

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended September 30, 2022  
OR

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

For the transition period from    to  
Commission File Number 0-14384

**BancFirst Corporation**

(Exact name of registrant as specified in charter)

Oklahoma  
(State or other Jurisdiction of  
incorporation or organization)

100 N. Broadway Ave., Oklahoma City, Oklahoma  
(Address of principal executive offices)

73-1221379  
(I.R.S. Employer  
Identification No.)

73102-8405  
(Zip Code)

(405) 270-1086

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$1.00 Par Value Per Share	BANF	NASDAQ Global Select Market System

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (sec. 232-405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No .

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

As of October 31, 2022 there were 32,870,566 shares of the registrant's Common Stock outstanding.

**BancFirst Corporation**  
**Quarterly Report on Form 10-Q**  
**September 30, 2022**

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**BANCFIRST CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands)**

	<u>September 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
	<u>(unaudited)</u>	<u>(see Note 1)</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 227,026	\$ 228,819
Interest-bearing deposits with banks	3,106,279	1,821,203
Federal funds sold	3,878	800
Debt securities held for investment (fair value: \$2,386 and \$2,978, respectively)	2,386	2,977
Debt securities available for sale at fair value	1,519,259	531,523
Loans held for sale	4,823	24,776
Loans held for investment (net of unearned interest)	6,827,772	6,169,442
Allowance for credit losses	<u>(89,871)</u>	<u>(83,936)</u>
Loans, net of allowance for credit losses	6,737,901	6,085,506
Premises and equipment, net	278,159	269,047
Other real estate owned	39,242	39,475
Intangible assets, net	20,863	17,566
Goodwill	182,055	149,922
Accrued interest receivable and other assets	330,507	233,998
Total assets	<u>\$ 12,452,378</u>	<u>\$ 9,405,612</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Noninterest-bearing	\$ 5,203,437	\$ 3,775,387
Interest-bearing	<u>5,855,503</u>	<u>4,316,527</u>
Total deposits	11,058,940	8,091,914
Short-term borrowings	4,600	—
Accrued interest payable and other liabilities	107,659	55,977
Subordinated debt	86,030	85,987
Total liabilities	<u>11,257,229</u>	<u>8,233,878</u>
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: 32,856,387 and 32,603,118, respectively	32,856	32,603
Capital surplus	168,217	159,914
Retained earnings	1,076,316	977,067
Accumulated other comprehensive (loss) income, net of tax of \$25,439 and \$(684), respectively	<u>(82,240)</u>	<u>2,150</u>
Total stockholders' equity	1,195,149	1,171,734
Total liabilities and stockholders' equity	<u>\$ 12,452,378</u>	<u>\$ 9,405,612</u>

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

**BANCFIRST CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**  
**(Dollars in thousands, except per share data)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
<b>INTEREST INCOME</b>				
Loans, including fees	\$ 87,078	\$ 80,249	\$ 238,758	\$ 240,358
Debt securities:				
Taxable	6,793	1,484	15,716	4,779
Tax-exempt	22	35	71	175
Federal funds sold	24	—	30	—
Interest-bearing deposits with banks	20,095	1,441	29,452	2,861
Total interest income	<u>114,012</u>	<u>83,209</u>	<u>284,027</u>	<u>248,173</u>
<b>INTEREST EXPENSE</b>				
Deposits	11,999	1,988	17,566	6,313
Short-term borrowings	36	—	49	1
Subordinated debt	1,030	1,031	3,091	2,100
Total interest expense	<u>13,065</u>	<u>3,019</u>	<u>20,706</u>	<u>8,414</u>
Net interest income	100,947	80,190	263,321	239,759
Provision for (benefit from) credit losses	2,863	1,483	6,300	(8,466)
Net interest income after provision for (benefit from) credit losses	<u>98,084</u>	<u>78,707</u>	<u>257,021</u>	<u>248,225</u>
<b>NONINTEREST INCOME</b>				
Trust revenue	4,125	3,210	11,580	9,576
Service charges on deposits	22,161	21,706	65,154	61,330
Securities transactions (includes accumulated other comprehensive loss reclassifications of \$0, \$0, \$1,536 and \$0, respectively)	966	150	(2,949)	417
Income from sales of loans	969	1,594	3,891	5,737
Insurance commissions	7,498	6,666	20,227	17,670
Cash management	5,624	3,127	13,202	9,198
Gain on sale of other assets	53	34	216	2,746
Other	7,935	3,299	24,258	17,665
Total noninterest income	<u>49,331</u>	<u>39,786</u>	<u>135,579</u>	<u>124,339</u>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	47,741	42,267	136,957	123,836
Occupancy, net	4,930	5,086	14,067	13,962
Depreciation	4,612	4,207	14,034	12,217
Amortization of intangible assets	880	755	2,568	2,357
Data processing services	1,876	1,734	5,656	5,072
Net expense from other real estate owned	2,392	1,810	3,676	6,677
Marketing and business promotion	1,945	1,796	5,609	5,323
Deposit insurance	1,202	846	3,526	2,488
Other	13,500	11,713	39,214	37,268
Total noninterest expense	<u>79,078</u>	<u>70,214</u>	<u>225,307</u>	<u>209,200</u>
Income before taxes	68,337	48,279	167,293	163,364
Income tax expense	12,985	9,529	31,319	33,902
Net income	<u>\$ 55,352</u>	<u>\$ 38,750</u>	<u>\$ 135,974</u>	<u>\$ 129,462</u>
<b>NET INCOME PER COMMON SHARE</b>				
Basic	\$ 1.69	\$ 1.18	\$ 4.15	\$ 3.95
Diluted	<u>\$ 1.65</u>	<u>\$ 1.16</u>	<u>\$ 4.07</u>	<u>\$ 3.88</u>
<b>OTHER COMPREHENSIVE (LOSS) GAIN</b>				
Unrealized losses on debt securities, net of tax of \$11,033, \$172, \$26,492 and \$980, respectively	(35,752)	(552)	(85,557)	(2,565)
Reclassification adjustment for losses included in net income, net of tax of \$0, \$0, \$(369) and \$0, respectively	—	—	1,167	—
Other comprehensive loss, net of tax of \$11,033, \$172, \$26,123 and \$980, respectively	<u>(35,752)</u>	<u>(552)</u>	<u>(84,390)</u>	<u>(2,565)</u>
Comprehensive income	<u>\$ 19,600</u>	<u>\$ 38,198</u>	<u>\$ 51,584</u>	<u>\$ 126,897</u>

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

**BANCFIRST CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(Unaudited)  
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>COMMON STOCK</b>				
Issued at beginning of period	\$ 32,781	\$ 32,785	\$ 32,603	\$ 32,720
Shares issued for stock options	75	—	253	65
Shares acquired and canceled	—	(213)	—	(213)
Issued at end of period	<u>\$ 32,856</u>	<u>\$ 32,572</u>	<u>\$ 32,856</u>	<u>\$ 32,572</u>
<b>CAPITAL SURPLUS</b>				
Balance at beginning of period	\$ 165,295	\$ 158,322	\$ 159,914	\$ 156,574
Common stock issued for stock options	2,295	—	6,758	1,657
Net cash settlement of options	—	—	—	(958)
Stock-based compensation arrangements	627	555	1,545	1,604
Balance at end of period	<u>\$ 168,217</u>	<u>\$ 158,877</u>	<u>\$ 168,217</u>	<u>\$ 158,877</u>
<b>RETAINED EARNINGS</b>				
Balance at beginning of period	\$ 1,034,107	\$ 935,067	\$ 977,067	\$ 871,161
Net income	55,352	38,750	135,974	129,462
Dividends on common stock (\$0.40, \$0.36, \$1.12 and \$1.04 per share, respectively)	(13,143)	(11,806)	(36,725)	(34,091)
Net cash settlement of options	—	—	—	(4,521)
Common stock acquired and canceled	—	(11,451)	—	(11,451)
Balance at end of period	<u>\$ 1,076,316</u>	<u>\$ 950,560</u>	<u>\$ 1,076,316</u>	<u>\$ 950,560</u>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Unrealized (losses)/gains on securities:				
Balance at beginning of period	\$ (46,488)	\$ 5,417	\$ 2,150	\$ 7,430
Net change	(35,752)	(552)	(84,390)	(2,565)
Balance at end of period	<u>\$ (82,240)</u>	<u>\$ 4,865</u>	<u>\$ (82,240)</u>	<u>\$ 4,865</u>
Total stockholders' equity	<u>\$ 1,195,149</u>	<u>\$ 1,146,874</u>	<u>\$ 1,195,149</u>	<u>\$ 1,146,874</u>

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

**BANCFIRST CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**(Unaudited)**  
**(Dollars in thousands)**

	Nine Months Ended September 30,	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 135,974	\$ 129,462
Adjustments to reconcile to net cash provided by operating activities:		
Provision for (benefit from) credit losses	6,300	(8,466)
Depreciation and amortization	16,602	14,574
Net amortization of securities premiums and discounts	3,002	3,069
Realized securities losses/(gains)	2,949	(417)
Gain on sales of loans	(3,891)	(5,737)
Cash receipts from the sale of loans originated for sale	207,972	294,387
Cash disbursements for loans originated for sale	(184,129)	(277,480)
Deferred income tax (benefit)/provision	(2,940)	4,662
Gain on sale of other assets	(4,185)	(2,991)
(Decrease)/increase in interest receivable	(11,703)	3,894
Increase in interest payable	528	69
Amortization of stock-based compensation arrangements	1,545	1,604
Excess tax benefit from stock-based compensation arrangements	(3,058)	(1,622)
Other, net	14,326	22,309
Net cash provided by operating activities	<u>179,292</u>	<u>177,317</u>
<b>INVESTING ACTIVITIES</b>		
Net cash received from acquisitions, net of cash paid	121,099	12,442
Net cash paid from sale of assets and liabilities, net of cash received	—	(13,733)
Net (increase)/decrease in federal funds sold	(465)	15,000
Purchases of held for investment debt securities	—	(845)
Purchases of available for sale debt securities	(1,375,496)	(251,874)
Proceeds from maturities, calls and paydowns of held for investment debt securities	72	826
Proceeds from maturities, calls and paydowns of available for sale debt securities	48,300	306,231
Proceeds from sales of available for sale securities	222,474	—
Purchase of equity securities	(3,952)	(490)
Proceeds from paydowns and sales of equity securities	1,378	638
Net change in loans	(405,052)	561,540
Net payments on derivative asset contracts	(11,019)	(15,694)
Purchases of premises, equipment and computer software	(15,105)	(20,859)
Purchase of tax credits	(4,091)	(4,107)
Other, net	12,547	6,454
Net cash (used in) provided by investing activities	<u>(1,409,310)</u>	<u>595,529</u>
<b>FINANCING ACTIVITIES</b>		
Net change in deposits	2,537,009	1,708,393
Net change in short-term borrowings	4,600	2,400
Proceeds from issuance of subordinated notes, net of debt issuance costs	—	59,150
Issuance of common stock in connection with stock options, net	7,011	1,722
Common stock acquired	—	(11,664)
Net cash settlement of options	—	(5,479)
Cash dividends paid	(35,319)	(33,414)
Net cash provided by financing activities	<u>2,513,301</u>	<u>1,721,108</u>
Net increase in cash, due from banks and interest-bearing deposits	1,283,283	2,493,954
Cash, due from banks and interest-bearing deposits at the beginning of the period	2,050,022	1,616,912
Cash, due from banks and interest-bearing deposits at the end of the period	<u>\$ 3,333,305</u>	<u>\$ 4,110,866</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for interest	\$ 20,154	\$ 8,356
Cash paid during the period for income taxes	\$ 26,780	\$ 27,800
Noncash investing and financing activities:		
Cash consideration for acquisitions	\$ 77,685	\$ 21,000
Fair value of assets acquired in acquisitions	\$ 511,580	\$ 283,962
Liabilities assumed in acquisitions	\$ 433,896	\$ 258,165
Unpaid common stock dividends declared	\$ 13,143	\$ 11,802

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

**BANCFIRST CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

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

The accounting and reporting policies of BancFirst Corporation and its subsidiaries (the “Company”) conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and general practice within the banking industry. A summary of significant accounting policies can be found in Note (1) to the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

**Basis of Presentation**

The accompanying unaudited interim consolidated financial statements include the accounts of BancFirst Corporation, Council Oak Partners, LLC, BancFirst Insurance Services, Inc., Pegasus Bank (“Pegasus”), Worthington National Bank (“Worthington”) and BancFirst and its subsidiaries. The principal operating subsidiaries of BancFirst are Council Oak Investment Corporation, Council Oak Real Estate, Inc., BFTower, LLC, BFC-PNC 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 unaudited interim consolidated financial statements.

The accompanying unaudited interim consolidated financial statements and notes are presented in accordance with U.S. GAAP for interim financial information and the instructions for Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). The information contained in the consolidated financial statements and footnotes included in BancFirst Corporation’s Annual Report on Form 10-K for the year ended December 31, 2021, should be referred to in connection with these unaudited interim consolidated financial statements. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

The unaudited interim consolidated financial statements contained herein reflect all adjustments, which are, in the opinion of management, necessary to provide a fair statement of the financial position and results of operations of the Company for the interim periods presented. All such adjustments are of a normal and recurring nature.

**Reclassifications**

Certain items in prior consolidated financial statements have been reclassified to conform to the current presentation. Such reclassifications had no effect on previously reported cash flows, stockholders’ equity or comprehensive income.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States inherently involves the use of estimates and assumptions that affect the amounts reported in the financial statements and the related disclosures. These estimates relate principally to the determination of the allowance for credit losses, income taxes, the fair value of financial instruments and the valuation of assets and liabilities acquired in a business combination, including identifiable intangible assets. Such estimates and assumptions may change over time and actual amounts realized may differ from those reported.

**Recent Accounting Pronouncements**

**Standards Not Yet Adopted:**

In March 2022, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2022-02, “Financial Instruments – Credit Losses (Topic 326).” ASU 2022-02 eliminates the TDR recognition and measurement guidance and, instead, requires that the Company evaluate, based on the accounting for loan modifications, whether the modification represents a new loan or a continuation of an existing loan. The Company has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings when adopted. In addition, the update requires that the Company disclose current-period write-offs by year of origination for financing receivables. The current-period write-off amendment should be applied prospectively. The amendments are effective for annual periods beginning after December 15, 2022, including interim periods within those annual periods. Early adoption is permitted; however the Company expects to adopt ASU 2022-02 on January 1, 2023. ASU No. 2022-02 is not expected to have a significant impact on the Company’s consolidated financial statements.

