PLANETOUT INC
Form 8-K
October 04, 2007

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): September 28, 2007

PlanetOut Inc.
(Exact name of registrant as specified in charter)

Delaware	**000-50879**	**94-3391368**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1355 Sansome Street, San Francisco CA	**94111**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code **(415) 834-6500**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under Exchange Act (17 CFR 240.13e-4(c))

Item 3.03 Material Modification to Rights of Security Holders.

On October 1, 2007, PlanetOut Inc. (the Company) announced that it had filed a certificate of amendment to its amended and restated certificate of incorporation to effect a one-for-ten reverse stock split of its common stock. The reverse stock split was previously approved by the Company s Board of Directors and by the Company s stockholders.

Pursuant to the reverse stock split, each holder of the Company s common stock on October 1, 2007, the date of effectiveness of the reverse stock split, became entitled to receive one new share of common stock in exchange for every ten old shares of common stock held by such stockholder.

No fractional certificates will be issued in connection with the reverse stock split. Stockholders who otherwise would be entitled to receive fractional shares because they hold a number of common stock shares not evenly divisible by ten, upon surrender to the exchange agent of the certificates representing such fractional shares, will instead be entitled to receive cash in an amount equal to the product obtained by multiplying (i) the closing sale price of the Company s common stock on the business day immediately preceding the effective date of the reverse stock split as reported on the Nasdaq Global Market by (ii) the number of shares of the Company s common stock held by the stockholder that would otherwise have been exchanged for the fractional share interest.

The number of shares subject to the Company s outstanding options and warrants will automatically be reduced in the same ratio as the reduction in the outstanding shares. Correspondingly, the per share exercise price of those options and warrants will be increased in direct proportion to the reverse stock split ratio, so that the aggregate dollar amount payable for the purchase of the shares subject to the options and warrants will remain unchanged.

The Company s new CUSIP number is 727058 208. The Company s common stock will trade on the Nasdaq Global Market (Nasdaq) on a post-split basis beginning on October 2, 2007 under the symbol LGBTD until October 29, 2007 and subsequently will resume trading under the symbol LGBT. In connection with the reverse stock split, the Company also adopted a new form of stock certificate, which is attached hereto as an exhibit and is incorporated herein by reference.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On September 28, 2007, the Company s Board of Directors appointed Daniel E. Steimle, 59, as the Company s interim Chief Financial Officer, effective October 1, 2007.

Since 2007, Mr. Steimle has been a member of Tatum, LLC, an executive services firm, prior to which he was with CSL Consulting, a consulting firm, from 2006 to 2007, and again from 2002 to 2004 where he served as acting CFO and in other advisory capacities for several technology companies. From 2004 to 2006, Mr. Steimle served as Vice President, Chief Financial Officer at Turin Networks, Inc., a telecommunications equipment supplier. From 2000 to 2002, Mr. Steimle served as Vice President, Chief Financial Officer for LGC Wireless, Inc., a wireless infrastructure equipment supplier. Prior to that, Mr. Steimle served as Chief Financial Officer and in other financial management positions for several public and private technology companies. Mr. Steimle holds a B.S. in Accounting from Ohio State University and an MBA in Management/Marketing from the University of Cincinnati.

In connection with his appointment, the Company agreed to pay Mr. Steimle a salary in the amount of $23,800 per month. Mr. Steimle is not entitled to any bonuses or equity incentive grants in connection with his employment as an interim Chief Financial Officer. The Company is obtaining the services of Mr. Steimle through an agreement with an executive services firm, pursuant to which such firm will receive specified consideration as Mr. Steimle performs services. A summary of Mr. Steimle s compensation terms is attached hereto as an exhibit and is incorporated herein by reference.

Other than the compensation arrangement described above related to Mr. Steimle s employment by the Company, there are no transactions to which the Company is or is proposed to be a party and in which Mr. Steimle has material interest.

Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

On October 1, 2007, the Company announced that it had filed a certificate of amendment to its amended and restated certificate of incorporation to effect a one-for-ten reverse stock split of its common stock. A complete copy of the Company s amended and restated certificate of incorporation, as so amended, is attached hereto as an exhibit and is incorporated herein by reference. The reverse stock split was previously approved by the Company s Board of Directors and by the Company s stockholders.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit 3.1	Amended and Restated Certificate of Incorporation, as amended by Certificate of Amendment, dated October 1, 2007 and as currently in effect.
Exhibit 4.1	Form of Common Stock Certificate.
Exhibit 99.1	Summary of Compensation Terms for Daniel E. Steimle.

SIGNATURE

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, hereunto duly authorized.

PlanetOut Inc.

Date: October 4, 2007

By: /s/ Karen Magee
Karen Magee
Chief Executive Officer

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560

Other assets

(235
)

(1,442
)
Unpaid losses and loss adjustment expenses

(375
)

4,540

Unearned premiums

10,409

(2,519
)
Reinsurance payable

(14,378
)

(12,853
)
Other liabilities

5,131

5,899

Net cash provided by operating activities

15,050

6,080

INVESTING ACTIVITIES

Proceeds from sales and maturities of investments available for sale

3,097

13,496

Purchases of investments available for sale

(45,421
)

—

Cost of property and equipment acquired

—

(57
)
Cost of capitalized software acquired

(15
)

—

Net cash provided by (used in) investing activities

(42,339
)

13,439

FINANCING ACTIVITIES

Repayments of borrowings	(294)	(4,621)
Bank overdrafts	3,051	(2,813)
Net cash provided by (used in) financing activities	2,757	(7,434)
Increase (decrease) in cash	(24,532)	12,085
Cash and cash equivalents at beginning of period	71,644	27,086
Cash and cash equivalents at end of period	$ 47,112	$ 39,171

Supplemental Cash Flows Information

Cash Paid During The Period:

Interest	$ 165	$ 190

See accompanying notes to unaudited condensed consolidated financial statements.

1) ORGANIZATION AND BUSINESS

We incorporated as FMG Acquisition Corp. (FMG) on May 22, 2007 under Delaware law and became a publicly-traded company during October 2007. We changed our name to United Insurance Holdings Corp. (UIHC) after we merged with United Insurance Holdings, L.C. (UIH) on September 30, 2008.

Through UIH, our wholly-owned subsidiary, and UIH's three wholly-owned subsidiaries, we write and service property and casualty insurance policies in Florida and South Carolina. The three subsidiaries of UIH, each incorporated under Florida law, include United Property and Casualty Insurance Company (UPC), which writes insurance policies; United Insurance Management, L.C. (UIM), the managing general agent that manages substantially all aspects of UPC's business; and Skyway Claims Services, LLC (SCS), a claims adjusting company that provides services to UPC. We operate under one business segment. We believe our holding company structure provides us flexibility to expand our products and services in the future. In January 2011, the state regulatory authority in Massachusetts authorized UPC to write in that state, and UPC has applications pending in four additional states.

UNITED INSURANCE HOLDINGS CORP.
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2011

2) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Presentation and Consolidation

We prepared the accompanying Condensed Consolidated Balance Sheet as of December 31, 2010, which we derived from audited consolidated financial statements, and the unaudited condensed consolidated interim financial statements in accordance with the instructions for Form 10-Q and Article 8 of Regulation S-X. In compliance with those instructions, we have condensed or omitted certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP), though management believes the disclosures made herein are sufficient to ensure that the information presented is not misleading.

Our results of operations and our cash flows as of the end of the interim periods reported herein do not necessarily indicate the results we may experience for the remainder of the year or for any other future period.

While preparing our financial statements, we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Reported amounts that require us to make extensive use of estimates include our reserves for unpaid losses and loss adjustment expenses, reinsurance recoverable, deferred policy acquisition costs, and investments.

We include all of our subsidiaries in our condensed consolidated financial statements, eliminating all significant intercompany balances and transactions during consolidation.

We reclassified certain amounts in the 2010 financial statements to conform to the 2011 presentation. These reclassifications had no impact on our results of operations or stockholders' equity as previously reported.

Management believes our unaudited condensed consolidated interim financial statements include all the normal recurring adjustments necessary to fairly present our Condensed Consolidated Balance Sheet as of March 31, 2011, our Condensed Consolidated Statements of Income and our Condensed Consolidated Statements of Cash Flows for all periods presented. Our unaudited condensed consolidated interim financial statements and footnotes should be read in conjunction with our consolidated financial statements and footnotes included within our Annual Report filed on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K).

b) Significant Accounting Policies

We have made no material changes to our significant accounting policies as reported in our 2010 Form 10-K.

The carrying amounts for the following financial instrument categories approximate their fair values at March 31, 2011 and December 31, 2010 because of their short-term nature: cash and cash equivalents, accrued investment income, premiums receivable, reinsurance recoverable, reinsurance payable, and accounts payable and accrued expenses. The carrying amounts of notes receivable and notes payable also approximate their fair values, as the interest rate on the note payable is variable and the note receivable, which we recorded at fair value using a discounted cash flow methodology, is due in three years.

3) RECENTLY ADOPTED ACCOUNTING STANDARDS

ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures About Fair Value Measurements, added new disclosures related to activity in investments that require Level 3 inputs to estimate their fair value. We adopted the additional disclosure required by ASU No. 2010-06 on January 1, 2011; however, since we do not generally maintain investments that require Level 3 inputs to estimate fair value, our adoption of this portion of ASU No. 2010-06 did not have a material effect on our consolidated financial statements.

In October 2010, the FASB issued ASU No. 2010-26, Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The amendments in ASU No. 2010-26 address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral; they clarify which costs should be deferred and which costs should be expensed when incurred. The amendments in ASU No. 2010-26 become effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Since we already record deferred acquisition costs as specified by the amendments, we do not expect that our adoption of ASU No. 2010-26 will have a material effect on our consolidated financial statements.

4) INVESTMENTS

The following table details the difference between cost or amortized cost and estimated fair value, by major investment category, at March 31, 2011, and December 31, 2010:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2011				
U.S. government and agency securities	$42,922	$94	$149	$42,867
States, municipalities and political subdivisions	13,298	28	252	13,074
Corporate securities	36,269	63	284	36,048
Redeemable preferred stocks	809	—	31	778
Total fixed maturities	93,298	185	716	92,767
Common stocks	2,964	237	87	3,114
Nonredeemable preferred stocks	605	—	33	572
Total equity securities	3,569	237	120	3,686
Other long-term investments	300	—	—	300
Total investments	$97,167	$422	$836	$96,753
December 31, 2010				
U.S. government and agency securities	$32,841	$119	$65	$32,895
States, municipalities and political subdivisions	13,305	10	336	12,979
Corporate securities	4,029	18	—	4,047
Redeemable preferred stocks	809	—	47	762
Total fixed maturities	50,984	147	448	50,683
Common stocks	3,061	47	60	3,048
Nonredeemable preferred stocks	605	—	38	567
Total equity securities	3,666	47	98	3,615
Other long-term investments	300	—	—	300
Total investments	$54,950	$194	$546	$54,598

When we sell investments, we calculate the gain or loss realized on the sale by comparing the sales price (fair value) to the cost, amortized cost or adjusted cost of the security sold. We determine the cost or amortized cost of the security sold using the specific-identification method. We had no realized gains or realized losses during the three months ended March 31, 2011. For the three months ended March 31, 2010, we incurred realized losses of $14, all related to fixed maturities having an aggregate fair value of $6,996 at the time we sold them.

The states in which we operate require us, by statute, to maintain deposits to secure the payment of claims. In Florida, we have assigned a twelve-month, automatically renewing certificate of deposit in the amount of $300 to the state regulatory authority to satisfy the Florida requirement. In South Carolina, we have assigned a U.S. Treasury Note with a book value of $1,005 and a fair value of $1,007 to the state regulatory authority to satisfy the requirement. We report the certificate of deposit in other long-term investments, while we report the U.S. Treasury Note in fixed maturities. To obtain the approval of our application to write policies in Massachusetts, we purchased a Massachusetts municipal bond with a par value of $1,000 and assigned a tranche with a $100 par value to the state regulatory authority during 2010. At March 31, 2011, the book value of the assigned tranche was $104 and the fair value was $99.

