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 June 30, 2020
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)**	**73-1221379** **(I.R.S. Employer Identification No.)**
101 N. Broadway, Oklahoma City, Oklahoma **(Address of principal executive offices)**	**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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

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

As of July 31, 2020 there were 32,662,691 shares of the registrant's Common Stock outstanding.

BancFirst Corporation
Quarterly Report on Form 10-Q
June 30, 2020

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

BANCFIRST CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	June 30, 2020 (unaudited)	December 31, 2019 (see Note 1)
ASSETS		
Cash and due from banks	$ 205,227	$ 222,043
Interest-bearing deposits with banks	1,583,116	1,646,238
Federal funds sold	—	1,000
Securities held for investment (fair value: $3,048 and $1,903, respectively)	3,055	1,903
Securities available for sale at fair value	604,976	489,723
Loans held for sale	21,902	11,001
Loans (net of unearned interest)	6,674,954	5,662,143
Allowance for credit losses	(89,500)	(54,238)
Loans, net of allowance for credit losses	6,585,454	5,607,905
Premises and equipment, net	232,517	206,275
Other real estate owned	4,668	5,607
Intangible assets, net	20,882	22,608
Goodwill	149,922	148,604
Accrued interest receivable and other assets	200,734	202,851
Total assets	$ 9,612,453	$ 8,565,758
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 3,709,330	$ 2,956,370
Interest-bearing	4,777,341	4,527,265
Total deposits	8,486,671	7,483,635
Short-term borrowings	8,100	1,100
Long-term borrowings	3,000	—
Accrued interest payable and other liabilities	53,679	49,230
Junior subordinated debentures	26,804	26,804
Total liabilities	8,578,254	7,560,769
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: 32,662,691 and 32,694,268, respectively	32,663	32,694
Capital surplus	154,692	153,353
Retained earnings	837,154	815,488
Accumulated other comprehensive income, net of income tax of $3,278 and $1,187, respectively	9,690	3,454
Total stockholders' equity	1,034,199	1,004,989
Total liabilities and stockholders' equity	$ 9,612,453	$ 8,565,758

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
INTEREST INCOME				
Loans, including fees	$ 78,855	$ 70,990	$ 155,373	$ 139,720
Securities:				
Taxable	2,047	3,855	4,633	8,190
Tax-exempt	154	118	252	244
Federal funds sold	—	—	—	2
Interest-bearing deposits with banks	395	8,135	5,164	15,883
Total interest income	81,451	83,098	165,422	164,039
INTEREST EXPENSE				
Deposits	3,750	13,802	13,150	27,339
Short-term borrowings	1	12	8	22
Junior subordinated debentures	492	492	983	983
Total interest expense	4,243	14,306	14,141	28,344
Net interest income	77,208	68,792	151,281	135,695
Provision for credit losses	19,333	2,433	38,916	4,117
Net interest income after provision for credit losses	57,875	66,359	112,365	131,578
NONINTEREST INCOME				
Trust revenue	3,368	3,250	7,023	6,427
Service charges on deposits	16,760	19,114	35,564	36,777
Securities transactions (includes no accumulated other comprehensive income reclassifications)	(595)	821	(545)	821
Income from sales of loans	1,561	868	2,342	1,566
Insurance commissions	4,443	4,420	10,119	9,685
Cash management	4,255	4,402	8,575	8,178
Gain/(loss) on sale of other assets	49	(7)	135	(11)
Other	2,241	1,209	4,014	2,635
Total noninterest income	32,082	34,077	67,227	66,078
NONINTEREST EXPENSE				
Salaries and employee benefits	42,226	36,124	81,982	72,295
Occupancy, net	3,839	2,953	7,385	5,580
Depreciation	3,544	3,015	7,035	6,000
Amortization of intangible assets	968	758	1,932	1,517
Data processing services	1,629	1,262	3,321	2,742
Net income from other real estate owned	(12)	97	(2,147)	(387)
Marketing and business promotion	1,485	1,919	3,840	4,180
Deposit insurance	365	544	501	1,077
Other	10,607	9,936	22,187	19,810
Total noninterest expense	64,651	56,608	126,036	112,814
Income before taxes	25,306	43,828	53,556	84,842
Income tax expense	4,576	9,661	10,218	18,838
Net income	$ 20,730	$ 34,167	$ 43,338	$ 66,004
NET INCOME PER COMMON SHARE				
Basic	$ 0.64	$ 1.04	$ 1.33	$ 2.02
Diluted	$ 0.63	$ 1.02	$ 1.31	$ 1.98
OTHER COMPREHENSIVE (LOSS) GAIN				
Unrealized (loss) gain on securities, net of tax of $85, $(1,112), $(2,091) and $(1,980) respectively	(189)	3,254	6,236	5,794
Comprehensive income	$ 20,541	$ 37,421	$ 49,574	$ 71,798

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
COMMON STOCK				
Issued at beginning of period	$ 32,647	$ 32,618	$ 32,694	$ 32,604
Shares issued for stock options	16	22	28	36
Shares acquired and canceled	—	—	(59)	—
Issued at end of period	$ 32,663	$ 32,640	$ 32,663	$ 32,640
CAPITAL SURPLUS				
Balance at beginning of period	$ 153,999	$ 150,195	$ 153,353	$149,709
Common stock issued for stock options	287	433	507	745
Stock-based compensation arrangements	406	367	832	541
Balance at end of period	$ 154,692	$ 150,995	$ 154,692	$150,995
RETAINED EARNINGS				
Balance at beginning of period	$ 826,855	$ 744,713	$ 815,488	$722,615
Net income	20,730	34,167	43,338	66,004
Cumulative effect of change in accounting principle, net of tax of $925 (Note 1)	—	—	2,270	—
Dividends on common stock ($0.32, $0.30, $0.64 and $0.60 per share, respectively)	(10,431)	(9,790)	(20,903)	(19,529)
Common stock acquired and canceled	—	—	(3,039)	—
Balance at end of period	$ 837,154	$ 769,090	$ 837,154	$769,090
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gain/(losses) on securities:				
Balance at beginning of period	$ 9,879	$ 401	$ 3,454	$ (2,139)
Net change	(189)	3,254	6,236	5,794
Balance at end of period	$ 9,690	$ 3,655	$ 9,690	$ 3,655
Total stockholders' equity	$1,034,199	$ 956,380	$ 1,034,199	$956,380

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

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

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 43,338	$ 66,004
Adjustments to reconcile to net cash provided by operating activities:		
Provision for credit losses	38,916	4,117
Depreciation and amortization	8,967	7,517
Net amortization of securities premiums and discounts	(340)	(3,650)
Realized securities losses (gains)	545	(821)
Gain on sales of loans	(2,342)	(1,566)
Cash receipts from the sale of loans originated for sale	171,433	98,587
Cash disbursements for loans originated for sale	(179,996)	(99,782)
Deferred income tax benefit	(3,987)	(893)
Gain on sale of other assets	(2,289)	(455)
Increase in interest receivable	(3,438)	(2,064)
(Decrease)/increase in interest payable	(943)	461
Amortization of stock-based compensation arrangements	832	541
Excess tax benefit from stock-based compensation arrangements	(143)	(263)
Other, net	12,094	4,374
Net cash provided by operating activities	82,647	72,107
INVESTING ACTIVITIES		
Net cash received from acquisitions, net of cash paid	18,397	—
Net decrease in federal funds sold	1,000	—
Purchases of held for investment securities	(1,395)	(1,010)
Purchases of available for sale securities	(255,178)	—
Proceeds from maturities, calls and paydowns of held for investment securities	470	440
Proceeds from maturities, calls and paydowns of available for sale securities	148,365	358,972
Purchase of equity securities	(234)	(2,649)
Proceeds from paydowns and sales of equity securities	437	1,892
Net change in loans	(993,997)	(121,426)
Purchases of premises, equipment and computer software	(30,292)	(12,907)
Purchase of tax credits	(357)	(6,946)
Other, net	5,641	3,053
Net cash (used in) provided by investing activities	(1,107,143)	219,419
FINANCING ACTIVITIES		
Net change in deposits	958,030	8,118
Net change in short-term borrowings	7,000	(675)
Proceeds from long-term borrowings	3,000	—
Issuance of common stock in connection with stock options, net	535	781
Common stock acquired	(3,098)	—
Cash dividends paid	(20,909)	(19,567)
Net cash provided by (used in) financing activities	944,558	(11,343)
Net (decrease)/increase in cash, due from banks and interest-bearing deposits	(79,938)	280,183
Cash, due from banks and interest-bearing deposits at the beginning of the period	1,868,281	1,424,255
Cash, due from banks and interest-bearing deposits at the end of the period	$ 1,788,343	$ 1,704,438
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 15,053	$ 27,882
Cash paid during the period for income taxes	$ 5,075	$ 17,175
Noncash investing and financing activities:		
Fair value of assets acquired in acquisitions	$ 47,838	$ —
Liabilities assumed in acquisitions	$ 45,040	$ —
Unpaid common stock dividends declared	$ 10,447	$ 9,788

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

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

The accounting and reporting policies of BancFirst Corporation and its subsidiaries (the "Company") conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and general practice within the banking industry. A summary of 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, 2019.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts of BancFirst Corporation, Council Oak Partners, LLC, BancFirst Insurance Services, Inc., BancFirst Risk & Insurance Company, Pegasus Bank and BancFirst and its subsidiaries. The principal operating subsidiaries of BancFirst are Council Oak Investment Corporation, Council Oak Real Estate, Inc., BFTower, LLC and BancFirst Agency, Inc. All significant intercompany accounts and transactions have been eliminated. Assets held in a fiduciary or agency capacity are not assets of the Company and, accordingly, are not included in the 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 financial statements and footnotes included in BancFirst Corporation's Annual Report on Form 10-K for the year ended December 31, 2019, 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 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 intangibles. Such estimates and assumptions may change over time and actual amounts realized may differ from those reported.

Recent Accounting Pronouncements

Standards Adopted During Current Period:

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-13, "Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)." ASU 2018-13 modifies disclosure requirements on fair value measurements in Topic 820. ASU 2018-13 was effective for the Company on January 1, 2020. ASU No. 2018-13 was adopted on January 1, 2020 and did not have a significant impact on the Company's financial statements.

On January 1, 2020, the Company adopted ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Accounting Standards Codification ("ASC") 326 replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for purchased loans and securities with credit deterioration and available-for-sale debt securities.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Operating results for periods from January 1, 2020 are presented in accordance with ASC 326 while prior period amounts continue to be reported in accordance with previously applicable standards and the accounting policies described in our 2019 Form 10-K. The Company recorded a net increase to retained earnings of $2.3 million, net of tax of $925,000, as of January 1, 2020 for the cumulative effect of adopting ASC 326, and the impact on our results of operations and cash flows was not material.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration (PCD) that were previously classified as purchased credit impaired (PCI) and accounted for under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. On January 1, 2020, the amortized cost basis of the PCD assets was adjusted to reflect the addition of approximately $1.2 million to the allowance for credit losses.

The Company has not recorded an allowance for credit losses against its available-for-sale securities, as the credit risk is not material. The following table illustrates the impact of ASC 326 on the allowance for credit losses on the Company's loans as of January 1, 2020.