## (2) RECENT DEVELOPMENTS, INCLUDING MERGERS AND ACQUISITIONS

On February 8, 2022, BancFirst Corporation acquired Worthington for an aggregate cash purchase price of \$77.7 million. Worthington is chartered and regulated by the Office of the Comptroller of the Currency (OCC) with one banking location in Arlington, Texas, one in Colleyville, Texas and two in Fort Worth, Texas. At acquisition, Worthington had approximately \$478 million in total assets, \$257 million in loans and \$430 million in deposits. Worthington will continue to operate under a separate charter and remain a separate subsidiary of BancFirst Corporation governed by its existing board of directors. BancFirst Corporation intends to provide an appropriate amount of capital or other support to increase Worthington’s ability to approve larger loans and allow Worthington to continue to grow earning assets. As a result of the acquisition, the Company recorded a core deposit intangible of approximately \$5.9 million and goodwill of approximately \$32.1 million. The effect of this acquisition was included in the consolidated financial statements of the Company from the date of acquisition forward. Pro forma information has not been presented because the acquisition did not have a material effect on the Company’s consolidated financial statements. The acquisition of Worthington complements the Company by expanding its Texas presence in the Dallas-Fort Worth market.

On June 17, 2021, the Company completed a private placement, under Regulation D of the Securities Act of 1933, of \$60 million aggregate principal amount of 3.50% Fixed-to-Floating Rate Subordinated Notes due 2036 (the “Subordinated Notes”) to various institutional accredited investors. See Note (7) of the Notes to Consolidated Financial Statements for a complete discussion of the Company’s subordinated debt.

On May 20, 2021, the Company purchased approximately \$284 million in total assets, which included approximately \$195 million in loans, and assumed approximately \$256 million in deposits and certain other obligations, from The First National Bank and Trust Company of Vinita, Oklahoma for a purchase price of approximately \$21 million. The Company recorded a bargain purchase gain related to this purchase of approximately \$4.8 million, which was included in other noninterest income on the consolidated statement of comprehensive income and in other operating activities on the consolidated statement of cash flow. The bargain purchase gain is a noncash item on the consolidated statement of cash flow. In addition, the Company recorded expenses related to this purchase of approximately \$4.8 million, which were included in noninterest expense. As a result of the purchase, the Company recorded a core deposit intangible of approximately \$1.7 million. The effect of this purchase was included in the consolidated financial statement of the Company from the date of purchase forward. The purchase did not have a material effect on the Company’s consolidated financial statements. The First National Bank and Trust Company of Vinita was a nationally chartered bank with two banking locations in Vinita and Grove, Oklahoma.

On January 22, 2021, the Company sold approximately \$21 million in loans and approximately \$38 million in deposits from its Hugo, Oklahoma branch to AmeriState Bank in Atoka, Oklahoma. The Company recorded a gain on the transaction of \$2.5 million, which is included in noninterest income in 2021.

## (3) 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)				
<b>September 30, 2022</b>				
Mortgage backed securities (1)	\$ 16	\$ —	\$ —	\$ 16
States and political subdivisions	1,870	—	—	1,870
Other securities	500	—	—	500
Total	<u>\$ 2,386</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,386</u>
<b>December 31, 2021</b>				
Mortgage backed securities (1)	\$ 32	\$ 1	\$ —	\$ 33
States and political subdivisions	2,445	—	—	2,445
Other securities	500	—	—	500
Total	<u>\$ 2,977</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 2,978</u>



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
<b>September 30, 2022</b>				
(Dollars in thousands)				
U.S. treasuries	\$ 1,563,520	\$ -	\$ (104,430)	\$ 1,459,090
U.S. federal agencies	16,353	229	(5)	16,577
Mortgage backed securities (1)	17,866	13	(2,259)	15,620
States and political subdivisions	7,832	24	(256)	7,600
Asset backed securities	13,367	—	(399)	12,968
Other securities	8,000	—	(596)	7,404
Total	<u>\$ 1,626,938</u>	<u>\$ 266</u>	<u>\$ (107,945)</u>	<u>\$ 1,519,259</u>
<b>December 31, 2021</b>				
U.S. treasuries	\$ 455,701	\$ 3,693	\$ (1,766)	\$ 457,628
U.S. federal agencies	21,609	335	(2)	21,942
Mortgage backed securities (1)	28,897	400	(14)	29,283
States and political subdivisions	6,128	194	(3)	6,319
Asset backed securities	13,354	3	—	13,357
Other securities	3,000	—	(6)	2,994
Total	<u>\$ 528,689</u>	<u>\$ 4,625</u>	<u>\$ (1,791)</u>	<u>\$ 531,523</u>

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

On January 10, 2022, the Company purchased United States Treasury Notes of \$600 million par value with an average yield of 1.42% and an average maturity of 53 months. On August 25, 2022, the Company purchased United States Treasury Notes of \$300 million par value with an average yield of 3.27% and an average maturity of 58 months.

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.

	September 30, 2022		December 31, 2021	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(Dollars in thousands)				
<b>Held for Investment</b>				
Contractual maturity of debt securities:				
Within one year	\$ 1,187	\$ 1,187	\$ 577	\$ 577
After one year but within five years	1,197	1,197	2,396	2,397
After five years but within ten years	2	2	4	4
After ten years	—	—	—	—
Total	<u>\$ 2,386</u>	<u>\$ 2,386</u>	<u>\$ 2,977</u>	<u>\$ 2,978</u>
<b>Available for Sale</b>				
Contractual maturity of debt securities:				
Within one year	\$ 96,447	\$ 95,552	\$ 58,478	\$ 58,688
After one year but within five years	1,260,280	1,172,140	408,253	410,049
After five years but within ten years	226,894	211,100	10,851	11,011
After ten years	43,317	40,467	51,107	51,775
Total debt securities	<u>\$ 1,626,938</u>	<u>\$ 1,519,259</u>	<u>\$ 528,689</u>	<u>\$ 531,523</u>

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

	September 30, 2022	December 31, 2021
(Dollars in thousands)		
Book value of pledged securities	\$ 487,445	\$ 473,026

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

	<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
	(Dollars in thousands)	
Proceeds	\$ 222,474	\$ —
Gross losses realized	3,990	—

In March 2022, the Company sold \$226 million of debt securities with an average yield of 0.16%, the proceeds of which were subsequently reinvested in \$220 million of debt securities with an average yield of 1.86%. The Company used specific identification to reclassify the unrealized loss in other comprehensive income to a realized loss, as shown in the consolidated statements of comprehensive income. There were no sales of debt securities and therefore no proceeds from sales or realized securities gains or losses on available for sale debt securities for the nine months ended September 30, 2021.

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 summarizes debt securities with unrealized losses, segregated by the duration of the unrealized loss, at September 30, 2022 and December 31, 2021 respectively:

	<u>Number of investments</u>	<u>Less than 12 Months</u>		<u>More than 12 Months</u>		<u>Total</u>	
		<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>
(Dollars in thousands)							
<b>September 30, 2022</b>							
<b>Available for Sale</b>							
U.S. treasuries	73	\$1,440,283	\$ 102,906	\$ 18,807	\$ 1,524	\$1,459,090	\$ 104,430
U.S. federal agencies	2	515	5	—	—	515	5
Mortgage backed securities	98	13,199	1,976	2,042	283	15,241	2,259
States and political subdivisions	7	2,049	250	195	6	2,244	256
Asset backed securities	1	12,968	399	—	—	12,968	399
Other securities	2	7,404	596	—	—	7,404	596
Total	<u>183</u>	<u>\$1,476,418</u>	<u>\$ 106,132</u>	<u>\$ 21,044</u>	<u>\$ 1,813</u>	<u>\$1,497,462</u>	<u>\$ 107,945</u>
<b>December 31, 2021</b>							
<b>Available for Sale</b>							
U.S. treasuries	10	\$ 298,080	\$ 1,766	\$ —	\$ —	\$ 298,080	\$ 1,766
U.S. federal agencies	1	376	2	—	—	376	2
Mortgage backed securities	7	2,824	14	—	—	2,824	14
States and political subdivisions	2	505	3	—	—	505	3
Other securities	1	2,994	6	—	—	2,994	6
Total	<u>21</u>	<u>\$ 304,779</u>	<u>\$ 1,791</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 304,779</u>	<u>\$ 1,791</u>

The Company 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 September 30, 2022 and December 31, 2021, 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. The Company has no intent or requirement to sell before the recovery of the unrealized loss; therefore, no impairment loss was realized in the Company's consolidated statement of comprehensive income.

#### (4) LOANS HELD FOR INVESTMENT AND ALLOWANCE FOR CREDIT LOSSES ON LOANS

Loans held for investment are summarized by portfolio segment as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
	(Dollars in thousands)	
Real estate:		
Commercial real estate owner occupied	\$ 896,202	\$ 775,554
Commercial real estate non-owner occupied	1,230,074	1,095,324
Construction and development < 60 months	473,631	415,466
Construction residential real estate < 60 months	311,168	254,524
Residential real estate first lien	1,097,710	937,006
Residential real estate all other	188,508	161,018
Farmland	256,821	272,179
Commercial and agricultural non-real estate (2)	1,429,401	1,416,093
Consumer non-real estate	431,913	413,370
Oil and gas	512,344	428,908
Total (1)	<u>\$ 6,827,772</u>	<u>\$ 6,169,442</u>

(1) Excludes accrued interest receivable of \$25.4 million at September 30, 2022 and \$21.0 million at December 31, 2021, that is recorded in accrued interest receivable and other assets.

(2) Includes PPP loans held for investment of \$1.1 million, net of unamortized processing fees of \$0, at September 30, 2022 and \$80.4 million, net of unamortized processing fees of \$2.0 million, at December 31, 2021.

Loans that were designated as Other and consisted mainly of Small Business Administration (“SBA”) loans were moved to their more descriptive portfolio segment. Therefore, we no longer have an Other loan portfolio segment.

In April 2020, the Company began originating loans to qualified small businesses under the Paycheck Protection Program (“PPP”) administered by the SBA. Since PPP loans are fully guaranteed by the SBA, there is no expected credit loss related to these loans. The Company had processing fees, which were recognized as interest income related to the PPP loans totaling approximately \$0 and \$10.0 million during the three months ended September 30, 2022 and 2021, respectively and \$2.1 million and \$31.7 million during the nine months ended September 30, 2022 and 2021, respectively.

The Company's loans are currently 82% held by BancFirst and 18% held by Pegasus and Worthington. In addition, approximately 65% of the Company's 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 portfolio segment descriptions and the weighted average remaining life of portfolio segments are disclosed in Note (5) to the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

#### Troubled Debt Restructurings, Other Real Estate Owned and Repossessed Assets and Held for Sale Assets

The following is a summary of troubled debt restructurings and other real estate owned and repossessed assets:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
	(Dollars in thousands)	
Troubled debt restructurings	\$ 2,249	\$ 3,665
Other real estate owned and repossessed assets	\$ 39,419	\$ 39,553

The Company charges interest on principal balances outstanding on troubled debt restructurings during deferral periods. The current and future financial effects of the recorded balance of loans considered to be troubled debt restructurings were not considered to be material.

Other real estate owned included a commercial real estate property recorded at approximately \$31.2 million at September 30, 2022 and \$29.5 million at December 31, 2021. Rental income for this property is included in other noninterest income on the consolidated statements of comprehensive income. Operating expense for this property is included in net expense from other real estate owned in other noninterest expense on the consolidated statements of comprehensive income.

This property had the following rental income and operating expenses for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Rental income	\$ 2,347	\$ 2,703	\$ 7,750	\$ 7,277
Operating expense	\$ 2,381	\$ 2,036	\$ 7,120	\$ 6,599

At December 31, 2021, other real estate owned also included approximately \$2.4 million related to the Company's previous headquarters. The previous headquarters was sold during the second quarter of 2022.

During the nine months ended September 30, 2022, the Company sold property held in other real estate owned for a total gain of \$4.0 million, compared to a total gain of \$245,000 in the nine months ended September 30, 2021.

### Nonaccrual loans

The Company did not recognize any interest income on nonaccrual loans for either of the nine months ended September 30, 2022 or 2021. In addition, there were no nonaccrual loans for which there is no related allowance for credit losses at both September 30, 2022 and December 31, 2021. Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately \$992,000 for the nine months ended September 30, 2022 and approximately \$1.7 million for the nine months ended September 30, 2021.

Nonaccrual loans guaranteed by government agencies totaled approximately \$2.0 million at September 30, 2022 and approximately \$3.3 million at December 31, 2021.

The following table is a summary of amounts included in nonaccrual loans, segregated by portfolio segment.

	September 30, 2022	December 31, 2021
	(Dollars in thousands)	
Real estate:		
Commercial real estate owner occupied	\$ 1,845	\$ 4,351
Commercial real estate non-owner occupied	—	407
Construction and development < 60 months	98	80
Construction residential real estate < 60 months	103	—
Residential real estate first lien	2,156	2,763
Residential real estate all other	58	280
Farmland	1,463	4,224
Commercial and agricultural non-real estate	5,048	7,569
Consumer non-real estate	191	148
Oil and gas	1,000	1,070
Total	\$ 11,962	\$ 20,892

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 the Company's loans held for investment:

<b>Age Analysis of Past Due Loans</b>							
	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>90 Days and Greater</b>	<b>Total Past Due Loans</b>	<b>Current Loans</b>	<b>Total Loans</b>	<b>Accruing Loans 90 Days or More Past Due</b>
(Dollars in thousands)							
<b>As of September 30, 2022</b>							
Real estate:							
Commercial real estate owner occupied	\$ 4,518	\$ 64	\$ 339	\$ 4,921	\$ 891,281	\$ 896,202	\$ 339
Commercial real estate non-owner occupied	525	—	36	561	1,229,513	1,230,074	36
Construction and development < 60 months	224	274	33	531	473,100	473,631	—
Construction residential real estate < 60 months	245	—	469	714	310,454	311,168	366
Residential real estate first lien	2,918	770	1,158	4,846	1,092,864	1,097,710	365
Residential real estate all other	136	155	102	393	188,115	188,508	83
Farmland	391	—	302	693	256,128	256,821	92
Commercial and agricultural non-real estate	2,027	307	4,677	7,011	1,422,390	1,429,401	667
Consumer non-real estate	2,171	776	657	3,604	428,309	431,913	565
Oil and gas	83	60	654	797	511,547	512,344	654
Total	<u>\$ 13,238</u>	<u>\$ 2,406</u>	<u>\$ 8,427</u>	<u>\$ 24,071</u>	<u>\$ 6,803,701</u>	<u>\$ 6,827,772</u>	<u>\$ 3,167</u>
<b>As of December 31, 2021</b>							
Real estate:							
Commercial real estate owner occupied	\$ 2,046	\$ 223	\$ 1,465	\$ 3,734	\$ 771,820	\$ 775,554	\$ 18
Commercial real estate non-owner occupied	7,244	—	—	7,244	1,088,080	1,095,324	—
Construction and development < 60 months	136	—	—	136	415,330	415,466	—
Construction residential real estate < 60 months	2,264	—	—	2,264	252,260	254,524	—
Residential real estate first lien	3,351	567	2,817	6,735	930,271	937,006	1,704
Residential real estate all other	293	30	451	774	160,244	161,018	431
Farmland	253	37	2,077	2,367	269,812	272,179	139
Commercial and agricultural non-real estate	2,506	546	7,118	10,170	1,405,923	1,416,093	2,418
Consumer non-real estate	1,873	321	272	2,466	410,904	413,370	254
Oil and gas	—	—	—	—	428,908	428,908	—
Total	<u>\$ 19,966</u>	<u>\$ 1,724</u>	<u>\$ 14,200</u>	<u>\$ 35,890</u>	<u>\$ 6,133,552</u>	<u>\$ 6,169,442</u>	<u>\$ 4,964</u>

### Credit Quality Indicators

The Company considers credit quality indicators to monitor the credit risk in the loan portfolio including volume and severity of loan delinquencies, nonaccrual loans, internal grading of loans, historical credit loss experience and economic conditions. These indicators are reviewed and updated regularly throughout the year. 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 and the table summarizing the Company's gross loans held for investment by year of origination and internally assigned credit grades as of December 31, 2021, are disclosed in Note (5) to the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

The Company's revolving loans that are converted to term loans are not material and therefore have not been presented.