The table below summarizes our fixed maturities at March 31, 2011, by contractual maturity periods. Actual results may differ as issuers may have the right to call or prepay obligations, with or without penalties, prior to the contractual maturity of those obligations.

	March 31, 2011	
	Cost or Amortized Cost	Fair Value
Due in one year or less	$3,821	$3,796
Due after one year through five years	59,481	59,331
Due after five years through ten years	17,972	17,788
Due after ten years	12,024	11,852
Total	$93,298	$92,767

The following table summarizes our net investment income by major investment category:

	Three Months Ended March 31,	
	2011	2010
Fixed maturities	$494	$963
Equity securities	36	48
Cash, cash equivalents and short-term investments	4	37
Net investment income	534	1,048
Investment expenses	(60)	(73)
Net investment income, less investment expenses	$474	$975

The following table presents an aging of our unrealized investment losses by investment class:

	Less Than Twelve Months			Twelve Months or More		
	Number of Securities*	Gross Unrealized Losses	Fair Value	Number of Securities*	Gross Unrealized Losses	Fair Value
March 31, 2011						
U.S. government and agency securities	18	$149	$21,616	—	$—	$—
States, municipalities and political subdivisions	10	252	8,981	—	—	—
Corporate securities	27	284	29,751	—	—	—
Redeemable preferred stocks	—	—	—	6	31	778
Total fixed maturities	55	685	60,348	6	31	778
Common stocks	11	46	397	4	41	501
Nonredeemable preferred stocks	—	—	—	4	33	572
Total equity securities	11	46	397	8	74	1,073
Total	66	$731	$60,745	14	$105	$1,851
December 31, 2010						
U.S. government and agency securities	7	$65	$9,611	—	$—	$—
States, municipalities and political subdivisions	13	336	11,951	—	—	—
Corporate securities	—	—	—	—	—	—
Redeemable preferred stocks	—	—	—	6	47	763
Total fixed maturities	20	401	21,562	6	47	763
Common stocks	19	17	810	4	43	423
Nonredeemable preferred stocks	—	—	—	4	38	567
Total equity securities	19	17	810	8	81	990
Total	39	$418	$22,372	14	$128	$1,753

* This amount represents the actual number of discrete securities, not the number of shares of those securities. The number is not presented in thousands.

During the three-month periods ended March 31, 2011 and March 31, 2010, we did not record any other-than-temporary impairment (OTTI) charges. We have never recorded an OTTI charge on our debt-security investments.

During our first quarter 2011 evaluations of our securities for impairment, we determined that none of our investments in debt and equity securities that reflected an unrealized loss position were other-than-temporarily impaired. The issuers of our debt securities continue to make interest payments on a timely basis and have not suffered any credit rating reductions. We do not intend to sell nor is it likely that we would be required to sell the debt securities before we recover our amortized cost basis. All the issuers of the equity securities we own had promising near-term prospects that indicated we could recover our cost basis, and that we also have the ability and the intent to hold these securities until their value exceeds their cost.

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The following table presents the fair value measurements of our financial instruments by level at March 31, 2011:

March 31, 2011	Total	Level 1	Level 2	Level 3
U.S. government and agency securities	$42,867	$—	$42,867	$—
States, municipalities and political subdivisions	13,074	—	13,074	—
Corporate securities	36,048	—	36,048	—
Redeemable preferred stocks	778	778	—	—
Total fixed maturities	92,767	778	91,989	—
Common stocks	3,114	3,114	—	—
Nonredeemable preferred stocks	572	572	—	—
Total equity securities	3,686	3,686	—	—
Other long-term investments	300	300	—	—
Total investments	$96,753	$4,764	$91,989	$—
December 31, 2010				
U.S. government and agency securities	$32,895	$—	$32,895	$—
States, municipalities and political subdivisions	12,979	—	12,979	—
Corporate securities	4,047	—	4,047	—
Redeemable preferred stocks	762	762	—	—
Total fixed maturities	50,683	762	49,921	—
Common stocks	3,048	3,048	—	—
Nonredeemable preferred stocks	567	567	—	—
Total equity securities	3,615	3,615	—	—
Other long-term investments	300	300	—	—
Total investments	$54,598	$4,677	$49,921	$—

For our investments in U.S. government securities that do not have prices in active markets, agency securities, state and municipal governments, and corporate bonds, we obtain the fair values from Synovus Trust Company, NA, which uses a third-party valuation service. In our case, the valuation service calculates prices for our investments in the aforementioned security types on a month-end basis by using several matrix-pricing methodologies that incorporate inputs from various sources. The model the valuation service uses to price U.S. government securities and securities of states and municipalities incorporates inputs from active market makers and inter-dealer brokers. To price corporate bonds and agency securities, the valuation service calculates non-call yield spreads on all issuers, uses option-adjusted yield spreads to account for any early redemption features, then adds final spreads to the U.S. Treasury curve at 3 p.m. (ET) as of quarter end. A special cash-discounting yield/price routine then calculates the prices. Since the inputs the valuation service uses in their calculations are not quoted prices in active markets, but are observable inputs, they represent Level 2 inputs.

5) EARNINGS PER SHARE

We have 7,077,375 warrants outstanding and each warrant can be exercised for one share of common stock. For the three months ended March 31, 2011 and 2010, the warrants were anti-dilutive; therefore, we did not include the shares associated with the warrants when we calculated the diluted weighted-average shares outstanding.

During 2010 we had 350,000 unit purchase options outstanding; each unit consisted of a share of common stock and a warrant to purchase a share of common stock. On October 4, 2010, the unit purchase option expired.

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6) REINSURANCE

We follow industry practice of reinsuring a portion of our risks. Reinsurance involves transferring, or “ceding”, all or a portion of the risk exposure on policies we write to another insurer, known as a reinsurer. To the extent that our reinsurers are unable to meet the obligations they assume under our reinsurance contracts, we remain liable for the entire insured loss.

Our catastrophe reinsurance contracts provide us coverage against severe weather events. We entered into excess-of-loss contracts with a group of private reinsurers and with the Florida Hurricane Catastrophe Fund. The private contracts provide coverage against severe weather events such as hurricanes, tropical storms and tornadoes. The contract with the FHCF only provides coverage against storms that the National Hurricane Center designates as a hurricane at landfall. We made no changes to the terms of our current reinsurance contracts as we disclosed those terms in our 2010 Form 10-K.

For the Garage program that we discontinued as of May 31, 2009, we entered into quota share reinsurance contracts for policy years prior to the 2009-2010 policy year, but we did not enter into any new quota share contracts after July 31, 2009. We recognized commission revenue on our previous quota share contracts totaling $30 for the three-month period ended March 31, 2010.

We write flood insurance under contract with the National Flood Insurance Program. We cede 100% of the premiums written and the related risk of loss. We earn commissions for the issuance of flood policies based upon a fixed percentage of net written premiums and the processing of flood claims based upon a fixed percentage of incurred losses, and we can earn additional commissions by meeting certain growth targets for the number of in-force policies. We recognized commission revenue from our flood program of $81 and $234 for the three-month periods ended March 31, 2011 and 2010.

We amortize our prepaid reinsurance premiums over the annual contract period, and we record that amortization in Ceded Premiums Earned on our unaudited Condensed Consolidated Statements of Income. The table below summarizes the amounts of our ceded premiums written under the various types of contracts, as well as the amortization of prepaid reinsurance premiums:

	Three Months Ended March 31,	
	2011	2010
Excess-of-loss	$953	$243
Quota share	(112)	9
Flood	(2,079)	(1,777)
Ceded premiums written	$(1,238)	$(1,525)
Increase (decrease) in ceded unearned premiums	(20,020)	(21,868)
Ceded premiums earned	(21,258)	(23,393)

During the three-month periods ended March 31, 2011, and 2010, we recognized recoveries totaling $1,172 and $1,341, respectively, under our reinsurance agreements.

7) POLICY ASSUMPTIONS

We are not a reinsurance entity; however, we occasionally supplement the natural growth of our book of business by assuming policies.

We conducted three policy assumptions under a 2008 assumption agreement with Citizens Property Insurance Corporation that terminated during the first quarter of 2010. For the three-month periods ended March 31, 2010, we recorded $(17) of written premium assumed and $23 of assumed commissions incurred on those policies.

On July 1, 2010, we assumed all of Sunshine State Insurance Company's in-force homeowners policies in South Carolina. Unlike the assumptions we made from Citizens, policyholders cannot "opt out" of our assumption from Sunshine State. For the

right to assume and renew their in-force homeowners policies in South Carolina, we agreed to pay Sunshine State $300, plus as much as an additional $700 depending upon the renewal rate of the policies we assumed. Based on an analysis of our historical renewal rates for similar policies, we initially recorded an intangible asset of $860, representing the amount we ultimately expected to pay Sunshine State for the renewal right. At March 31, 2011, we made no change to the $839 value of the intangible asset after our quarterly evaluation of renewal rates indicated that the actual renewal rate had not materially changed from what we estimated at the end of 2010. We determined that we will amortize the intangible asset over five years, representing the amount of time we expect the assumed policies to provide us a benefit. During the the three months ended March 31, 2011, we recorded amortization totaling $73.

On March 8, 2011, we assumed 5,912 policies from Citizens, representing in-force premium totaling approximately $10,556 under a new assumption agreement. We recorded approximately $6,002 of written premium assumed, as well as approximately $105 of assumed commissions incurred. The amount of written premium assumed and assumed commissions expense we record related to our policy assumptions from Citizens can be affected by policyholder “opt-outs”, policy endorsements and cancellations; however, under current regulations, policyholders have more limited conditions under which they can opt-out when compared to previous assumption programs. As was the case with the assumptions we conducted under the 2008 assumption agreement with Citizens, this current assumption agreement does not allow for any bonuses related to policies assumed.

8) LONG-TERM DEBT

Our long-term debt at March 31, 2011 consists of the note payable to the Florida State Board of Administration described in Note 12(a) in the Notes to Consolidated Financial Statements presented in our 2010 Form 10-K. As of March 31, 2011 and December 31, 2010, we owed $17,941 and $18,235, respectively, on the note, and the interest rate was 3.63% and 2.77%, respectively. All other terms and conditions of the note remain as described in our 2010 Form 10-K.

9) COMMITMENTS AND CONTINGENCIES

a) Litigation

We are involved in claims-related legal actions arising in the ordinary course of business. We accrue amounts resulting from claims-related legal actions in unpaid losses and loss adjustment expenses during the period that we determine an unfavorable outcome becomes probable and we can estimate the amounts. Management makes revisions to our estimates based on its analysis of subsequent information that we receive regarding various factors, including: (i) per claim information; (ii) company and industry historical loss experience; (iii) judicial decisions and legal developments in the awarding of damages, and (iv) trends in general economic conditions, including the effects of inflation. We are not currently involved in any material non-claims-related litigation.

On August 5, 2010, Synovus Bank (Synovus), a Georgia banking corporation filed a lawsuit in the Circuit Court of the Sixth Judicial Circuit in and for Pinellas County, Florida against several defendants, including UIHC and UIH. With respect to UIHC and UIH, the complaint: (1) sought to foreclose on a security interest in membership units of UIH owned by a UIH shareholder named as a defendant, including the proceeds thereof (the United Collateral), (2) sought a declaratory judgment requiring UIHC and UIH to deliver proceeds of the United Collateral to Synovus (including shares of UIHC and warrants to purchase shares of UIHC or the equivalent value thereof in cash, and a

cash distribution), (3) alleged tortious interference with a contract between the UIH shareholder named as a defendant and Synovus relating to the United Collateral, (4) sought conversion of the United Collateral, and (5) alleged negligence in connection with the delivery of the United Collateral. Synovus sought unspecified damages and other relief in connection with the foregoing.

