,816	127	272,693	273	626,978	628
Shares issued for acquisitions	732,811	733	—	—	—	—
Shares acquired and canceled	(151,264)	(151)	—	—	(200,000)	(200)
Issued at end of period	32,603,926	$32,604	31,894,563	$31,895	31,621,870	$31,622
CAPITAL SURPLUS						
Balance at beginning of period		$107,481		$101,730		$87,268
Common stock issued for stock options		2,111		4,571		9,305
Common stock issued for acquisitions		38,765		—		—
Tax effect of stock options		—		—		3,521
Stock-based compensation arrangements		1,352		1,180		1,636
Balance at end of period		$149,709		$107,481		$101,730
RETAINED EARNINGS						
Balance at beginning of period		$638,580		$577,648		$535,521
Net income		125,814		86,439		70,674
Cumulative effect of change in accounting principle		(618)		—		—
Dividends on common stock ($1.02, $0.80 and $0.74 per share, respectively)		(33,398)		(25,507)		(23,124)
Common stock acquired and canceled		(7,763)		—		(5,423)
Balance at end of period		$722,615		$638,580		$577,648
ACCUMULATED OTHER COMPREHENSIVE INCOME						
Unrealized (losses)/gains on securities:						
Balance at beginning of period		$(2,327)		$94		$1,527
Net change		(430)		(2,421)		(1,433)
Cumulative effect of change in accounting principle		618		—		—

Balance at end of period	$(2,139)	$(2,327)	$94
Total stockholders' equity	$902,789	$775,629	$711,094

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

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

(Dollars in thousands)

	December 31,		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$125,814	$86,439	$70,674
Adjustments to reconcile to net cash provided by operating activities:			
Provision for loan losses	3,802	8,512	11,519
Depreciation and amortization	13,546	11,791	12,383
Net amortization of securities premiums and discounts	(421)	(148)	128
Realized securities (gains) losses	(47)	(4,060)	59
Gain on sales of loans	(2,902)	(2,921)	(2,825)
Cash receipts from the sale of loans originated for sale	187,461	211,569	189,620
Cash disbursements for loans originated for sale	(186,632)	(205,574)	(182,425)
Deferred income tax provision (benefit)	3,155	4,383	(2,048)
(Gain)/loss on other assets	(596)	46	(1,252)
Increase in interest receivable	(3,390)	(3,284)	(1,497)
Increase in interest payable	1,179	366	69
Amortization of stock-based compensation arrangements	1,352	1,180	1,636
Excess tax benefit from stock-based compensation arrangements	(1,112)	(2,601)	—
Other, net	(10,063)	(1,173)	(5,500)
Net cash provided by operating activities	131,146	104,525	90,541
INVESTING ACTIVITIES			
Net cash received from acquisitions, net of cash paid	6,248	—	—
Net decrease/ (increase) in federal funds sold	23,548	—	(700)
Purchases of held for investment securities	(225)	(220)	(838)
Purchases of available for sale securities	(465,684)	(84,109)	(223,558)
Proceeds from maturities, calls and paydowns of held for investment securities	1,089	2,293	5,260
Proceeds from maturities, calls and paydowns of available for sale securities	126,909	78,682	300,156
Proceeds from sales of available for sale securities	31,285	—	—
Purchase of equity securities	(3,190)	(1,668)	(1,097)
Proceeds from paydowns and sales of equity securities	1,484	5,793	670
Net change in loans	49,354	(331,362)	(176,594)
Purchases of premises, equipment and computer software	(51,863)	(18,007)	(10,835)
Other, net	(3,890)	4,038	9,519
Net cash used in investing activities	(284,935)	(344,560)	(98,017)
FINANCING ACTIVITIES			
Net change in deposits	(139,510)	166,988	274,699
Net change in short-term borrowings	775	400	—
Issuance of common stock in connection with stock options, net	2,238	4,844	13,354
Common stock acquired	(7,914)	—	(5,523)
Redemption of Junior Subordinated debentures	(5,155)	—	—

Cash dividends paid	(30,265)	(24,783)	(22,770)
Net cash (used in) provided by financing activities	(179,831)	147,449	259,760
Net (decrease)/increase in cash, due from banks and interest-bearing deposits	(333,620)	(92,586)	252,284
Cash, due from banks and interest-bearing deposits at the beginning of the period	1,757,875	1,850,461	1,598,177
Cash, due from banks and interest-bearing deposits at the end of the period	$1,424,255	$1,757,875	$1,850,461
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for interest	$41,549	$20,563	$14,673
Cash paid during the period for income taxes	$27,952	$41,058	$32,700
Noncash investing and financing activities:			
Stock issued in acquisitions	$39,498	$—	$—
Cash consideration for acquisitions	$24,722	$—	$—
Fair value of assets acquired in acquisitions	$377,320	$—	$—
Liabilities assumed in acquisitions	$338,860	$—	$—
Unpaid common stock dividends declared	$9,826	$6,693	$5,969

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

BANCFIRST CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 States of America (U.S. GAAP) and general practice within the banking industry. A summary of the significant accounting policies follows.