The following table summarizes the Company's gross loans held for investment by year of origination and internally assigned credit grades :

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2022	2021	2020	2019	2018	Prior		
<b>As of September 30, 2022</b>								
Commercial real estate owner occupied								
Grade 1	\$ 141,987	\$ 145,596	\$ 114,356	\$ 93,878	\$ 47,340	\$ 129,610	\$ 48,189	\$ 720,956
Grade 2	30,513	36,392	29,012	18,542	9,327	30,565	15,436	169,787
Grade 3	—	126	76	1,302	337	1,421	62	3,324
Grade 4	45	269	—	1,128	186	507	—	2,135
Total commercial real estate owner occupied	172,545	182,383	143,444	114,850	57,190	162,103	63,687	896,202
Commercial real estate non-owner occupied								
Grade 1	198,064	238,174	177,410	109,128	26,907	77,085	39,667	866,435
Grade 2	88,113	56,473	30,068	47,428	25,178	72,943	30,663	350,866
Grade 3	7,126	—	—	2,748	79	2,784	—	12,737
Grade 4	—	—	—	—	36	—	—	36
Total commercial real estate non-owner occupied	293,303	294,647	207,478	159,304	52,200	152,812	70,330	1,230,074
Construction and development < 60 months								
Grade 1	138,067	122,780	41,667	10,473	3,510	5,479	33,306	355,282
Grade 2	29,324	20,056	1,589	14,711	1,709	1,249	48,254	116,892
Grade 3	1,098	—	102	—	—	—	159	1,359
Grade 4	—	—	33	50	—	15	—	98
Total construction and development < 60 months	168,489	142,836	43,391	25,234	5,219	6,743	81,719	473,631
Construction residential real estate < 60 months								
Grade 1	178,568	47,012	261	22	—	43	46,695	272,601
Grade 2	26,903	8,606	179	—	—	407	2,136	38,231
Grade 3	233	—	—	—	—	—	—	233
Grade 4	—	103	—	—	—	—	—	103
Total construction residential real estate < 60 months	205,704	55,721	440	22	—	450	48,831	311,168
Residential real estate first lien								
Grade 1	251,829	218,962	150,043	90,854	58,348	146,667	4,922	921,625
Grade 2	34,687	37,637	25,916	13,497	11,075	39,349	—	162,161
Grade 3	1,543	1,171	651	1,516	1,870	4,143	—	10,894
Grade 4	30	322	138	568	180	1,792	—	3,030
Total residential real estate first lien	288,089	258,092	176,748	106,435	71,473	191,951	4,922	1,097,710
Residential real estate all other								
Grade 1	24,287	11,519	11,471	5,940	3,909	11,865	41,165	110,156
Grade 2	4,387	1,896	1,860	1,676	1,261	2,646	62,195	75,921
Grade 3	200	204	88	84	222	890	602	2,290
Grade 4	—	18	30	—	39	54	—	141
Total residential real estate all other	28,874	13,637	13,449	7,700	5,431	15,455	103,962	188,508
Farmland								
Grade 1	39,963	36,229	30,416	19,528	10,297	30,735	5,256	172,424
Grade 2	12,439	15,174	6,903	7,816	5,835	16,093	9,619	73,879
Grade 3	2,201	113	1,799	1,365	70	2,057	1,891	9,496
Grade 4	—	318	434	—	58	212	—	1,022
Total farmland	54,603	51,834	39,552	28,709	16,260	49,097	16,766	256,821
Commercial and agricultural non-real estate								
Grade 1	239,757	257,163	83,658	58,217	17,413	46,390	361,517	1,064,115
Grade 2	79,522	65,913	23,868	15,699	17,090	4,710	136,388	343,190
Grade 3	3,575	2,290	1,843	936	1,896	932	6,094	17,566
Grade 4	439	553	591	1,121	497	1,159	170	4,530
Total commercial and agricultural non-real estate	323,293	325,919	109,960	75,973	36,896	53,191	504,169	1,429,401
Consumer non-real estate								
Grade 1	163,610	121,331	46,856	24,674	8,419	2,989	20,821	388,700
Grade 2	15,625	12,007	4,564	4,113	1,079	1,511	968	39,867
Grade 3	663	817	370	381	159	67	3	2,460
Grade 4	231	307	108	175	52	12	1	886
Total consumer non-real estate	180,129	134,462	51,898	29,343	9,709	4,579	21,793	431,913
Oil and gas								
Grade 1	137,122	76,145	24,844	864	1,732	313	175,742	416,762
Grade 2	4,432	4,603	2,890	19,655	19,248	200	36,964	87,992
Grade 3	209	4,557	7	—	—	171	1,646	6,590
Grade 4	—	1,000	—	—	—	—	—	1,000
Total oil and gas	141,763	86,305	27,741	20,519	20,980	684	214,352	512,344
Total loans held for investment	\$1,856,792	\$1,545,836	\$814,101	\$568,089	\$275,358	\$ 637,065	\$ 1,130,531	\$6,827,772

## Allowance for Credit Losses Methodology

The Company determines its provision for credit losses and allowance for credit losses using the expected loss methodology that is referred to as the CECL model. The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist.

The increase in allowance for credit losses during 2022 was related to the purchase of loans without credit deterioration during the year along with loan growth. The decrease in the allowance for credit losses during 2021 was driven by a reversal of a pandemic-related provision during 2021 based on sustained improvements in the economy, both nationally and in the Company's markets, which reduced the amount of expected credit losses within the loan portfolio. This reduction during 2021 was partially offset by additional allowance for credit losses required for newly acquired loans. The allowance for credit losses for the oil and gas category was reduced during 2021 due to the increases in oil and gas commodity prices contributing to a more stable and profitable energy industry; however this decrease was offset by an increase in allowance for credit losses for the commercial real estate non-owner occupied category due to ongoing uncertainty regarding the pandemic's long-term impact on the office and retail sectors.

The following table details activity in the allowance for credit losses on 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.

	Allowance for Credit Losses					Provision for /(benefit from) credit losses on loans	Balance at end of period
	Balance at beginning of period	Initial allowance on loans purchased with credit deterioration	Charge-offs	Recoveries	Net charge-offs		
(Dollars in thousands)							
<b>Three Months Ended September 30, 2022</b>							
Real estate:							
Commercial real estate owner occupied	\$ 6,945	\$ —	\$ —	\$ 426	\$ 426	\$ (291)	\$ 7,080
Commercial real estate non-owner occupied	22,937	—	—	—	—	988	23,925
Construction and development < 60 months	3,728	—	—	3	3	449	4,180
Construction residential real estate < 60 months	2,292	—	—	—	—	115	2,407
Residential real estate first lien	3,383	—	(11)	15	4	(8)	3,379
Residential real estate all other	2,051	—	(2)	1	(1)	59	2,109
Farmland	4,365	—	—	—	—	(101)	4,264
Commercial and agricultural non-real estate	27,833	(4)	(267)	27	(240)	545	28,134
Consumer non-real estate	4,094	(3)	(171)	59	(112)	268	4,247
Oil and gas	9,307	—	—	—	—	839	10,146
Total	<u>\$ 86,935</u>	<u>\$ (7)</u>	<u>\$ (451)</u>	<u>\$ 531</u>	<u>\$ 80</u>	<u>\$ 2,863</u>	<u>\$ 89,871</u>
<b>Nine Months Ended September 30, 2022</b>							
Real estate:							
Commercial real estate owner occupied	\$ 7,568	\$ —	\$ (20)	\$ 504	\$ 484	\$ (972)	\$ 7,080
Commercial real estate non-owner occupied	16,987	—	—	—	—	6,938	23,925
Construction and development < 60 months	3,490	—	—	8	8	682	4,180
Construction residential real estate < 60 months	1,092	—	—	—	—	1,315	2,407
Residential real estate first lien	3,076	2	(60)	28	(32)	333	3,379
Residential real estate all other	2,104	—	(38)	403	365	(360)	2,109
Farmland	4,822	—	—	—	—	(558)	4,264
Commercial and agricultural non-real estate	28,085	44	(1,166)	170	(996)	1,001	28,134
Consumer non-real estate	3,734	25	(404)	139	(265)	753	4,247
Oil and gas	12,978	—	—	—	—	(2,832)	10,146
Total	<u>\$ 83,936</u>	<u>\$ 71</u>	<u>\$ (1,688)</u>	<u>\$ 1,252</u>	<u>\$ (436)</u>	<u>\$ 6,300</u>	<u>\$ 89,871</u>

**Allowance for Credit Losses**

	Balance at beginning of period	Initial allowance on loans purchased with credit deterioration	Charge- offs	Recoveries	Net charge-offs	Provision for (benefit from) credit losses on loans	Balance at end of period
	(Dollars in thousands)						
<b>Three Months Ended September 30, 2021</b>							
Real estate:							
Commercial real estate owner occupied	\$ 8,298	\$ 93	\$ (3)	\$ 72	\$ 69	\$ 91	\$ 8,551
Commercial real estate non-owner occupied	15,038	191	(7)	67	60	46	15,335
Construction and development < 60 months	3,095	—	—	4	4	417	3,516
Construction residential real estate < 60 months	998	—	—	—	—	(25)	973
Residential real estate first lien	2,921	9	(4)	9	5	199	3,134
Residential real estate all other	1,963	—	—	46	46	206	2,215
Farmland	3,727	(248)	—	—	—	969	4,448
Commercial and agricultural non-real estate	34,310	952	(219)	43	(176)	(489)	34,597
Consumer non-real estate	3,481	30	(67)	49	(18)	66	3,559
Oil and gas	10,132	—	—	—	—	3	10,135
Total	<u>\$ 83,963</u>	<u>\$ 1,027</u>	<u>\$ (300)</u>	<u>\$ 290</u>	<u>\$ (10)</u>	<u>\$ 1,483</u>	<u>\$ 86,463</u>

**Nine Months Ended September 30, 2021**

Real estate:							
Commercial real estate owner occupied	\$ 8,470	\$ 1,080	\$ (3)	\$ 73	\$ 70	\$ (1,069)	\$ 8,551
Commercial real estate non-owner occupied	12,318	824	(803)	67	(736)	2,929	15,335
Construction and development < 60 months	2,723	173	—	9	9	611	3,516
Construction residential real estate < 60 months	726	—	—	—	—	247	973
Residential real estate first lien	2,822	126	(56)	36	(20)	206	3,134
Residential real estate all other	2,236	—	(46)	50	4	(25)	2,215
Farmland	3,153	395	—	1	1	899	4,448
Commercial and agricultural non-real estate	34,643	5,663	(3,817)	195	(3,622)	(2,087)	34,597
Consumer non-real estate	3,542	38	(689)	247	(442)	421	3,559
Oil and gas	20,733	—	—	—	—	(10,598)	10,135
Total	<u>\$ 91,366</u>	<u>\$ 8,299</u>	<u>\$ (5,414)</u>	<u>\$ 678</u>	<u>\$ (4,736)</u>	<u>\$ (8,466)</u>	<u>\$ 86,463</u>

**Purchased Credit Deteriorated Loans**

The Company has purchased loans, for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination. The credit-deteriorated loans purchased during the nine-month periods ended September 30, 2022 and September 30, 2021 were as follows:

	Loans acquired with deteriorated credit quality (Dollars in thousands)
<b>For the period ended September 30, 2022</b>	
Purchase price of loans at acquisition	\$ 661
Allowance for credit losses at acquisition	71
Par value of acquired loans at acquisition	<u>\$ 732</u>
<b>For the period ended September 30, 2021</b>	
Purchase price of loans at acquisition	\$ 39,284
Allowance for credit losses at acquisition	8,299
Par value of acquired loans at acquisition	<u>\$ 47,583</u>

**Collateral Dependent Loans**



A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. During the nine months ended September 30, 2022 and 2021, no material amount of interest income was recognized on collateral-dependent loans subsequent to their classification as collateral-dependent. The following table summarizes collateral-dependent gross loans held for investment by collateral type and the related specific allocation as follows:

	<b>Collateral Type</b>				<b>Total</b>	<b>Specific Allocation</b>
	<b>Real Estate</b>	<b>Business Assets</b>	<b>Energy Reserves</b>	<b>Other Assets</b>		
<b>As of September 30, 2022</b>						
Real estate:						
Commercial real estate owner occupied	\$ 1,307	\$ —	\$ —	\$ —	\$ 1,307	\$ 488
Commercial real estate non-owner occupied	595	—	—	—	595	64
Construction and development < 60 months	—	—	—	—	—	—
Construction residential real estate < 60 months	—	—	—	—	—	—
Residential real estate first lien	372	—	—	—	372	96
Residential real estate all other	—	—	—	—	—	—
Farmland	4,746	—	—	—	4,746	971
Commercial and agricultural non-real estate	—	6,088	—	3,816	9,904	3,998
Consumer non-real estate	—	—	—	107	107	59
Oil and gas	—	—	—	—	—	—
Total collateral-dependent loans held for investment	<u>\$ 7,020</u>	<u>\$ 6,088</u>	<u>\$ —</u>	<u>\$ 3,923</u>	<u>\$ 17,031</u>	<u>\$ 5,676</u>

	<b>Collateral Type</b>				<b>Total</b>	<b>Specific Allocation</b>
	<b>Real Estate</b>	<b>Business Assets</b>	<b>Energy Reserves</b>	<b>Other Assets</b>		
<b>As of December 31, 2021</b>						
Real estate:						
Commercial real estate owner occupied	\$ 1,952	\$ —	\$ —	\$ —	\$ 1,952	\$ 576
Commercial real estate non-owner occupied	1,404	—	—	—	1,404	263
Construction and development < 60 months	—	—	—	—	—	—
Construction residential real estate < 60 months	—	—	—	—	—	—
Residential real estate first lien	871	—	—	—	871	143
Residential real estate all other	199	—	—	—	199	178
Farmland	8,703	—	—	—	8,703	1,805
Commercial and agricultural non-real estate	—	6,472	—	5,202	11,674	4,938
Consumer non-real estate	—	—	—	54	54	20
Oil and gas	—	—	—	—	—	—
Total collateral-dependent loans held for investment	<u>\$ 13,129</u>	<u>\$ 6,472</u>	<u>\$ —</u>	<u>\$ 5,256</u>	<u>\$ 24,857</u>	<u>\$ 7,923</u>

### Non-Cash Transfers from Loans and Premises and Equipment

Transfers from loans and premises and equipment to other real estate owned and repossessed assets are non-cash transactions, and are not included in the statements of cash flow.