On January 3, 2011, Synovus Bank voluntarily dismissed its case without prejudice against UIH and UIHC. We did not establish any reserves regarding this action because we were not able to predict the probable outcome of the action.

b) Other

Our note payable, as amended, requires us to meet certain covenants, the violation of which could cause an event of default. Among others, these covenants include maintaining statutory surplus in UPC equal to or greater than $50,000 less repayments of principal on the note and less payments of catastrophic losses, refraining from the payment of dividends when principal and/or interest payments related to the note are past due, and maintaining a minimum writing ratio. We contributed $4,865 of capital to UPC during 2010. We were in compliance with the terms of the covenants at March 31, 2011.

UNITED INSURANCE HOLDINGS CORP.
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2011

10) RELATED PARTY TRANSACTIONS

Effective October 8, 2003, we entered into an investment-management agreement with Synovus Trust Company, NA. The agreement remains in effect until terminated by either party. Synovus Financial Corporation (Synovus) owns Synovus Trust, which provides investment-management services for the investment accounts of our subsidiaries. Synovus owned 14.6% of our common stock outstanding at March 31, 2011. Our subsidiaries incurred combined fees under the agreement of $47 and $59 for the three-month periods ended March 31, 2011 and 2010, respectively.

In February 2010, we paid the remaining principal balance of $4,327 to Columbus Bank & Trust, a bank owned by Synovus. Under the loan agreement, we incurred interest of $19 for the three-month period ended March 31, 2010. CB&T charged us standard industry interest rates.

On September 29, 2008, we issued notes payable to two of our former stockholders as well as a note payable to United Noteholders, LLC, which is owned in part by one of our directors and is managed by two of our other directors. All three notes were part of the note agreement we entered into on August 15, 2008, with various accredited investors. For the three-month period ended March 31, 2010, total interest incurred related to these notes was $222, and total discount amortized related to these notes was $49. We paid these notes in full on May 5, 2010.

Our Chairman of the Board is also a director of Prime Holdings Insurance Services, Inc. On May 4, 2010, we received the final payment of $402 on the note receivable from Prime.

Effective March 30, 2011, UPC purchased $2,250 of up to $3,000 aggregate principal amount of promissory notes offered by Hamilton Risk Management Co., a Florida corporation engaged in the business of providing automobile insurance in Florida through its wholly-owned subsidiaries. The HRM notes bear interest at the rate of two percent per annum. All outstanding principal of and interest on the HRM notes is due on March 30, 2014. In consideration for its purchase of the HRM notes, UPC received a Class A limited partnership interest in Acadia Acquisition Partners, L.P., the parent company of Hamilton Risk Management. After repayment of approximately $18,000 of indebtedness of Hamilton Risk Management, which includes the HRM notes, and distributions to partners for payment of taxes on profits of the partnership, the limited partners of Acadia Acquisition Partners may receive operating

distributions from the partnership. Our director, James R. Zuhlke, is acting as Executive Chairman of Hamilton Risk Management on an interim basis for which he will receive consulting fees. Our director, Larry G. Swets, Jr. is one of two managers of the limited liability company that serves as general partner of Acadia Acquisition Partners. Mr. Swets will not receive compensation for acting as a manager of the general partner absent the written consent of its sole member, Kingsway America Inc. Mr. Swets serves as President, Chief Executive Officer and a director of Kingsway America Inc., a wholly owned subsidiary of Kingsway Financial Services, Inc. Kingsway America Inc. owns a Class B limited partnership interest in Acadia Acquisition Partners and is the sole member of the general partner of Acadia Acquisition Partners. We bifurcated the cash consideration of $2,250 by allocating $1,948 to the note receivable based on its fair value (using a discounted cash flow model) and allocating the residual amount of $302 to our limited partnership interest. We will amortize the discount on the note using the effective interest method over the three-year life of the note.

11) REGULATORY REQUIREMENTS AND RESTRICTIONS

The insurance industry is heavily-regulated. State laws and regulations, as well as national regulatory agency requirements, govern the operations of all insurers such as UPC. The various laws and regulations require that insurers maintain minimum amounts of statutory surplus and risk-based capital, they restrict insurers' ability to pay dividends, they specify allowable investment types and investment mixes, and they subject insurers to assessments. At March 31, 2011, UPC met all regulatory

requirements of the states in which it operates, and it did not incur any assessments during the three-month period ended March 31, 2011.

The National Association of Insurance Commissioners published risk-based capital standards for insurance companies that are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policyholders. Most states, including Florida, have adopted the NAIC standards, and insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. State regulatory authorities could require an insurer to cease operations in the event the insurer fails to maintain the required statutory capital.

Florida law permits an insurer to pay dividends or make distributions out of that part of statutory surplus derived from net operating profit and net realized capital gains. The law further provides calculations to determine the amount of dividends or distributions that can be made without the prior approval of the state regulatory authority and the amount of dividends or distributions that would require prior approval of the regulatory authority. Statutory risk-based capital requirements may further restrict UPC's ability to pay dividends or make distributions if the amount of the intended dividend or distribution would cause statutory surplus to fall below minimum risk-based capital requirements.

Because UPC issued a surplus note as defined by statutory accounting principles , UPC is subject to the authority of the Insurance Commissioner of the State of Florida with regard to its ability to repay principal and interest on the surplus note. Any payment of principal or interest requires permission from the state regulatory authority. We remitted principal payments totaling $294 during the three-month period ended March 31, 2011.

Our insurance subsidiary's assets, liabilities and results of operations have been reported in accordance with GAAP, which varies from statutory accounting prescribed or permitted by the NAIC, state laws and regulations, as well as by general industry practices. The following items are principal differences between statutory accounting and GAAP:

- Statutory accounting requires that we exclude certain assets, called non-admitted assets, from the balance sheet.
- Statutory accounting requires us to expense policy acquisition costs when incurred, while GAAP allows us to defer and amortize policy acquisition costs over the estimated life of the policies.
- Statutory accounting requires that we calculate deferred income taxes differently than we would under GAAP.
- Statutory accounting requires that certain investments be recorded at cost or amortized cost, while other investments are recorded at fair value; however, GAAP requires all investments to be reported at fair value.
- Statutory accounting requires that surplus notes, also known as surplus debentures, be recorded in statutory surplus, while GAAP requires us to record surplus notes as a liability.

Our insurance subsidiary must file with applicable state insurance regulatory authorities an "Annual Statement" which reports, among other items, net income (loss) and surplus as regards policyholders, which is called stockholder's equity under GAAP. Surplus as regards policyholders was $48,196 and $48,495 at March 31, 2011 and December 31, 2010, respectively. Statutory net loss at our insurance subsidiary was $1,001 and $4,953 for the three months ended March 31, 2011 and 2010, respectively.

UNITED INSURANCE HOLDINGS CORP.
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2011

12) ACCUMULATED OTHER COMPREHENSIVE INCOME

We report changes in other comprehensive income items within comprehensive income on the Condensed Consolidated Statements of Income, and we include accumulated other comprehensive income as a component of stockholders' equity on the Condensed Consolidated Balance Sheets.

The table below details the components of accumulated other comprehensive income at March 31, 2011:

	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount
Balance at December 31, 2010	$(352)	$136	$(216)
Changes in net unrealized loss on investments	(62)	23	$(39)
Balance at March 31, 2011	(414)	159	(255)

13) EQUITY TRANSACTIONS

On March 25, 2010, our Board of Directors declared a $0.05 per share dividend. We paid the $529 dividend on April 15, 2010 to shareholders of record on March 31, 2010.

14) SUBSEQUENT EVENTS

We evaluate all subsequent events and transactions for potential recognition or disclosure in our financial statements. No matters require disclosure.

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

FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q as of March 31, 2011, and for the three-month period ended March 31, 2011 (Form 10-Q) or in documents that are incorporated by reference that are not historical fact are "forward-looking statements" within the meaning of the Private Securities Reform Litigation Act of 1995. These forward-looking statements include statements about anticipated growth in revenues, earnings per share, estimated unpaid losses and loss adjustment expenses (unpaid losses) on insurance policies, investment returns and expectations about our liquidity. These statements are based on current expectations, estimates and projections about the industry and market in which we operate, and management's beliefs and assumptions. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "would," "estimate," or "continue negative other variations thereof or comparable terminology are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. The risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions and projections relating to unpaid losses and other accounting policies, losses and loss adjustment expenses (losses) and in other estimates, assumptions and projections contained in this Form 10-Q; inflation and other changes in economic conditions (including changes in interest rates and financial markets); the impact of new regulations adopted in Florida which affect the property and casualty insurance market; the costs of reinsurance; assessments charged by various governmental agencies; pricing competition and other initiatives by competitors; our ability to obtain regulatory approval for requested rate changes and the timing thereof; legislative and regulatory developments; the outcome of litigation pending against us, including the terms of any settlements; risks related to the nature of our business; dependence on investment income and the composition of our investment portfolio; the adequacy of our liability for losses and loss adjustment expense; insurance agents; claims experience; ratings by industry services; catastrophe losses; our ability to maintain compliance with financial covenants in our debt agreements; reliance on key personnel; weather conditions (including the severity and frequency of storms, hurricanes, tornadoes and hail); and acts of war and terrorist activities. For additional information, see "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K) filed with the Securities and Exchange Commission (SEC) on March 17, 2011.

We caution you not to place reliance on these forward-looking statements, which are valid only as of the date in this report. We undertake no obligation to update or revise any forward-looking statements to reflect new information or the occurrence of unanticipated events or otherwise. In addition, we prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP); which prescribes when we may reserve for particular risks, including litigation exposures. Accordingly, our results for a given reporting period could be significantly affected if and when we establish a reserve for a major contingency. Therefore, the results we report in certain accounting periods may appear to be volatile.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

When we prepare our condensed consolidated financial statements and accompanying notes in conformity with GAAP, we must make estimates and assumptions about future events that affect the amounts we report. We continuously evaluate these estimates and assumptions based on a variety of factors; therefore, actual results could be materially different than our estimates and assumptions if changes in one or more factors require us to make accounting adjustments. During the three-month period ended March 31, 2011, we reassessed our critical accounting policies and estimates as disclosed within our 2010 Form 10-K; we have made no material changes or additions with

regard to such policies and estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2010, the FASB issued ASU No. 2010-26, Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The amendments in ASU No. 2010-26 address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral; they clarify which costs should be deferred and which costs should be expensed when incurred. The amendments in ASU No. 2010-26 become effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Since we already record deferred acquisition costs as specified by the amendments, we do not expect that our adoption of ASU No. 2010-26 will have a material effect on our consolidated financial statements.

OUR BUSINESS

Through UIH, our wholly-owned subsidiary, and UIH's three wholly-owned subsidiaries, we write and service property and casualty insurance policies in Florida and South Carolina. The three subsidiaries of UIH, each incorporated under Florida law, include United Property and Casualty Insurance Company (UPC), which writes insurance policies; United Insurance Management, L.C. (UIM), the managing general agent that manages substantially all aspects of UPC's business; and Skyway Claims Services, LLC (SCS), a claims adjusting company that provides services to UPC.

We offer standardized policies for a broad range of exposures, and our policies include coverage options for standard single-family homeowners, tenants (renters), and condominium unit owners. We also write flood policies, on which we earn a commission while retaining no risk of loss, in all states in which we write our other products.

Though we have authorization to write a commercial line of business in Florida that includes auto and multi-peril coverage, we do not currently write such policies.

Effective June 1, 2010, the South Carolina state regulatory authority approved UPC to write and service property and casualty lines in South Carolina. On July 1, 2010, we began writing our policies in South Carolina, and we also assumed a book of business from Sunshine State Insurance Company representing $5,294 of in-force homeowner premium in South Carolina. We began operating in South Carolina so that we could begin to reduce our geographic concentration of exposure to catastrophic losses, and the assumption from Sunshine State and subsequent renewals of South Carolina policies will also reduce our geographic concentration of credit risk.

To reach a broad range of prospective policyholders, we use numerous agents to produce policies for us, and we also assume policies from Citizens Property Insurance Corporation. We refer to policies produced by our agents as direct policies or direct business. Direct policies and policies assumed from Sunshine State represent 81% of our homeowner policies in force at March 31, 2011, and we assumed the remaining 19% from Citizens under various assumption programs. At March 31, 2011, we had approximately 89,000 homeowner policyholders.