Nature of Operations

BancFirst Corporation is an Oklahoma business corporation and a financial holding company under federal law. It conducts virtually all of its operating activities through its principal wholly-owned subsidiary, BancFirst (the "Bank" or "BancFirst"), a state-chartered bank headquartered in Oklahoma City, Oklahoma. The Bank provides a wide range of retail and commercial banking services, including: commercial, real estate, agricultural and consumer lending; depository and funds transfer services; collections; safe deposit boxes; cash management services; retail brokerage services; and other services tailored for both individual and corporate customers. The Bank also offers trust services and acts as executor, administrator, trustee, transfer agent and in various other fiduciary capacities. Through its Technology and Operations Center, the Bank provides item processing, research and other correspondent banking services to financial institutions and governmental units. The Company's wholly-owned subsidiary, BancFirst Insurance Services, Inc., an independent insurance agency, offers a variety of commercial and personal insurance products. In addition, the Company's wholly-owned subsidiary, Council Oak Partners, LLC, an Oklahoma limited liability company, engages in investing activities.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of BancFirst Corporation, Council Oak Partners, LLC, BancFirst Insurance Services, Inc., BancFirst Risk & Insurance Company, and BancFirst and its subsidiaries. The principal operating subsidiaries of BancFirst are Council Oak Investment Corporation, Council Oak Real Estate Inc., BFTower, LLC 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 consolidated financial statements. Certain amounts from 2017 and 2016 have been reclassified to conform to the 2018 presentation. These reclassifications were not material to the Company's financial statements.

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.

Securities

The Company invests in debt securities. Any sales of debt securities are for the purpose of executing the Company's asset/liability management strategy, eliminating a perceived credit risk in a specific security or providing liquidity.

Debt securities that are being held for indefinite periods of time, or that may be sold as part of the Company's asset/liability management strategy, to provide liquidity or for other reasons, are classified as available for sale and are stated at estimated fair value. Unrealized gains or losses on debt securities available for sale are reported as a component of stockholders' equity, net of income tax. Gains or losses from sales of debt securities are based upon the book values of the specific debt securities sold. Debt securities for which the Company has the intent and ability to hold to maturity are classified as held for investment and are stated at cost, adjusted for amortization of premiums and accretion of discounts computed under the interest method. The Company reviews its portfolio of securities for impairment at least quarterly. Impairment is considered to be other-than-temporary if it is likely that all amounts contractually due will not be received for debt securities. When impairment is considered other-than-temporary, the cost basis of the security is written down to fair value, with the impairment charge included in earnings. In evaluating whether the impairment is temporary or other-than-temporary, the Company considers, among other things, the period of time the security has been in an unrealized loss position, and whether the Company has the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. The Company does not engage in securities trading activities.

The Company invests in equity securities without readily determinable fair values and utilizes Level 3 inputs. Beginning January 1, 2018, upon adoption of ASU 2016-01, these securities are reported at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The realized and unrealized gains and losses are reported as securities transactions in the noninterest income section of the consolidated statements of comprehensive income. For periods prior to January 1, 2018, equity securities were classified as available-for-sale and stated at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income (loss), net of tax. Equity securities are reported in other assets on the balance sheet. The Company reviews its portfolio of equity securities for impairment at least quarterly.

Loans

The lending function is governed by written policies and procedures, as determined by senior management and approved by the Board of Directors. The policies and procedures set the standards for lending in each major loan category by collateral type and use of loan proceeds. The objectives of these policies and procedures are to identify profitable markets, determine appropriate risk tolerance levels for each type of loan, establish limits for loan officer approval, set concentration limits, establish loan-to-value thresholds, set repayment terms and loan structure guidelines and adhere to documentation requirements. Interest rate risk is controlled by the use of variable rate provisions, the vast majority of which have a rate floor, limits on fixing rates for longer periods and the use of prepayment penalties.

One-to-four family residential real estate loans are made in accordance with underwriting policies and are fully documented. Credit worthiness is assessed based on significant credit characteristics including credit history and residential and employment stability. These loans include first liens, junior liens and home equity lines of credit. The composition of this portfolio is primarily first liens, which comprise approximately 82% of the portfolio, with junior liens comprising approximately 9%, and home equity lines of credit comprising approximately 9%. The Company does not engage in any hybrid loan programs. In addition, the Company does not have any exposure to loans with negative amortization, interest rate carryover or discounting of the initial rates (teaser rates).

Loans originated within the Company are stated at the principal amount outstanding, net of unearned interest, loan fees and allowance for loan losses. Interest on all performing loans is recognized, on a simple interest basis, based upon the principal amount outstanding. A loan is placed on nonaccrual status when, in the opinion of management, the future collectability of interest and/or principal is not probable. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is recognized on certain of these loans on a cash basis if the full collection of the remaining principal balance is reasonably expected. Otherwise, interest income is not recognized until the principal balance is fully collected. See Note (5) for loan disclosures.

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. Appraisals of other real estate owned are also reviewed and updated consistent with this policy.