Transfers from loans and premises and equipment to other real estate owned and repossessed assets during the periods presented are summarized as follows:

	<b>Nine Months Ended</b>	
	<b>2022</b>	<b>2021</b>
(Dollars in thousands)		
Other real estate owned	\$ 4,393	\$ 10,564
Repossessed assets	696	594
Total	<u>\$ 5,089</u>	<u>\$ 11,158</u>

## (5) INTANGIBLE ASSETS AND GOODWILL

The following is a summary of intangible assets as of the dates listed:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
	(Dollars in thousands)		
<b><u>September 30, 2022</u></b>			
Core deposit intangibles	\$ 33,298	\$ (12,765)	\$ 20,533
Customer relationship intangibles	3,350	(3,020)	330
Total	<u>\$ 36,648</u>	<u>\$ (15,785)</u>	<u>\$ 20,863</u>
<b><u>December 31, 2021</u></b>			
Core deposit intangibles	\$ 27,433	\$ (10,311)	\$ 17,122
Customer relationship intangibles	3,350	(2,906)	444
Total	<u>\$ 30,783</u>	<u>\$ (13,217)</u>	<u>\$ 17,566</u>

The following is a summary of goodwill by business segment:

	<u>Metropolitan Banks</u>	<u>Community Banks</u>	<u>Pegasus</u>	<u>Worthington</u>	<u>Other Financial Services</u>	<u>Executive, Operations &amp; Support</u>	<u>Consolidated</u>
	(Dollars in thousands)						
<b><u>Nine months ended September 30, 2022</u></b>							
Balance at beginning of period	\$ 13,767	\$ 61,212	\$68,855	\$ —	\$ 5,464	\$ 624	\$ 149,922
Acquisitions	—	—	—	32,133	—	—	32,133
Balance at end of period	<u>\$ 13,767</u>	<u>\$ 61,212</u>	<u>\$68,855</u>	<u>\$ 32,133</u>	<u>\$ 5,464</u>	<u>\$ 624</u>	<u>\$ 182,055</u>

The Company acquired Worthington on February 8, 2022, which added core deposit intangibles and goodwill shown in the tables above. See Note (2) of the Notes to Consolidated Financial Statements for disclosure regarding the Company's recent developments, including mergers and acquisitions.

Additional information for intangible assets can be found in Note (7) to the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

## (6) LEASES

### Lessee

The Company has operating leases, which primarily consist of office space in buildings, ATM locations, storage facilities, parking lots, equipment and land on which it owns certain buildings.

The following table presents rent expense for all operating leases, including those rented on a monthly or temporary basis as of the periods indicated:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	(Dollars in thousands)			
Rental expense	<u>\$ 460</u>	<u>\$ 226</u>	<u>\$ 1,376</u>	<u>\$ 1,192</u>

As of September 30, 2022, the right of use lease asset included in accrued interest receivable and other assets on the consolidated balance sheet totaled \$6.0 million, and a related lease liability included in accrued interest payable and other liabilities on the consolidated balance sheet totaled \$5.8 million. As of September 30, 2022, the Company's operating leases have a weighted-average remaining lease term of 3.6 years and a weighted-average discount rate of 2.4 percent.

The following table presents minimum future commitments by year for the Company’s operating leases. Such commitments are reflected as undiscounted values and are reconciled to the discounted present value recognized on the consolidated balance sheet.

	<u>September 30, 2022</u>	
	(Dollars in thousands)	
2022 (three months)	\$	498
2023		1,692
2024		1,334
2025		1,073
2026		672
Thereafter		1,329
Total lease payments		<u>6,598</u>
Less imputed Interest		(770)
Operating lease liability	\$	<u>5,828</u>

### Lessor

The Company is a lessor of operating leases, which primarily consist of office space in buildings and parking lots. These assets are classified on the consolidated balance sheet as premises and equipment. The Company had operating lease revenue of \$1.3 million and \$1.1 million for the three months ended September 30, 2022 and September 30, 2021, respectively. The Company had operating lease revenue of \$4.0 million and \$3.7 million for the nine months ended September 30, 2022 and September 30, 2021, respectively. Lease revenue is included in occupancy, net on the consolidated statement of comprehensive income.

The Company does not have operating leases that extend beyond 2031. The following table presents the scheduled minimum future contractual rent to be received under the remaining non-cancelable term of the operating leases:

	<u>September 30, 2022</u>	
	(Dollars in thousands)	
2022 (three months)	\$	920
2023		2,974
2024		2,849
2025		2,150
2026		1,778
2027-2031		3,547
Total future minimum lease payments	\$	<u>14,218</u>

### (7) SUBORDINATED DEBT

In January 2004, the Company established BFC Capital Trust II (“BFC II”), a trust formed under the Delaware Business Trust Act. The Company owns all of the common securities of BFC II. In February 2004, BFC II issued \$25 million of aggregate liquidation amount of 7.20% Cumulative Trust Preferred Securities (the “Cumulative Trust Preferred Securities”) to other investors. In March 2004, BFC II issued an additional \$1 million in Cumulative Trust Preferred Securities through the execution of an over-allotment option. The proceeds from the sale of the Cumulative Trust Preferred Securities and the common securities of BFC II were invested in \$26.8 million of 7.20% Junior Subordinated Debentures of the Company. Interest payments on the \$26.8 million of 7.20% Junior Subordinated Debentures are payable January 15, April 15, July 15 and October 15 of each year. Such interest payments may be deferred for up to twenty consecutive quarters. The stated maturity date of the \$26.8 million of 7.20% Junior Subordinated Debentures is March 31, 2034, but they are subject to mandatory redemption pursuant to optional prepayment terms. The Cumulative Trust Preferred Securities represent an undivided interest in the \$26.8 million of 7.20% Junior Subordinated Debentures and are guaranteed by the Company. During any deferral period or during any event of default, the Company may not declare or pay any dividends on any of its capital stock. The Cumulative Trust Preferred Securities were callable at par, in whole or in part, after March 31, 2009.

On June 17, 2021, the Company completed a private placement, under Regulation D of the Securities Act of 1933, of \$60 million aggregate principal amount of 3.50% Fixed-to-Floating Rate Subordinated Notes due 2036 (the “Subordinated Notes”) to various institutional accredited investors. The sale of the Subordinated Notes was pursuant to a Subordinated Note Purchase Agreement entered into with each of the investors. The Subordinated Notes have been structured to qualify as Tier 2 capital under bank regulatory guidelines. The net proceeds to the Company from the sale of the Subordinated Notes were approximately \$59.15 million after deducting commissions and offering expenses of \$850,000. The Company used the proceeds from the sale of the Subordinated Notes for general corporate purposes. The Subordinated Notes will initially bear interest at a fixed rate of 3.50% per annum, from and including June 17, 2021 to but excluding June 30, 2031, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December

31, 2021. Then, from and including June 30, 2031, to but excluding the maturity date, the Subordinated Notes will bear interest at a floating rate equal to the benchmark (initially, three-month term SOFR), reset quarterly, plus a spread of 229 basis points, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The Subordinated Notes mature on June 30, 2036.

The Company may, at its option, beginning with the interest payment date of June 30, 2031, and on any scheduled interest payment date thereafter, redeem the Subordinated Notes, in whole or in part. In addition, the Company may redeem all, but not less than all, of the Subordinated Notes at any time upon the occurrence of a “Tier 2 Capital Event,” a “Tax Event” or an “Investment Company Event” (each as defined in the Subordinated Notes). Any such redemption is subject to obtaining the prior approval of the Board of Governors of the Federal Reserve System (or its designee). The redemption price with respect to any such redemption will be equal to 100% of the principal amount of the Subordinated Note, or portion thereof, to be redeemed, plus accrued but unpaid interest, if any, thereon to, but excluding, the redemption date.

## (8) STOCK-BASED COMPENSATION

The Company has had a nonqualified incentive stock option plan, the BancFirst Corporation Stock Option Plan (the “Employee Plan”), since May 1986. At September 30, 2022, there were 82,500 shares available for future grants. The Employee Plan will terminate on December 31, 2024, if not extended. The options vest and are exercisable beginning four years from the date of grant at the rate of 25% per year for four years. Options expire no later than the end of fifteen years from the date of grant. The option price must be no less than 100% of the fair value of the stock relating to such option at the date of grant.

The Company has had the BancFirst Corporation Non-Employee Directors’ Stock Option Plan (the “Non-Employee Directors’ Plan”) since June 1999. Each non-employee director is granted an option for 10,000 shares. At September 30, 2022, there were 45,000 shares available for future grants. The Non-Employee Directors’ Plan will terminate on December 31, 2024, if not extended. The options vest and are exercisable beginning one year from the date of grant at the rate of 25% per year for four years, and expire no later than the end of fifteen years from the date of grant. The option price must be no less than 100% of the fair value of the stock relating to such option at the date of grant.

The Company currently uses newly issued shares for stock option exercises, but reserves the right to use shares purchased under the Company’s Stock Repurchase Program (the “SRP”) in the future.

Although not required or expected, the Company may settle some options in cash on a limited basis at the discretion of the Company. During the nine months ended September 30, 2021, the Company had cash settlements for 121,330 shares for a total net cash settlement of options of \$5.5 million that did not increase the outstanding shares of the Company.

The following table is a summary of the activity under both the Employee Plan and the Non-Employee Directors’ Plan:

	<u>Options</u>	<u>Wgtd. Avg. Exercise Price</u>	<u>Wgtd. Avg. Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
(Dollars in thousands, except option data)				
<b><u>Nine Months Ended September 30, 2022</u></b>				
Outstanding at December 31, 2021	1,303,250	\$ 40.90		
Options granted	231,000	85.50		
Options exercised	(236,585)	27.80		
Options canceled, forfeited, or expired	(30,000)	66.31		
Outstanding at September 30, 2022	<u>1,267,665</u>	50.87	8.23 Yrs	\$ 48,933
Exercisable at September 30, 2022	<u>467,790</u>	30.35	<u>6.93 Yrs</u>	<u>\$ 27,654</u>

The following table has additional information regarding options exercised under both the Employee Plan and the Non-Employee Directors’ Plan:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
(Dollars in thousands)				
Total intrinsic value of options exercised	\$ 5,638	\$ —	\$ 14,581	\$ 7,860
Cash received from options exercised	2,285	—	6,577	4,379
Tax benefit realized from options exercised	1,355	—	3,505	2,002

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model and is based on certain assumptions including risk-free rate of return, dividend yield, stock price volatility and the expected term. The fair value of each option is expensed over its vesting period.

The following table is a summary of the Company's recorded stock-based compensation expense:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>(Dollars in thousands)</b>		<b>(Dollars in thousands)</b>	
Stock-based compensation expense	\$ 627	\$ 555	\$ 1,545	\$ 1,604
Tax benefit	151	134	372	386
Stock-based compensation expense, net of tax	<u>\$ 476</u>	<u>\$ 421</u>	<u>\$ 1,173</u>	<u>\$ 1,218</u>

The Company will continue to amortize the unearned stock-based compensation expense over the remaining vesting period of approximately seven years. The following table shows the unearned stock-based compensation expense:

	<b>September 30, 2022</b>
	<b>(Dollars in thousands)</b>
Unearned stock-based compensation expense	\$ 12,078

The following table shows the assumptions used for computing stock-based compensation expense under the fair value method on options granted during the periods presented:

	<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
Weighted average grant-date fair value per share of options granted	\$ 30.72	\$ 20.92
Risk-free interest rate	1.75 to 3.25%	1.30 to 1.74%
Dividend yield	2.00%	2.00%
Stock price volatility	34.61 to 34.85%	35.55 to 36.27%
Expected term	10 Yrs	10 Yrs

The risk-free interest rate is determined by reference to the spot zero-coupon rate for the U.S. Treasury security with a maturity similar to the expected term of the options. The dividend yield is the expected yield for the expected term. The stock price volatility is estimated from the recent historical volatility of the Company's stock. The expected term is estimated from the historical option exercise experience. The Company accounts for forfeitures as they occur.

The Company has had the BancFirst Corporation Directors' Deferred Stock Compensation Plan (the "Deferred Stock Compensation Plan") since May 1999. As of September 30, 2022, there are 28,130 shares available for future issuance under the Deferred Stock Compensation Plan. The Deferred Stock Compensation Plan will terminate on December 31, 2024, if not extended. Under the plan, directors and members of the community advisory boards of the Company and its subsidiaries may defer up to 100% of their board fees. They are credited for each deferral with a number of stock units based on the current market price of the Company's stock, which accumulate in an account until such time as the director or community board member terminates serving as a board member. Shares of common stock of the Company are then distributed to the terminating director or community board member based upon the number of stock units accumulated in his or her account. There were 16,684 and 2,161 shares of common stock distributed from the Deferred Stock Compensation Plan during the nine months ended September 30, 2022 and 2021, respectively.

A summary of the accumulated stock units is as follows:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2022</b>	<b>2021</b>
Accumulated stock units	142,065	152,754
Average price	\$ 33.77	\$ 30.86

## (9) STOCKHOLDERS' EQUITY

In November 1999, the Company adopted the SRP. The SRP may be used as a means to increase earnings per share and return on equity. In addition, the SRP may be used 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. During September 2021, the SRP was amended to permit the repurchase of an additional 650,000 shares.