On January 6, 2011, the Massachusetts state regulatory authority approved UPC to write and service property and casualty lines in Massachusetts. We are currently making preparations to begin writing policies in Massachusetts during the fourth quarter of 2011.

The Florida state regulatory authority recently approved UPC's application for an average 15.9% rate increase that we expect to implement on Florida policies during the second quarter of 2011. Applying a rate increase to all policies that were in force on the date the increase became effective takes as long as a year, and then we must recognize the increased premium pro rata over 12 months; therefore, rate increases may take as long as two years to fully impact net income. The rate increases we implemented in September 2009 and March 2010 have now been applied to all policies in force, but their effect will continue to impact earned premium into the first quarter of 2012.

On March 8, 2011, we assumed 5,912 policies from Citizens, representing in-force premium totaling approximately $10,556 under a new assumption agreement. We recorded approximately $6,002 of written premium assumed, as well as approximately $105 of assumed commissions incurred. As was the case with the assumptions we conducted under the 2008 assumption agreement with Citizens, this current assumption agreement does not allow for any bonuses related to policies assumed.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our accompanying unaudited condensed consolidated interim financial statements and related notes, and in conjunction with the section entitled MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS included within our 2010 Form 10-K.

ANALYSIS OF FINANCIAL CONDITION FOR MARCH 31, 2011 AND DECEMBER 31, 2010

Total Investments

We classify all of our investments as available-for-sale. Our investments at March 31, 2011 and at December 31, 2010 consist mainly of U.S. government and agency securities and securities of high-quality corporate issuers. Most of the corporate bonds we hold were issued by companies in the energy, consumer products, healthcare, technology and telecommunications industries. At March 31, 2011, approximately 98% of our fixed maturities are U.S. Treasuries or corporate bonds rated “A” or better and 2% are corporate bonds rated “BBB”. Our equity holdings reflect a similar diversification, as most of our holdings were issued by companies in the energy, healthcare, industrial, utilities, consumer products and technology sectors.

At March 31, 2011, our investment portfolio reflected $414 of net unrealized losses compared to $352 of net unrealized losses at December 31, 2010. See Note 4 for more detailed information regarding the composition of our unrealized gains and unrealized losses. We evaluated all securities in an unrealized loss position using the criteria discussed in Note 3(b) in the Notes to Consolidated Financial Statements in our 2010 Form 10-K and we determined that none were other-than-temporarily impaired at March 31, 2011.

As required by various state regulatory authorities, we have placed securities on deposit with those regulatory authorities to secure the payment of our claims. We placed a $300 certificate of deposit, which automatically renews every twelve months and which we recorded in our other long-term investments at March 31, 2011 and December 31, 2010, on deposit with the Florida state regulatory authority. We placed a $1,007 fixed maturity and a $99 fixed maturity on deposit with the South Carolina and the Massachusetts state regulatory authorities, respectively, and we recorded these securities in our fixed maturities at March 31, 2011 and December 31, 2010.

RESULTS OF OPERATIONS - QUARTER ENDED MARCH 31, 2011 COMPARED TO QUARTER ENDED MARCH 31, 2010

Gross Premiums Written

Gross premiums written increased $15,208 primarily for two reasons. We wrote 7,723 new policies in the first quarter of 2011 versus 2,529 new policies during the same period of 2010; the additional policies resulted in $8,828 of the total variance in gross premiums written. We also assumed 5,912 policies from Citizens, with assumed premium written of $6,002, while we did not assume policies in the first quarter of 2010.

Gross Premiums Earned

Our gross premiums earned increased because we wrote more policies in the fourth quarter of 2010 and first quarter of 2011 than we did in the comparable periods in the prior years.

Ceded Premiums Earned

Ceded premiums earned decreased during the first quarter of 2011 because our adjusted reinsurance premiums decreased from $85,362 on our 2009-2010 excess-of-loss reinsurance contracts to $80,707 premium on our 2010-2011 excess-of-loss reinsurance contracts. In addition, we recorded a $762 increase in reinsurance premium on prior-year

contracts during the first quarter of 2010, but we did not make any adjustments during the first quarter of 2011.

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses decreased $4,085 because we experienced fewer water-related claims and large fires than in the same period last year. We also settled and paid a number of claims for amounts totaling $1,164 less than we had reserved for those claims at December 31, 2010. The positive trends were partially offset by $653 in losses resulting from a severe storm at the end of March 2011.

Operating expenses

Operating expenses increased $705 because we incurred a $186 increase in personnel costs, a $342 increase in underwriting costs related to the increased writings in the first quarter of the year and a $179 increase in actuarial costs related to our 2010 annual reserve review.

Interest Expense

Interest expense decreased $937 because we retired our $4,327 Columbus Bank and Trust note in February 2010 and we retired our $18,280 merger-related notes in May 2010. The merger-related notes were due to mature on September 29, 2011.

Provision (Benefit) for Income Tax

We recorded a provision of $602 for the three-month period ended March 31, 2011 compared to a benefit of $2,323 for the three-month period ended March 31, 2010. The first quarter's provision increased because our income before income taxes increased.

Our effective rate for the quarter decreased to 34.9% from 38.6% for the same period last year because we are currently in a deferred tax asset position which has the beneficial effect of reducing our current tax expense and our effective tax rate. We expect our deferred tax assets to be taxed next year at a 35% rate when the temporary differences reverse. In addition, our effective tax rate is lower because our insurance subsidiary's income from its South Carolina business is not subject to state income tax.

LIQUIDITY AND CAPITAL RESOURCES

We generate cash through premium collections, reinsurance recoveries, investment income and the sale or maturity of invested assets. We use our cash to pay claims and related costs, policy acquisition costs, salaries and employee benefits, other expenses and stockholder dividends, as well as to purchase investments.

We do not conduct any business operations of our own; UPC, UIM and SCS conduct the business operations of the consolidated group. As a result, we rely on cash dividends or intercompany loans from UIM to pay our general and administrative expenses. State regulatory authorities in the states in which we operate heavily regulate UPC, including restricting any dividends paid by UPC and requiring approval of any management fee UPC pays to UIM for services rendered; however, nothing restricts our non-insurance company subsidiaries from paying us dividends other than state corporate laws regarding solvency. Our non-insurance company subsidiaries may therefore pay us dividends from any positive net cash flows that they generate. UIM pays us dividends primarily using cash from the collection of management fees from UPC, pursuant to a management agreement in effect between those entities.

During the first quarter of 2011, our operations generated cash of $15,050, or approximately 148% more than during the same period in 2010. The change in cash generated by our operating activities resulted primarily because we collected $5,413 more in premiums from our policyholders and paid $3,606 less in losses to our policyholders during the first quarter of 2011 than during the first quarter of 2010.

In January 2011, we paid the final installment of $14,398 on our 2010-2011 reinsurance contracts.

During the first quarter of 2011, our investing activities used $42,339 of cash. In the first quarter of 2010, we were selling investments, whereas in the first quarter of the current year, we continued to reinvest the excess cash generated by the sales of securities late in 2010.

During the first quarter of 2011, our financing activities provided $2,757 of cash because our bank overdrafts increased $3,051 while we only made debt payments totaling $294. In the same period of the prior year, our financing activities used $7,434 because we retired a debt totaling $4,327 and because we decreased our bank overdrafts by $2,813.

The note payable to Florida's State Board of Administration requires UPC to maintain statutory surplus equal to or greater than $50,000 less repayments of principal on the SBA note and less payments of catastrophic losses. We monitor the surplus as to policyholders at UPC each quarter and, for various reasons, we occasionally provide additional capital to UPC. We currently

do not foresee a need for any material contributions of capital to UPC; however, any future contributions of capital will depend on circumstances at the time.

Our SBA note requires that we maintain a 2:1 ratio of net written premium to surplus (the SBA note agreement defines surplus as the $20,000 of capital contributed to UPC under the agreement plus the outstanding balance of the note) or a 6:1 ratio of gross written premium to surplus to avoid additional interest penalties. Should we fail to exceed either a net writing ratio of 1.5:1 or a gross writing ratio of 4.5:1, our interest rate will increase by 450 basis points above the stated rate of the note. Any other writing ratio deficiencies result in an interest rate penalty of 25 basis points above the stated rate of the note.

Our SBA note further provides that the SBA may, among other things, declare its loan immediately due and payable for all defaults existing under the SBA note; however, any payment is subject to approval by the state regulatory authority. At March 31, 2011, we were in compliance with the covenants of the SBA note.

In accordance with Florida law, UPC may pay dividends or make distributions out of that part of statutory surplus derived from its net operating profit and its net realized capital gains. The law further provides calculations to determine the amount of dividends or distributions that can be made without the prior approval of the state regulatory authority and the amount of dividends or distributions that would require prior approval of the regulatory authority. The risk-based capital guidelines published by the National Association of Insurance Commissioners may further restrict UPC’s ability to pay dividends or make distributions if the amount of the intended dividend or distribution would cause surplus as to policyholders to fall below minimum risk-based capital guidelines. Most states, including Florida, have adopted the NAIC requirements, and insurers having less surplus as to policyholders than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. State regulatory authorities could require us to cease operations in the event we fail to maintain the statutory capital required. At March 31, 2011, UPC's surplus as to policyholders exceeded minimum risk-based capital requirements.

We record our financial statements in accordance with GAAP; which differs in some respects from reporting practices prescribed or permitted by state regulatory authorities. To retain our certificate of authority, Florida law requires UPC to maintain surplus as to policyholders equal to the greater of 10% of our total liabilities or $4,000. At March 31, 2011, UPC’s surplus as to policyholders was $48,196, exceeding the minimum requirements. Florida law also requires UPC to adhere to prescribed premium-to-capital surplus ratios, with which we were in compliance at March 31, 2011.

We believe our current capital resources, together with cash provided from our operations, will be sufficient to meet currently anticipated working capital requirements. We cannot provide assurance, however, that such will be the case in the future.

OFF-BALANCE SHEET ARRANGEMENTS

At March 31, 2011, we have no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

See Note 10 to our unaudited condensed consolidated interim financial statements for a discussion of our related party transactions.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Since we are a smaller reporting company, we are not required to furnish this information.

Item 4. Controls and Procedures

We maintain a set of disclosure controls and procedures designed to ensure that the information we are required to disclose in reports we file or submit under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We designed our disclosure controls with the objective of ensuring we accumulate and communicate this information to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under Exchange Act, as of the end of the period covered by this report. Based on our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

During the fiscal quarter ended March 31, 2011, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in claims-related legal actions arising in the ordinary course of business. We accrue amounts resulting from claims-related legal actions in unpaid losses and loss adjustment expenses during the period that we determine an unfavorable outcome becomes probable and we can estimate the amounts. Management makes revisions to our estimates based on its analysis of subsequent information that we receive regarding various factors, including: (i) per claim information; (ii) company and industry historical loss experience; (iii) judicial decisions and legal developments in the awarding of damages; and (iv) trends in general economic conditions, including the effects of inflation. We are not currently involved in any material non-claims-related litigation.

On August 5, 2010, Synovus Bank (Synovus), a Georgia banking corporation filed a lawsuit in the Circuit Court of the Sixth Judicial Circuit in and for Pinellas County, Florida against several defendants, including UIHC and UIH. With respect to UIHC and UIH, the complaint: (1) sought to foreclose on a security interest in membership units of UIH owned by a UIH shareholder named as a defendant, including the proceeds thereof (the United Collateral), (2) sought a declaratory judgment requiring UIHC and UIH to deliver proceeds of the United Collateral to Synovus (including shares of UIHC and warrants to purchase shares of UIHC or the equivalent value thereof in cash, and a cash distribution), (3) alleged tortious interference with a contract between the UIH shareholder named as a defendant and Synovus relating to the United Collateral, (4) sought conversion of the United Collateral, and (5) alleged negligence in connection with the delivery of the United Collateral. Synovus sought unspecified damages and other relief in connection with the foregoing.

On January 3, 2011, Synovus Bank voluntarily dismissed its case without prejudice against UIH and UIHC. We did not establish any reserves regarding this action because we were not able to predict the probable outcome of the action.