	January 1, 2020		
	As Reported Under ASC 326	**Pre ASC 326 Adoption**	**Impact of ASC 326 Adoption**
		(Dollars in thousands)	
BancFirst			
Real estate:			
Commercial real estate owner occupied	$ 2,819	$ 5,625	$ (2,806)
Commercial real estate non-owner occupied	2,851	8,358	(5,507)
Construction and development < 60 months	1,158	2,214	(1,056)
Construction residential real estate < 60 months	1,155	1,933	(778)
Residential real estate first lien	4,861	8,692	(3,831)
Residential real estate all other	1,359	2,767	(1,408)
Farmland	1,413	2,821	(1,408)
Commercial and agricultural non-real estate	27,194	15,345	11,849
Consumer non-real estate	2,630	3,252	(622)
Other loans	2,516	2,632	(116)
Pegasus Bank	3,087	599	2,488
Allowance for credit losses on loans	$ 51,043	$ 54,238	$ (3,195)

The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. In order to estimate expected losses using historical loss information, the Company elected to utilize a methodology known as vintage loss analysis for substantially all of our loan portfolio. Vintage loss analysis measures impairment based on the age of the accounts and the historical asset performance of assets with similar risk characteristics. Vintage loss analysis accounts for expected losses by allowing the Company to calculate the cumulative loss rates of a given loan pool and in so doing, determine the loan pool's lifetime expected loss experience. This includes a reasonable approximation of probable and estimable future losses determined by applying historical net charge off information to forward looking qualitative and environmental factors. First, the Company determined the appropriate type of financial assets that share similar risk characteristics, and then the Company developed a cumulative loss curve for the applicable financial assets based on historical data using different "vintages" analyzed by year of origination. This is done by dividing each year's net charge-offs by the original principal balance. The respective vintage's original principal balance remains the denominator in each annual calculation, as it references the specific vintage's original balance. The loss experience of this original balance is tracked annually and summed over the life of the loan for each separate loan pool leaving a cumulative, life of credit loss rate based on historic averages weighted towards more recent loss experience. In addition to life of credit loss data, primary drivers like macroeconomic indicators of qualitative factors are used as adjustments to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points. The intent is to express the impact of changes in external factors while incorporating analysis of where the loan pool is in its loss history.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. The Company has made the accounting policy election to use the fair value of the collateral to measure expected credit losses on collateral-dependent financial assets. When management 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 connection with the adoption of ASC 326, the Company revised certain accounting policies and implemented accounting policy elections. The revised accounting policies are described below.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts. Accrued interest receivable totaled $31.0 million at June 30, 2020 and $27.4 million at December 31, 2019, and was reported in accrued interest receivable and other assets on the consolidated balance sheets. The Company has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses. Interest income is accrued on the unpaid principal balance using the simple-interest method on the daily balances of the principal amounts outstanding.

Interest income on consumer and commercial loans is discontinued and placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Consumer loans are charged off at 180 days past due and commercial loans are charged off to the extent principal or interest is deemed uncollectible. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Troubled debt restructurings are loans on which, due to the borrower's financial difficulties, the Company has granted a concession that the Company would not otherwise consider for borrowers of similar credit quality. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, or a combination of the two. Modifications of terms that could potentially qualify as a restructuring include reduction of contractual interest rate, extension of the maturity date at a contractual interest rate lower than the current rate for new debt with similar risk, and a reduction of the face amount of debt or forgiveness of either principal or accrued interest. A loan continues to qualify as restructured until a consistent payment history or change in the borrower's financial condition has been evidenced, generally for no less than twelve months. If the restructuring agreement specifies an interest rate at the time of the restructuring that is greater than or equal to the rate that the Company is willing to accept for a new extension of credit with comparable risk, then the loan is no longer considered a restructured loan if it is in compliance with the modified terms in calendar years after the year of restructure.

Purchased Credit Deteriorated (PCD) Loans: The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. An allowance for credit losses is determined using the same methodology as other loans held for investment. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through provision expense.

Allowance for Credit Losses - Loans: The allowance for credit losses is a valuation account that is deducted from the loans amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. In connection with our adoption of ASC 326, changes were made to our primary portfolio segments to align with the methodology applied in determining the allowance under CECL. The Company has identified the following portfolio segments, which includes the applicable weighted average life, and measures the allowance for credit losses using the vintage loss analysis adjusted for qualitative factors:

Loan Segment	**Life (in years)**
BancFirst	
Real estate:	
Commercial real estate owner occupied	8
Commercial real estate non-owner occupied	6
Construction and development < 60 months	3
Construction residential real estate < 60 months	1
Residential real estate first lien	13
Residential real estate all other	6
Farmland	12
Commercial and agricultural non-real estate	3
Consumer non-real estate	4
Other loans	9
Pegasus Bank	4

These portfolio segments are separately identified because they exhibit distinctive risk characteristics, such as financial asset types, loan purpose, collateral, and industry of the borrower. A summary of our primary portfolio segments is as follows:

Commercial real estate owner occupied. Commercial real estate owner occupied are nonresidential property loans for which the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the entity, or an affiliate of the entity, who owns the property. This category includes, among other loans, loans secured by office buildings, garden office buildings, manufacturing facilities, warehouse and flex warehouse facilities, hospitals, and car washes unless the property is owned by an investor who leases the property to the operator who, in turn, is not related to or affiliated with the investor.

Commercial real estate non-owner occupied. Commercial real estate non-owner occupied are nonresidential property loans where the primary source of repayment is derived from rental income associated with the property or the proceeds of the sale, refinancing, or permanent financing of the property. This category includes, among other loans, loans secured by shopping centers, office buildings, hotels/motels, nursing homes, assisted-living facilities, mini-storage warehouse facilities, and similar properties.

Construction and development < 60 months. Residential development loans include loans to develop raw land into a residential development. Advances on the loans typically include land costs, hard costs (grading, utilities, roads, etc.), soft costs (engineering fees, development fees, entitlement fees, etc.) and carrying costs until the development is completed. Upon completion of the development, the loan is typically repaid through the sale of lots to homebuilders.

Construction residential real estate < 60 months. Residential construction includes loans to builders for speculative or custom homes, as well as direct loans to individuals for construction of their personal residence. Custom construction and self-construction loans typically will have commitments in place for long-term financing at the completion of construction. Speculative construction loans generally will have periodic curtailment plans beginning after completion of construction and a reasonable time for sales to have occurred.

Residential real estate first lien. Residential real estate first lien loans includes all closed-end loans secured by first liens on 1-to-4 family residential properties. This category includes property containing 1-to-4 dwelling units (including vacation homes) or more than four dwelling units if each is separated from other units by dividing walls that extend from ground to roof. This category also includes individual condominium dwelling units and loans secured by an interest in individual cooperative housing units, even if in a building with five or more dwelling units.

Residential real estate all other. Residential real estate all other loans includes loans secured by junior (i.e., other than first) liens on 1-to-4 family residential properties. This category includes loans secured by junior liens even if the Company also holds a loan secured by a first lien on the same 1-to-4 family residential property.

Farmland. This category includes loans secured by all land known to be used or usable for agricultural purposes, such as crop and livestock production. Farmland includes grazing or pasture land, whether tillable or not and whether wooded or not.

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

Consumer non-real estate. Consumer loans are loans to individuals for household, family and other personal expenditures. Commonly, such loans are made to finance purchases of consumer goods, such as automobiles, boats, household goods, vacations and education.

Other loans. Other loans consist of loans approved by the Small Business Administration (SBA), which include loans funded through the Paycheck Protection Program (PPP). Since PPP loans are fully guaranteed by the SBA, there is no expected credit loss related to these loans.

Pegasus Bank. Pegasus Bank's loans are commercial and consumer loans mostly to customers within Texas secured by real estate. Pegasus Bank also includes commercial and industrial loans, which includes loans to companies in the oil and gas industry.

The Company considers various factors to monitor the credit risk in the loan portfolio including volume and severity of loan delinquencies, nonaccrual loans, internal grading of loans, historical loan loss experience and economic conditions.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as the political, legal, and regulatory environment, technology and consumer preferences. Historical loss information is also adjusted for reasonable and supportable changes in national and local economic conditions, such as oil and gas prices, national and local unemployment, real gross domestic product ("GDP"), house price index ("HPI"), consumer price index ("CPI"), rental vacancies, and retail sales. Economic conditions are forecast as "current conditions" over the forecast period. Forecast models were used to validate credit performance during the forecast period. Beyond the reasonable and supportable forecast, the economic expectation reverts to the historical average, which is determined by the weighted average life of each loan pool.

Determining the Contractual Term: Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Troubled Debt Restructurings (TDRs): The allowance for credit loss on a TDR is measured using the same method as all other loans held for investment, except when the value of a concession cannot be measured using a method other than the discounted cash flow method. When the value of a concession is measured using the discounted cash flow method, the allowance for credit loss is determined by discounting the expected future cash flows at the original interest rate of the loan.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Based on a low likelihood that funding will occur and the Company's ability to manage the extension of credit to our borrowers, the allowance for credit losses on off-balance sheet credit exposure is not material.

Allowance for Credit Losses - Available-for-Sale Securities: The Company reviews its portfolio of securities in an unrealized loss position at least quarterly. The Company first assesses whether it intends to sell or it is more-likely-than-not that it will be required to sell the securities before recovery of the amortized cost basis. If either of these criteria is met, the securities amortized cost basis is written down to fair value as a current period expense. If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making this assessment, the Company considers, among other things, the period of time the security has been in an unrealized loss position, and performance of any underlying collateral and adverse conditions specifically related to the security. At December 31, 2019 and June 30, 2020 approximately 95% of the available for sale securities held by the Company were issued by the U.S. Treasury, or U.S. government-sponsored entities and agencies. The Company does not consider the unrealized position of these securities to be the result of credit factors, because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery. Therefore, the Company has not recorded an allowance for credit losses against its securities portfolio, as the credit risk is not material.

PPP Fee Income Policy: The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, provides that the SBA will pay processing fees of up to 5% to lenders based on the volume of the PPP loans disbursed. The fee is based on the balance of each PPP loan outstanding at the time of full disbursement. As of June 30, 2020, the Company received approximately $30.0 million in processing fees from the SBA. The unamortized balance of these fees is reported on the Company's balance sheet as part of the loan balance to which it relates and is recognized over the remaining life of the loan as an adjustment of yield. Upon notification from the SBA of the amount of the PPP loan to be forgiven the acceleration of recognition of deferred loan fee will occur for the percentage of the loan forgiven.

(2) RECENT DEVELOPMENTS, INCLUDING MERGERS AND ACQUISITIONS

Section 4013 of the CARES Act and the Interagency Statement on Loan Modifications by Financial Institutions provides temporary relief from the accounting and reporting requirements for TDRs regarding certain loan modifications related to COVID-19 that are offered by financial institutions

Specifically, the CARES Act provides that a financial institution may elect to suspend (1) the requirements under U.S. GAAP for certain loan modifications that would otherwise be categorized as a TDR and (2) any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes. The modifications that would qualify for this exception include any modification involving a loan that was not more than 30 days past due as of December 31, 2019, that occurs during the "applicable period," including any of the following:

- A forbearance arrangement.
- An interest rate modification.
- A repayment plan.
- Any other similar arrangement that defers or delays the payment of principal or interest.

The exception does not apply to any adverse impact on the credit of a borrower that is not related to the COVID-19 pandemic. Furthermore, even when the exception is applied, an entity may determine that it is appropriate to place the loan on nonaccrual status. As of June 30, 2020, the Company has identified $939.8 million in loans that have been modified according to these terms.

On March 5, 2020, the Company purchased approximately $47.8 million in total assets, which included $22.9 million in loans, and assumed approximately $45.0 million in deposits and certain other obligations of The Citizens State Bank of Okemah, Oklahoma "Citizens" for a purchase price of $2.9 million. As a result of the purchase, the Company recorded a core deposit intangible of approximately $206,000 and goodwill of approximately $1.3 million. The effect of this purchase was included in the consolidated financial statements of the Company from the date of purchase forward. The purchase did not have a material effect on the Company's consolidated financial statements. Citizens was an Oklahoma state-chartered bank with banking locations in Okemah and Paden, Oklahoma. These banking locations became branches of BancFirst.

In January 2020, the Company sold property held in other real estate owned for a $2.2 million gain.

On August 15, 2019 the Company acquired Pegasus Bank, a Texas state-charted bank with three banking locations in Dallas, Texas. This acquisition is disclosed in Note (2) to the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

(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
June 30, 2020		(Dollars in thousands)		
Mortgage backed securities (1)	$ 75	$ 4	$ —	$ 79
States and political subdivisions	2,480	3	(14)	2,469
Other securities	500	—	—	500
Total	$ 3,055	$ 7	$ (14)	$ 3,048
December 31, 2019				
Mortgage backed securities (1)	$ 93	$ 4	$ —	$ 97
States and political subdivisions	1,310	1	(5)	1,306
Other securities	500	—	—	500
Total	$ 1,903	$ 5	$ (5)	$ 1,903

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
June 30, 2020	(Dollars in thousands)			
U.S. treasuries	$ 500,161	$ 12,700	$ —	$ 512,861
U.S. federal agencies	21,242	5	(66)	21,181
Mortgage backed securities (1)	16,127	455	—	16,582
States and political subdivisions	41,150	497	(9)	41,638
Asset backed securities	13,328	—	(614)	12,714
Total	$ 592,008	$ 13,657	$ (689)	$ 604,976
December 31, 2019				
U.S. treasuries	$ 409,488	$ 4,974	$ (13)	$ 414,449
U.S. federal agencies	23,039	23	(38)	23,024
Mortgage backed securities (1)	16,941	128	(64)	17,005
States and political subdivisions	22,294	282	(45)	22,531
Asset backed securities	13,320	—	(606)	12,714
Total	$ 485,082	$ 5,407	$ (766)	$ 489,723

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

The maturities of debt securities held for investment and available for sale are summarized in the following table using contractual maturities. Actual maturities may differ from contractual maturities due to obligations that are called or prepaid. For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been presented at their contractual maturity.