The following table is a summary of the shares under the program:

	Nine Months Ended September 30,	
	2022	2021
Number of shares repurchased	—	212,296
Average price of shares repurchased	\$ —	\$ 54.94
Shares remaining to be repurchased	500,486	500,486

BancFirst Corporation, BancFirst, Pegasus and Worthington are subject to risk-based capital guidelines issued by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation ("FDIC"). These guidelines are used to evaluate capital adequacy and involve both quantitative and qualitative evaluations of BancFirst Corporation's, BancFirst's, Pegasus's and Worthington's assets, liabilities and certain off-balance-sheet items calculated under regulatory practices. Failure to meet the minimum capital requirements can initiate certain mandatory or discretionary actions by the regulatory agencies that could have a direct material effect on the Company's consolidated financial statements. The Company believes that as of September 30, 2022, BancFirst Corporation, BancFirst, Pegasus and Worthington met all capital adequacy requirements to which they are subject. The actual and required capital amounts and ratios are shown in the following table:

	Actual		Required For Capital Adequacy Purposes		With Capital Conservation Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of September 30, 2022:</b>								
Total Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	\$1,249,568	16.26%	\$ 614,730	8.00%	\$ 806,833	10.50%	N/A	N/A
BancFirst	1,068,974	16.60%	515,130	8.00%	676,108	10.50%	\$ 643,912	10.00%
Pegasus	109,228	11.89%	73,513	8.00%	96,486	10.50%	91,892	10.00%
Worthington	45,947	14.74%	24,930	8.00%	32,720	10.50%	31,162	10.00%
Common Equity Tier 1 Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	\$1,074,471	13.98%	\$ 345,785	4.50%	\$ 537,888	7.00%	N/A	N/A
BancFirst	970,166	15.07%	289,760	4.50%	450,738	7.00%	\$ 418,543	6.50%
Pegasus	101,155	11.01%	41,351	4.50%	64,324	7.00%	59,730	6.50%
Worthington	42,242	13.56%	14,023	4.50%	21,813	7.00%	20,255	6.50%
Tier 1 Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	\$1,100,471	14.32%	\$ 461,047	6.00%	\$ 653,150	8.50%	N/A	N/A
BancFirst	990,166	15.38%	386,347	6.00%	547,325	8.50%	\$ 515,130	8.00%
Pegasus	101,155	11.01%	55,135	6.00%	78,108	8.50%	73,513	8.00%
Worthington	42,242	13.56%	18,697	6.00%	26,488	8.50%	24,930	8.00%
Tier 1 Capital								
(to Total Assets)-								
BancFirst Corporation	\$1,100,471	8.85%	\$ 497,560	4.00%	N/A	N/A	N/A	N/A
BancFirst	990,166	9.46%	418,890	4.00%	N/A	N/A	\$ 523,612	5.00%
Pegasus	101,155	7.05%	57,428	4.00%	N/A	N/A	71,785	5.00%
Worthington	42,242	8.02%	21,077	4.00%	N/A	N/A	26,346	5.00%

As of September 30, 2022, the most recent notifications from the Federal Reserve Bank of Kansas City, the FDIC and the Comptroller of the Currency, categorized BancFirst, Pegasus and Worthington as “well capitalized” under the prompt corrective action provisions. The Common Equity Tier 1 Capital of BancFirst Corporation, BancFirst, Pegasus and Worthington includes common stock and related paid-in capital and retained earnings. In connection with the adoption of the Basel III Capital Rules, the election was made to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1 Capital. Common Equity Tier 1 Capital for BancFirst Corporation, BancFirst, Pegasus and Worthington is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities. The Company’s trust preferred securities have continued to be included in Tier 1 capital, as the Company’s total assets do not exceed \$15 billion. There are no conditions or events since the most recent notifications to BancFirst Corporation, BancFirst, Pegasus and Worthington of their capital category that management believes would materially change their category under capital requirements existing as of the report date.

On June 17, 2021, the Company completed a private placement, under Regulation D of the Securities Act of 1933, of \$60 million aggregate principal amount of Subordinated Notes. The Subordinated Notes have been structured to qualify as Tier 2 capital under bank regulatory guidelines.

In April 2020, the Company began originating loans to qualified small businesses under the PPP administered by the SBA. Federal bank regulatory agencies have issued an interim final rule that permits banks to neutralize the regulatory capital effects of participating in the Paycheck Protection Program Lending Facility (the “PPP Facility”) and clarify that PPP loans have a zero percent risk weight under applicable risk-based capital rules. Specifically, a bank may exclude all PPP loans pledged as collateral to the PPP Facility from its average total consolidated assets for the purposes of calculating its leverage ratio, while PPP loans that are not pledged as collateral to the PPP Facility are included. The PPP loans the Company originated in 2021 and 2020 are included in the calculation of the Company’s leverage ratio as of September 30, 2022 as the Company did not utilize the PPP Facility for funding purposes.

#### (10) NET INCOME PER COMMON SHARE

Basic and diluted net income per common share are calculated as follows:

	<u>Income</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per Share</u> <u>Amount</u>
(Dollars in thousands, except per share data)			
<b><u>Three Months Ended September 30, 2022</u></b>			
<b>Basic</b>			
Income available to common stockholders	\$ 55,352	32,825,931	\$ 1.69
Dilutive effect of stock options	—	710,627	
<b>Diluted</b>			
Income available to common stockholders plus assumed exercises of stock options	\$ 55,352	33,536,558	\$ 1.65
<b><u>Three Months Ended September 30, 2021</u></b>			
<b>Basic</b>			
Income available to common stockholders	\$ 38,750	32,744,104	\$ 1.18
Dilutive effect of stock options	—	523,851	
<b>Diluted</b>			
Income available to common stockholders plus assumed exercises of stock options	\$ 38,750	33,267,955	\$ 1.16
<b><u>Nine Months Ended September 30, 2022</u></b>			
<b>Basic</b>			
Income available to common stockholders	\$ 135,974	32,748,116	\$ 4.15
Dilutive effect of stock options	—	681,045	
<b>Diluted</b>			
Income available to common stockholders plus assumed exercises of stock options	\$ 135,974	33,429,161	\$ 4.07
<b><u>Nine Months Ended September 30, 2021</u></b>			
<b>Basic</b>			
Income available to common stockholders	\$ 129,462	32,760,015	\$ 3.95
Dilutive effect of stock options	—	598,822	
<b>Diluted</b>			
Income available to common stockholders plus assumed exercises of stock options	\$ 129,462	33,358,837	\$ 3.88

The following table shows the number of options that were excluded from the computation of diluted net income per common share for each period because the options were anti-dilutive for the period:

	<u>Shares</u>
Three Months Ended September 30, 2022	184,707
Three Months Ended September 30, 2021	533,701
Nine Months Ended September 30, 2022	149,669
Nine Months Ended September 30, 2021	161,690

## (11) FAIR VALUE MEASUREMENTS

Accounting standards define fair value as the price that would be received to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants on the measurement date.

FASB Accounting Standards Codification (“ASC”) Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation. This category includes certain collaterally dependent loans, repossessed assets, other real estate owned, goodwill and other intangible assets.

### Financial Assets and Financial Liabilities Measured at Fair Value on a Recurring Basis

A description of the valuation methodologies and key inputs used to measure financial assets and financial liabilities at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to the following categories of the Company’s financial assets and financial liabilities.

#### Debt Securities Available for Sale

Debt securities classified as available for sale are reported at fair value. U.S. Treasuries are valued using Level 1 inputs. Other debt securities available for sale including U.S. federal agencies, registered mortgage backed debt securities and state and political subdivisions are valued using prices from an independent pricing service utilizing Level 2 data. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things. The Company also invests in private label mortgage backed debt securities for which observable information is not readily available. These debt securities are reported at fair value utilizing Level 3 inputs. For these debt securities, management determines the fair value based on replacement cost, the income approach or information provided by outside consultants or lead investors. Discount rates are primarily based on reference to interest rate spreads on comparable debt securities of similar duration and credit rating as determined by the nationally recognized rating agencies adjusted for a lack of trading volume. Significant unobservable inputs are developed by investment securities professionals involved in the active trading of similar debt securities.



The Company reviews the prices for Level 1 and Level 2 debt securities supplied by the independent pricing service for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, the Company does not purchase investment portfolio debt securities that are esoteric or that have complicated structures. The Company's portfolio primarily consists of traditional investments including U.S. Treasury obligations, federal agency mortgage pass-through debt securities, general obligation municipal bonds and a small amount of municipal revenue bonds. Pricing for such instruments is fairly generic and is easily obtained. For in-state bond issues that have relatively low issue sizes and liquidity, the Company utilizes the same parameters for pricing mentioned in the preceding paragraph adjusted for the specific issue. Periodically, the Company will validate prices supplied by the independent pricing service by comparison to prices obtained from third party sources.

## Derivatives

Derivatives are reported at fair value utilizing Level 2 inputs. The Company obtains dealer and market quotations to value its oil and gas swaps and options. The Company utilizes dealer quotes and observable market data inputs to substantiate internal valuation model.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of the periods presented, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
	(Dollars in thousands)			
<b><u>September 30, 2022</u></b>				
Debt securities available for sale:				
U.S. Treasury	\$ 1,459,090	\$ —	\$ —	\$ 1,459,090
U.S. federal agencies	—	16,577	—	16,577
Mortgage-backed securities	—	15,620	—	15,620
States and political subdivisions	—	7,146	454	7,600
Asset backed securities	—	12,968	—	12,968
Other debt securities	—	7,404	—	7,404
Derivative assets	—	45,166	—	45,166
Derivative liabilities	—	43,856	—	43,856
<b><u>December 31, 2021</u></b>				
Debt securities available for sale:				
U.S. Treasury	\$ 457,628	\$ —	\$ —	\$ 457,628
U.S. federal agencies	—	21,942	—	21,942
Mortgage-backed securities	—	29,283	—	29,283
States and political subdivisions	—	5,999	320	6,319
Asset backed securities	—	13,357	—	13,357
Other debt securities	—	2,994	—	2,994
Derivative assets	—	8,946	—	8,946
Derivative liabilities	—	8,237	—	8,237

The changes in Level 3 assets measured at estimated fair value on a recurring basis during the periods presented were as follows:

	<u>Nine Months Ended September 30, 2022</u>	<u>Twelve Months Ended December 31, 2021</u>
	(Dollars in thousands)	
Balance at the beginning of the year	\$ 320	\$ 12,869
Transfers to level 2	—	(12,714)
Purchases	255	240
Settlements	(110)	(75)
Total unrealized losses	(11)	—
Balance at the end of the period	<u>\$ 454</u>	<u>\$ 320</u>

The Company's policy is to recognize transfers in and transfers out of Levels 1, 2 and 3 as of the end of the reporting period. During the nine months ended September 30, 2022, the Company did not transfer any debt securities. During the year ended

December 31, 2021, the Company transferred debt securities from Level 3 to Level 2 due to a review of the pricing models that determined some asset backed debt securities to be Level 2.

### Financial Assets and Financial Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). These financial assets and financial liabilities are reported at fair value utilizing Level 3 inputs.

The Company invests in equity securities without readily determinable fair values and utilizes Level 3 inputs. These equity 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.

Collateral dependent loans are reported at the fair value of the underlying collateral if repayment is dependent on liquidation of the collateral. When the Company determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. In no case does the fair value of a collateral dependent loan exceed the fair value of the underlying collateral. The collateral dependent loans are adjusted to fair value through a specific allocation of the allowance for credit losses or a direct charge-down of the loan.

Repossessed assets, upon initial recognition, are measured and adjusted to fair value through a charge-off to the allowance for possible credit losses based upon the fair value of the repossessed asset.

Other real estate owned is revalued at fair value subsequent to initial recognition, with any losses recognized in net expense from other real estate owned.

The following table summarizes assets measured at fair value on a nonrecurring basis during the period presented. These nonrecurring fair values do not represent all assets, only those assets that have been adjusted during the reporting period:

	<b>Total Fair Value Level 3</b>
	<u>(Dollars in thousands)</u>
<b><u>As of and for the Year-to-date Period Ended September 30, 2022</u></b>	
Equity securities	\$ 14,280
Collateral dependent loans	448
Repossessed assets	176
Other real estate owned	3,728
<b><u>As of and for the Year-to-date Period Ended December 31, 2021</u></b>	
Equity securities	\$ 10,590
Collateral dependent loans	13,195
Repossessed assets	78
Other real estate owned	7,496

### Estimated Fair Value of Financial Instruments

The Company is required under current authoritative accounting guidance to disclose the estimated fair value of their financial instruments that are not recorded at fair value. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments. A financial instrument is defined as cash, evidence of an ownership interest in an entity or a contract that creates a contractual obligation or right to deliver or receive cash or another financial instrument from a second entity. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

#### Cash and Cash Equivalents Include: Cash and Due from Banks and Interest-Bearing Deposits with Banks

The carrying amount of these short-term instruments is based on a reasonable estimate of fair value.

#### Federal Funds Sold

The carrying amount of these short-term instruments is a reasonable estimate of fair value.

### **Debt Securities Held for Investment**

For debt securities held for investment, which are generally traded in secondary markets, fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar debt securities making adjustments for credit or liquidity if applicable.

### **Loans Held For Sale**

The Company originates mortgage loans to be sold. At the time of origination, the acquiring bank has already been determined and the terms of the loan, including interest rate, have already been set by the acquiring bank, allowing the Company to originate the loan at fair value. Mortgage loans are generally sold within 30 days of origination. Loans held for sale are valued using Level 2 inputs. Gains or losses recognized upon the sale of the loans are determined on a specific identification basis.

### **Loans Held For Investment**

To determine the fair value of loans held for investment, the Company uses an exit price calculation, which takes into account factors such as liquidity, credit and the nonperformance risk of loans. For certain homogeneous categories of loans, such as some residential mortgages, fair values are estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair values of other types of loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

### **Deposits**

The fair values of transaction and savings accounts are the amounts payable on demand at the reporting date. The fair values of fixed-maturity certificates of deposit are estimated using the rates currently offered for deposits of similar remaining maturities.

### **Short-Term Borrowings**

The amounts payable on these short-term instruments are reasonable estimates of fair value.

### **Subordinated Debt**

The fair values of subordinated debt are estimated using the rates that would be charged for subordinated debt of similar remaining maturities.

### **Loan Commitments and Letters of Credit**

The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the terms of the agreements. The fair values of letters of credit are based on fees currently charged for similar agreements.

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

	<u>September 30,</u>		<u>December 31,</u>	
	<u>2022</u>		<u>2021</u>	
	<u>Carrying</u>	<u>Fair Value</u>	<u>Carrying</u>	<u>Fair Value</u>
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>
	(Dollars in thousands)			
<b>FINANCIAL ASSETS</b>				
Level 2 inputs:				
Cash and cash equivalents	\$ 3,333,305	\$ 3,333,305	\$ 2,050,022	\$ 2,050,022
Federal funds sold	3,878	3,878	800	800
Debt securities held for investment	16	16	32	33
Loans held for sale	4,823	4,823	24,776	24,776
Level 3 inputs:				
Debt securities held for investment	2,370	2,370	2,945	2,945
Loans, net of allowance for credit losses	6,737,901	6,400,990	6,085,506	6,059,716
<b>FINANCIAL LIABILITIES</b>				
Level 2 inputs:				
Deposits	11,058,940	10,645,253	8,091,914	8,161,553
Short-term borrowings	4,600	4,600	—	—
Subordinated debt	86,030	79,467	85,987	90,391
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>				
Loan commitments		4,533		3,648
Letters of credit		547		621

#### **Non-financial Assets and Non-financial Liabilities Measured at Fair Value**

The Company has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis include intangible assets and other non-financial long-lived assets measured at fair value and adjusted for impairment. These items are evaluated at least annually for impairment. The overall levels of non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis were not considered to be significant to the Company at September 30, 2022 or December 31, 2021.