Item 1A. Risk Factors

No material changes have occurred in the risk factors that we disclosed in our 2010 Form 10-K as filed with the SEC on March 17, 2011.

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

Unregistered Sales of Equity Securities. During the first quarter of 2011, we did not sell any unregistered equity securities.

Working Capital Restrictions and Other Limitations on Payment of Dividends. Under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its stockholders except out of that part of its available and accumulated capital and surplus funds which is derived from realized net operating profits on its business and net realized capital gains. A Florida domestic insurer may not make dividend payments or distributions to stockholders without prior approval of the state regulatory authority if the dividend or distribution would exceed the larger of (1) the lesser of (a) 10% of its capital surplus or (b) net income, not including realized capital gains, plus a two year carry forward, (2) 10% of capital surplus with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains or (3) the lesser of (a) 10% of capital surplus or (b) net investment income plus a three-year carry forward with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains. At March 31,

2011, we were in compliance with these requirements.

Repurchases. During the first quarter of 2011, we did not repurchase equity securities.

Item 3. Defaults upon Senior Securities

None.

Item 4. Reserved.

UNITED INSURANCE HOLDINGS CORP.

Item 5. Other Information

None.

UNITED INSURANCE HOLDINGS CORP.

Item 6. Exhibits

10.1	Promissory Note dated March 30, 2011 issued by HRM Acquisition Corp. to United Property and Casualty Insurance Company
10.2	Note Purchase Agreement dated March 30, 2011 between HRM Acquisition Corp. and United Property and Casualty Insurance Company
10.3	Agreement of Limited Partnership dated March 30, 2011 between Acadia GP, LLC (in its capacity as a general partner of Acadia Acquisition Partners, L.P.) and limited partners (including United Property and Casualty Insurance Company)
10.4	PR-M Non-Bonus Assumption Agreement dated March 3, 2011 between Citizens Property Insurance Corporation and United Property and Casualty Insurance Company
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification of Princttom:0pt;margin-top:0pt;margin-left:0pt;;text-indent:0pt;;color:#000000;font-family:Times New Roman;font-size:10pt;font-weight:normal;font-style:normal;text-transform:none;font-variant: normal;">

Nonperforming and restructured loans to total loans		0.76%	0.84
Nonperforming and restructured assets to total assets	0.59		0.61
Allowance for loan losses to total loans		1.03	1.09

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

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

CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST MARGIN ANALYSIS

Taxable Equivalent Basis

(Dollars in thousands)

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

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

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

Actual results may differ materially from forward-looking statements.

SUMMARY

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

In 2018, net interest income was $260.5 million, compared to $227.1 million in 2017 and $203.8 million in 2016. The Company's net interest margin increased to 3.70% for 2018, compared to 3.44% for 2017 and 3.25% for 2016. The increase in margin

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

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

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

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

On August 31, 2018, BFTower, LLC, a wholly-owned subsidiary of BancFirst, purchased the Cotter Ranch Tower in Oklahoma City for the Company’s corporate headquarters for $21.0 million. Cotter Ranch Tower was subsequently renamed BancFirst Tower. BancFirst Tower consists of an aggregate of 507,000 square feet, has 36 floors and is the second tallest building in Oklahoma City. The tower will remain an income producing property as approximately 55% is currently leased to outside tenants. BancFirst Tower will allow the Company to consolidate operations from three locations to one and will improve operational efficiencies. Upon consolidation, the Company expects to initially occupy approximately 35% of the Tower, resulting in approximately 90% total occupancy. Renovations on BancFirst Tower will be completed over the next two years and are expected to cost approximately $60 million. The renovation

costs include substantial deferred maintenance including HVAC, plumbing, electrical, elevators, building skin and roof while also including much needed improvements to both the interior and exterior common areas including the lobby, underground and outdoor plaza. The total purchase price and renovation costs were determined to be favorable to other alternatives, such as constructing new corporate headquarters. On December 14, 2018, BFTower LLC, purchased a 42.6% ownership interest in SFPG, LLC, which is the owner of a 1,5689 space parking garage adjacent to BancFirst Tower, for $9.8 million.

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses

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

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

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

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

Income Taxes

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

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

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

Intangible Assets and Goodwill

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

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

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

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

Fair Value of Financial Instruments

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

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

Future Application of Accounting Standards

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

Segment Information

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

RESULTS OF OPERATIONS

Net Interest Income

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

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

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

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

VOLUME/RATE ANALYSIS

Taxable Equivalent Basis

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

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

Provision for Loan Losses

The Company's provision for loan losses was $3.8 million for 2018, compared to $8.5 million for 2017 and $11.5 million for 2016. The higher provision in 2017 was primarily driven by downgrades of a few commercial loans and loan growth. The higher provision for 2016 was largely due to loan downgrades related to the oil and gas service

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

Noninterest Income

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

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

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

Noninterest Expense

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

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

Income Taxes

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

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

Impact of Inflation

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

Impact of Deflation

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

FINANCIAL POSITION

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

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

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

Securities

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

SECURITIES

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

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

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

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

consolidated statement of comprehensive income.

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

MATURITY DISTRIBUTION OF DEBT SECURITIES

The following maturity distribution of debt securities table summarizes the weighted average maturity and weighted average taxable equivalent yields of the debt securities portfolio at December 31, 2018. The Company manages its debt securities portfolio for

liquidity, as a tool to execute its asset/liability management strategy, and for pledging requirements for public funds. Consequently, the average maturity of the portfolio is relatively short. Securities maturing within five years represent 95.7% of the total portfolio. For the interest rate sensitivity of debt securities see the table in item 7A.

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

* Yield on a taxable equivalent basis

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Loans

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

Composition

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

LOANS BY CATEGORY

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

Commercial, Financial, Other

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

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

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

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

Real Estate

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

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

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

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

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

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

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Consumer

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

MATURITY AND RATE SENSITIVITY OF LOANS

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

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

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

Nonperforming and Restructured Assets

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

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

their original contractual terms, the Company would have recognized additional interest income of approximately $2.3 million for 2018, $1.8 million for 2017 and $2.0 million for 2016. Only a small amount of this interest is expected to be ultimately collected.

Restructured loans increased $8.5 million in 2018, increased $3.0 million in 2017 and decreased $13.4 million in 2016, as shown in the table below. The increase in restructured loans during 2018 was due primarily to one relationship identified as a troubled debt restructuring. The decrease in restructured loans in 2016 was due to one relationship that was re-evaluated and removed from restructured loans due to sustained improvement in financial condition, performance and the commercially reasonable nature of its structure. The Company charges interest on principal balances outstanding during deferral periods. As a result, the current and future financial effects of the recorded balance of loans considered troubled debt restructurings whose terms were modified during the period were not considered material.

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

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

NONPERFORMING AND RESTRUCTURED ASSETS

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

Potential problem loans are performing loans to borrowers with a weakened financial condition or which are experiencing unfavorable trends in their financial condition, which causes management to have concerns as to the

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

Allowance for Loan Losses/Fair Value Adjustments on Acquired Loans

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

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for the years ended December 31, 2018, 2017 and 2016, respectively. If unforeseen adverse changes occur in the national or local economy, or in the credit markets, it would be reasonable to expect that the allowance for loan losses would increase in future periods.

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

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

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

loans outstanding were $294.6 million and $120.0 million, respectively.

Intangible Assets, Goodwill and Other Assets

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

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

Liquidity and Funding

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

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

Deposits

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

ANALYSIS OF AVERAGE DEPOSITS

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

PERCENTAGE OF TOTAL AVERAGE DEPOSITS AND AVERAGE RATES PAID

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

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MATURITY OF TIME DEPOSITS

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

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

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

Short-Term Borrowings

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

Long-Term Borrowings

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

Capital Resources

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

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

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

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

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

at an average price of $52.32 per share under the SRP. For the year ended December 31, 2016, the Company repurchased 200,000 shares of its common stock for $5.5 million at an average price of $27.62 per share under the SRP.

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

Related Party Transactions

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

CONTRACTUAL OBLIGATIONS

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

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

(1) Includes principal and interest

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

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

Interest rate risk on the Company's balance sheet consists of repricing, option and basis risks. Repricing risk results from the differences in the maturity or repricing of asset and liability portfolios. Option risk arises from "embedded options" present in many financial instruments such as loan prepayment options, deposit early withdrawal options and interest rate options. These options allow customers opportunities to benefit when market interest rates change, which typically results in higher costs or lower revenue for the Company. Basis risk refers to the potential for changes in the

underlying relationship between market rates and indices, which subsequently result in a narrowing of the profit spread on an earning asset or liability. Basis risk is also present in administered rate liabilities, such as savings accounts, negotiable order of withdrawal accounts and money market accounts where historical pricing relationships to market rates may change due to the level or directional change in market interest rates.

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

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

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

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

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

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

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

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

used in the analysis.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

Stockholders, Board of Directors and Audit Committee

BancFirst Corporation

Oklahoma City, Oklahoma

Opinion on the Financial Statements

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

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

Basis for Opinion

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

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

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

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

/s/ BKD, LLP

Oklahoma City, Oklahoma
February 26, 2019

BANCFIRST CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	December 31, 2018	2017
ASSETS		
Cash and due from banks	$228,431	$216,104
Interest-bearing deposits with banks	1,195,824	1,541,771
Federal funds sold	—	700
Securities held for investment (fair value: $1,433 and $2,303, respectively)	1,428	2,292
Securities available for sale at fair value	770,704	461,999
Loans held for sale	8,174	6,173
Loans (net of unearned interest)	4,975,976	4,721,995
Allowance for loan losses	(51,389)	(51,666)
Loans, net of allowance for loan losses	4,924,587	4,670,329
Premises and equipment, net	174,362	134,088
Other real estate owned	6,690	4,136
Intangible assets, net	16,470	11,082
Goodwill	79,749	54,042
Accrued interest receivable and other assets	167,839	150,440
Total assets	$7,574,258	$7,253,156
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$2,613,876	$2,550,150
Interest-bearing	3,991,619	3,864,895
Total deposits	6,605,495	6,415,045
Short-term borrowings	1,675	900
Accrued interest payable and other liabilities	37,495	29,623
Junior subordinated debentures	26,804	31,959
Total liabilities	6,671,469	6,477,527
Commitments and contingent liabilities (Note 19)		
Stockholders' equity:		
Senior preferred stock, $1.00 par; 10,000,000 shares authorized; none issued	—	—
Cumulative preferred stock, $5.00 par; 900,000 shares authorized; none issued	—	—
Common stock, $1.00 par, 40,000,000 shares authorized; shares issued and outstanding: 32,603,926 and 31,894,563, respectively	32,604	31,895
Capital surplus	149,709	107,481
Retained earnings	722,615	638,580
Accumulated other comprehensive loss, net of income tax of $(731) and $(795), respectively	(2,139)	(2,327)
Total stockholders' equity	902,789	775,629

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

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

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BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands, except per share data)

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

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

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

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands, except share data)

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

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

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

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

(Dollars in thousands)

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

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

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

BANCFIRST CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Nature of Operations

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

Basis of Presentation

The accompanying consolidated financial statements include the accounts of BancFirst Corporation, Council Oak Partners, LLC, BancFirst Insurance Services, Inc., BancFirst Risk & Insurance Company, and BancFirst and its subsidiaries. The principal operating subsidiaries of BancFirst are Council Oak Investment Corporation, Council Oak Real Estate Inc., BFTower, LLC and BancFirst Agency, Inc. All significant intercompany accounts and transactions have been eliminated. Assets held in a fiduciary or agency capacity are not assets of the Company and, accordingly, are not included in the consolidated financial statements. Certain amounts from 2017 and 2016 have been reclassified to conform to the 2018 presentation. These reclassifications were not material to the Company’s financial statements.

Use of Estimates in the Preparation of Financial Statements

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

Securities

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

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

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

Loans

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

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

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

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

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

Acquired Loans

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

Loans Held For Sale

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

Allowance for Loan Losses

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

Nonaccrual Policy

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

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

Premises and Equipment

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

identified to be sold are charged to operating expense. When premises and equipment are transferred to other real estate owned, sold, or otherwise retired, the cost and applicable accumulated depreciation are removed from the respective accounts and any resulting gains or losses are reported in the statement of comprehensive income.