When a loan deteriorates to the point that the account officer or the Loan Committee concludes it no longer represents a viable asset, it will be charged off. Similarly, any portion of a loan that is deemed to no longer be a viable asset will be charged off. A loan will not be charged off unless such action has been approved by the branch President.

Acquired Loans

Loans acquired through business combinations since December 2009 are required to be carried at fair value as of the date of the combination. Loans that would have a general allowance for loan losses or have specific evidence of deterioration of credit quality since origination are adjusted to fair value and any allowance for loan losses is eliminated. The difference between the fair value of loans which do not have specific evidence of deterioration of credit quality since origination and their principal balance is recognized in interest income on a level-yield method over the life of the loans. For loans which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments (as determined by the present value of expected future cash flows), the difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the “accretable yield,” is recognized in interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “nonaccretable difference,” are not recognized as yield adjustments or as loss accruals or valuation allowances. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairments. Any probable loss due to subsequent credit deterioration of the loans since acquisition is provided for in the allowance for loan losses.

Loans Held For Sale

The Company originates mortgage loans to be sold. At the time of origination, the acquiring bank has already been determined and the terms of the loan, including the interest rate, have already been set by the acquiring bank allowing the Company to originate the loan at fair value. Mortgage loans are generally sold within 30 days of origination. Loans held for sale are carried at the lower of cost or fair value. Gains or losses recognized upon the sale of the loans are determined on a specific identification basis. The Company does not sell residential mortgage loans with recourse other than obligations under standard representations and warranties or for fraud. These obligations relate to loan performance for the life of the loan. The amount of loans repurchased since the inception of the program is not considered to be material, and therefore, no reserve has been required.

Allowance for Loan Losses

The allowance for loan losses is an estimate of probable credit losses related to specifically identified loans and for losses inherent in the portfolio that have been incurred as of the balance sheet date. The allowance for loan losses is increased by provisions charged to operating expense and is reduced by net loan charge-offs. The amount of the allowance for loan losses is based on past loan loss experience, evaluations of known impaired loans, levels of adversely graded loans, general economic conditions and other environmental factors. Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in aggregate for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific allowance is provided, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan’s existing rate or at the fair value of collateral if repayment is expected primarily from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

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 are past due and unpaid or otherwise becomes well secured and in the process of collection and when prospects for collection of 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.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is charged to operating expense and is computed using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are charged to expense as incurred while improvements are capitalized. Premises and equipment is tested for impairment if events or changes in circumstances occur that indicate that the carrying amount of any premises and equipment may not be recoverable. Impairment losses are measured by comparing the fair values of the premises and equipment with their recorded amounts. Premises that are identified to be sold are transferred to other real estate owned at the lower of their carrying amounts or their fair values less estimated costs to sell. Any losses on premises identified to be sold are charged to operating expense. When premises and equipment are transferred to other real estate owned, sold, or otherwise retired, the cost and applicable accumulated depreciation are removed from the respective accounts and any resulting gains or losses are reported in the statement of comprehensive income.

Other Real Estate Owned

Other real estate owned consists of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure, and premises held for sale. These properties are carried at the lower of the book values of the related loans or fair values based upon appraisals, less estimated costs to sell. Losses arising at the time of reclassification of such properties from loans to other real estate owned are charged directly to the allowance for loan losses. Any losses on premises identified to be sold are charged to operating expense at the time of transfer from premises to other real estate owned. Losses from declines in value of the properties subsequent to classification as other real estate owned are charged to operating expense.

Intangible Assets and Goodwill

Core deposit intangibles are amortized on a straight-line basis over the estimated useful lives of seven to ten years and customer relationship intangibles are amortized on a straight-line basis over the estimated useful life of three to eighteen years. Mortgage servicing rights are amortized based on current prepayment assumptions. Goodwill is not amortized, but is evaluated at a reporting unit level at least annually for impairment, or more frequently if other indicators of impairment are present. At least annually in the fourth quarter, intangible assets, excluding mortgage servicing rights, are evaluated for possible impairment. Impairment losses are measured by comparing the fair values of the intangible assets with their recorded amounts. Any impairment losses are reported in the statement of comprehensive income. Mortgage servicing rights are adjusted to fair value periodically, if impaired.

Derivatives

The Company recognizes all of its derivative instruments as assets or liabilities in the balance sheet at fair value and recognizes the realized and unrealized change in fair value in the statement of comprehensive income. Income is derived from a fixed pricing spread when customer hedge contracts are immediately offset with counterparty contracts as compensation for administrative costs and credit risk and recognized in other noninterest income.

Insurance Commissions and Fees

Commission revenue is recognized at the later of the billing date or the effective date of the related insurance policies for those accounts billed by the Agency. Commission revenue, for accounts that are directly billed by the insurance company to the insured, is recognized when determinable by the Agency, which is generally when such commissions are received.

The Agency also receives contingent commissions from insurance companies as additional incentive for achieving specified premium volume goals and/or loss experience parameters relating to the insurance placed by the Agency. Contingent commissions from insurance companies are recognized when determinable, which is generally when such commissions are received.