## (12) DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into oil and gas swaps and options contracts to accommodate the business needs of its customers. Upon the origination of an oil or gas swap or option contract with a customer, to mitigate the exposure to fluctuations in oil and gas prices, the Company simultaneously enters into an offsetting contract with a counterparty. These derivatives are not designated as hedged instruments and are recorded on the Company's consolidated balance sheet at fair value and are included in other assets. The Company's derivative financial instruments require a daily margin to be posted, which fluctuates with oil and gas prices. These margins have increased during 2022 due to the current increase in oil and gas prices and customer activity. These margins are included in other assets totaling \$24.7 million at September 30, 2022 and \$14.3 million at December 31, 2021.

The Company utilizes dealer quotations and observable market data inputs to substantiate internal valuation models. The notional amounts and estimated fair values of oil and gas derivative positions outstanding are presented in the following table:

<u>Oil and Gas Swaps and Options</u>	<u>Notional Units</u>	<u>September 30, 2022</u>		<u>December 31, 2021</u>	
		<u>Notional Amount</u>	<u>Estimated Fair Value</u>	<u>Notional Amount</u>	<u>Estimated Fair Value</u>
(Notional amounts and dollars in thousands)					
<b><u>Oil</u></b>					
Derivative assets	Barrels	3,463	\$ 18,435	2,585	\$ 6,563
Derivative liabilities	Barrels	(3,463)	(17,684)	(2,585)	(6,129)
<b><u>Gas/Natural Gas Liquids</u></b>					
Derivative assets	MMBTUs/Gallons	32,233	26,731	19,752	2,383
Derivative liabilities	MMBTUs/Gallons	(32,233)	(26,172)	(19,752)	(2,108)
<b><u>Total Fair Value</u></b>					
	<b><u>Included in</u></b>				
Derivative assets	Other assets		45,166		8,946
Derivative liabilities	Other liabilities		(43,856)		(8,237)

The following table is a summary of the Company's recognized income related to the activity, which was included in other noninterest income:

	<u>Three Months Ended</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	(Dollars in thousands)		(Dollars in thousands)	
Derivative income	\$ 118	\$ 128	\$ 406	\$ 167

The Company's credit exposure on oil and gas swaps and options varies based on the current market prices of oil and gas. Other than credit risk, changes in the fair value of customer positions will be offset by equal and opposite changes in the counterparty positions. The net positive fair value of the contracts represents the profit derived from the activity and is unaffected by the market price movements. The Company's share of total profit is approximately 35%.

Customer credit exposure is managed by strict position limits and is primarily offset by first liens on production while the remainder is offset by cash. Counterparty credit exposure is managed by selecting highly rated counterparties (rated A- or better by Standard and Poor's) and monitoring market information.

The Company's net credit exposure relating to oil and gas swaps and options with bank counterparties was \$5.1 million at September 30, 2022 and \$0 at December 31, 2021.

### **Balance Sheet Offsetting**

Derivatives may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements. The Company's derivative transactions with upstream financial institution counterparties and bank customers are generally executed under International Swaps and Derivative Association ("ISDA") master agreements, which include "right of set-off" provisions. In such cases there is generally a legally enforceable right to offset recognized amounts and there may be an intention to settle such amounts on a net basis. Nonetheless, the Company does not generally offset such financial instruments for financial reporting purposes.

### (13) SEGMENT INFORMATION

The Company evaluates its performance with an internal profitability measurement system that measures the profitability of its business units on a pre-tax basis. The six principal business units are metropolitan banks, community banks, Pegasus, Worthington, other financial services and executive, operations and support. Metropolitan banks, community banks, Pegasus and Worthington offer traditional banking products such as commercial and retail lending and a full line of deposit accounts. Metropolitan banks consist of banking locations in the metropolitan Oklahoma City and Tulsa areas. Community banks consist of banking locations in communities throughout Oklahoma. Pegasus consists of banking locations in the Dallas metropolitan area. Worthington consists of banking locations in the Fort Worth metropolitan area. Other financial services are specialty product business units including guaranteed small business lending, residential mortgage lending, trust services, securities brokerage, electronic banking and insurance. The executive, operations and support groups represent executive management, operational support and corporate functions that are not allocated to the other business units.

The results of operations and selected financial information for the six business units are as follows:

	<u>Metropolitan Banks</u>	<u>Community Banks</u>	<u>Pegasus</u>	<u>Worthington</u>	<u>Other Financial Services</u>	<u>Executive, Operations &amp; Support</u>	<u>Eliminations</u>	<u>Consolidated</u>
(Dollars in thousands)								
<b><u>Three Months Ended September 30, 2022</u></b>								
Net interest income	\$ 26,022	\$ 55,782	\$ 13,815	\$ 4,723	\$ 1,604	\$ (999)	\$ —	\$ 100,947
Noninterest income	8,722	18,764	246	305	14,106	62,969	(55,781)	49,331
Income before taxes	22,827	41,179	8,178	2,109	6,222	43,180	(55,358)	68,337
<b><u>Three Months Ended September 30, 2021</u></b>								
Net interest income	\$ 18,728	\$ 47,817	\$ 6,141	\$ —	\$ 8,718	\$ (1,386)	\$ 172	\$ 80,190
Noninterest income	5,681	16,978	359	—	12,198	45,214	(40,644)	39,786
Income before taxes	15,072	31,722	2,158	—	5,069	34,298	(40,040)	48,279
<b><u>Nine Months Ended September 30, 2022</u></b>								
Net interest income	\$ 67,592	\$ 149,965	\$ 31,399	\$ 10,160	\$ 6,596	\$ (2,411)	\$ 20	\$ 263,321
Noninterest income	23,999	53,761	730	724	37,842	158,299	(139,776)	\$ 135,579
Income before taxes	56,140	108,980	15,677	3,930	16,910	104,729	(139,073)	\$ 167,293
<b><u>Nine Months Ended September 30, 2021</u></b>								
Net interest income	\$ 57,909	\$ 135,611	\$ 17,308	\$ —	\$ 30,057	\$ (1,784)	\$ 658	\$ 239,759
Noninterest income	14,494	48,151	1,098	—	34,686	156,970	(131,060)	\$ 124,339
Income before taxes	46,598	98,005	5,750	—	16,240	126,428	(129,657)	\$ 163,364
<b><u>Total Assets:</u></b>								
September 30, 2022	\$ 3,461,263	\$ 6,928,972	\$ 1,404,425	\$ 569,554	\$ 101,300	\$ 1,446,447	\$ (1,459,583)	\$ 12,452,378
December 31, 2021	2,627,874	5,821,220	1,045,699	—	71,694	1,201,974	(1,362,849)	9,405,612

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

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

*The following discussion and analysis of our financial condition as of September 30, 2022 and December 31, 2021 and results of operations for the three and nine months ended September 30, 2022 should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements for the year ended December 31, 2021, and the other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. Certain risks, uncertainties and other factors, including those set forth under "Risk Factors" in Part I, Item 1A of the 2021 Form 10-K, and "Item 1A, Risk Factors" in this Quarterly Report on Form 10-Q, may cause actual results to differ materially from the results discussed in the forward-looking statements appearing in this discussion and analysis.*

### 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-looking 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:

- The Durbin Amendment will impact noninterest income beginning July 1, 2023.
- Political pressures could further limit our ability to charge for NSF and overdraft fees.
- Rising interest rates.
- The increased Securities and Exchange Commission's requirements related to environmental, social and governance (ESG) issues, as well as climate disclosures will increase noninterest expense.
- The lingering effect of governments' stimulus programs.
- 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, including wage inflation, energy prices, securities markets and monetary fluctuations.
- The effect of changes in laws and regulations such as those from the Consumer Financial Protection Bureau, Federal Reserve, and the Federal Deposit Insurance Corporation (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company must comply.
- The COVID-19 pandemic's lingering effects on us and our customers, employees and third-party service providers, which may materially affect our business, financial position, operations and prospects.
- Impairment of the Company's goodwill or other intangible assets.
- Changes in consumer spending, borrowing and savings habits.
- Changes in the financial performance and/or condition of the Company's borrowers, including the impact of rising interest rates.
- 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 the third quarter of 2022 was \$55.4 million, compared to \$38.8 million for the third quarter of 2021. Diluted net income per common share was \$1.65 and \$1.16 for the third quarter of 2022 and 2021, respectively.

The Company's net interest income for the third quarter of 2022 increased to \$100.9 million, compared to \$80.2 million for the third quarter of 2021. Rising interest rates and loan growth contributed to the increase. The net interest margin for the third quarter was 3.48%, and for the third quarter of 2021 was 3.09%. Net interest income for the third quarter of 2021 included \$10.0 million in Paycheck Protection Program ("PPP") fees.

For the third quarter of 2022 the Company recorded a provision for credit losses of \$2.9 million compared to \$1.5 million for the third quarter of 2021. The Company's view of the likelihood of a significant economic downturn in Oklahoma and Texas remains neutral and therefore expects it will maintain its current level of comparable expected credit losses for the near term.

Noninterest income for the third quarter of 2022 totaled \$49.3 million, up from \$39.8 million for the third quarter of 2021. The increase in noninterest income in 2022 was mostly attributable to \$3.4 million in sweep fees and \$3.2 million of income from an equity interest received through restructuring a loan. Noninterest expense for the third quarter of 2022 was \$79.1 million, up from \$70.2 million for the third quarter of last year, primarily due to increases associated with the Worthington acquisition and salary increases. The Company's effective tax rate was 19.0% for the third quarter of 2022 compared to 19.7% for the third quarter of 2021.

At September 30, 2022, the Company's total assets were \$12.5 billion compared to \$9.4 billion at December 31, 2021. Deposits totaled \$11.1 billion, an increase of \$3.0 billion from December 31, 2021. The consolidated balance sheet growth was driven by the return of customer deposits from off-balance sheet sweep accounts and the acquisition of Worthington National Bank. Loans totaled \$6.8 billion compared to \$6.2 billion at December 31, 2021. Loan growth during 2022, net of acquired loans and PPP loan runoffs, was \$461 million, or 7%. The Company's total stockholders' equity was \$1.2 billion, an increase of \$23.4 million over December 31, 2021.

Asset quality remained strong as nonaccrual loans continued to decline, totaling \$12.0 million, which represented 0.18% of total loans at September 30, 2022, down from 0.34% at year-end 2021. The allowance for credit losses to total loans was 1.32% at September 30, 2022, down slightly from 1.36% at the end of 2021.

See Note (2) of the Notes to Consolidated Financial Statements for disclosure regarding the Company's recent developments, including mergers and acquisitions.

## FUTURE APPLICATION OF ACCOUNTING STANDARDS

See Note (1) of the Notes to the Consolidated Financial Statements for changes in the Company's disclosures regarding recently issued accounting pronouncements since December 31, 2021, the date of its most recent annual report to stockholders.

## SEGMENT INFORMATION

See Note (13) of the Notes to the Consolidated Financial Statements for disclosures regarding business segments.

## RESULTS OF OPERATIONS

### *Average Balances, Income, Expenses and Rates*

The following tables present, for the periods indicated, certain information related to the Company's consolidated average balance sheet, average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. For these computations: (i) average balances are derived from daily averages, (ii) information is shown on a taxable-equivalent basis assuming a 21% tax rate, and (iii) nonaccrual loans are included in the average loan balances and any interest on such nonaccrual loans is recognized on a cash basis. Loan fees included in interest income were \$5.7 million for the three months ended September 30, 2022 compared to approximately \$14.4 million for the three months ended September 30,



2021. Loan fees included in interest income were \$19.4 million for the nine months ended September 30, 2022 compared to \$45.8 million for the nine months ended September 30, 2021.

**BANCFIRST CORPORATION**  
**CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST MARGIN ANALYSIS**  
**(Unaudited)**  
**Taxable Equivalent Basis**  
**(Dollars in thousands)**

	Three Months Ended September 30,					
	2022			2021		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
<b>ASSETS</b>						
Earning assets:						
Loans	\$ 6,652,613	\$ 87,169	5.20%	\$ 6,103,533	\$ 80,370	5.22%
Debt securities – taxable	1,353,950	6,793	1.99	536,690	1,484	1.10
Debt securities – tax exempt	3,539	28	3.09	6,336	45	2.83
Federal funds sold and interest-bearing deposits with banks	3,512,242	20,119	2.27	3,682,313	1,441	0.16
Total earning assets	<u>11,522,344</u>	<u>114,109</u>	3.93	<u>10,328,872</u>	<u>83,340</u>	3.20
Nonearning assets:						
Cash and due from banks	252,874			269,153		
Interest receivable and other assets	892,858			696,567		
Allowance for credit losses	(86,955)			(83,969)		
Total nonearning assets	<u>1,058,777</u>			<u>881,751</u>		
Total assets	<u>\$12,581,121</u>			<u>\$11,210,623</u>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Interest-bearing liabilities:						
Transaction deposits	\$ 958,008	\$ 442	0.18%	\$ 881,043	\$ 161	0.07%
Savings deposits	4,313,076	10,447	0.96	3,825,687	989	0.10
Time deposits	678,549	1,110	0.65	659,490	838	0.50
Short-term borrowings	6,979	36	2.05	2,713	—	0.10
Subordinated debt	86,020	1,030	4.75	85,964	1,031	4.76
Total interest-bearing liabilities	<u>6,042,632</u>	<u>13,065</u>	0.86	<u>5,454,897</u>	<u>3,019</u>	0.22
Interest-free funds:						
Noninterest-bearing deposits	5,208,591			4,547,944		
Interest payable and other liabilities	118,375			61,794		
Stockholders' equity	1,211,523			1,145,988		
Total interest free funds	<u>6,538,489</u>			<u>5,755,726</u>		
Total liabilities and stockholders' equity	<u>\$12,581,121</u>			<u>\$11,210,623</u>		
Net interest income		<u>\$101,044</u>			<u>\$ 80,321</u>	
Net interest spread			<u>3.07%</u>			<u>2.98%</u>
Effect of interest free funds			<u>0.41%</u>			<u>0.11%</u>
Net interest margin			<u>3.48%</u>			<u>3.09%</u>

**BANCFIRST CORPORATION**  
**CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST MARGIN ANALYSIS**  
**(Unaudited)**  
**Taxable Equivalent Basis**  
**(Dollars in thousands)**