Other Real Estate Owned

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

Intangible Assets and Goodwill

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

Derivatives

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

Insurance Commissions and Fees

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

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

Stock-based Compensation

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

Income Taxes

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

Earnings Per Common Share

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

Comprehensive Income

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

Statement of Cash Flows

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

Recent Accounting Pronouncements

Standards Adopted During Current Period:

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

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

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

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

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

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

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall (Subtopic 825-10)." ASU 2016-01 requires all equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in the fair value recognized through net income. The adoption of the guidance resulted in a $618,000 decrease to retained earnings and a $618,000

increase to accumulated other comprehensive income. Additional income of $48,900 was recorded in the consolidated statement of comprehensive income during 2018 as a result of changes to the accounting for equity investments. Further, the Company's securities disclosures in Note (4) have been revised to exclude equity investments and fair value disclosures in Note (20) have incorporated the revised disclosure requirements for financial investments. In addition, equity securities of $5.7 million were reclassed from securities to other assets on the Company's 2017 balance sheet to conform to the current presentation. ASU 2016-01 also emphasizes the existing requirement to use exit prices to measure fair value for disclosure purposes and clarifies that entities should not make use of a practicability exception in determining the fair value of loans. Accordingly, we refined the calculation used to determine the disclosed fair value of the Company's loans held for investment as part of adopting this standard. The refined calculation did not have a significant impact on the Company's fair value disclosures. ASU 2016-01 was adopted on January 1, 2018 and did not have a significant impact on the Company's financial statements.

In January 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 implements a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition

guidance. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in a manner that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, which comprises a significant portion of the Company's revenue stream. ASU 2014-09 was adopted on January 1, 2018 and did not have a significant impact on the Company's financial statements.

Standards Not Yet Adopted:

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

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

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

(2) RECENT DEVELOPMENTS, INCLUDING MERGERS AND ACQUISITIONS

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

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

First Bank & Trust Company complements the Company's community banking strategy by adding an additional five communities to its banking network in Oklahoma.

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

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

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

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

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

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

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

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(4) SECURITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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(5) LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a schedule of loans outstanding by category:

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

The Company’s loans are mostly to customers within Oklahoma and approximately 65% of the loans are secured by real estate. Credit risk on loans is managed through limits on amounts loaned to individual and related borrowers, underwriting standards and loan monitoring procedures. The amounts and types of collateral obtained, if any, to secure loans are based upon the Company’s underwriting standards and management’s credit evaluation. Collateral varies, but may include real estate, equipment, accounts receivable, inventory, livestock and securities. The Company’s interest in collateral is secured through filing mortgages and liens, and in some cases, by possession of the collateral.

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

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

condition.

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

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

Nonperforming and Restructured Assets

The following is a summary of nonperforming and restructured assets:

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

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

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

Loans are segregated into classes based upon the nature of the collateral and the borrower. These classes are used to estimate the allowance for loan losses. The following table is a summary of amounts included in nonaccrual loans, segregated by class of loans. Residential real estate refers to one-to-four family real estate.

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

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

Age Analysis of Past Due Loans

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
	(Dollars in thousands)						
As of December 31, 2018							
Real estate:							
Non-residential real estate owner occupied	$5,114	$810	$43	$5,967	$620,654	$626,621	$ —
Non-residential real estate other	2,772	32	114	2,918	1,143,210	1,146,128	—
Residential real estate permanent mortgage	2,448	653	693	3,794	324,908	328,702	430
Residential real estate all other	1,728	292	2,799	4,819	822,685	827,504	612
Commercial and financial:							
Non-consumer non-real estate	3,620	702	833	5,155	1,278,499	1,283,654	282
Consumer non-real estate	1,991	565	559	3,115	323,747	326,862	325
Other loans	322	158	178	658	141,251	141,909	—
Acquired loans	5,240	1,669	4,936	11,845	282,751	294,596	267
Total	$23,235	$4,881	$10,155	$38,271	$4,937,705	$4,975,976	$ 1,916
As of December 31, 2017							
Real estate:							
Non-residential real estate owner occupied	$998	$68	$977	$2,043	$639,575	$641,618	$ 84
Non-residential real estate other	2,905	271	2,112	5,288	1,121,303	1,126,591	432
Residential real estate permanent mortgage	2,211	403	977	3,591	326,743	330,334	584
Residential real estate all other	1,739	749	1,377	3,865	781,790	785,655	973
Commercial and financial:							
Non-consumer non-real estate	2,210	706	1,785	4,701	1,279,704	1,284,405	403
Consumer non-real estate	2,085	670	293	3,048	285,872	288,920	194
Other loans	506	103	3,916	4,525	139,920	144,445	—
Acquired loans	753	192	713	1,658	118,369	120,027	223
Total	$13,407	$3,162	$12,150	$28,719	$4,693,276	$4,721,995	$ 2,893

Impaired Loans

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

The following table presents impaired loans, segregated by class of loans. During the year ended December 31, 2018 no material amount of interest income was recognized on impaired loans subsequent to their classification as impaired. During the year ended December 31, 2017, $2.3 million of interest income was recognized on impaired loans subsequent to their classification as impaired.

	Impaired Loans			
	Unpaid Principal Balance	Recorded Investment with Allowance	Related Allowance	Average Recorded Investment
	(Dollars in thousands)			
As of December 31, 2018				
Real estate:				
Non-residential real estate owner occupied	$7,126	$ 6,933	$ 202	$ 7,739
Non-residential real estate other	949	757	50	6,057
Residential real estate permanent mortgage	1,789	1,545	127	1,650
Residential real estate all other	7,177	6,862	2,433	7,154
Commercial and financial:				
Non-consumer non-real estate	18,507	10,977	881	12,140
Consumer non-real estate	928	829	131	846
Other loans	710	490	35	481
Acquired loans	12,846	9,864	2	11,050
Total	$50,032	$ 38,257	$ 3,861	$ 47,117
As of December 31, 2017				
Real estate:				
Non-residential real estate owner occupied	$2,011	$ 1,945	$ 141	$ 1,858
Non-residential real estate other	10,323	10,240	496	3,975
Residential real estate permanent mortgage	1,745	1,542	146	1,440
Residential real estate all other	5,837	5,549	2,135	5,258
Commercial and financial:				
Non-consumer non-real estate	18,101	11,158	2,412	11,131
Consumer non-real estate	545	514	127	541
Other loans	6,092	5,595	178	7,439
Acquired loans	4,737	3,145	12	3,539
Total	$49,391	$ 39,688	$ 5,647	$ 35,181

Credit Risk Monitoring and Loan Grading

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

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

The general characteristics of the risk grades are as follows:

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

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

Grade 3 – Loans with Problem Potential - This category consists of performing loans which are considered to exhibit problem potential. Loans in this category would generally include, but not be limited to, borrowers with a weakened financial condition or poor

performance history, past dues, loans restructured to reduce payments to an amount that is below market standards and/or loans with severe documentation problems. In general, these loans have no identifiable loss potential in the near future, however; the possibility of a loss developing is heightened.

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

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

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

The following table presents internal loan grading by class of loans:

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

Allowance for Loan Losses Methodology

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

The ALL is calculated as the sum of the following: (1) the total dollar amount of specific reserve allocations; (2) the dollar amount derived by multiplying each segment of adversely graded loans without a specific reserve allocation times its respective

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reserve factor; (3) the dollar amount derived by multiplying Grade 2 loans and Grade 1 loans (less certain exclusions) times the respective reserve factor; and (4) other adjustments as deemed appropriate and documented by the Senior Loan Committee or Board of Directors.

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

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

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

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

	ALL			
	December 31, 2018		December 31, 2017	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
	(Dollars in thousands)			
Real estate:				
Non-residential real estate owner occupied	$669	$ 5,659	$656	$ 5,539
Non-residential real estate other	1,119	9,908	751	9,768
Residential real estate permanent mortgage	505	2,756	483	2,743
Residential real estate all other	3,413	7,260	2,761	6,911
Commercial and financial:				
Non-consumer non-real estate	2,114	11,037	4,651	10,683
Consumer non-real estate	374	2,691	429	2,364
Other loans	65	2,358	133	2,348
Acquired loans	—	1,461	12	1,434
Total	$8,259	$ 43,130	$9,876	$ 41,790

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

	Loans					
	December 31, 2018			December 31, 2017		
	Individually evaluated for impairment	Collectively evaluated for impairment	Loans acquired with deteriorated credit quality	Individually evaluated for impairment	Collectively evaluated for impairment	Loans acquired with deteriorated credit quality
	(Dollars in thousands)					
Real estate:						
Non-residential real estate owner occupied	$17,846	$608,775	$ —	$15,281	$626,337	$ —
Non-residential real estate other	25,333	1,120,795	—	17,013	1,109,578	—
Residential real estate permanent mortgage	9,026	319,676	—	8,100	322,234	—

Residential real estate all other	21,285	806,219	—	15,052	770,603	—
Commercial and financial:						
Non-consumer non-real estate	19,432	1,264,222	—	31,349	1,253,056	—
Consumer non-real estate	3,093	323,769	—	2,600	286,320	—
Other loans	209	141,700	—	764	143,681	—
Acquired loans	22,132	265,084	7,380	14,464	100,106	5,457
Total	$118,356	$4,850,240	$ 7,380	$104,623	$4,611,915	$ 5,457

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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:

	Year ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Other real estate owned	$5,437	$2,889	$2,553
Repossessed assets	1,122	1,242	1,402
Total	$6,559	$4,131	$3,955

Related Party Loans

The Company has made loans in the ordinary course of business to the executive officers and directors of the Company and to certain affiliates of these executive officers and directors. Management believes that all such loans were made on substantially the same terms as those prevailing at the time for comparable transactions with other persons and do not represent more than a normal risk of collectability or present other unfavorable features. A summary of these loans is as follows:

Year Ended December 31,	Balance Beginning of the Period	Additions	Collections/ Terminations	Balance End of the Period
	(Dollars in thousands)			
2018	$24,001	$7,986	$(12,096)	$19,891
2017	27,486	7,350	(10,835)	24,001
2016	37,577	16,133	(26,224)	27,486

(6) PREMISES AND EQUIPMENT, NET AND OTHER ASSETS

The following is a summary of premises and equipment by classification:

	December 31,	
Estimated Useful Lives	2018	2017

		(Dollars in thousands)	
Land		$35,434	$34,833
Buildings	10 to 40 years	181,182	145,051
Furniture, fixtures and equipment	3 to 15 years	75,138	69,915
Accumulated depreciation		(117,392)	(115,711)
Premises and equipment, net		$174,362	$134,088

Low Income Housing Tax Credit Investments

We invest in affordable housing projects that qualify for the low income housing tax credit (LIHTC), which is designed to promote private development of low income housing. These investments generate a return primarily through realization of federal tax credits, and also through a tax deduction generated by operating losses of the investments. The investments are amortized through tax expense using the proportional amortization method as related tax credits are utilized. The Company is periodically required to provide additional contributions at the discretion of the project sponsors. Although in some cases the Company's investment may exceed 50% of the equity interest in an entity, the Company does not consolidate these structures as variable interest entities due to the project sponsor's ability to manage the projects, which is indicative of power in them.

Total LIHTC investments were $18.5 million and $16.9 million at December 31, 2018 and 2017, respectively and are included in other assets on the balance sheet. The Company recognized tax credits and other tax benefits of $5.4 million, $4.4 million and $4.2 million in 2018, 2017 and 2016, respectively and amortization expense of $4.4 million, $3.5 million and $2.9 million in 2018, 2017

and 2016, respectively resulting from LIHTC investments. Additional contributions are committed during the investment periods through the year 2032. Unfunded commitments to these investments as of December 31, 2018 totaled $17.3 million.