	June 30, 2020		December 31, 2019	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Held for Investment				
Contractual maturity of debt securities:				
Within one year	$ 880	$ 879	$ 300	$ 300
After one year but within five years	1,581	1,574	1,058	1,055
After five years but within ten years	593	594	543	546
After ten years	1	1	2	2
Total	$ 3,055	$ 3,048	$ 1,903	$ 1,903
Available for Sale				
Contractual maturity of debt securities:				
Within one year	$ 314,154	$ 315,140	$ 186,373	$ 186,539
After one year but within five years	234,514	246,662	252,519	257,430
After five years but within ten years	4,918	5,074	5,873	6,008
After ten years	38,422	38,100	40,317	39,746
Total debt securities	$ 592,008	$ 604,976	$ 485,082	$ 489,723

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:

	June 30, 2020	December 31, 2019
	(Dollars in thousands)	
Book value of pledged securities	$ 423,779	$ 445,702

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

In connection with our adoption of ASC 326, changes were made to our primary portfolio segments to align with the methodology applied in determining the allowance under CECL. Loans held for investment are summarized by portfolio segment as follows:

	June 30, 2020	December 31, 2019
	Amount	Amount
	(Dollars in thousands)	
BancFirst		
Real estate:		
Commercial real estate owner occupied	$ 651,416	$ 621,188
Commercial real estate non-owner occupied	990,180	851,200
Construction and development < 60 months	225,598	287,138
Construction residential real estate < 60 months	206,504	189,480
Residential real estate first lien	860,964	834,849
Residential real estate all other	180,839	187,647
Farmland	256,136	246,988
Commercial and agricultural non-real estate	1,470,523	1,499,404
Consumer non-real estate	360,740	359,529
Other loans (2)	987,250	154,015
Pegasus Bank	484,804	430,705
Total (1)	$ 6,674,954	$ 5,662,143

(1) Excludes accrued interest receivable of $31.0 million at June 30, 2020 and $27.4 million at December 31, 2019, that is recorded in accrued interest receivable and other assets.

(2) Includes PPP loans of $825.1 million, net of unamortized processing fees of $26.2 million, at June 30, 2020.

BancFirst's loans are mostly to customers within Oklahoma and approximately 50% of the loans are secured by real estate. Credit risk on loans is managed through limits on amounts loaned to individual and related borrowers, underwriting standards and loan monitoring procedures. The amounts and types of collateral obtained, if any, to secure loans are based upon the Company's underwriting standards and management's credit evaluation. Collateral varies, but may include real estate, equipment, accounts receivable, inventory, livestock and securities. The Company's interest in collateral is secured through filing mortgages and liens, and in some cases, by possession of the collateral.

BancFirst's commercial and agricultural non-real estate loan category includes upstream and midstream energy loans and loans to companies that provide ancillary services to the energy industry, such as transportation, preparation contractors and equipment manufacturers. The balance of upstream energy loans was approximately $229 million at June 30, 2020 and approximately $189 million at December 31, 2019. The balance of midstream energy loans was approximately $45 million at June 30, 2020 and approximately $41 million at December 31, 2019. The balance of the ancillary services energy loans was approximately $78 million at June 30, 2020 and approximately $90 million at December 31, 2019.

Pegasus Bank's loans are mostly to customers within Texas and approximately $246 million or 51% of the loans are secured by real estate at June 30, 2020. Pegasus Bank's commercial and agricultural non-real estate loan were approximately $208 million at June 30, 2020 and approximately $172 million at December 31, 2019. Pegasus Bank's commercial and agricultural non-real estate loan category includes upstream energy loans and loans to companies that provide ancillary services to the energy industry, such as transportation, preparation contractors and equipment manufacturers. The balance of upstream energy loans was approximately $88 million at June 30, 2020 and approximately $57 million at December 31, 2019. The balance of the ancillary services energy loans was approximately $8 million at June 30, 2020 and approximately $7 million at December 31, 2019.

As of June 30, 2020, the Company reported $825.1 million in PPP loans, net of unamortized processing fees of $26.2 million and recognized $3.6 million of processing fees, which were included in interest income.

Accounting policies related to appraisals, and charge-offs are disclosed in Note (1) to the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Troubled Debt Restructurings and Other Real Estate Owned and Repossessed Assets

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

	June 30, 2020	December 31, 2019
	(Dollars in thousands)	
Troubled debt restructurings	$ 3,213	$ 18,010
Other real estate owned and repossessed assets	$ 4,948	$ 6,073

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.

Nonaccrual loans

Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately $983,000 for the six months ended June 30, 2020 and approximately $1.0 million for the six months ended June 30, 2019. In addition, approximately $8.0 million of nonaccrual loans are guaranteed by government agencies.

The following table is a summary of amounts included in nonaccrual loans, segregated by portfolio segment. Residential real estate refers to one-to-four family real estate.

	June 30, 2020
	(Dollars in thousands)
BancFirst	
Real estate:	
Commercial real estate owner occupied	$ 2,094
Commercial real estate non-owner occupied	463
Construction and development < 60 months	119
Construction residential real estate < 60 months	—
Residential real estate first lien	3,904
Residential real estate all other	792
Farmland	3,118
Commercial and agricultural non-real estate	32,299
Consumer non-real estate	247
Other loans	5,841
Pegasus Bank	600
Total	$ 49,477

	December 31, 2019
	(Dollars in thousands)
BancFirst	
Real estate:	
Non-residential real estate owner occupied	$ 2,275
Non-residential real estate other	1,815
Residential real estate permanent mortgage	1,206
Residential real estate all other	3,060
Non-consumer non-real estate	2,915
Consumer non-real estate	264
Other loans	1,083
Acquired loans	4,496
Pegasus Bank	851
Total	$ 17,965

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 our loans held for investment:

	Age Analysis of Past Due Loans						
	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
	(Dollars in thousands)						
As of June 30, 2020							
BancFirst							
Real estate:							
Commercial real estate owner occupied	$ 415	$ 55	$ 2,037	$ 2,507	$ 648,909	$ 651,416	$ 77
Commercial real estate non-owner occupied	50	112	188	350	989,830	990,180	—
Construction and development < 60 months	952	—	—	952	224,646	225,598	—
Construction residential real estate < 60 months	396	—	—	396	206,108	206,504	—
Residential real estate first lien	3,587	1,316	4,575	9,478	851,486	860,964	1,945
Residential real estate all other	449	171	766	1,386	179,453	180,839	63
Farmland	1,649	888	3,257	5,794	250,342	256,136	763
Commercial and agricultural non-real estate	19,056	4,766	4,841	28,663	1,441,860	1,470,523	2,154
Consumer non-real estate	1,712	595	465	2,772	357,968	360,740	313
Other loans	219	162	5,621	6,002	981,248	987,250	67
Pegasus Bank	—	—	600	600	484,204	484,804	—
Total	$ 28,485	$ 8,065	$ 22,350	$ 58,900	$ 6,616,054	$ 6,674,954	$ 5,382
As of December 31, 2019							
BancFirst							
Real estate:							
Non-residential real estate owner occupied	$ 1,600	$ 967	$ 5,159	$ 7,726	$ 699,690	$ 707,416	$ 3,799
Non-residential real estate other	971	—	1,228	2,199	1,134,976	1,137,175	—
Residential real estate permanent mortgage	4,705	973	2,215	7,893	332,679	340,572	1,660
Residential real estate other	4,496	1,028	2,541	8,065	912,767	920,832	549
Non-consumer non-real estate	2,290	1,446	1,763	5,499	1,448,894	1,454,393	354
Consumer other	2,829	858	592	4,279	358,075	362,354	491
Other loans	1,670	8	4,613	6,291	147,724	154,015	4,426
Acquired loans	2,167	1,376	3,447	6,990	147,691	154,681	555
Pegasus Bank	—	—	851	851	429,854	430,705	—
Total	$ 20,728	$ 6,656	$ 22,409	$ 49,793	$ 5,612,350	$ 5,662,143	$ 11,834

Due to the impacts of the COVID-19 pandemic, the Company has modified approximately $939.8 million in loans, most of which are secured by commercial real estate. These modifications were undertaken in response to Section 4013 of the CARES Act and the regulatory intent outlined in the Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus and to provide businesses financial flexibility until the economy has time to recover to a more normal level of activity. However, these modifications, which typically involve payment modifications and forbearance, also have the effect of delaying recognition of loans that may ultimately be permanently impaired. Consequently, it is reasonable to expect that when temporary regulatory accounting relief and payment modifications cease, there will be a marked increase in credit impairment and restructured loans. The timing and extent of such consequences are impossible to ascertain at this time and are dependent on the duration of the COVID-19 pandemic, the level and success of the government's economic stimulus, and further regulatory guidance. These modified loans are included in current loans in the table above.

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.

An internal risk grading system is used to indicate the credit risk of loans. The loan grades used by the Company are for internal risk identification purposes and do not directly correlate to regulatory classification categories or any financial reporting definitions.

The general characteristics of the risk grades are disclosed in Note (5) to the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

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

The following table summarizes our gross loans held for investment by year of origination and internally assigned credit grades:

	Term Loans Amortized Cost Basis by Origination Year							
	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
	(Dollars in thousands)							
As of June 30, 2020								
BancFirst								
Commercial real estate owner occupied								
Grade 1	$93,204	$115,392	$88,126	$56,119	$43,573	$117,406	$9,505	$523,325
Grade 2	16,310	31,307	12,723	10,742	13,926	29,741	3,324	118,073
Grade 3	142	107	599	1,583	495	1,380	2,742	7,048
Grade 4	47	78	879	—	392	1,107	467	2,970
Total commercial real estate owner occupied loans	109,703	146,884	102,327	68,444	58,386	149,634	16,038	651,416
Commercial real estate non-owner occupied								
Grade 1	188,253	178,055	105,465	90,957	91,046	107,176	13,590	774,542
Grade 2	25,466	68,282	18,066	23,070	11,432	52,193	3,712	202,221
Grade 3	1,126	3,929	7,118	543	42	155	70	12,983
Grade 4	—	94	191	—	—	149	—	434
Total commercial real estate non-owner occupied loans	214,845	250,360	130,840	114,570	102,520	159,673	17,372	990,180
Construction and development < 60 months								
Grade 1	66,608	76,743	28,386	5,535	2,880	4,081	14,229	198,462
Grade 2	12,612	8,249	1,698	853	166	568	442	24,588
Grade 3	34	2,211	184	—	—	—	—	2,429
Grade 4	—	70	10	24	—	—	—	104
Grade 5	15	—	—	—	—	—	—	15
Total construction and development < 60 months	79,269	87,273	30,278	6,412	3,046	4,649	14,671	225,598
Construction residential real estate < 60 months								
Grade 1	94,678	72,479	69	22	37	32	4,727	172,044
Grade 2	18,660	11,920	114	—	—	481	32	31,207
Grade 3	1,416	1,440	397	—	—	—	—	3,253
Total construction residential real estate < 60 months	114,754	85,839	580	22	37	513	4,759	206,504
Residential real estate first lien								
Grade 1	135,181	176,422	94,426	76,299	56,326	169,576	—	708,230
Grade 2	16,067	26,417	23,633	12,417	13,232	37,470	—	129,236
Grade 3	3,796	2,195	1,597	1,737	2,340	6,592	—	18,257
Grade 4	88	815	858	301	1,105	2,023	—	5,190
Grade 5	—	—	—	—	51	—	—	51
Total residential real estate first lien	155,132	205,849	120,514	90,754	73,054	215,661	—	860,964
Residential real estate all other								
Grade 1	13,054	17,126	13,224	9,660	6,747	13,647	32,726	106,184
Grade 2	2,064	2,381	1,545	1,997	415	2,999	59,063	70,464
Grade 3	180	890	996	161	226	386	311	3,150
Grade 4	52	—	74	51	34	720	40	971
Grade 5	—	70	—	—	—	—	—	70
Total residential real estate all other	15,350	20,467	15,839	11,869	7,422	17,752	92,140	180,839
Farmland								
Grade 1	27,303	32,686	22,385	16,365	15,894	35,182	7,696	157,511
Grade 2	7,741	34,758	7,341	7,582	6,262	10,985	8,486	83,155
Grade 3	748	625	5,313	1,109	584	1,353	3,320	13,052
Grade 4	—	—	758	639	381	379	261	2,418
Total farmland	35,792	68,069	35,797	25,695	23,121	47,899	19,763	256,136
Commercial and agricultural non-real estate								
Grade 1	245,805	218,847	148,454	114,049	56,916	48,438	310,921	1,143,430
Grade 2	52,956	46,418	31,373	9,951	8,123	27,830	95,956	272,607
Grade 3	9,530	2,634	2,494	1,473	1,517	398	4,724	22,770
Grade 4	26,681	989	836	2,361	150	266	377	31,660
Grade 5	—	51	—	—	—	—	5	56
Total commercial and agricultural non-real estate	334,972	268,939	183,157	127,834	66,706	76,932	411,983	1,470,523
Consumer non-real estate								
Grade 1	97,332	134,078	62,491	23,064	8,531	3,601	6,040	335,137
Grade 2	5,823	8,919	5,049	1,440	822	451	268	22,772
Grade 3	207	866	574	303	127	114	15	2,206
Grade 4	17	224	211	53	49	70	1	625
Total consumer non-real estate	103,379	144,087	68,325	24,860	9,529	4,236	6,324	360,740
Other loans								