	Nine Months Ended September 30,					
	2022			2021		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
<b>ASSETS</b>						
Earning assets:						
Loans	\$ 6,527,355	\$239,072	4.90%	\$ 6,267,176	\$240,733	5.14%
Debt securities – taxable	1,218,092	15,716	1.73	531,109	4,779	1.20
Debt securities – tax exempt	3,993	89	2.99	13,530	222	2.20
Federal funds sold and interest-bearing deposits with banks	3,582,533	29,482	1.10	3,064,852	2,861	0.12
Total earning assets	<u>11,331,973</u>	<u>284,359</u>	3.35	<u>9,876,667</u>	<u>248,595</u>	3.37
Nonearning assets:						
Cash and due from banks	271,060			270,724		
Interest receivable and other assets	874,379			688,223		
Allowance for credit losses	(86,545)			(89,116)		
Total nonearning assets	1,058,894			869,831		
Total assets	<u>\$12,390,867</u>			<u>\$10,746,498</u>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Interest-bearing liabilities:						
Transaction deposits	\$ 959,261	\$ 846	0.12%	\$ 835,363	\$ 465	0.07%
Savings deposits	4,271,070	14,320	0.45	3,675,121	3,034	0.11
Time deposits	666,190	2,400	0.48	658,306	2,814	0.57
Short-term borrowings	5,401	49	1.21	2,595	1	0.07
Subordinated debt	86,006	3,091	4.81	46,957	2,100	5.98
Total interest-bearing liabilities	<u>5,987,928</u>	<u>20,706</u>	0.46	<u>5,218,342</u>	<u>8,414</u>	0.22
Interest-free funds:						
Noninterest-bearing deposits	5,106,094			4,363,925		
Interest payable and other liabilities	104,299			50,469		
Stockholders' equity	1,192,546			1,113,762		
Total interest free funds	6,402,939			5,528,156		
Total liabilities and stockholders' equity	<u>\$12,390,867</u>			<u>\$10,746,498</u>		
Net interest income		<u>\$263,653</u>			<u>\$240,181</u>	
Net interest spread			<u>2.89%</u>			<u>3.15%</u>
Effect of interest free funds			<u>0.22%</u>			<u>0.10%</u>
Net interest margin			<u>3.11%</u>			<u>3.25%</u>

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

**BANCFIRST CORPORATION**  
**SELECTED CONSOLIDATED FINANCIAL DATA**  
**(Unaudited)**  
**(Dollars in thousands, except per share data)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>Income Statement Data</b>				
Net interest income	\$ 100,947	\$ 80,190	\$ 263,321	\$ 239,759
Provision for (benefit from) credit losses	2,863	1,483	6,300	(8,466)
Securities transactions	966	150	(2,949)	417
Total noninterest income	49,331	39,786	135,579	124,339
Salaries and employee benefits	47,741	42,267	136,957	123,836
Total noninterest expense	79,078	70,214	225,307	209,200
Net income	55,352	38,750	135,974	129,462
<b>Per Common Share Data</b>				
Net income – basic	\$ 1.69	\$ 1.18	\$ 4.15	\$ 3.95
Net income – diluted	1.65	1.16	4.07	3.88
Cash dividends	0.40	0.36	1.12	1.04
<b>Performance Data</b>				
Return on average assets	1.75%	1.37%	1.47%	1.61%
Return on average stockholders' equity	18.13	13.42	15.24	15.54
Cash dividend payout ratio	23.67	30.51	26.99	26.33
Net interest spread	3.07	2.98	2.89	3.15
Net interest margin	3.48	3.09	3.11	3.25
Efficiency ratio	52.62	58.52	56.48	57.46
Net charge-offs to average loans	0.00	0.01	0.01	0.08

**Net Interest Income**

For the three months ended September 30, 2022, net interest income, which is the Company's principal source of operating revenue, increased \$20.8 million or 25.9% compared to the three months ended September 30, 2021. Rising interest rates and loan growth contributed to the increase. Net interest margin is the ratio of taxable-equivalent net interest income to average earning assets for the period. As shown in the preceding table, the Company's net interest margin for the third quarter of 2022 increased compared to the third quarter of 2021. The margin for the third quarter of 2021 included \$10.0 million in PPP fees.

Net interest income for the nine months ended September 30, 2022 increased \$23.6 million or 9.8% compared to the nine months ended September 30, 2021. Rising interest rates contributed to the increase along with net interest income related to the Worthington acquisition. As shown in the preceding table, the Company's net interest margin for the nine months ended September 30, 2022 decreased compared to the nine months ended September 30, 2021. The margin for the nine months ended September 30, 2021 was positively impacted by higher PPP fees, which were \$31.7 million compared to approximately \$2.1 million for the nine months ended September 30, 2022.

During 2021, the Company's net interest income and net interest margin were impacted by the decreases in interest rates stemming from the Federal Reserve's response to the COVID-19 pandemic. However, during 2022 the Federal Reserve began raising interest rates and the Company's expectation is that interest rates will continue to increase during the year.

## Provision for Credit Losses

For the third quarter of 2022 the Company recorded a provision for credit losses of \$2.9 million compared to \$1.5 million for the quarter ended September 30, 2021. Provisions for credit losses have stabilized in 2022 after the economic downturn and recovery from the effects of the COVID pandemic in prior years. The Company establishes an allowance as an estimate of the expected credit losses in the loan portfolio at the consolidated balance sheet date. Management believes the allowance for credit losses is appropriate based upon management's best estimate of expected losses within the existing loan portfolio. Should any of the factors considered by management in evaluating the appropriate level of the allowance for credit losses change, the Company's estimate of expected credit losses could also change, which could affect the amount of future provisions for credit losses. Net loan charge-offs were \$80,000 for the third quarter of 2022, compared to net loan charge-offs of \$10,000 for the third quarter of 2021. The rate of net charge-offs to average total loans, as presented in the preceding table, continues to be at an unsustainable low level.

For the nine months ended September 30, 2022, the Company recorded a provision for credit losses of \$6.3 million, which was related to acquired loans and loan growth, compared to a net benefit from reversal of provisions of \$8.5 million for the nine months ended September 30, 2021. Net loan charge-offs were \$436,000, compared to \$4.7 million for the same period of the prior year.

## Noninterest Income

Noninterest income, as presented in the preceding table, increased by \$9.5 million for the third quarter of 2022 compared to the third quarter of 2021. The increase in noninterest income in 2022 was mostly attributable to \$3.4 million in sweep fees and \$3.2 million of income from an equity interest received through restructuring a loan. The Company earned \$969,000 on the sale of loans for the third quarter of 2022 compared to \$1.6 million for the third quarter of 2021. The income from sales of loans was higher in 2021 due to the increased volume of mortgage loans originated because of record low mortgage rates. The Company expects the volume of mortgage loans originated to decrease as mortgage interest rates increase.

Noninterest income included non-sufficient funds ("NSF") and overdraft fees totaling \$6.7 million and \$6.8 million for the three months ended September 30, 2022 and 2021, respectively. This represents 13.6% and 17.2% of the Company's noninterest income for the respective periods. In addition, the Company had debit card interchange fees totaling \$12.6 million and \$11.7 million during the three months ended September 30, 2022 and 2021, respectively. This represents 25.5% and 29.5% of the Company's noninterest income for the respective periods.

Noninterest income increased by \$11.2 million for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The increase in noninterest income was attributable to \$8.8 million of income from an equity interest received through restructuring a loan, along with \$5.1 million in sweep fees, a \$3.8 million increase in income from service charges on deposits and increases in trust revenue and insurance commissions. The increase in non-interest income was partially offset by a loss of \$4.0 million on bonds resulting from the sale of \$226 million of low yielding debt securities, which were subsequently reinvested in higher yielding debt securities. There was a \$216,000 gain on sale of other assets in the first nine months of 2022, compared to \$2.7 million for 2021. In addition, there was an acquisition purchase gain of \$4.8 million and a gain from the sale of the Company's Hugo, Oklahoma branch of \$2.5 million in the first nine months of 2021. The Company earned \$3.9 million on the sale of loans for the nine months ended September 30, 2022 compared to \$5.7 million for the nine months ended September 30, 2021.

Noninterest income included NSF and overdraft fees totaling \$19.4 million and \$18.0 million during the nine months ended September 30, 2022 and 2021, respectively. This represents 14.3% and 14.5% of the Company's noninterest income for the respective periods. In addition, the Company had debit card interchange fees totaling \$36.7 million and \$34.3 million during the nine months ended September 30, 2022 and 2021, respectively. This represents 27.1% and 27.6% of the Company's noninterest income for the respective periods. An increase in customer accounts and interchange volume activity resulted in higher debit card interchange fees.

The Company is subject to political pressures that could limit its ability to charge for NSF and overdraft fees. As of April 1, 2022, the Company lowered the rates charged on NSF and overdraft fees. To the extent that increased volume doesn't overcome these rate changes, the Company could experience lower annual pretax income.

The Company expects to exceed \$10 billion in total assets at December 31, 2022. Pursuant to the Durbin Amendment of the Dodd-Frank Act, based on current run rates, this would trigger a reduction of annual pretax income from debit card interchange fees of approximately \$22 million beginning July 1, 2023.

## Noninterest Expense

Noninterest expense, as presented in the preceding table, increased by \$8.9 million for third quarter of 2022 compared to the third quarter of 2021, primarily due to increases related to the Worthington acquisition and salary increases.

For the nine months ended September 30, 2022, noninterest expense increased by \$16.1 million compared to the nine months ended September 30, 2021. The increase in noninterest expenses was due to the increase in salaries and employee benefits and other

expenses related to the Worthington acquisition. In addition, the nine months ended September 30, 2022 included a gain of \$3.1 million from the sale of the Company's prior headquarters that was carried in other real estate owned, as well as a write down of an equity investment of \$1.5 million. The nine months ended September 30, 2021 included approximately \$4.0 million in acquisition related expenses.

### **Income Taxes**

The Company's effective tax rate was 19.0% for the third quarter of 2022, compared to 19.7% for the third quarter of 2021. The lower effective tax rate was driven by the exercising of stock options during the third quarter of 2022 that provided higher tax deductions for compensation and a lower state income tax rate.

The Company's effective tax rate on income before taxes was 18.7% for the first nine months of 2022, compared to 20.8% for the first nine months of 2021.

The 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.

## FINANCIAL POSITION

### BANCFIRST CORPORATION SELECTED CONSOLIDATED FINANCIAL DATA (Dollars in thousands, except per share data)

	September 30, 2022 (unaudited)	December 31, 2021
<b>Consolidated Balance Sheet Data</b>		
Total assets	\$ 12,452,378	\$ 9,405,612
Total loans (net of unearned interest)	6,832,595	6,194,218
Allowance for credit losses	89,871	83,936
Debt securities	1,521,645	534,500
Deposits	11,058,940	8,091,914
Stockholders' equity	1,195,149	1,171,734
Book value per share	36.37	35.94
Tangible book value per share (non-GAAP)(1)	30.20	30.80
<b>Reconciliation of Tangible Book Value per Common Share (non-GAAP)(2)</b>		
Stockholders' equity	\$ 1,195,149	\$ 1,171,734
Less goodwill	182,055	149,922
Less intangible assets, net	20,863	17,566
Tangible stockholders' equity (non-GAAP)	\$ 992,231	\$ 1,004,246
Common shares outstanding	32,856,387	32,603,118
Tangible book value per share (non-GAAP)	\$ 30.20	\$ 30.80
<b>Selected Financial Ratios</b>		
<i>Consolidated Balance Sheet Ratios:</i>		
Average loans to deposits (year-to-date)	59.33%	64.27%
Average earning assets to total assets (year-to-date)	91.45	91.96
Average stockholders' equity to average assets (year-to-date)	9.62	10.32
<b>Asset Quality Data</b>		
Loans past due 90 days and still accruing	\$ 3,167	\$ 4,964
Nonaccrual loans (3)	11,962	20,892
Restructured loans	2,249	3,665
Total nonperforming and restructured loans	17,378	29,521
Other real estate owned and repossessed assets	39,419	39,553
Total nonperforming and restructured assets	56,797	69,074
<i>Asset Quality Ratios:</i>		
Nonaccrual loans to total loans	0.18%	0.34%
Nonperforming and restructured loans to total loans	0.25	0.48
Nonperforming and restructured assets to total assets	0.46	0.73
Allowance for credit losses to total loans	1.32	1.36
Allowance for credit losses to nonperforming and restructured loans	517.17	284.33
Allowance for credit losses to nonaccrual loans	751.32	401.76

(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.

(3) Government agencies guarantee approximately \$2.0 million of nonaccrual loans at September 30, 2022.

### Cash and Interest-Bearing Deposits with Banks

The aggregate of cash and due from banks and interest-bearing deposits with banks increased by \$1.3 billion, or 62.6%, to \$3.3 billion, from December 31, 2021 to September 30, 2022. The increase was primarily related to the return of deposits from off-balance sheet sweep accounts related to the Company's year-end sweep program, which was partially off-set by the purchase of higher yielding bonds described below.

### Securities

At September 30, 2022, total debt securities increased \$987.1 million, or 184.7% compared to December 31, 2021. The size of the Company's securities portfolio is determined by the Company's liquidity and asset/liability management. The net unrealized loss on debt securities available for sale, before taxes, was \$107.7 million at September 30, 2022, compared to a net unrealized gain of \$2.8 million at December 31, 2021. These unrealized losses and gains are included in the Company's stockholders' equity as accumulated

other comprehensive income, net of income tax, in the amounts of a loss of \$82.2 million at September 30, 2022 and a gain of \$2.2 million at December 31, 2021. During the nine months ended September 30, 2022, the Company had a loss of \$4.0 million resulting from the sale of \$226 million of debt securities with an average yield of 0.16%, which was subsequently reinvested in \$220 million of debt securities with an average yield of 1.86%. The Company also made two other purchases of debt securities in 2022. On January 10, 2022, the Company purchased United States Treasury Notes with \$600 million par value at an average yield of 1.42% and an average maturity of 53 months. On August 25, 2022, the Company purchased United States Treasury Notes of \$300 million par value with an average yield of 3.27% and an average maturity of 58 months.

See Note (3) of the Notes to Consolidated Financial Statements for disclosures regarding the Company's Securities.

## **Loans**

At September 30, 2022, total loans increased \$638.4 million or 10.3% compared to December 31, 2021. Internal loan growth during the first nine months of 2022, net of acquired loans and PPP loans, was approximately \$461 million, or 7%. The acquisition of Worthington also added \$257 million of loans. At September 30, 2022, the balance of total PPP loans was \$1.1 million, with no unamortized processing fees, compared to \$80.4 million, net of unamortized processing fees of \$2.0 million at December 31, 2021.

See Note (4) of the Notes to Consolidated Financial Statements for disclosures regarding the Company's loan portfolio segments.

## **Allowance for Credit Losses**

The increase in the allowance for credit losses during 2022 was related to the additional allowance for credit losses required for newly acquired loans and loan growth. The decrease in the allowance for credit losses during 2021 was driven by a reversal of a pandemic-related provision during 2021 based on sustained improvements in the economy, both nationally and in the Company's markets, which reduced the amount of expected credit losses within the loan portfolio. This reduction was partially offset by additional allowance for credit losses required for newly acquired loans.