Stock-based Compensation

The Company recognizes stock-based compensation as compensation expense in the statement of comprehensive income based on the fair value of the Company’s stock options on the measurement date, which, for the Company, is the date of the grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model and is based on certain assumptions including risk-free rate of return, dividend yield, stock price volatility and the expected term. The fair value of each option is expensed over its vesting period.

Income Taxes

The Company files a consolidated income tax return with its subsidiaries. Federal and state income tax expense or benefit has been allocated to subsidiaries on a separate return basis. Deferred taxes are recognized under the balance sheet method based upon the future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities, using the tax rates expected to apply to taxable income in the periods when the related temporary differences are expected to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized.

Earnings Per Common Share

Basic earnings per common share is computed by dividing net income, less any preferred dividends requirement, by the weighted average of common shares outstanding. Diluted earnings per common share reflects the potential dilution that could occur if options, convertible securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

Comprehensive Income

Comprehensive income includes all changes in stockholders' equity during a period, except those resulting from transactions with stockholders. Besides net income, other components of the Company's comprehensive income includes the after tax effect of changes in the net unrealized gain/loss on debt securities available for sale.

Statement of Cash Flows

For purposes of the statement of cash flows, the Company considers cash and due from banks and interest-bearing deposits with banks as cash equivalents.

Recent Accounting Pronouncements

Standards Adopted During Current Period:

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-2, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-2 allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. ASU 2018-2 is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The Company elected to early adopt the provisions of ASU 2018-2 and the amount to reclassify was immaterial to the Company's financial statements. The Company's policy is to release material stranded tax effects on a specific identification basis.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting." The amendments in this update provide guidance about types of changes to the terms of conditions of share-based payment awards that would require an entity to apply modification accounting under ASC 718. ASU 2017-09 was adopted on January 1, 2018 and did not have a significant impact on the Company's financial statements and no prior periods were adjusted.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." ASU 2017-04 removes the second step of goodwill testing. ASU 2017-04 is effective for fiscal years beginning after December 31, 2019 with early adoption permitted. The Company elected to early adopt ASU 2017-4 and it did not have a significant impact on the Company's financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of a business. ASU 2017-01 was adopted on January 1, 2018 and did not have a significant impact on the Company's financial statements.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." ASU 2016-16 provides guidance stating that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 was adopted on January 1, 2018 and did not have a significant impact on the Company's financial statements and no prior periods were adjusted.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. ASU 2016-15 was adopted on January 1, 2018 and did not have a significant impact on the Company's financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall (Subtopic 825-10)." ASU 2016-01 requires all equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in the fair value recognized through net income. The adoption of the guidance resulted in a $618,000 decrease to retained earnings and a $618,000 increase to accumulated other comprehensive income. Additional income of $48,900 was recorded in the consolidated statement of comprehensive income during 2018 as a result of changes to the accounting for equity investments. Further, the Company's securities disclosures in Note (4) have been revised to exclude equity investments and fair value disclosures in Note (20) have incorporated the revised disclosure requirements for financial investments. In addition, equity securities of $5.7 million were reclassed from securities to other assets on the Company's 2017 balance sheet to conform to the current presentation. ASU 2016-01 also emphasizes the existing requirement to use exit prices to measure fair value for disclosure purposes and clarifies that entities should not make use of a practicability exception in determining the fair value of loans. Accordingly, we refined the calculation used to determine the disclosed fair value of the Company's loans held for investment as part of adopting this standard. The refined calculation did not have a significant impact on the Company's fair value disclosures. ASU 2016-01 was adopted on January 1, 2018 and did not have a significant impact on the Company's financial statements.

In January 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 implements a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in a manner that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, which comprises a significant portion of the Company's revenue stream. ASU 2014-09 was adopted on January 1, 2018 and did not have a significant impact on the Company's financial statements.

Standards Not Yet Adopted:

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820)." ASU 2018-13 removes, modifies and adds disclosure requirements on fair value measurements. ASU 2018-13 will be effective for the Company on January 1, 2020. Early adoption is permitted. In addition, early adoption of any removed or modified disclosures and delayed adoption of the additional disclosures until the effective date is also permitted.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU 2016-13 requires enhanced disclosures related to the significant estimates and judgements used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Company on January 1, 2020. The Company is currently evaluating the potential impact of ASU 2016-13 on its financial statements. In that regard, the Company has formed a task force under the direction of its Chief Financial Officer. In preparation, the Company has developed new credit estimation models, processes and controls. Internal validation of the models is underway and expected to be completed early in 2019. The Company has performed test runs of the new processes and controls and expects to begin full parallel runs by mid-2019. The impact of the standard will depend on the composition of the Company's portfolio as well as economic conditions and forecasts at the time of adoption. The Company expects to adopt the standard in the first quarter of 2020.

In February 2016, the FASB issued ASU No. 2016-02, "Leases - (Topic 842)." ASU 2016-02 requires that lessees recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2018. The Company will adopt the new guidance using a modified retrospective basis and anticipates applying the optional practical expedients related to the transition. Based on leases outstanding and the Company's preliminary assessment as of December 31, 2018, the Company expects the adoption of ASU 2016-02 to increase assets and liabilities by approximately $3.0 million on its consolidated balance sheet in 2019.