Grade 1	840,615	31,131	28,254	21,729	18,562	17,839	20,228	978,358
Grade 2	—	—	17	3,011	1,174	2,136	794	7,132
Grade 3	—	—	14	3	71	229	122	439
Grade 4	—	—	26	62	28	120	1,085	1,321
Total other loans	840,615	31,131	28,311	24,805	19,835	20,324	22,229	987,250
Pegasus Bank								
Grade 1	55,924	73,386	41,076	29,680	15,297	42,601	91,378	349,342
Grade 2	17,057	34,856	7,213	22,767	4,652	8,014	38,964	133,523
Grade 3	—	—	—	—	—	1,339	—	1,339
Grade 4	—	—	—	—	600	—	—	600
Total Pegasus Bank	72,981	108,242	48,289	52,447	20,549	51,954	130,342	484,804
Total loans held for investment	$2,076,792	$1,417,140	$764,257	$547,712	$384,205	$749,227	$735,621	$6,674,954

Allowance for Credit Losses Methodology

On January 1, 2020, the Company adopted ASC 326, which replaces the incurred loss methodology for determining its provision for credit losses and allowance for credit losses with an expected loss methodology that is referred to as the CECL model. See Note (1) for additional information regarding the factors that influenced the Company’s current estimate of expected credit losses. Upon adoption, the allowance for credit losses was decreased by $3.2 million, with no impact to the consolidated statement of income. Subsequent to the adoption of ASC 326, the Company recorded a $38.9 million provision for credit losses for the first six months of 2020 utilizing the newly adopted CECL methodology, a significant increase from the first six months of 2019. The increase resulted primarily from the anticipated impact on our loan portfolio resulting from the economic outlook related to the COVID-19 pandemic and the decline in energy prices and to a lesser degree, loan growth during the first six months of 2020. Prolonged low energy prices will not only have a direct impact on the energy portfolio; it will have an indirect effect on the economies of Oklahoma and the Dallas, Texas market, including higher unemployment, with a residual effect on land values and real estate prices.

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							
	Balance at beginning of period	Impact of CECL adoption	Initial allowance on loans purchased with credit deterioration	Charge-offs	Recoveries	Net charge-offs	Provision for credit losses on loans	Balance at end of period
	(Dollars in thousands)							
Three Months Ended June 30, 2020								
BancFirst								
Real estate:								
Commercial real estate owner occupied	$ 4,544	$ —	$ —	$ (113)	$ 1	$ (112)	$ 2,198	$ 6,630
Commercial real estate non-owner occupied	5,935	—	—	—	—	—	3,548	9,483
Construction and development < 60 months	1,136	—	—	(56)	3	(53)	672	1,755
Construction residential real estate < 60 months	1,618	—	—	(28)	—	(28)	669	2,259
Residential real estate first lien	6,192	—	—	(66)	4	(62)	2,423	8,553
Residential real estate all other	2,292	—	—	(7)	1	(6)	434	2,720
Farmland	1,788	—	—	—	—	—	723	2,511
Commercial and agricultural non-real estate	37,276	—	—	(287)	66	(221)	7,450	44,505
Consumer non-real estate	3,385	—	—	(235)	57	(178)	1,507	4,714
Other loans	2,751	—	—	—	—	—	(238)	2,513
Pegasus Bank	3,163	—	—	330	417	747	(53)	3,857
Total	$ 70,080	$ —	$ —	$ (462)	$ 549	$ 87	$ 19,333	$ 89,500
Six Months Ended June 30, 2020								
BancFirst								
Real estate:								
Commercial real estate owner occupied	$ 5,625	$ (2,806)	$ 432	$ (113)	$ 1	$ (112)	$ 3,491	$ 6,630
Commercial real estate non-owner occupied	8,358	(5,507)	—	—	—	—	6,632	9,483
Construction and development < 60 months	2,214	(1,056)	—	(59)	3	(56)	653	1,755
Construction residential real estate < 60 months	1,933	(778)	—	(29)	—	(29)	1,133	2,259
Residential real estate first lien	8,692	(3,831)	7	(218)	6	(212)	3,897	8,553
Residential real estate all other	2,767	(1,408)	—	(32)	28	(4)	1,365	2,720
Farmland	2,821	(1,408)	1	—	—	—	1,097	2,511
Commercial and agricultural non-real estate	15,345	11,849	62	(374)	83	(291)	17,540	44,505
Consumer non-real estate	3,252	(622)	—	(556)	114	(442)	2,526	4,714
Other loans	2,632	(116)	—	—	2	2	(5)	2,513
Pegasus Bank	599	2,488	—	(241)	424	183	587	3,857
Total	$ 54,238	$ (3,195)	$ 502	$ (1,622)	$ 661	$ (961)	$ 38,916	$ 89,500

	Allowance for Credit Losses					
	Balance at beginning of period	Charge-offs	Recoveries	Net charge-offs	Provision for credit losses on loans	Balance at end of period
	(Dollars in thousands)					
Three Months Ended June 30, 2019						
BancFirst						
Real estate:						
Non-residential real estate owner occupied	$ 6,655	$ (3)	$ —	$ (3)	$ 235	$ 6,887
Non-residential real estate other	11,362	(16)	1	(15)	(60)	11,287
Residential real estate permanent mortgage	3,261	(4)	4	—	64	3,325
Residential real estate all other	11,046	(143)	25	(118)	793	11,721
Non-consumer non-real estate	14,409	(87)	85	(2)	825	15,232
Consumer non-real estate	3,072	(162)	38	(124)	286	3,234
Other loans	2,408	—	43	43	(2)	2,449
Acquired loans	702	(170)	149	(21)	292	973
Total	$ 52,915	$ (585)	$ 345	$ (240)	$ 2,433	$ 55,108
Six Months Ended June 30, 2019						
BancFirst						
Real estate:						
Non-residential real estate owner occupied	$ 6,328	$ (9)	$ 1	$ (8)	$ 567	$ 6,887
Non-residential real estate other	11,027	(22)	1	(21)	281	11,287
Residential real estate permanent mortgage	3,261	(67)	9	(58)	122	3,325
Residential real estate all other	10,673	(195)	27	(168)	1,216	11,721
Non-consumer non-real estate	13,151	(157)	152	(5)	2,086	15,232
Consumer non-real estate	3,065	(282)	109	(173)	342	3,234
Other loans	2,423	—	78	78	(52)	2,449
Acquired loans	1,461	(196)	153	(43)	(445)	973
Total	$ 51,389	$ (928)	$ 530	$ (398)	$ 4,117	$ 55,108

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 purchased credit deteriorated loans for the period are as follows:

	Loans acquired with deteriorated credit quality
	(Dollars in thousands)
For the period ended June 30, 2020	
Purchase price of loans at acquisition	$ 1,586
Allowance for credit losses at acquisition	502
Par value of acquired loans at acquisition	$ 2,088

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. The following table summarizes collateral-dependent gross loans held for investment by collateral type as follows:

	Collateral Type			
	Real Estate	Business Assets	Energy Reserves	Other Assets
	(Dollars in thousands)			
As of June 30, 2020				
BancFirst				
Real estate:				
Commercial real estate owner occupied	$ 2,386	$ —	$ —	$ —
Commercial real estate non-owner occupied	341	—	—	—
Construction and development < 60 months	15	—	—	—
Construction residential real estate < 60 months	—	—	—	—
Residential real estate first lien	1,491	—	—	—
Residential real estate all other	657	—	—	—
Farmland	984	—	—	—
Commercial and agricultural non-real estate	—	515	28,282	760
Consumer non-real estate	—	—	—	127
Other loans	—	23	—	—
Pegasus Bank	1,265	—	—	—
Total collateral-dependent loans held for investment	$ 7,139	$ 538	$ 28,282	$ 887

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:

	Six Months Ended June 30,	
	2020	2019
	(Dollars in thousands)	
Other real estate owned	$ 2,876	$ 2,010
Repossessed assets	722	627
Total	$ 3,598	$ 2,637

(5) INTANGIBLE ASSETS AND GOODWILL

The following is a summary of intangible assets:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(Dollars in thousands)		
As of June 30, 2020			
Core deposit intangibles	$ 35,562	$ (15,453)	$ 20,109
Customer relationship intangibles	3,391	(2,618)	773
Total	$ 38,953	$ (18,071)	$ 20,882
As of December 31, 2019			
Core deposit intangibles	$ 35,856	$ (14,131)	$ 21,725
Customer relationship intangibles	3,391	(2,508)	883
Total	$ 39,247	$ (16,639)	$ 22,608

The following is a summary of goodwill by business segment:

	Metropolitan Banks	Community Banks	Pegasus Bank	Other Financial Services	Executive, Operations & Support	Consolidated
			(Dollars in thousands)			
Six months ended June 30, 2020						
Balance at beginning of period	$ 13,767	$ 59,894	$ 68,855	$ 5,464	$ 624	$ 148,604
Acquisitions	—	1,318	—	—	—	1,318
Balance at beginning and end of period	$ 13,767	$ 61,212	$ 68,855	$ 5,464	$ 624	$ 149,922

The Company acquired Citizens on March 5, 2020, which added $1.3 million in goodwill. 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, 2019.

(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.

Rent expense for all operating leases, including those rented on a monthly or temporary basis totaled approximately $453,000 and $376,000 for the three months ended June 30, 2020 and June 30, 2019, respectively. Rent expense for all operating leases, including those rented on a monthly or temporary basis totaled approximately $916,000 and $767,000 for the six months ended June 30, 2020 and June 30, 2019, respectively.

As of June 30, 2020, right of use lease asset included in accrued interest receivable and other assets on the balance sheet totaled $4.8 million, and a related lease liability included in accrued interest payable and other liabilities on the balance sheet totaled $4.6 million. There have been no significant changes in our expected future minimum lease payments since December 31, 2019. The future minimum lease payments are disclosed in Note (20) to the Company's Annual Report on Form 10-K for the year ended December 31, 2019. As of June 30, 2020, our operating leases have a weighted-average remaining lease term of 3.2 years and a weighted-average discount rate of 3.3 percent.

Maturity of Operating Lease Liabilities

	June 30, 2020
	(Dollars in thousands)
2020 (six months)	$ 782
2021	1,240
2022	993
2023	562
2024	339
Thereafter	1,165
Total lease payments	5,081
Less imputed Interest	(473)
Operating lease liability	$ 4,608

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 balance sheet as premises and equipment. The Company had operating lease revenue of $1.4 million and $1.5 million for the three months ended June 30, 2020 and June 30, 2019, respectively. The Company had operating lease revenue of $2.8 million and $3.1 million for the six months ended June 30, 2020 and June 30, 2019, respectively. Lease revenue is included in occupancy, net on the consolidated statement of comprehensive income.