## **Nonperforming and Restructured Assets**

At September 30, 2022, nonperforming and restructured assets decreased \$12.3 million to \$56.8 million compared to December 31, 2021. The Company's level of nonperforming and restructured assets has continued to be relatively low, equating to 0.46% of total assets at September 30, 2022 and 0.73% of total assets at December 31, 2021.

Nonaccrual loans totaled \$12.0 million at September 30, 2022, compared to \$20.9 million at December 31, 2021. The Company's nonaccrual loans decreased \$8.9 million from December 31, 2021 due to resolutions of several loans. The Company's nonaccrual loans are primarily commercial and agricultural non-real estate and farmland. 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 both interest and principal is in serious doubt. Interest income is not recognized until the principal balance is fully collected. However, if the full collection of the remaining principal balance is not in doubt, interest income is recognized on certain of these loans on a cash basis. Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately \$992,000 for the nine months ended September 30, 2022 and \$1.7 million for the nine months ended September 30, 2021. Only a small amount of this interest is expected to be ultimately collected. Approximately \$2.0 million of nonaccrual loans were guaranteed by government agencies at September 30, 2022.

Restructured loans totaled \$2.2 million at September 30, 2022 compared to \$3.7 million at December 31, 2021. The Company charges interest on principal balances outstanding during deferral periods. As a result, the current and future financial effects of the recorded balance of loans considered to be troubled debt restructurings whose terms were modified during the period were not considered to be 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 declines. The above normal risk associated with nonperforming loans has been considered in the determination of the allowance for credit losses. At September 30, 2022, the allowance for credit losses as a percentage of nonperforming and restructured loans was 517.17%, compared to 284.33%, at December 31, 2021. The level of nonperforming loans and credit losses could rise over time as a result of adverse economic conditions.

Other real estate owned (OREO) and repossessed assets totaled \$39.4 million at September 30, 2022, compared to \$39.6 million at December 31, 2021. 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. Other real estate owned included a commercial real estate property recorded at \$31.2 million at September 30, 2022 and \$29.5 million at December 31, 2021. Rental income for this property is included in other noninterest

income on the consolidated statements of comprehensive income. Operating expense for this property is included in net expense from other real estate owned in other noninterest expense on the consolidated statements of comprehensive income.

This property had the following rental income and operating expenses for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Rental income	\$ 2,347	\$ 2,703	\$ 7,750	\$ 7,277
Operating expense	\$ 2,381	\$ 2,036	\$ 7,120	\$ 6,599

The Company's total rental income from OREO was \$2.5 million for the three months ended September 30, 2022 compared to \$2.9 million for the three months ended September 30, 2021 and \$8.1 million for the nine months ended September 30, 2022 compared to \$7.5 million for the nine months ended September 30, 2021. In addition, the Company's total OREO holding expense was \$2.5 million for the three months ended September 30, 2022 compared to \$2.1 million for the three months ended September 30, 2021 and \$7.6 million for the nine months ended September 30, 2022 compared to \$6.8 million for the nine months ended September 30, 2021. Other real estate owned and repossessed assets 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 credit 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.

### Intangible Assets, Goodwill and Other Assets

Identifiable intangible assets and goodwill totaled \$202.9 million and \$167.5 million at September 30, 2022 and December 31, 2021, respectively. The increase in goodwill and intangible assets was due the acquisition of Worthington on February 8, 2022, which added \$5.9 million of core deposit intangibles and \$32.1 million of goodwill. See Note (2) of the Notes to Consolidated Financial Statements for disclosure regarding the Company's recent developments, including mergers and acquisitions.

Other assets includes the cash surrender value of key-man life insurance policies totaling \$82.2 million at September 30, 2022 and \$81.4 million at December 31, 2021.

Derivative financial instruments consisting of oil and gas swaps and option contracts are included in other assets and totaled \$45.2 million at September 31, 2022 and \$8.9 million at December 31, 2021. These derivative financial instruments have increased due to the increase in oil and gas prices and customer activity. They require a daily margin to be posted, which fluctuates with oil and gas prices. The margins have increased during 2022 due to the current increase in oil and gas prices and customer activity. The margins are included in other assets totaling \$24.7 million at September 30, 2022 and \$14.3 million at December 31, 2021. See Note (12) of the Notes to Consolidated Financial Statements for a complete discussion of the Company's derivative financial instruments.

Equity securities are reported in other assets on the consolidated balance sheet. The Company invests in equity securities without readily determinable fair values. These equity 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. The balance of equity securities was \$14.3 million at September 30, 2022 and \$10.6 million at December 31, 2021. The Company reviews its portfolio of equity securities for impairment at least quarterly.

### Low Income Housing and New Market Tax Credit Investments

During 2022, there have not been any material changes in the Company's low income housing tax credit investments and new market tax credit investments, which are included in other assets on the Company's consolidated balance sheet. See Note (6) of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, for disclosures regarding these investments.

### 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. 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.

There have not been any other material changes from the liquidity and funding discussion included in Management's Discussion and Analysis in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

### ***Deposits***

At September 30, 2022, deposits totaled \$11.1 billion, an increase of \$3.0 billion or 36.7% from the December 31, 2021 total. The increase in deposits was primarily related to the return of funds from off-balance sheet sweep accounts related to the Company's year-end sweep program. The Company's core deposits provide it with a stable, low-cost funding source. Core deposits as a percentage of total deposits were 98.3% at September 30, 2022 and 98.2% at December 31, 2021. Noninterest-bearing deposits to total deposits were 47.1% at September 30, 2022, compared to 46.7% at December 31, 2021.

Off-balance sheet sweep accounts totaled \$3.0 billion at September 30, 2022 compared to \$5.1 billion at December 31, 2021, which included a temporary sweep amount of \$2.3 billion.

### ***Subordinated Debt***

On June 17, 2021, the Company completed a private placement, under Regulation D of the Securities Act of 1933, of \$60 million aggregate principal amount of 3.50% Fixed-to-Floating Rate Subordinated Notes due 2036 to various institutional accredited investors. See Note (7) of the Notes to Consolidated Financial Statements for a complete discussion of the Company's subordinated debt.

### ***Short-Term Borrowings***

Short-term borrowings, consisting primarily of federal funds purchased and repurchase agreements are another source of funds for the Company. The level of these borrowings is determined by various factors, including customer demand and the Company's ability to earn a favorable spread on the funds obtained. Short-term borrowings were \$4.6 million at September 30, 2022. The Company did not have short-term borrowings at December 31, 2021.

### ***Lines of Credit***

BancFirst 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. In addition, BancFirst has a \$25.0 million line of credit with another financial institution that is an overnight federal funds facility. As of September 30, 2022 and December 31, 2021, BancFirst had no advances outstanding under either line of credit. Pegasus has a \$20.0 million line of credit with another financial institution that is an overnight federal funds facility. As of September 30, 2022 and December 31, 2021, Pegasus had no advances outstanding under its line of credit. Worthington has an \$8.5 million line of credit with another financial institution that is an overnight federal funds facility, and a line of credit from the FHLB of Dallas, Texas to use for liquidity or to match-fund certain long-term fixed rate loans. Worthington had no advances outstanding as of September 30, 2022 under either line of credit.

### **Capital Resources**

Stockholders' equity totaled \$1.2 billion at both September 30, 2022 and December 31, 2021. In addition to net income of \$136.0 million, other changes in stockholders' equity during the nine months ended September 30, 2022 included \$7.0 million related to common stock issuances for stock option exercises and \$1.5 million related to stock-based compensation, that were partially offset by \$36.7 million in dividends and a \$84.4 million decrease in accumulated other comprehensive income. The Company's leverage ratio and total risk-based capital ratios at September 30, 2022 were well in excess of the regulatory requirements.

See Note (9) of the Notes to Consolidated Financial Statements for a discussion of capital ratios and requirements.

### **Liquidity Risk and Off-Balance Sheet Arrangements**

There have not been any material changes in the Company's liquidity and off-balance sheet arrangements included in Management's Discussion and Analysis which was included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no significant changes in the Company's disclosures regarding market risk since December 31, 2021, the date of its most recent annual report to stockholders.

#### **Item 4. Controls and Procedures.**

Evaluation of Disclosure Controls and Procedures. Pursuant to Rule 13a-15 of the Securities Exchange Act of 1934 (the “Exchange Act”), the Company’s Chief Executive Officer, Chief Financial Officer and its Disclosure Committee, which includes the Company’s Executive Chairman, Chief Risk Officer, Chief Internal Auditor, Chief Asset Quality Officer, Controller, General Counsel and Director of Financial Reporting, have evaluated, as of the last day of the period covered by this report, the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on their evaluation they concluded that the disclosure controls and procedures of the Company are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms.

Changes in Internal Control Over Financial Reporting. During the period to which this report relates, there have not been any changes in the Company’s internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, such controls.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

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

### **Item 1A. Risk Factors.**

As of September 30, 2022, there have been no material changes from the risk factors previously disclosed in Part I, Item 1A, of the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

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

None.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

None.

### **Item 5. Other Information.**

None.

## Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Exhibit</u>
2.1	<a href="#"><u>Share Exchange Agreement by and between BancFirst Corporation and Pegasus Bank dated April 23, 2019 (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K/A dated April 25, 2019 and incorporated herein by reference).</u></a>
3.1	<a href="#"><u>Amended and Restated By-Laws of BancFirst Corporation (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated July 27, 2021 and incorporated herein by reference).</u></a>
3.2	<a href="#"><u>Restated Certificate of Incorporation of BancFirst Corporation dated August 5, 2021. (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2021).</u></a>
4.1	Instruments defining the rights of securities holders (see Exhibits 3.1 and 3.2 above).
4.2	<a href="#"><u>Description of Registrant's Securities (filed as Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019 and incorporated herein by reference).</u></a>
4.3	<a href="#"><u>Form of Amended and Restated Trust Agreement relating to the 7.20% Cumulative Trust Preferred Securities of BFC Capital Trust II (filed as Exhibit 4.5 to the Company's registration statement on Form S-3/A, File No. 333-112488 dated February 23, 2004, and incorporated herein by reference).</u></a>
4.4	<a href="#"><u>Form of 7.20% Cumulative Trust Preferred Security Certificate for BFC Capital Trust II (filed as Exhibit D to Exhibit 4.5 to the Company's registration statement on Form S-3/A, File No. 333-112488 dated February 23, 2004, and incorporated herein by reference).</u></a>
4.5	<a href="#"><u>Form of Indenture relating to the 7.20% Junior Subordinated Deferrable Interest Debentures of BancFirst Corporation issued to BFC Capital Trust II (filed as Exhibit 4.1 to the Company's registration statement on Form S-3, File No. 333-112488 dated February 4, 2004, and incorporated herein by reference).</u></a>
4.6	<a href="#"><u>Form of Certificate of 7.20% Junior Subordinated Deferrable Interest Debenture of BancFirst Corporation (filed as Exhibit 4.2 to the Company's registration statement on Form S-3, File No. 333-112488 dated February 4, 2004, and incorporated herein by reference).</u></a>
4.7	<a href="#"><u>Form of Guarantee of BancFirst Corporation relating to the 7.20% Cumulative Trust Preferred Securities of BFC Capital Trust II (filed as Exhibit 4.7 to the Company's registration statement on Form S-3/A, File No. 333-112488 dated February 23, 2004, and incorporated herein by reference).</u></a>
10.1	<a href="#"><u>Adoption Agreement for the BancFirst Corporation Thrift Plan adopted April 21, 2016 effective January 1, 2016. (filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2016 and incorporated herein by reference).</u></a>
10.2	<a href="#"><u>Amendment Number One to the BancFirst Corporation Thrift Plan. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 26, 2018 and incorporated herein by reference).</u></a>
10.3	<a href="#"><u>2019 Amendment BancFirst Corporation Thrift Plan (filed as Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019 and incorporated herein by reference).</u></a>
10.4	<a href="#"><u>2020 Amendment BancFirst Corporation Thrift Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K for dated December 17, 2020 and incorporated herein by reference).</u></a>
10.5	<a href="#"><u>Amended and Restated BancFirst Corporation Directors' Deferred Stock Compensation Plan. (filed as exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2021 and incorporated herein by reference).</u></a>
10.6	<a href="#"><u>Purchase and Sale Agreement and Escrow Instructions by and between Cotter Tower – Oklahoma L.P. and BancFirst Corporation. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 5, 2018 and incorporated herein by reference).</u></a>
10.7	<a href="#"><u>First Amendment to Purchase and Sale Agreement and Escrow Instructions by and between Cotter Tower – Oklahoma L.P. and BancFirst Corporation. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated September 5, 2018 and incorporated herein by reference).</u></a>

- 10.8 [Subordinated Note Purchase Agreement. \(filed as exhibit 10.1 to the Company's Current Report on Form 8-K dated June 17, 2021 and incorporated herein by reference\).](#)
- 10.9 [Amended and Restated BancFirst Corporation Stock Option Plan. \(filed as exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30 2022 and incorporated herein by reference\)](#)
- 10.10 [Amended and Restated BancFirst Corporation Non-Employee Directors' Stock Option Plan. \(filed as exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30 2022 and incorporated herein by reference\)](#)
- 10.11 [BancFirst Corporation Employee Stock Ownership Plan Amendment to Implement Secure Act and Other Law Changes. \(filed as exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30 2022 and incorporated herein by reference\)](#)
- 10.12 [Adoption Agreement for McAfee & Taft Professional Corporation Non-Standardized Employee Stock Ownership Pre-Approved Plan. \(filed as exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30 2022 and incorporated herein by reference\)](#)
- 10.12\* [BancFirst Corporation Thrift Plan Amended and Restated Adoption Agreement.](#)
- 31.1\* [Chief Executive Officer's Certification pursuant to Rule 13a-14\(a\) or Rule 15d-14\(a\).](#)
- 31.2\* [Chief Financial Officer's Certification pursuant to Rule 13a-14\(a\) or Rule 15d-14\(a\).](#)
- 32\* [CEO's & CFO's Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.INS\* Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH\* Inline XBRL Taxonomy Extension Schema Document.
- 101.CAL\* Inline XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF\* Inline XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB\* Inline XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE\* Inline XBRL Taxonomy Extension Presentation Linkbase Document.
- 104\* Cover page Interactive Data File (formatted as Inline XBRL and contained within the Inline XBRL Instance Document in Exhibit 101)

\* Filed herewith.

## SIGNATURES

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

**BANCFIRST CORPORATION**

\_\_\_\_\_  
(Registrant)

Date: November 4, 2022

\_\_\_\_\_  
/s/ David Harlow

David Harlow

President

Chief Executive Officer

(Principal Executive Officer)

Date: November 4, 2022

\_\_\_\_\_  
/s/ Kevin Lawrence

Kevin Lawrence

Executive Vice President

Chief Financial Officer

(Principal Financial Officer)