(2) RECENT DEVELOPMENTS, INCLUDING MERGERS AND ACQUISITIONS

On August 31, 2018 BFTower, LLC, a wholly-owned subsidiary of BancFirst purchased Cotter Ranch Tower in Oklahoma City for the Company's corporate headquarters for $21.0 million. Cotter Ranch Tower was subsequently renamed BancFirst Tower. BancFirst Tower consists of an aggregate of 507,000 square feet, has 36 floors and is the second tallest building in Oklahoma City. The tower will remain an income producing property as approximately 55% is currently leased to outside tenants. BancFirst Tower will allow the Company to consolidate operations from three locations to one and will improve operational efficiencies. Upon consolidation, the Company expects to occupy approximately 35% of the Tower, resulting in approximately 90% total occupancy. Renovations on BancFirst Tower will be completed over the next two years and are expected to cost approximately $60 million. The renovation costs include substantial deferred maintenance including HVAC, plumbing, electrical, elevators, building skin and roof while also including much needed improvements to both the interior and exterior common areas including the lobby, underground and outdoor plaza. The total purchase price and renovation costs were determined to be favorable to other alternatives, such as constructing new corporate headquarters. On December 14, 2018, BFTower LLC, purchased a 42.6% ownership interest in SFPG, LLC, which is the owner of a 1,568 space parking garage adjacent to BancFirst Tower, for $9.8 million.

On January 11, 2018, the Company acquired First Wagoner Corp. and its subsidiary bank, First Bank & Trust Company, with locations in Carney, Grove, Ketchum, Luther, Tulsa and Wagoner. First Bank & Trust Company had approximately $290 million in total assets, $247 million in loans and $251 million in deposits. First Bank & Trust Company operated as a subsidiary of BancFirst Corporation until it was merged into BancFirst on February 16, 2018. As a result of the acquisition, the Company recorded a core deposit intangible of approximately $6.3 million and goodwill of approximately $19.1 million. The effect of this acquisition was included in the consolidated financial statements of the Company from the date of acquisition forward. The acquisition did not have a material effect on the Company's consolidated financial statements. The acquisition of First Wagoner Corp. and its subsidiary bank, First Bank & Trust Company complements the Company’s community banking strategy by adding an additional five communities to its banking network in Oklahoma.

On January 11, 2018, the Company acquired First Chandler Corp. and its subsidiary bank, First Bank of Chandler, with two locations in Chandler. First Bank of Chandler had approximately $88 million in total assets, $66 million in loans and $79 million in deposits. First Bank of Chandler operated as a subsidiary of BancFirst Corporation until it was merged into BancFirst on September 7, 2018. As a result of the acquisition, the Company recorded a core deposit intangible of approximately $2.2 million and goodwill of approximately $6.6 million. The effect of this acquisition was included in the consolidated financial statements of the Company from the date of acquisition forward. The acquisition did not have a material effect on the Company’s consolidated financial statements. The acquisition of First Chandler Corp. and its subsidiary bank, First Bank of Chandler complements the Company’s community banking strategy by increasing its banking network in Oklahoma.

On July 31, 2017, the Company completed a two-for-one stock split of the Company’s outstanding shares of common stock. The stock was payable in the form of a dividend on or about July 31, 2017 to shareholders of record of the outstanding common stock as of the close of business record date of July 17, 2017. Stockholders received one additional share for each share held on that date. This was the second stock split for the Company since going public. All share and per share amounts in these consolidated financial statements and related notes have been retroactively adjusted to reflect this stock split for all periods presented.

Effective June 1, 2017, the Company organized a new wholly-owned captive insurance company named BancFirst Risk & Insurance Company. It insures certain risks of the Company and has entered into reinsurance agreements with a risk-sharing pool.

(3) CASH, DUE FROM BANKS, INTEREST-BEARING DEPOSITS AND FEDERAL FUNDS SOLD

The Company maintains accounts with the Federal Reserve Bank and various other financial institutions primarily for the purpose of holding excess liquidity and clearing cash items. It may also sell federal funds to certain of these institutions on an overnight basis. At December 31, 2018 and 2017, the Company had no significant concentrations of credit risk with other financial institutions. The Company maintained vault cash and funds on deposit with the Federal Reserve Bank, which is included in the table below.