Future Minimum Lease Payments to be received

The Company does not have operating leases that extend beyond 2030. The following table presents the scheduled minimum future contractual rent to be received under the remaining non-cancelable term of the operating leases:

		June 30, 2020 (Dollars in thousands)
2020 (six months)	$	2,022
2021		3,394
2022		2,810
2023		2,324
2024		1,783
2025-2030		4,496
Total future minimum lease payments	$	16,829

(7) STOCK-BASED COMPENSATION

The Company has had a nonqualified incentive stock option plan (the "BancFirst ISOP") since May 1986. At June 30, 2020, there were 330,000 shares available for future grants. The BancFirst ISOP 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 "BancFirst Directors' Stock Option Plan") since June 1999. Each non-employee director is granted an option for 10,000 shares. At June 30, 2020, there were 30,000 shares available for future grants. The BancFirst Directors' Stock Option 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.

The following table is a summary of the activity under both the BancFirst ISOP and the BancFirst Directors' Stock Option Plan:

	Options	Wgtd. Avg. Exercise Price	Wgtd. Avg. Remaining Contractual Term	Aggregate Intrinsic Value
	(Dollars in thousands, except option data)			
Six Months Ended June 30, 2020				
Outstanding at December 31, 2019	1,257,730	$ 32.70		
Options granted	157,500	49.32		
Options exercised	(26,400)	19.07		
Options canceled, forfeited, or expired	(135,000)	51.56		
Outstanding at June 30, 2020	1,253,830	33.04	8.93 Yrs	$ 9,440
Exercisable at June 30, 2020	697,330	24.13	7.12 Yrs	$ 11,461

The following table has additional information regarding options exercised under both the BancFirst ISOP and the BancFirst Directors' Stock Option Plan:

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	(Dollars in thousands)		(Dollars in thousands)	
Total intrinsic value of options exercised	$ 337	$ 759	$ 726	$ 904
Cash received from options exercised	303	455	504	611
Tax benefit realized from options exercised	86	193	185	230

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)		(Dollars in thousands)	
Stock-based compensation expense	$ 406	$ 367	$ 832	$ 541
Tax benefit	103	94	212	138
Stock-based compensation expense, net of tax	$ 303	$ 273	$ 620	$ 403

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:

	June 30, 2020
	(Dollars in thousands)
Unearned stock-based compensation expense	$ 4,128

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:

	Six Months Ended June 30,	
	2020	2019
Weighted average grant-date fair value per share of options granted	$ 10.63	$ 13.67
Risk-free interest rate	0.66 to 1.13%	2.62 to 2.76%
Dividend yield	2.00%	2.00%
Stock price volatility	22.84 to 33.56%	22.93 to 22.96%
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 "BancFirst Deferred Stock Compensation Plan") since May 1999. As of June 30, 2020, there are 28,582 shares available for future issuance under the BancFirst Deferred Stock Compensation Plan. The BancFirst 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 1,307 and 8,362 shares of common stock distributed from the BancFirst Deferred Stock Compensation Plan during the six months ended June 30, 2020 and June 30, 2019, respectively.

A summary of the accumulated stock units is as follows:

	June 30,	December 31,
	2020	2019
Accumulated stock units	148,550	143,362
Average price	$ 27.85	$ 27.17

(8) 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, 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.

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

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Number of shares repurchased	59,284	—
Average price of shares repurchased	$ 52.26	$ —
Shares remaining to be repurchased	62,782	148,736

The Company, BancFirst and Pegasus Bank 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 the Company's, BancFirst's and Pegasus Bank'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 financial statements. Management believes that as of June 30, 2020, the Company, BancFirst and Pegasus Bank 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
				(Dollars in thousands)				
As of June 30, 2020:								
Total Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	$ 960,793	14.83%	$518,290	8.00%	$ 680,256	10.50%	N/A	N/A
BancFirst	871,013	14.62%	476,462	8.00%	625,357	10.50%	$ 595,578	10.00%
Pegasus Bank	67,867	13.28%	40,893	8.00%	53,672	10.50%	51,116	10.00%
Common Equity Tier 1 Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	$ 853,705	13.18%	$291,538	4.50%	$ 453,504	7.00%	N/A	N/A
BancFirst	776,428	13.04%	268,010	4.50%	416,905	7.00%	$ 387,126	6.50%
Pegasus Bank	63,636	12.45%	23,002	4.50%	35,781	7.00%	33,226	6.50%
Tier 1 Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	$ 879,705	13.58%	$388,718	6.00%	$ 550,683	8.50%	N/A	N/A
BancFirst	796,428	13.37%	357,347	6.00%	506,241	8.50%	$ 476,462	8.00%
Pegasus Bank	63,636	12.45%	30,670	6.00%	43,449	8.50%	40,893	8.00%
Tier 1 Capital								
(to Total Assets)-								
BancFirst Corporation	$ 879,705	9.45%	$372,344	4.00%	N/A	N/A	N/A	N/A
BancFirst	796,428	9.33%	341,272	4.00%	N/A	N/A	$ 426,591	5.00%
Pegasus Bank	63,636	8.34%	30,517	4.00%	N/A	N/A	38,146	5.00%

As of June 30, 2020, the most recent notification from the Federal Reserve Bank of Kansas City and the FDIC categorized BancFirst and Pegasus Bank as "well capitalized" under the prompt corrective action provisions. The Common Equity Tier 1 Capital of the Company, BancFirst and Pegasus Bank 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 the Company, BancFirst and Pegasus Bank 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 notification of BancFirst and Pegasus Bank's capital category that management believes would materially change its category under capital requirements existing as of the report date.

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 the second quarter of 2020 are included in the calculation of the Company's leverage ratio as of June 30, 2020 as the Company did not utilize the PPP Facility for funding purposes.

As discussed in Note 1 - Significant Accounting Policies, in connection with the adoption of ASC 326, the Company recognized an after-tax cumulative effect reduction to retained earnings totaling $2.3 million. In February 2019, the federal bank regulatory agencies issued a final rule (the "2019 CECL Rule") that revised certain capital regulations to account for changes to credit loss accounting under U.S. GAAP. The 2019 CECL Rule included a transition option that allows banking organizations to phase in, over a three-year period, the day-one adverse effects of CECL on their regulatory capital ratios (three-year transition option). In March 2020, the federal bank regulatory agencies issued an interim final rule that maintains the three-year transition option of the 2019 CECL Rule and also provides banking organizations that were required under U.S. GAAP (as of January 2020) to implement CECL before the end of 2020 the option to delay for two years an estimate of the effect of CECL on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period (five-year transition option). The Company elected not to adopt the five-year transition option.

(9) NET INCOME PER COMMON SHARE

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

	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(Dollars in thousands, except per share data)		
Three Months Ended June 30, 2020			
Basic			
Income available to common stockholders	$ 20,730	32,651,262	$ 0.64
Dilutive effect of stock options	—	424,231	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$ 20,730	33,075,493	$ 0.63
Three Months Ended June 30, 2019			
Basic			
Income available to common stockholders	$ 34,167	32,629,146	$ 1.04
Dilutive effect of stock options	—	688,047	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$ 34,167	33,317,193	$ 1.02
Six Months Ended June 30, 2020			
Basic			
Income available to common stockholders	$ 43,338	32,665,425	$ 1.33
Dilutive effect of stock options	—	531,966	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$ 43,338	33,197,391	$ 1.31
Six Months Ended June 30, 2019			
Basic			
Income available to common stockholders	$ 66,004	32,620,819	$ 2.02
Dilutive effect of stock options	—	685,610	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$ 66,004	33,306,429	$ 1.98

The following table shows the number and average exercise price 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:

	Shares
Three Months Ended June 30, 2020	448,016
Three Months Ended June 30, 2019	158,500
Six Months Ended June 30, 2020	424,939
Six Months Ended June 30, 2019	169,301

(10) 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 management judgment or estimation. This category includes certain impaired 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.

Securities Available for Sale

Securities classified as available for sale are reported at fair value. U.S. Treasuries are valued using Level 1 inputs. Other securities available for sale including U.S. federal agencies, registered mortgage backed 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 securities for which observable information is not readily available. These securities are reported at fair value utilizing Level 3 inputs. For these 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 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 securities.

The Company reviews the prices for Level 1 and Level 2 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 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 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.

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:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(Dollars in thousands)		
June 30, 2020				
Securities available for sale:				
U.S. Treasury	$ 512,861	$ —	$ —	$ 512,861
U.S. federal agencies	—	21,181	—	21,181
Mortgage-backed securities	—	16,582	—	16,582
States and political subdivisions	—	41,048	590	41,638
Asset backed securities	—	—	12,714	12,714
December 31, 2019				
Securities available for sale:				
U.S. Treasury	$ 414,449	$ —	$ —	$ 414,449
U.S. federal agencies	—	23,024	—	23,024
Mortgage-backed securities	—	17,005	—	17,005
States and political subdivisions	—	22,531	—	22,531
Asset backed securities	—	—	12,714	12,714

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

	Six Months Ended June 30, 2020	Twelve Months Ended December 31, 2019
	(Dollars in thousands)	
Balance at the beginning of the year	$ 12,714	$ 13,443
Transfers from level 2	1,644	—
Settlements	(1,047)	(695)
Total unrealized losses	(7)	(34)
Balance at the end of the period	$ 13,304	$ 12,714

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 six months ended June 30, 2020, the Company transferred securities from Level 2 to Level 3 due to a review of the pricing models that determined some state and political subdivisions bonds to be Level 3. During the twelve months ended December 31, 2019, the Company did not transfer any securities between levels in the fair value hierarchy.

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. Beginning January 1, 2018, upon adoption of ASU 2016-01, these securities are reported at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The realized and unrealized gains and losses are reported as securities transactions in the noninterest income section of the consolidated statements of comprehensive income.

Collateral dependent loans are reported at the fair value of the underlying collateral if repayment is dependent on liquidation of the collateral. When management 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. The fair value represents end of period values, which approximate fair value measurements that occurred on various measurement dates throughout the period:

	Total Fair Value Level 3 (Dollars in thousands)	
As of and for the Year-to-date Period Ended June 30, 2020		
Equity securities	$	9,373
Collateral dependent loans		21,440
Repossessed assets		264
Other real estate owned		2,215
As of and for the Year-to-date Period Ended December 31, 2019		
Equity securities	$	10,121
Collateral dependent loans		45,687
Repossessed assets		465
Other real estate owned		3,024

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 based on a reasonable estimate of fair value.

Securities Held for Investment

For 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 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

To determine the fair value of loans, 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 including PPP 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.

Long-Term Borrowings

The fair values of fixed-rate long-term borrowings are estimated using rates that would be charged for borrowings of similar remaining maturities.

Junior Subordinated Debentures

The fair values of junior subordinated debentures are estimated using the rates that would be charged for junior subordinated debentures 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:

	June 30, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
FINANCIAL ASSETS				
Level 2 inputs:				
Cash and cash equivalents	$ 1,788,343	$ 1,788,343	$ 1,868,281	$ 1,868,281
Federal funds sold	—	—	1,000	1,000
Securities held for investment	75	78	1,403	1,403
Loans held for sale	21,902	21,902	11,001	11,001
Level 3 inputs:				
Securities held for investment	2,980	2,970	500	500
Loans, net of allowance for credit losses	6,585,454	6,643,225	5,607,905	5,625,005
FINANCIAL LIABILITIES				
Level 2 inputs:				
Deposits	8,486,671	8,503,240	7,483,635	7,497,429
Short-term borrowings	8,100	8,100	1,100	1,100
Long-term borrowings	3,000	2,989	—	—
Junior subordinated debentures	26,804	30,246	26,804	29,324
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS				
Loan commitments		3,140		2,832
Letters of credit		476		485

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 June 30, 2020 or December 31, 2019.