(7) 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 December 31, 2018			
Core deposit intangibles	$25,907	$ (11,113)	$14,794
Customer relationship intangibles	5,699	(4,115)	1,584
Mortgage servicing intangibles	397	(305)	92
Total	$32,003	$ (15,533)	$16,470
As of December 31, 2017			
Core deposit intangibles	$17,447	$ (8,451)	$8,996
Customer relationship intangibles	5,699	(3,767)	1,932
Mortgage servicing intangibles	439	(285)	154
Total	$23,585	$ (12,503)	$11,082

Mortgage servicing intangibles are amortized based on current prepayment assumptions and are adjusted to fair value periodically, if impaired. Fair value is estimated based on the present value of future cash flows over several interest rate scenarios, which are then discounted at risk-adjusted rates. The Company considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. When available, fair value estimates and assumptions are compared to observable market data and the recent market activity and actual portfolio experience.

Estimated amortization of intangible assets for the next five years, as of December 31, 2018, is as follows (dollars in thousands):

Estimated Amortization	
2019	$3,056
2020	2,975

2021	2,246
2022	1,935
2023	1,811

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At December 31, 2018, the weighted-average remaining life of all intangible assets was approximately 6.7 years which consisted of customer relationship intangibles with a weighted-average life of 5.1 years, core deposit intangibles with a weighted-average life of 6.9 years and mortgage servicing intangibles with a weighted-average life of 2.0 years based on current prepayment assumptions.

The following is a summary of goodwill by business segment:

	Metropolitan Banks	Community Banks	Other Financial Services	Executive, Operations & Support	Consolidated
	(Dollars in thousands)				
Year Ended December 31, 2018					
Balance at beginning of period	$ 8,078	$ 39,876	$ 5,464	$ 624	$ 54,042
Acquisitions	5,689	20,018	—	—	25,707
Balance at end of period	$ 13,767	$ 59,894	$ 5,464	$ 624	$ 79,749
Year Ended December 31, 2017					
Balance at beginning and end of period	$ 8,078	$ 39,876	$ 5,464	$ 624	$ 54,042

(8) TIME DEPOSITS

Time deposits include certificates of deposit and individual retirement accounts.

At December 31, 2018, the scheduled maturities of all time deposits are as follows (Dollars in thousands):

2019	$ 458,378
2020	122,648
2021	53,661
2022	39,979
2023	31,276
Thereafter	4
Total	$ 705,946

The following table is a summary of large time deposits and time deposits that meet or exceed the current FDIC insurance limit for the periods presented:

December 31,	
2018	2017

	(Dollars in thousands)	
Time deposits of $100,000 or more	$349,918	$319,811
Time deposits of $250,000 or more	132,957	122,391

(9) SHORT-TERM BORROWINGS

The following is a summary of short-term borrowings:

	December 31,	
	2018	2017
	(Dollars in thousands)	
Federal funds purchased	$ 1,675	$ 900
Weighted average interest rate	1.84 %	0.97 %
End of period interest rate	2.30 %	1.38 %

Federal funds purchased represent borrowings of overnight funds from other financial institutions.

(10) LONG-TERM BORROWINGS

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

(11) JUNIOR SUBORDINATED DEBENTURES

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

On October 8, 2015, the Company acquired CSB Bancshares Statutory Trust I (CSB Trust I), a trust formed under the Delaware Business Trust Act, from the merger of CSB Bancshares Inc. CSB Trust I had issued $5.0 million aggregate liquidation amount of floating rate capital securities to other purchasers and $155,000 aggregate liquidation amount of common securities to CSB Bancshares Inc., which were assumed by the Company as a result of the merger. The proceeds from the sale of the securities of CSB Trust I were invested in $5.2 million of Floating Rate Junior Subordinated Deferrable Interest Debentures of CSB Bancshares Inc., which were assumed by the Company as a result of the merger. Interest payments on the $5.2 million of Floating Rate Junior Subordinated Deferrable Interest Debentures were payable March 15, June 15, September 15 and December 15 of each year. The interest rate on the $5.2 million of Floating Rate Junior Subordinated Deferrable Interest Debentures was set at three month LIBOR plus 182 basis points. The Floating Rate Junior Subordinated Deferrable Interest Debentures was due September 15, 2036. On December 17, 2018 the Company redeemed the Floating Rate Junior Subordinated Deferrable Interest Debentures and subsequently dissolved CSB Trust I.

(12) INCOME TAXES

The components of the Company's income tax expense (benefit) are as follows:

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Current taxes:			
Federal	$23,700	$39,569	$34,003
State	7,083	5,914	5,308
Deferred taxes	3,155	4,383	(2,048)
Total income taxes	$33,938	$49,866	$37,263

Income tax expense (benefit) applicable to securities transactions approximated $10,000, $1.4 million and $(21,000) for the years ended December 31, 2018, 2017 and 2016, respectively.

Income tax expense for 2017 was impacted by the write-down of net deferred tax asset of $4.3 million resulting from the federal tax rate change under the Tax Cuts and Jobs Act, enacted December 22, 2017. A reconciliation of tax expense at the federal statutory

tax rate applied to income before taxes is presented in the following table. The federal statutory tax rate was 21% in 2018 and 35% in 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Tax expense at the federal statutory tax rate	$33,546	$47,708	$37,778
Increase (decrease) in tax expense from:			
Tax-exempt income, net	(510)	(829)	(756)
Modified endowment life contracts	(558)	(921)	(852)
Share based compensation excess tax benefit	(917)	(2,354)	—
State tax expense, net of federal tax benefit	5,595	3,840	3,250
Write-down of net deferred tax asset	—	4,331	—
Utilization of tax credits:			
New markets tax credits	(1,422)	(1,151)	(1,254)
Low-income housing tax credits, net of amortization	(1,273)	(1,589)	(1,424)
Other tax credits	—	—	(319)
Other, net	(523)	831	840
Total tax expense	$33,938	$49,866	$37,263

The net deferred tax asset consisted of the following and is reported in other assets:

	December 31,	
	2018	2017
	(Dollars in thousands)	
Provision for loan losses	$13,089	$13,123
Unrealized net losses on securities	731	739
Write-downs of other real estate owned	462	473
Deferred compensation	2,209	2,113
Stock-based compensation	1,448	1,351
Investments in partnership interests	4,274	3,758
Other	963	275
Gross deferred tax assets	23,176	21,832
Premium on securities of banks acquired	(185)	(219)
Intangibles	(5,376)	(3,359)
Basis difference related to tax credits	(2,560)	(2,713)
Depreciation	(8,484)	(4,563)
Leveraged lease	—	(821)
Prepaid expense deducted	(1,178)	(887)
Other	(181)	(180)
Gross deferred tax liabilities	(17,964)	(12,742)

Net deferred tax asset	$5,212	$9,090

The Company recognizes accrued interest and penalties related to unrecognized tax benefits, if applicable, in income tax expense. During the years ended December 31, 2018, 2017 and 2016, the Company did not recognize or accrue any interest and penalties related to unrecognized tax benefits. Federal and various state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination, which includes the years 2016 to 2018. In addition, years 2013 to 2015 remain open due to amending returns in 2017. The Company has no open examinations with either the Internal Revenue Service or any state agency.

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

(13) STOCK-BASED COMPENSATION

The Company adopted a nonqualified incentive stock option plan (the “BancFirst ISOP”) in May 1986. The Company has amended the BancFirst ISOP since 1986 to increase the number of shares to be issued under the plan to 6,400,000 shares. At December 31, 2018, there were 282,970 shares available for future grants. The BancFirst ISOP will terminate on December 31, 2019, 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 at the end of fifteen years from the date of grant. Options outstanding as of December 31, 2018 will become exercisable through the year 2025. 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.

In June 1999, the Company adopted the BancFirst Corporation Non-Employee Directors’ Stock Option Plan (the “BancFirst Directors’ Stock Option Plan”). Each non-employee director is granted an option for 10,000 shares. The Company has amended the BancFirst Directors’ Stock Option Plan since 1999 to increase the number of shares to be issued under the plan to 520,000 shares. At December 31, 2018, there were 40,000 shares available for future grants. The BancFirst Directors’ Stock Option Plan will terminate on December 31, 2019, 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 at the end of fifteen years from the date of grant. Options outstanding as of December 31, 2018 will become exercisable through the year 2022. 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)			
Year Ended December 31, 2018				
Outstanding at December 31, 2017	1,273,625	$ 25.90		
Options granted	72,000	56.47		
Options exercised	(123,925)	17.42		
Options canceled, forfeited, or expired	(5,000)	48.02		
Outstanding at December 31, 2018	1,216,700	28.48	9.53Yrs	$ 26,066
Exercisable at December 31, 2018	601,700	21.53	7.12Yrs	$ 17,070
Year Ended December 31, 2017				
Outstanding at December 31, 2016	1,414,900	$ 22.46		
Options granted	121,500	48.26		
Options exercised	(262,775)	17.73		

Outstanding at December 31, 2017	1,273,625	25.90	9.73Yrs	$ 32,165
Exercisable at December 31, 2017	566,625	20.07	6.92Yrs	$ 17,611

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

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Total intrinsic value of options exercised	$4,810	$8,389	$12,230
Cash received from options exercised	2,159	4,660	9,720
Tax benefit realized from options exercised	1,225	3,245	4,731

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:

	Year Ended December 31,		
	2018	2017	206
	(Dollars in thousands)		
Stock-based compensation expense	$1,352	$1,180	$1,636
Tax benefit	345	301	633
Stock-based compensation expense, net of tax	$1,007	$879	$1,003

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:

	December 31, 2018 (Dollars in thousands)
Unearned stock-based compensation expense	$ 3,319

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:

	Year Ended December 31,		
	2018	2017	2016
Weighted average grant-date fair value per share of options granted	$14.71	$ 11.87	$ 5.96
Risk-free interest rate	2.55 to 3.05%	2.15 to 2.40%	1.46 to 2.02%
Dividend yield	2.00 %	2.00 %	2.00 %
Stock price volatility	23.05 to 23.95%	22.57 to 24.18%	20.41 to 21.78%
Expected term	10 Yrs	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.

In May 1999, the Company adopted the BancFirst Corporation Directors' Deferred Stock Compensation Plan (the "BancFirst Deferred Stock Compensation Plan"). The Company has amended the BancFirst Deferred Stock

Compensation Plan since 1999 to increase the number of shares to be issued under the plan to 222,220 shares. The BancFirst Deferred Stock Compensation Plan will terminate on December 31, 2019, 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 3,891 and 9,918 shares of common stock distributed from the BancFirst Deferred Stock Compensation Plan during the years ended December 31, 2018 and 2017, respectively.

A summary of the accumulated stock units is as follows:

	December 31,	
	2018	2017
Accumulated stock units	143,347	138,768
Average price	$24.91	$22.84

(14) RETIREMENT PLANS

In May 1986, the Company adopted the BancFirst Corporation Employee Stock Ownership ("ESOP") and Thrift Plan ("401(k)") effective January 1, 1985. The plan was separated into two individual plans effective January 1, 2009. The 401(k) and ESOP plans cover all eligible employees, as defined in the plans, of the Company and its subsidiaries. The 401(k) plan allows employees to defer up to the maximum legal limit of their compensation, of which the Company may match up to 3% of their compensation. In addition, the Company may make discretionary contributions based on employee contributions or eligible compensation to the ESOP plan, as determined by the Company's Board of Directors. The aggregate amounts of contributions by the Company to the 401(k) and ESOP plans are shown in the following table:

	December 31,		
	2018	2017	2016
	(Dollars in thousands)		
401(k) contributions	$2,465	$2,229	$2,074
ESOP contributions	4,073	2,645	2,352
Total contributions	$6,538	$4,874	$4,426

(15) STOCKHOLDERS' EQUITY

As of December 31, 2018, 2017 and 2016 the Company's authorized and outstanding preferred and common stock was as follows:

	No. of Shares Authorized at	No. of Shares Outstanding at December 31,					
Class of Stock	December 31, 2018	2018	2017	2016	Par Value Per Share	Dividends	Voting Rights
Senior Preferred	10,000,000	—	—	—	$ 1.00	As declared	Voting
10% Cumulative Preferred	900,000	—	—	—	5.00	As declared	Non-voting
Common	40,000,000	32,603,926	31,894,563	31,621,870	1.00	As declared	Voting

The following is a description of the capital stock of the Company:

(a) Senior Preferred Stock: No shares issued or outstanding. Shares may be issued with such voting, dividend, redemption, sinking fund, conversion, exchange, liquidation and other rights as shall be determined by the Company's Board of Directors, without approval of the stockholders. The Senior Preferred Stock would have a preference over common stock as to payment of dividends, as to the right to distribution of assets upon redemption of such shares or upon liquidation of the Company.