The Company is required, as a matter of law, to maintain a reserve balance in the form of vault cash or cash on deposit with the Federal Reserve Bank. The average amount of required reserves for each of the years ended December 31, 2018 and 2017 is included in the following table:

	December 31, 2018	December 31, 2017
	(Dollars in thousands)	
Vault cash and funds on deposit with the Federal Reserve Bank	$1,299,872	$1,639,058
Average required Reserves	45,195	44,485

(4) SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
December 31, 2018				
Mortgage backed securities (1)	$133	$ 5	$ —	$ 138
States and political subdivisions	795	—	—	795
Other securities	500	—	—	500
Total	$1,428	$ 5	$ —	$ 1,433
December 31, 2017				
Mortgage backed securities (1)	$187	$ 10	$ —	$ 197
States and political subdivisions	1,605	3	(2)	1,606
Other securities	500	—	—	500
Total	$2,292	$ 13	$ (2)	$ 2,303

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
December 31, 2018				
U.S. treasuries	$699,882	$ 1,108	$ (3,524)	$697,466
U.S. federal agencies	30,079	—	(160)	29,919
Mortgage backed securities (1)	16,367	114	(573)	15,908
States and political subdivisions	27,246	277	(112)	27,411
Total	$773,574	$ 1,499	$ (4,369)	$770,704
December 31, 2017				
U.S. treasuries	$314,905	$ —	$ (2,103)	$312,802
U.S. federal agencies	89,098	82	(329)	88,851
Mortgage backed securities (1)	18,358	204	(586)	17,976
States and political subdivisions	41,937	554	(121)	42,370
Total	$464,298	$ 840	$ (3,139)	$461,999

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

The maturities of debt 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.

	December 31, 2018		2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Held for Investment				
Contractual maturity of debt securities:				
Within one year	$495	$495	$1,036	$1,034
After one year but within five years	369	370	623	627
After five years but within ten years	562	565	625	633
After ten years	2	3	8	9
Total	$1,428	$1,433	$2,292	$2,303
Available for Sale				
Contractual maturity of debt securities:				
Within one year	$411,256	$410,327	$113,225	$112,974
After one year but within five years	313,416	311,924	289,038	287,058
After five years but within ten years	7,524	7,685	6,222	6,500
After ten years	41,378	40,768	55,813	55,467
Total debt securities	$773,574	$770,704	$464,298	$461,999

The following is a detail of proceeds from sales and realized securities losses, on available for sale debt securities:

	Year Ended December 31, 2018	2017	2016
	(Dollars in thousands)		
Proceeds	$ 31,285	$ —	$ —
Gross losses realized	109	—	—

Realized gains/losses on debt and equity securities are reported as securities transactions within the noninterest income section of the consolidated statement of comprehensive income.

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

	December 31,	
	2018	2017
	(Dollars in thousands)	
Book value of pledged securities	$472,053	$440,069

The following table summarizes debt securities with unrealized losses, segregated by the duration of the unrealized loss, at December 31, 2018 and 2017 respectively:

	Less than 12 Months		More than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
December 31, 2018						
Held for Investment						
Mortgage backed securities	$—	$ —	$4	$ —	$4	$ —
Total	$—	$ —	$4	$ —	$4	$ —
Available for Sale						
U.S. treasuries	$296,438	$ 90	$261,639	$ 3,434	$558,077	$ 3,524
U.S. federal agencies	1,705	7	27,035	153	28,740	160
Mortgage backed securities	1	—	13,444	573	13,445	573
States and political subdivisions	1,593	3	11,527	109	13,120	112
Total	$299,737	$ 100	$313,645	$ 4,269	$613,382	$ 4,369
December 31, 2017						
Held for Investment						
Mortgage backed securities	$—	$ —	$7	$ —	$7	$ —
States and political subdivisions	65	—	478	2	543	2
Total	$65	$ —	$485	$ 2	$550	$ 2
Available for Sale						
U.S. treasuries	$283,302	$ 1,653	$29,500	$ 450	$312,802	$ 2,103
U.S. federal agencies	3,499	8	59,220	321	62,719	329
Mortgage backed securities	1	—	14,475	586	14,476	586
States and political subdivisions	21,300	114	585	7	21,885	121
Total	$308,102	$ 1,775	$103,780	$ 1,364	$411,882	$ 3,139

Declines in the fair value of held for investment and available-for-sale debt securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Management has the ability and intent to hold the debt securities classified as held for investment until they mature, at which time the Company will receive full value for the debt securities. Furthermore, as of December 31, 2018 and 2017, the Company also had the ability and intent to hold the debt securities classified as available for sale for a period of time sufficient for a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying debt securities were purchased. The fair value of those debt securities having unrealized losses is expected to recover as the securities approach their maturity date or repricing date, or if market yields for such investments decline. Management has no intent or requirement to sell before the recovery of the unrealized loss; therefore, no significant impairment loss was realized in the Company’s consolidated statement of comprehensive income.

(5) LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a schedule of loans outstanding by category:

	December 31, 2018 Amount	Percent	2017 Amount	Percent
	(Dollars in thousands)			
Commercial and financial:				
Commercial and industrial	$1,032,787	20.76 %	$995,207	21.08 %
Oil & gas production and equipment	94,729	1.90	95,574	2.02
Agriculture	136,313	2.74	141,249	2.99
State and political subdivisions:				
Taxable	76,211	1.53	73,827	1.56
Tax-exempt	48,415	0.97	48,626	1.03
Real estate:				
Construction	451,224	9.07	437,277	9.26
Farmland	219,241	4.41	195,162	4.13
One to four family residences	979,170	19.68	875,766	18.55
Multifamily residential properties	65,949	1.33	46,030	0.98
Commercial	1,506,937	30.28	1,487,927	31.51
Consumer	328,069	6.59	284,373	6.02
Other (not classified above)	36,931	0.74	40,977	0.87
Total loans	$4,975,976	100.00%	$4,721,995	100.00%

The Company's loans are mostly to customers within Oklahoma and approximately 65% of the loans are secured by real estate. Credit risk on loans is managed through limits on amounts loaned to individual and related 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.