(11) 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 five principal business units are metropolitan banks, community banks, Pegasus Bank, other financial services and executive, operations and support. Metropolitan banks, community banks and Pegasus Bank 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 Bank consists of banking locations in the Dallas 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 four business units are as follows:

	Metropolitan Banks	Community Banks	Pegasus Bank	Other Financial Services	Executive, Operations & Support	Eliminations	Consolidated
	(Dollars in thousands)						
Three Months Ended June 30, 2020							
Net interest income	$ 22,310	$ 43,917	$ 4,976	$ 5,905	$ 100	$ —	$ 77,208
Noninterest income	4,571	13,841	121	9,328	25,774	(21,553)	32,082
Income before taxes	3,613	15,532	1,345	7,786	18,232	(21,202)	25,306
Three Months Ended June 30, 2019							
Net interest income	$ 21,438	$ 44,775	$ —	$ 1,411	$ 1,168	$ —	$ 68,792
Noninterest income	4,635	16,243	—	10,105	37,917	(34,823)	34,077
Income before taxes	14,866	30,041	—	5,572	27,590	(34,241)	43,828
Six Months Ended June 30, 2020							
Net interest income	$ 44,494	$ 88,415	$ 10,584	$ 7,488	$ 300	$ —	$ 151,281
Noninterest income	9,271	29,694	252	20,218	53,257	(45,465)	67,227
Income before taxes	14,026	39,968	2,943	13,545	27,635	(44,561)	53,556
Six Months Ended June 30, 2019							
Net interest income	$ 42,791	$ 88,182	$ —	$ 2,582	$ 2,140	$ —	$ 135,695
Noninterest income	8,844	31,128	—	19,978	73,438	(67,310)	66,078
Income before taxes	30,235	58,086	—	10,071	52,613	(66,163)	84,842
Total Assets:							
June 30, 2020	$3,035,989	$5,703,770	$774,939	$938,034	$248,390	$(1,088,669)	$9,612,453
December 31, 2019	2,806,021	4,998,247	738,351	102,442	950,920	(1,030,223)	8,565,758

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. Capital expenditures are generally charged to the business unit using the asset.

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 June 30,2020 and December 31, 2019 and results of operations for the three and six months ended June 30, 2020 should be read in conjunction with our consolidated financial statements and notes to the financial statements for the year ended December 31, 2019, and the other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. Certain risks, uncertainties and other factors, including those set forth under "Risk Factors" in Part I, Item 1A of the 2019 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 COVID-19 pandemic's adverse effects on us and our customers, employees and third-party service providers; the adverse impacts of the pandemic on our business, financial position, operations and prospects may be material. It is not possible to accurately predict the extent, severity or duration of the pandemic or when normal economic and operation conditions will return.
- The 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, interest rates, energy prices, securities markets and monetary fluctuations.
- The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company must comply.
- Impairment of the Company's goodwill or other intangible assets.
- Changes in consumer spending, borrowing and savings habits.
- Changes in the financial performance and/or condition of the Company's borrowers.
- Technological changes.
- Acquisitions and integration of acquired businesses.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.
- The Company's success at managing the risks involved in the foregoing items.

Actual results may differ materially from forward-looking statements.

THE COVID-19 PANDEMIC

Since the latter half of the first quarter of 2020, the COVID-19 pandemic and actions taken in response to it have negatively impacted the global economy and all financial markets. Since March 31, 2020, these conditions and the related financial impact have continued and, in some cases, worsened. The Company believes that it is premature to determine the magnitude of the impact at this point. Although the Company is not able to estimate the impact of the COVID-19 pandemic and the resultant economic circumstances on a long-term basis at this time, the COVID-19 pandemic could materially affect the Company's financial and operational results. See Item 1.A. Risk Factors for further discussion.

The Company is closely monitoring its loan portfolio for effects related to COVID-19. Since 2014, the oil and gas industry has experienced a sustained downturn due to low oil and gas prices. The unprecedented sharp decline in crude oil prices since February 2020 has negatively impacted the oil and gas industry and the overall economies of our Oklahoma and Dallas, Texas markets and is expected to cause further worsening conditions of energy companies, oilfield services companies, related businesses and overall economic activities in the Company's primary markets. Prolonged or heightened pricing pressure on oil and gas could lead to increased credit stress in the Company's energy portfolio, increased losses associated with that portfolio and weaker demand for energy lending, lower borrowing needs, negative impact on construction and real estate related to energy, and a number of other potential impacts that are difficult to isolate or quantify.

If the negative impacts due to COVID-19 continue coupled with low energy prices, it is possible that the Company's goodwill could become impaired in future periods.

SUMMARY

BancFirst Corporation's net income for the second quarter of 2020 was $20.7 million, compared to $34.2 million for the second quarter of 2019. Diluted net income per common share was $0.63 and $1.02 for the second quarter of 2020 and 2019, respectively. The results for the second quarter of 2020 were negatively impacted by a higher provision for credit losses. The second quarter of 2020 includes the net income of Pegasus Bank in Dallas, Texas, which was acquired on August 15, 2019, and the income and expenses associated with the purchase of certain assets and assumption of certain liabilities on March 5, 2020, from The Citizens State Bank of Okemah.

Net income was $43.3 million, or $1.31 diluted earnings per share, for the six months ended June 30, 2020, compared to net income of $66.0 million, or $1.98 diluted earnings per share, for the six months ended June 30, 2019.

The Company's net interest income for the second quarter of 2020 increased to $77.2 million, compared to $68.8 million for the second quarter of 2019. The net interest margin for the quarter was 3.54%, compared to 3.89% a year ago. The Company's provision for credit losses for the second quarter of 2020 was $19.3 million, compared to $2.4 million a year ago. The increase in the provision related to reserve build up for expected credit losses stemming from the COVID-19 pandemic and low energy prices. The Company had net recoveries for the quarter of less than 0.01% of average loans, compared to net charge-offs of less than 0.01% of average loans for the second quarter of 2019. Noninterest income for the quarter totaled $32.1 million, compared to $34.1 million last year. The decrease in noninterest income is primarily due to a decrease in deposit charges resulting from lower economic activity. Noninterest expense for the quarter totaled $64.7 million, compared to $56.6 million last year. The increase in noninterest expenses was primarily due to salary increases in 2020 related to annual merit increases, acquisition of Pegasus Bank and COVID-19 pandemic related salary expenses. The Company's effective tax rate was 18.1% compared to 22.0% for the second quarter of 2019.

At June 30, 2020, the Company's total assets were $9.6 billion, an increase of $1.0 billion from December 31, 2019. Debt securities of $608.0 million were up $116.4 million from December 31, 2019. Loans totaled $6.7 billion, an increase of $1.0 billion from December 31, 2019. Deposits totaled $8.5 billion, an increase of $1.0 billion from the December 31, 2019 total. The increase in assets, loans and deposits were primarily related to the Paycheck Protection Program (PPP). At June 30, 2020, the balance of the PPP loans was $825.1 million, net of unamortized processing fees of $26.2 million. The Company's total stockholders' equity was $1.0 billion, an increase of $29.2 million over December 31, 2019.

Nonaccrual loans represent 0.74% of total loans at June 30, 2020, up from 0.32% at year-end 2019. The increase in nonaccrual loans was due to further downgrades of energy loans. The allowance to total loans was 1.34% up from 0.96% at year-end 2019. The allowance to nonaccrual loans was 180.89% compared to 301.91% at year-end 2019.

On March 5, 2020, the Company purchased approximately $47.8 million in total assets, which included $22.9 million in loans and assumed approximately $45.0 million in deposits and certain other obligations of The Citizens State Bank of Okemah, Oklahoma "Citizens" for a purchase price of $2.9 million. As a result of the purchase, the Company recorded a core deposit intangible of approximately $206,000 and goodwill of approximately $1.3 million. The effect of this purchase was included in the consolidated financial statements of the Company from the date of purchase forward. The purchase did not have a material effect on the Company's consolidated financial statements. Citizens was an Oklahoma state-chartered bank with banking locations in Okemah and Paden, Oklahoma. These banking locations became branches of BancFirst.

In the first quarter of 2020, the Company repurchased 59,284 shares of its common stock for $3.1 million at an average price of $52.26 per shares under the Company's stock repurchase program.

On August 15, 2019 the Company acquired Pegasus Bank as described in the Company's form 10-K for the year ended December 31, 2019.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

See Note (1) of the Notes to Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

SEGMENT INFORMATION

See Note (11) of the Notes to Consolidated Financial Statements for disclosures regarding business segments.

RESULTS OF OPERATIONS

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Income Statement Data				
Net interest income	$ 77,208	$ 68,792	$ 151,281	$ 135,695
Provision for credit losses	19,333	2,433	38,916	4,117
Securities transactions	(595)	821	(545)	821
Total noninterest income	32,082	34,077	67,227	66,078
Salaries and employee benefits	42,226	36,124	81,982	72,295
Total noninterest expense	64,651	56,608	126,036	112,814
Net income	20,730	34,167	43,338	66,004
Per Common Share Data				
Net income – basic	$ 0.64	$ 1.04	$ 1.33	$ 2.02
Net income – diluted	0.63	1.02	1.31	1.98
Cash dividends	0.32	0.30	0.64	0.60
Performance Data				
Return on average assets	0.88%	1.78%	0.97%	1.74%
Return on average stockholders' equity	7.99	14.54	8.42	14.31
Cash dividend payout ratio	50.00	28.85	48.12	29.70
Net interest spread	3.38	3.29	3.41	3.28
Net interest margin	3.54	3.89	3.68	3.87
Efficiency ratio	59.16	55.03	57.68	55.91
Net charge-offs to average loans	0.00	0.01	0.02	0.01

Net Interest Income

For the three months ended June 30, 2020, net interest income, which is the Company's principal source of operating revenue, increased $8.4 million or 12.2% compared to the three months ended June 30, 2019. Net interest income increased due to loan growth, PPP fee income and the drop in interest rates on deposits. 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 second quarter of 2020 decreased compared to the second quarter of 2019, primarily due to the lower average rates on federal funds and securities during the quarter.

Net interest income for the six months ended June 30, 2020 increased $15.6 million or 11.5% compared to the six months ended June 30, 2019. Net interest income increased due to loan growth, PPP fee income and the drop in interest rates on deposits. As shown in the preceding table, the Company's net interest margin for the six months ended June 30, 2020 decreased compared to the six months ended June 30, 2019, primarily due to the lower average rates on federal funds and securities during the quarter.

Provision for Credit Losses

The Company's provision for credit losses for the second quarter of 2020 was $19.3 million compared to $2.4 million a year ago. The increase in the provision was related to reserve build up for expected credit losses stemming from the COVID-19 pandemic and low energy prices. The Company's provision this quarter is based on a modestly optimistic assumption on the timing of an end to the COVID-19 pandemic, as well as the magnitude of the government's stimulus response to it. To the extent the amount of time the economy remains adversely affected is more extended than the Company's current base projection, the Company will see a continuation of higher than normal provision in future periods. The Company establishes an allowance as an estimate of the expected credit losses in the loan portfolio at the 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 recoveries were $87,000 for the second quarter of 2020, compared to net loan charge-offs of $240,000 for the second quarter of 2019. The rate of net charge-offs to average total loans, as presented in the preceding table, continues to be at a low level.

For the six months ended June 30, 2020, the Company's provision for credit losses was $38.9 million compared to $4.1 million for the six months ended June 30, 2019. Net loan charge-offs were $961,000, compared to $398,000 for the same period of the prior year.

Noninterest Income

Noninterest income, as presented in the preceding table, decreased by $2.0 million for second quarter of 2020 compared to the second quarter of 2019. The decrease in noninterest income is primarily due to a decrease in deposit service charges resulting from lower economic activity and equity security losses. Noninterest income included non-sufficient funds fees totaling $5.0 million and $8.1 million for the three month periods ended June 30, 2020 and 2019, respectively. This represents 15.6% and 23.8% of the Company's noninterest income for the three month periods ended June 30, 2020 and 2019, respectively. In addition, the Company had fees from debit card usage totaling $9.1 million and $8.7 million during the three month periods ended June 30, 2020 and 2019, respectively. This represents 28.5% and 25.6% of the Company's noninterest income for the three month periods ended June 30, 2020 and 2019, respectively.

Noninterest income for the six months ended June 30, 2020 totaled $67.2 million compared to $66.1 million for the six months ended June 30, 2019. The increase in noninterest income was primarily due to growth in debit card usage fees and sweep fees, partially offset by decreased service charges on deposits and equity security losses. Noninterest income included fees from debit card usage totaling $17.3 million and $16.5 million during the six months ended June 30, 2020 and 2019, respectively. This represents 25.7% and 25.0% of the Company's noninterest income for the six month periods ended June 30, 2020 and 2019, respectively. In addition, the Company had non-sufficient fund fees totaling $13.3 million and $15.7 million during the six months ended June 30, 2020 and 2019, respectively. This represents 19.7% and 23.8% of the Company's noninterest income for the six month periods ended June 30, 2020 and 2019, respectively.