The Company's commercial and industrial loan category includes a small percentage of loans to companies that provide ancillary services to the oil and gas industry, such as transportation, preparation contractors and equipment manufacturers. The balance of these loans was approximately $60 million at December 31, 2018 and approximately $81 million at December 31, 2017.

There are inherent risks associated with the Company's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Company operates. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Company is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Company. As a lender, the Company faces the risk that a significant number of its borrowers will fail to pay their loans when due. If borrower defaults cause losses in excess of the Company's allowance for loan losses, it could have an adverse effect on the Company's business, profitability, and financial condition.

Loans secured by real estate, including farmland, multifamily, commercial, one-to-four family residential and construction and development loans, have been a large portion of the Company's loan portfolio. The Company is subject to risk of future market fluctuations in property values relating to these loans. In addition, multi-family and commercial real estate ("CRE") loans represent the majority of the Company's real estate loans outstanding. A decline in tenant occupancy due to such factors or for other reasons could adversely impact the ability of the Company's borrowers to repay their loans on a timely basis, which could have a negative impact on the Company's financial condition and results of operation. The Company attempts to manage this risk through rigorous loan underwriting standards.

During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage.

Nonperforming and Restructured Assets

The following is a summary of nonperforming and restructured assets:

	December 31, 2018	2017
	(Dollars in thousands)	
Past due 90 days or more and still accruing	$1,916	$2,893
Nonaccrual	22,603	31,943
Restructured	13,188	4,720
Total nonperforming and restructured loans	37,707	39,556
Other real estate owned and repossessed assets	6,873	4,424
Total nonperforming and restructured assets	$44,580	$43,980

Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately $2.3 million in 2018, $1.8 million in 2017 and $2.0 million in 2016.

The Company charges interest on principal balances outstanding on restructured loans during deferral periods. 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 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.

	December 31, 2018	2017
	(Dollars in thousands)	
Real estate:		
Non-residential real estate owner occupied	$838	$1,108
Non-residential real estate other	187	9,809
Residential real estate permanent mortgage	954	781
Residential real estate all other	5,488	3,980
Commercial and financial:		
Non-consumer non-real estate	5,682	7,785
Consumer non-real estate	437	250
Other loans	490	5,596
Acquired loans	8,527	2,634
Total	$22,603	$31,943

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Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The following table presents an age analysis of past due loans, segregated by class of loans:

	Age Analysis of Past Due Loans						
	30-59 Days Past Due	60-89 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 December 31, 2018							
Real estate:							
Non-residential real estate owner occupied	$5,114	$810	$43	$5,967	$620,654	$626,621	$ —
Non-residential real estate other	2,772	32	114	2,918	1,143,210	1,146,128	—
Residential real estate permanent mortgage	2,448	653	693	3,794	324,908	328,702	430
Residential real estate all other	1,728	292	2,799	4,819	822,685	827,504	612
Commercial and financial:							
Non-consumer non-real estate	3,620	702	833	5,155	1,278,499	1,283,654	282
Consumer non-real estate	1,991	565	559	3,115	323,747	326,862	325
Other loans	322	158	178	658	141,251	141,909	—
Acquired loans	5,240	1,669	4,936	11,845	282,751	294,596	267
Total	$23,235	$4,881	$10,155	$38,271	$4,937,705	$4,975,976	$ 1,916
As of December 31, 2017							
Real estate:							
Non-residential real estate owner occupied	$998	$68	$977	$2,043	$639,575	$641,618	$ 84
Non-residential real estate other	2,905	271	2,112	5,288	1,121,303	1,126,591	432
Residential real estate permanent mortgage	2,211	403	977	3,591	326,743	330,334	584
Residential real estate all other	1,739	749	1,377	3,865	781,790	785,655	973
Commercial and financial:							
Non-consumer non-real estate	2,210	706	1,785	4,701	1,279,704	1,284,405	403
Consumer non-real estate	2,085	670	293	3,048	285,872	288,920	194
Other loans	506	103	3,916	4,525	139,920	144,445	—
Acquired loans	753	192	713	1,658	118,369	120,027	223
Total	$13,407	$3,162	$12,150	$28,719	$4,693,276	$4,721,995	$ 2,893