The Durbin Amendment is a provision in the larger Dodd-Frank Act that gave the Federal Reserve the authority to establish rates on debit card transactions. The Durbin Amendment aims to control debit card interchange fees and restrict anti-competitive practices. The law applies to banks with over $10 billion in assets and limits these banks on what they charge for debit card interchange fees. Prior to the COVID-19 pandemic, there was no likelihood that the Company would surpass $10 billion in total assets for several years. However, with the CARES Act, including PPP loans, stimulus payments to households, and artificially high household savings rates, our deposits and assets have grown dramatically beyond reasonably foreseeable levels. To the extent the COVID-19 pandemic continues and the government response to it continues on the same or similar basis, the Company has a heightened possibility of exceeding $10 billion in total assets at December 31, 2020. Pursuant to the Durbin amendment of the Dodd-Frank Act, this would trigger an approximate loss of income from debit card interchange fees between $16 and $18 million in subsequent years. The Company is developing strategies to avoid exceeding $10 billion in assets and the loss of interchange income, but the success of these strategies is uncertain.

Noninterest Expense

Noninterest expense as presented in the preceding table, increased by $8.0 million for second quarter of 2020 compared to the second quarter of 2019. The increase in noninterest expenses was primarily due to salary increases in 2020 related to annual merit increases, noninterest expenses of Pegasus Bank and COVID-19 pandemic related salary expenses.

For the six months ended June 30, 2020, noninterest expense increased by $13.2 million compared to the six months ended June 30, 2019. The increase in noninterest expenses was primarily due to salary increases in 2020 related to annual merit increases, pandemic related salary expenses, noninterest expenses of Pegasus Bank and acquisition expenses related to the purchase of assets from Citizens, which were partially offset by a $2.1 million gain on a sale of property carried in other real estate owned.

Income Taxes

The Company's effective tax rate on income before taxes was 18.1% for the second quarter of 2020, compared to 22.0% for the second quarter of 2019. The decrease in the effective tax rate for the second quarter of 2020 was due to a greater effect of tax credits resulting from lower income.

The Company's effective tax rate on income before taxes was 19.1% for the first six months of 2020, compared to 22.2% for the first six months of 2019. The decrease in the effective tax rate for the first six months of 2020 was due to a greater effect of tax credits resulting from lower income.

FINANCIAL POSITION

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

	June 30, 2020 (unaudited)	December 31, 2019
Balance Sheet Data		
Total assets	$ 9,612,453	$ 8,565,758
Total loans (net of unearned interest)	6,696,856	5,673,144
Allowance for credit losses	89,500	54,238
Debt securities	608,031	491,626
Deposits	8,486,671	7,483,635
Stockholders' equity	1,034,199	1,004,989
Book value per share	31.66	30.74
Tangible book value per share (non-GAAP)(1)	26.43	25.50
Balance Sheet Ratios		
Average loans to deposits (year-to-date)	78.82%	76.06%
Average earning assets to total assets (year-to-date)	91.89	92.13
Average stockholders' equity to average assets (year-to-date)	11.46	12.06
Asset Quality Data		
Past due loans	$ 5,382	$ 11,834
Nonaccrual loans (5)	49,477	17,965
Restructured loans	3,213	18,010
Total nonperforming and restructured loans	58,072	47,809
Other real estate owned and repossessed assets	4,948	6,073
Total nonperforming and restructured assets	63,020	53,882
Nonaccrual loans to total loans	0.74%	0.32%
Nonaccrual loans to total Non-PPP loans (non-GAAP)(3)	0.84	0.32
Nonperforming and restructured loans to total loans	0.87	0.84
Nonperforming and restructured loans to total Non-PPP loans (non-GAAP)(3)	0.99	0.84
Nonperforming and restructured assets to total assets	0.66	0.63
Allowance for credit losses to total loans	1.34	0.96
Allowance for credit losses to total Non-PPP loans (non-GAAP)(3)	1.52	0.96
Allowance for credit losses to nonaccrual loans	180.89	301.91
Reconciliation of Tangible Book Value per Common Share (non-GAAP)(2)		
Stockholders' equity	$ 1,034,199	$ 1,004,989
Less goodwill	149,922	148,604
Less intangible assets, net	20,882	22,608
Tangible stockholders' equity (non-GAAP)	$ 863,395	$ 833,777
Common shares outstanding	32,662,691	32,694,268
Tangible book value per share (non-GAAP)	$ 26.43	$ 25.50

(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.

	June 30, 2020	December 31, 2019
Reconciliation of Non-PPP loan ratios (non-GAAP)(4)		
Total Loans	$ 6,696,856	$ 5,673,144
Less PPP loans	825,093	—
Total Non-PPP loans (non-GAAP)	$ 5,871,763	$ 5,673,144
Nonaccrual loans (5)	$ 49,477	$ 17,965
Nonaccrual loans to total Non-PPP loans (non-GAAP)	0.84%	0.32%
Total nonperforming and restructured loans	$ 58,072	$ 47,809
Nonperforming and restructured loans to total Non-PPP loans (non-GAAP)	0.99%	0.84%
Allowance for credit losses	$ 89,500	$ 54,238
Allowance for credit losses to total Non-PPP loans (non-GAAP)	1.52%	0.96%

(3) Refer to the "Reconciliation of Non-PPP loan ratios (non-GAAP)" Table.

(4) Nonaccrual loans to total Non-PPP loans is nonaccrual loans, divided by total loans less Paycheck Protection Program (PPP) loans. Nonperforming and restructured loans to total Non-PPP loans is nonperforming and restructured loans, divided by total loans less PPP loans. Allowance for credit losses to total Non-PPP loans is allowance for credit losses, divided by total loans less PPP loans. These amounts are non-GAAP financial measures but have been included as they are considered critical metrics with which to analyze and evaluate the financial condition and capital strength of the Company. These measures should not be considered substitutes for operating results determined in accordance with GAAP.

(5) Approximately $8 million of nonaccrual loans are guaranteed by government agencies.

Cash and Interest-Bearing Deposits with Banks

The aggregate of cash and due from banks and interest-bearing deposits with banks decreased by $79.9 million or 4.3% to $1.8 billion, from December 31, 2019 to June 30, 2020. As shown on the Company's cash flow statement, the primary use of cash was due to the increase in loans.

Securities

At June 30, 2020, total debt securities increased $116.4 million, or 23.7% compared to December 31, 2019. The size of the Company's securities portfolio is determined by the Company's liquidity and asset/liability management. The net unrealized gain on securities available for sale, before taxes, was $13.0 million at June 30, 2020, compared to a net unrealized gain of $4.6 million at December 31, 2019. These unrealized gains are included in the Company's stockholders' equity as accumulated other comprehensive income, net of income tax, in the amounts of a gain of $9.7 million at June 30, 2020 and a gain of $3.5 million at December 31, 2019. The net unrealized gains increased in 2020 due to the Federal Reserve decreasing interest rates to near zero in March 2020 because of the economic effects of the COVID-19 pandemic. As the effects on the economy due to the COVID-19 pandemic became more apparent late in the first quarter, monetary flows were directed to high quality fixed income instruments such as short-term Treasury securities. Over the six-month period, the yield on the three-year Treasury note decreased 144 basis points with a corresponding increase in valuations.

Loans (Including Acquired Loans)

At June 30, 2020, loans totaled $6.7 billion, an increase of $1.0 billion from December 31, 2019. The increase in loans was primarily related to the PPP, internal growth and the purchase of loans from Citizens. At June 30, 2020, the balance of the PPP loans was $825.1 million, net of unamortized processing fees of $26.2 million. Prolonged low energy prices will not only have a direct impact on the energy portfolio; it will have an indirect effect on the economies of Oklahoma and the Dallas, Texas market, including higher unemployment, with a residual effect on land values and real estate prices. At June 30, 2020, the Company had the following exposures to industries adversely impacted by the COVID-19 pandemic: energy $448.2 million, medical $167.1 million, hotels/motels $130.2 million and restaurants $88.9 million. In total, these industries represented approximately 13% of the loan portfolio.

In addition, due to the impacts of the COVID-19 pandemic, the Company has modified approximately $939.8 million in loans, most of which are secured by commercial real estate. These modifications were undertaken in response to Section 4013 of the CARES Act and the regulatory intent outlined in the Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus and to provide businesses financial flexibility until the economy has time to recover to a more normal level of activity. However, these modifications, which typically involve payment modifications and forbearance, also have the effect of delaying recognition of loans that may ultimately be permanently impaired. Consequently, it is reasonable to expect that when temporary regulatory accounting relief and payment modifications cease, there will be a marked increase in credit deteriorated and restructured loans. The timing and extent of such consequences are impossible to ascertain at this time and are dependent on the duration of the COVID-19 pandemic, the level and success of the government's economic stimulus, and further regulatory guidance.

Allowance for Credit Losses/Fair Value Adjustments on Acquired Loans

On January 1, 2020, the Company adopted ASC 326, which replaces the incurred loss methodology with an expected loss methodology that is referred to as CECL. As a result, the Company recorded a decrease to the allowance for credit losses of $3.2 million at January 1, 2020. At June 30, 2020, the allowance for credit losses to total loans represented 1.34% of total loans, compared to 0.96% at December 31, 2019. The increase in the allowance for credit losses related to reserve build up for expected credit losses stemming from the COVID-19 pandemic and low energy prices.

The fair value adjustment on acquired loans consists of an interest rate component to adjust the effective rates on the loans to market rates and a credit component to adjust for estimated credit exposures in the acquired loans. The interest rate component was $875,000 at June 30, 2020 and $1.7 million at December 31, 2019. The credit component of the adjustment was $4.4 million at June 30, 2020 and $6.8 million at December 31, 2019. These fair value adjustments will be accreted to income over the remaining life of the loans.

Nonaccrual and Restructured Loans

Nonaccrual loans totaled $49.5 million at June 30, 2020, compared to $18.0 million at the end of 2019. The increase in nonaccrual loans was due to further downgrades of energy loans. The Company's nonaccrual loans are primarily commercial and real estate loans. Nonaccrual loans negatively impact the Company's net interest margin. A loan is placed on nonaccrual status when, in the opinion of management, the future collectability of interest or principal or both is in serious doubt. Interest income is recognized on certain of these loans on a cash basis if the full collection of the remaining principal balance is reasonably expected. Otherwise, interest income is not recognized until the principal balance is fully collected. Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately $983,000 for the six months ended June 30, 2020 and $1.0 million for the six months ended June 30, 2019. Only a small amount of this interest is expected to be ultimately collected.

Troubled debt restructured loans totaled $3.2 million at June 30, 2020, compared to $18.0 million at the end of 2019. The decrease in troubled debt restructurings was due primarily to a review of troubled debt restructurings during the period and the related performance of the borrowers. 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.

Other real estate owned and repossessed assets totaled $4.9 million at June 30, 2020, compared to $6.1 million at December 31, 2019.

Potential problem loans are performing loans to borrowers with a weakened financial condition, or which are experiencing unfavorable trends in their financial condition, which causes management to have concerns as to the ability of such borrowers to comply with the existing repayment terms. The Company had approximately $8.0 million of these loans at June 30, 2020, compared to $13.7 million at December 31, 2019. Potential problem loans are not included in nonperforming and restructured loans. In general, these loans are adequately collateralized and have no specific identifiable loss. Loans which are considered to have identifiable loss potential are placed on nonaccrual status, are allocated a specific allowance for loss or are directly charged-down, and are reported as nonperforming.

Liquidity and Funding

Deposits

At June 30, 2020, deposits totaled $8.5 billion, an increase of $1.0 billion or 13.4% from the December 31, 2019 total. The increase in deposits were primarily related to deposits of proceeds from the PPP and inflow of existing customer deposits. The Company's core deposits provide it with a stable, low-cost funding source. The Company's core deposits as a percentage of total deposits were 98.2% at June 30, 2020 and 98.4% at December 31, 2019. Noninterest-bearing deposits to total deposits were 43.7% at June 30, 2020, compared to 39.5% at December 31, 2019.

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 $8.1 million at June 30, 2020, compared to $1.1 million at December 31, 2019.

Long-Term Borrowings

The Company has a line of credit from the Federal Home Loan Bank ("FHLB") of Topeka, Kansas to use for liquidity or to match-fund certain long-term fixed-rate loans. The Company's assets, including residential first mortgages of $839.1 million, are pledged as collateral for the borrowings under the line of credit. As of June 30, 2020 the Company had $3.0 million advanced under the line of credit from FHLB, compared to no advances outstanding as of December 31, 2019. The current $3.0 million advance is for six-months at 0%. In addition, the Company has a revolving line of credit with another financial institution with the ability to draw up to $10.0 million with no advances outstanding. This line of credit has a variable rate based on prime rate minus 25 basis points and matures in the third quarter of 2020.

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, 2019.

Capital Resources

Stockholders' equity totaled $1.0 billion at June 30, 2020, compared to $1.0 billion at December 31, 2019. In addition to net income of $43.3 million, other changes in stockholders' equity during the six months ended June 30, 2020 included $534,000 related to common stock issuances, $832,000 related to stock-based compensation, $2.3 million change in accounting principle related to CECL and a $6.2 million increase in other comprehensive income, that were partially offset by $20.9 million in dividends and $3.1 million in common stock repurchases. The Company's leverage ratio and total risk-based capital ratios at June 30, 2020, were well in excess of the regulatory requirements.

See Note (8) of the Notes to Consolidated Financial Statements for a discussion of capital ratio requirements.

CONTRACTUAL OBLIGATIONS

There have not been any material changes in the resources required for scheduled repayments of contractual obligations from the table of Contractual Cash Obligations 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, 2019.

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

	Three Months Ended June 30,					
	2020			2019		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
ASSETS						
Earning assets:						
Loans (1)	$6,683,576	$ 78,978	4.74%	$5,082,637	$ 71,142	5.61%
Securities – taxable	570,456	2,047	1.44	666,966	3,855	2.32
Securities – tax exempt	34,421	196	2.28	20,215	150	2.97
Federal funds sold and interest-bearing deposits with banks	1,466,634	395	0.11	1,339,375	8,135	2.44
Total earning assets	8,755,087	81,616	3.74	7,109,193	83,282	4.70
Nonearning assets:						
Cash and due from banks	198,495			177,489		
Interest receivable and other assets	607,549			457,888		
Allowance for credit losses	(68,259)			(53,365)		
Total nonearning assets	737,785			582,012		
Total assets	$9,492,872			$7,691,205		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Transaction deposits	$ 774,083	$ 169	0.09%	$ 738,742	$ 659	0.36%
Savings deposits	3,275,394	1,343	0.16	2,637,248	10,424	1.59
Time deposits	700,740	2,238	1.28	678,680	2,719	1.61
Short-term borrowings	4,354	1	0.05	1,859	12	2.67
Long-term borrowings	2,308	—	—	—	—	—
Junior subordinated debentures	26,804	492	7.37	26,804	492	7.37
Total interest-bearing liabilities	4,783,683	4,243	0.36	4,083,333	14,306	1.41
Interest-free funds:						
Noninterest-bearing deposits	3,627,609			2,626,877		
Interest payable and other liabilities	40,911			38,459		
Stockholders' equity	1,040,669			942,536		
Total interest free funds	4,709,189			3,607,872		
Total liabilities and stockholders' equity	$9,492,872			$7,691,205		
Net interest income		$ 77,373			$ 68,976	
Net interest spread			3.38%			3.29%
Effect of interest free funds			0.16%			0.60%
Net interest margin			3.54%			3.89%

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

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

	Six Months Ended June 30,					
	2020			2019		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
ASSETS						
Earning assets:						
Loans (1)	$6,227,038	$ 155,636	5.01%	$5,048,164	$ 140,016	5.59%
Securities – taxable	538,674	4,633	1.72	708,015	8,190	2.33
Securities – tax exempt	25,947	319	2.47	20,850	309	2.99
Federal funds sold and interest-bearing deposits with banks	1,480,203	5,164	0.70	1,306,396	15,885	2.45
Total earning assets	8,271,862	165,752	4.02	7,083,425	164,400	4.68
Nonearning assets:						
Cash and due from banks	195,088			178,808		
Interest receivable and other assets	594,876			454,135		
Allowance for credit losses	(59,887)			(52,674)		
Total nonearning assets	730,077			580,269		
Total assets	$9,001,939			$7,663,694		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Transaction deposits	$ 794,955	$ 684	0.17%	$ 746,205	$ 1,321	0.36%
Savings deposits	3,147,744	7,592	0.48	2,631,540	20,725	1.59
Time deposits	699,280	4,874	1.40	686,627	5,293	1.55
Short-term borrowings	3,401	8	0.46	1,948	22	2.30
Long-term borrowings	1,154	—	—	—	—	—
Junior subordinated debentures	26,804	983	7.35	26,804	983	7.39
Total interest-bearing liabilities	4,673,338	14,141	0.61	4,093,124	28,344	1.40
Interest-free funds:						
Noninterest-bearing deposits	3,257,976			2,603,725		
Interest payable and other liabilities	38,894			37,010		
Stockholders' equity	1,031,731			929,835		
Total interest free funds	4,328,601			3,570,570		
Total liabilities and stockholders' equity	$9,001,939			$7,663,694		
Net interest income		$ 151,611			$ 136,056	
Net interest spread			3.41%			3.28%
Effect of interest free funds			0.27%			0.59%
Net interest margin			3.68%			3.87%

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Except as set forth below, there have been no significant changes in the Registrant's disclosures regarding market risk since December 31, 2019, the date of its most recent annual report to stockholders.

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

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

The ALCO uses gap analysis to monitor interest rate sensitivity based on the maturity and repricing frequencies of its earning assets and interest-bearing liabilities. This analysis indicates that the Company’s position is asset-sensitive, with a positive gap of $170 million for the zero to 12-month interval at June 30, 2020, which was 1.99% of total assets, compared to a positive gap of $172 million for the zero to 12-month interval at December 31, 2019, which was 2.30% of total assets.

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

As of June 30, 2020, the model simulations projected that a 100 and 200 basis point increase would result in positive variance in net interest income of 0.48% and 1.88%, respectively, relative to the base case over the next 12 months.

As of December 31, 2019, the model simulations projected that a 100 and 200 basis point increase would result in positive variance in net interest income of 1.97% and 4.08%, respectively, relative to the base case over the next 12 months. Conversely, the model simulation projected that a decrease in interest rates of 100 basis points would result in a negative variance in net interest income of 2.84% relative to the base case over the next 12 months.

Item 4. Controls and Procedures.

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 Vice President of Corporate Finance, have evaluated, as of the last day of the period covered by this report, the Company’s disclosure controls and procedures. 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.

The adoption of ASC 326 required the implementation of new accounting policies and procedures, including enhancements to our information systems, which changed the Company’s internal controls over financial reporting for the analysis of the allowance for credit losses and related disclosures. Other than the change related to the adoption of ASC 326, there were no changes during the period covered by this Quarterly Report on Form 10-Q in the Company’s internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, those 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.

Except as set forth below, as of June 30, 2020, 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, 2019:

The COVID-19 pandemic has impacted our business, and the ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

With the lack of precedent, we are unable to predict with a high level of confidence how the COVID-19 pandemic will affect our business. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing. As a result, the demand for our products and services may be significantly impacted. Furthermore, the pandemic has influenced and could further influence the recognition of credit losses in our loan portfolios and has increased and could further increase our allowance for credit losses, particularly if businesses remain closed or otherwise adversely affected for an extended period of time, or even permanently. In addition, we are a lender for the Paycheck Protection Program ("PPP") of the Small Business Administration (SBA) and other SBA, Federal Reserve or United States Treasury programs that have been or may be created in the future in response to the pandemic. These programs are new, the terms are subject to political influence and their effects on our business are uncertain. Through June 30, 2020, we approved 8,392 loans totaling approximately $825.1 million, net of unamortized processing fees of $26.2 million. The extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted.

Due to the impacts of the COVID-19 pandemic, the Company has modified approximately $939.8 million in loans, most of which are secured by commercial real estate. These modifications were undertaken in response to Section 4013 of the CARES Act and the regulatory intent outlined in the Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus and to provide businesses financial flexibility until the economy has time to recover to a more normal level of activity. However, these modifications, which typically involve payment modifications and forbearance, also have the effect of delaying recognition of loans that may ultimately be permanently impaired. Consequently, it is reasonable to expect that when temporary regulatory accounting relief and payment modifications cease, there will be a marked increase in credit impairment and restructured loans. The timing and extent of such consequences are impossible to ascertain at this time and are dependent on the duration of the COVID-19 pandemic, the level and success of the government's economic stimulus, and further regulatory guidance.

Prior to the COVID-19 pandemic, there was only a remote likelihood that the Company would surpass $10 billion in total assets for several years. However, with the CARES Act, including PPP loans, stimulus payments to households, and artificially high household savings rates, our deposits and assets have grown dramatically beyond any reasonably foreseeable levels. To the extent the COVID-19 pandemic continues and the government response to it continue in the same or similar manner, the Company has a much heightened possibility of exceeding $10 billion in total assets at December 31, 2020. Pursuant to the Durbin amendment of the Dodd-Frank Act, this would trigger an approximate loss of income from debit card interchange fees between $16 and $18 million in subsequent years. The Company is developing strategies to avoid exceeding $10 billion in assets and the loss of interchange income, but the success of these strategies is uncertain.

Significant uncertainties as to future economic conditions exist, and we have taken deliberate actions in response. Additionally, the economic pressures have contributed to an increased provision for credit losses for the first half of 2020. We continue to monitor the impact of the COVID-19 pandemic closely, as well as any effects that may result from the CARES Act; however, the extent to which the COVID-19 pandemic will impact our operations and financial results during the remainder of 2020 is highly uncertain.

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.

Exhibit Number	Exhibit
2.1	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).
3.1	Amended and Restated By-Laws of BancFirst Corporation (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated March 30, 2015 and incorporated herein by reference).
3.2	Certificate of Amendment of the Third Amended and Restated Certificate of Incorporation of BancFirst Corporation dated May 31, 2017 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated May 31, 2017 and incorporated herein by reference).
4.1	Instruments defining the rights of securities holders (see Exhibits 3.1 and 3.2 above).
4.2	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).
4.3	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).
4.4	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).
4.5	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).
4.6	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).
4.7	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).
4.8	Form of Guarantee Agreement by and between CSB Bancshares, Inc. and Wilmington Trust Company (filed as Exhibit 4.7 to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2015 and incorporated herein by reference).
4.9	Form of Indenture relating to the Floating Rate Junior Subordinated Deferrable Interest Debentures of CSB Bancshares, Inc., issued to Wilmington Trust Company (filed as Exhibit 4.8 to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2015 and incorporated herein by reference).
4.10	Form of First Supplemental Indenture relating to the Floating Rate Junior Subordinated Deferrable Interest Debentures by and between Wilmington Trust Company and BancFirst Corporation (filed as Exhibit 4.9 to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2015 and incorporated herein by reference).
10.1	BancFirst Corporation Employee Stock Ownership and Trust Agreement adopted effective January 1, 2015 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2015 and incorporated herein by reference).
10.2	Amendment Number One to the BancFirst Corporation Employee Stock Ownership Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 26, 2018 and incorporated herein by reference).
10.3	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).
10.4	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).

Exhibit Number	Exhibit
10.5	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).
10.6	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).
10.7	Sixth Amended and Restated BancFirst Corporation Directors' Deferred Stock Compensation Plan (filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2019 and incorporated herein by reference).
10.8	BancFirst Corporation Employee Stock Ownership Plan 2019 Amendment Number One (filed as Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019 and incorporated herein by reference).
10.9	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).
10.10*	Seventh Amended and Restated BancFirst Corporation Non-Employee Directors' Stock Option Plan
10.11*	Sixteenth Amended and Restated BancFirst Corporation Stock Option Plan
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*	Interactive Data File - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document.
104*	Cover page Interactive Data File (formatted as inline XBRL and contained 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: August 7, 2020

/s/ David Harlow
David Harlow
President
Chief Executive Officer
(Principal Executive Officer)

Date: August 7, 2020

/s/ Kevin Lawrence
Kevin Lawrence
Executive Vice President
Chief Financial Officer
(Principal Financial Officer)