Impaired Loans

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

The following table presents impaired loans, segregated by class of loans. During the year ended December 31, 2018 no material amount of interest income was recognized on impaired loans subsequent to their classification as impaired. During the year ended December 31, 2017, $2.3 million 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 December 31, 2018				
Real estate:				
Non-residential real estate owner occupied	$7,126	$ 6,933	$ 202	$ 7,739
Non-residential real estate other	949	757	50	6,057
Residential real estate permanent mortgage	1,789	1,545	127	1,650
Residential real estate all other	7,177	6,862	2,433	7,154
Commercial and financial:				
Non-consumer non-real estate	18,507	10,977	881	12,140
Consumer non-real estate	928	829	131	846
Other loans	710	490	35	481
Acquired loans	12,846	9,864	2	11,050
Total	$50,032	$ 38,257	$ 3,861	$ 47,117
As of December 31, 2017				
Real estate:				
Non-residential real estate owner occupied	$2,011	$ 1,945	$ 141	$ 1,858
Non-residential real estate other	10,323	10,240	496	3,975
Residential real estate permanent mortgage	1,745	1,542	146	1,440
Residential real estate all other	5,837	5,549	2,135	5,258
Commercial and financial:				
Non-consumer non-real estate	18,101	11,158	2,412	11,131
Consumer non-real estate	545	514	127	541
Other loans	6,092	5,595	178	7,439
Acquired loans	4,737	3,145	12	3,539
Total	$49,391	$ 39,688	$ 5,647	$ 35,181

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 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 Small Business Administration (“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 December 31, 2018						
Real estate:						
Non-residential real estate owner occupied	$451,059	$157,715	$16,949	$898	$—	$626,621
Non-residential real estate other	932,454	188,341	25,146	187	—	1,146,128
Residential real estate permanent mortgage	279,870	39,806	7,401	1,625	—	328,702
Residential real estate all other	644,217	162,003	15,232	6,052	—	827,504
Commercial and financial:						
Non-consumer non-real estate	1,000,089	264,134	15,128	4,303	—	1,283,654
Consumer non-real estate	302,217	21,600	2,255	790	—	326,862
Other loans	136,132	5,542	116	119	—	141,909
Acquired loans	156,008	109,075	20,884	8,284	345	294,596
Total	$3,902,046	$948,216	$103,111	$22,258	$345	$4,975,976
As of December 31, 2017						
Real estate:						
Non-residential real estate owner occupied	$520,641	$105,696	$13,852	$1,429	$—	$641,618
Non-residential real estate other	931,295	178,282	14,290	2,724	—	1,126,591
Residential real estate permanent mortgage	289,200	33,033	6,352	1,749	—	330,334
Residential real estate all other	621,401	149,201	9,418	5,635	—	785,655
Commercial and financial:						
Non-consumer non-real estate	1,018,172	234,884	24,322	6,997	30	1,284,405
Consumer non-real estate	268,826	17,499	2,038	557	—	288,920
Other loans	136,617	5,668	1,203	957	—	144,445
Acquired loans	65,685	34,418	17,113	2,811	—	120,027
Total	$3,851,837	$758,681	$88,588	$22,859	$30	$4,721,995

Allowance for Loan Losses Methodology

The allowance for loan losses (“ALL”) 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 one-to-four family residential property, loans secured by one-to-four 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 ALL 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 certain 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 ALL 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 ALL in the near term.

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

	ALL Balance at beginning of period	Charge-offs	Recoveries	Net charge-offs	Provisions charged to operations	Balance at end of period
	(Dollars in thousands)					
As of December 31, 2018						
Real estate:						
Non-residential real estate owner occupied	$6,195	$(282)	$ 17	$ (265)	$ 398	$6,328
Non-residential real estate other	10,519	(93)	41	(52)	560	11,027
Residential real estate permanent mortgage	3,226	(174)	26	(148)	183	3,261
Residential real estate all other	9,672	(395)	106	(289)	1,290	10,673
Commercial and financial:						
Non-consumer non-real estate	15,334	(2,257)	92	(2,165)	(18)	13,151
Consumer non-real estate	2,793	(1,066)	245	(821)	1,093	3,065
Other loans	2,481	(16)	361	345	(403)	2,423
Acquired loans	1,446	(720)	36	(684)	699	1,461
Total	$51,666	$(5,003)	$ 924	$ (4,079)	$ 3,802	$51,389
As of December 31, 2017						
Real estate:						
Non-residential real estate owner occupied	$5,602	$(74)	$ 6	$ (68)	$ 661	$6,195
Non-residential real estate other	10,793	(47)	16	(31)	(243)	10,519
Residential real estate permanent mortgage	3,129	(373)	25	(348)	445	3,226
Residential real estate all other	8,622	(330)	66	(264)	1,314	9,672
Commercial and financial:						
Non-consumer non-real estate	12,421	(1,344)	1,033	(311)	3,224	15,334
Consumer non-real estate	2,804	(913)	180	(733)	722	2,793
Other loans	4,045	(3,727)	23	(3,704)	2,140	2,481
Acquired loans	1,277	(157)	77	(80)	249	1,446
Total	$48,693	$(6,965)	$ 1,426	$ (5,539)	$ 8,512	$51,666

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

	ALL			
	December 31, 2018		December 31, 2017	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
	(Dollars in thousands)			
Real estate:				
Non-residential real estate owner occupied	$669	$ 5,659	$656	$ 5,539
Non-residential real estate other	1,119	9,908	751	9,768
Residential real estate permanent mortgage	505	2,756	483	2,743
Residential real estate all other	3,413	7,260	2,761	6,911
Commercial and financial:				