(b) 10% Cumulative Preferred Stock: Redeemable at the Company's option at $5.00 per share plus accumulated dividends; non-voting; cumulative dividends at the rate of 10% payable semi-annually on January 15 and July 15; no shares issued or outstanding.

(c) Common stock: At December 31, 2018, 2017 and 2016 the shares issued equaled shares outstanding.

In November 1999, the Company adopted a Stock Repurchase Program (the "SRP"). The SRP may be used as a means to increase earnings per share and return on equity, to purchase treasury stock for the exercise of stock options or for distributions under the Deferred Stock Compensation Plan, to provide liquidity for optionees to dispose of stock from exercises of their stock options, and to provide liquidity for stockholders wishing to sell their stock. All shares repurchased under the SRP have been retired and not held as treasury stock. The timing, price and amount of stock repurchases may be determined by management within the limitations of the SRP.

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

	Year Ended December 31,		
	2018	2017	2016
Number of shares repurchased	151,264	—	200,000
Average price of shares repurchased	$52.32	$—	$27.62
Shares remaining to be repurchased	148,736	300,000	300,000

The Company's ability to pay dividends is dependent upon dividend payments received from BancFirst. Banking regulations limit bank dividends based upon net earnings retained and minimum capital requirements. Dividends in excess of these requirements require regulatory approval. At January 1, 2019, approximately $140.3 million of the equity of BancFirst was available for dividend payments to the Company. During any deferral period or any event of default on the Junior Subordinated Debentures, the Company may not declare or pay any dividends on any of its capital stock.

The Company and BancFirst 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 and BancFirst'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 December 31, 2018, the Company and BancFirst 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 December 31, 2018:								
Total Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	$886,190	16.29%	$435,208	8.00%	$537,210	9.875%	N/A	N/A
BancFirst	765,487	14.09%	434,573	8.00%	536,426	9.875%	$543,216	10.00%
Common Equity Tier 1 Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	$808,801	14.87%	$244,804	4.50%	$346,806	6.375%	N/A	N/A
BancFirst	694,098	12.78%	244,447	4.50%	346,300	6.375%	$353,090	6.50 %
Tier 1 Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	$834,801	15.35%	$326,406	6.00%	$428,408	7.875%	N/A	N/A
BancFirst	714,098	13.15%	325,930	6.00%	427,783	7.875%	$434,573	8.00 %
Tier 1 Capital								
(to Total Assets)-								
BancFirst Corporation	$834,801	11.09%	$301,116	4.00%	N/A	N/A	N/A	N/A
BancFirst	714,098	9.49 %	300,855	4.00%	N/A	N/A	$376,069	5.00 %
As of December 31, 2017:								
Total Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	$797,015	15.62%	$408,234	8.00%	$472,020	9.250%	N/A	N/A

BancFirst	714,964	14.03%	407,698	8.00%	471,401	9.250%	$509,622	10.00%
Common Equity Tier 1 Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	$714,349	14.00%	$229,632	4.50%	$293,418	5.750%	N/A	N/A
BancFirst	643,298	12.62%	229,330	4.50%	293,033	5.750%	$331,255	6.50 %
Tier 1 Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	$745,349	14.61%	$306,175	6.00%	$369,962	7.250%	N/A	N/A
BancFirst	663,298	13.02%	306,773	6.00%	369,476	7.250%	$407,698	8.00 %
Tier 1 Capital								
(to Total Assets)-								
BancFirst Corporation	$745,349	10.44%	$285,444	4.00%	N/A	N/A	N/A	N/A
BancFirst	663,298	9.31 %	285,101	4.00%	N/A	N/A	$356,677	5.00 %

As of December 31, 2018, the most recent notification from the Federal Reserve Bank of Kansas City and the FDIC categorized BancFirst as "well capitalized" under the regulatory framework for prompt corrective action. 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's capital category that management believes would materially change its category under capital requirements existing as of the report date.

Basel III Capital Rules

Under the Basel III Capital Rules, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of CET1 capital above its minimum risk-based capital requirements. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). Management believes that, as of December 31, 2018, the Company and BancFirst would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

(16) 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)		
Year Ended December 31, 2018			
Basic			
Income available to common stockholders	$125,814	32,689,228	$ 3.85
Effect of stock options	—	741,486	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$125,814	33,430,714	$ 3.76
Year Ended December 31, 2017			
Basic			
Income available to common stockholders	$86,439	31,813,572	$ 2.72
Effect of stock options	—	754,533	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$86,439	32,568,105	$ 2.65
Year Ended December 31, 2016			

Basic			
Income available to common stockholders	$70,674	31,230,340	$ 2.27
Effect of stock options	—	592,184	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$70,674	31,822,524	$ 2.22

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 year because the options were anti-dilutive for the period.

	Shares	Average Exercise Price
December 31, 2018	92,738	$ 53.17
December 31, 2017	55,337	46.86
December 31, 2016	294,438	30.25

(17) CONDENSED PARENT COMPANY FINANCIAL STATEMENTS

BALANCE SHEETS

	December 31,	
	2018	2017
	(Dollars in thousands)	
ASSETS		
Cash	$105,089	$67,917
Investments in subsidiaries	822,336	737,031
Goodwill	624	624
Dividends receivable	11,058	7,788
Other assets	958	1,401
Total assets	$940,065	$814,761
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	$10,472	$7,173
Junior subordinated debentures	26,804	31,959
Stockholders' equity	902,789	775,629
Total liabilities and stockholders' equity	$940,065	$814,761

STATEMENTS OF INCOME

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
OPERATING INCOME			
Dividends from subsidiaries	$38,326	$29,455	$28,175
Interest on interest-bearing deposits	1,151	291	160
Other	16	3	3
Total operating income	39,493	29,749	28,338
OPERATING EXPENSE			
Interest	2,172	2,122	2,096
Other	698	770	583
Total operating expense	2,870	2,892	2,679
Income before taxes and equity in undistributed earnings of subsidiaries	36,623	26,857	25,659
Allocated income tax benefit	3,093	3,295	1,244
Income before equity in undistributed earnings of subsidiaries	39,716	30,152	26,903
Equity in undistributed earnings of subsidiaries	87,404	57,429	44,172
Amortization of stock-based compensation arrangements of subsidiaries	(1,306)	(1,142)	(401)
Net income	$125,814	$86,439	$70,674

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STATEMENTS OF CASH FLOW

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$125,814	$86,439	$70,674
Adjustments to reconcile to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(87,404)	(57,429)	(44,172)
Amortization of stock-based compensation arrangements of subsidiaries	1,306	1,142	401
Other, net	(2,621)	569	136
Net cash provided by operating activities	37,095	30,721	27,039
INVESTING ACTIVITIES			
Net cash provided by acquisitions	41,347	—	—
Payments for investments in subsidiaries	—	(502)	—
Other, net	(174)	100	—
Net cash provided by (used in) investing activities	41,173	(402)	—
FINANCING ACTIVITIES			
Issuance of common stock	2,238	4,844	13,354
Common stock acquired	(7,914)	—	(5,523)
Cash dividends paid	(30,265)	(24,783)	(22,770)
Redemption of Junior Subordinated debentures	(5,155)	—	—
Net cash used for financing activities	(41,096)	(19,939)	(14,939)
Net increase in cash	37,172	10,380	12,100
Cash and due from banks at the beginning of the period	67,917	57,537	45,437
Cash and due from banks at the end of the period	$105,089	$67,917	$57,537
SUPPLEMENTAL DISCLOSURE			
Cash paid during the period for interest	$2,171	$2,122	$2,096
Cash received during the period for income taxes, net	$3,647	$4,643	$5,031

(18) RELATED PARTY TRANSACTIONS

Refer to Note (5) for information regarding loan transactions with related parties.

(19) COMMITMENTS AND CONTINGENT LIABILITIES

The Company is a party to financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include loan commitments and standby letters of credit which involve elements of credit and interest-rate risk to varying degrees. The Company’s exposure to credit loss in the event of nonperformance by the other party to the instrument is represented by the instrument’s contractual

amount. To control this credit risk, the Company uses the same underwriting standards as it uses for loans recorded on the balance sheet. The amounts of financial instruments with off-balance-sheet risk are as follows:

	December 31,	
	2018	2017
	(Dollars in thousands)	
Loan commitments	$1,232,996	$1,050,686
Stand-by letters of credit	56,096	57,074

Loan commitments are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Stand-by letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These instruments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the instruments are expected to expire without being drawn upon, the total amounts do not necessarily represent commitments that will be funded in the future.

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

Future minimum lease payments required under operating leases that have an initial or remaining non-cancelable lease term in excess of one year at December 31, 2018, were as follows (Dollars in thousands):

2019	$1,049
2020	789
2021	569
2022	369
2023	60
Later years	499
Total	$3,335

Rental expense on all operating leases, including those rented on a monthly or temporary basis were as follows (Dollars in thousands):

Year Ending December 31:	
2018	$1,857
2017	1,597
2016	1,524

The Company is a defendant in legal actions arising from normal business activities. Management believes that all legal actions against the Company are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Company's financial statements.

(20) 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 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.

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.

Equity Securities

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

Derivatives

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

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017, 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)			
December 31, 2018				
Securities available for sale:				
U.S. Treasury	$697,466	$—	$—	$ 697,466
U.S. federal agencies	—	29,919	—	29,919
Mortgage-backed securities	—	2,465	13,443	15,908
States and political subdivisions	—	27,411	—	27,411
Equity securities	—	—	7,521	7,521
Derivative assets	—	252	—	252
Derivative liabilities	—	238	—	238
December 31, 2017				
Securities available for sale:				
U.S. Treasury	$312,802	$—	$—	$ 312,802
U.S. federal agencies	—	88,851	—	88,851
Mortgage-backed securities	—	3,509	14,467	17,976
States and political subdivisions	—	42,370	—	42,370
Equity securities	—	—	5,704	5,704
Derivative assets	—	295	—	295
Derivative liabilities	—	261	—	261

The changes in Level 3 assets measured at estimated fair value on a recurring basis during the years ended December 31, 2018 and 2017 were as follows:

	Twelve Months Ended December 31,	
	2018	2017
	(Dollars in thousands)	
Balance at the beginning of the year	$20,171	$21,385
Purchases	3,190	1,668
Settlements	(2,446)	(722)
Sales	(75)	(5,412)
Gains included in earnings	118	4,060
Total unrealized gains/(losses)	6	(808)
Balance at the end of the period	$20,964	$20,171

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 years ended December 31, 2018 and 2017, 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.

Impaired loans are reported at the fair value of the underlying collateral if repayment is dependent on liquidation of the collateral. In no case does the fair value of an impaired loan exceed the fair value of the underlying collateral. The impaired loans are adjusted to fair value through a specific allocation of the allowance for loan 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 loan 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 December 31, 2018	
Impaired loans (less specific allowance)	$ 34,396
Repossessed assets	183
Other real estate owned	4,683
As of and for the Year-to-date Period Ended December 31, 2017	
Impaired loans (less specific allowance)	$ 34,041
Repossessed assets	288
Other real estate owned	1,995

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, Federal Funds Sold and Interest-Bearing Deposits

The carrying amount of these short-term instruments is 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

For certain homogeneous categories of loans, such as some residential mortgages, fair values are estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair values of other types of loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits

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

Short-term Borrowings

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

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:

	December 31, 2018 Carrying Amount	Fair Value	2017 Carrying Amount	Fair Value
	(Dollars in thousands)			
FINANCIAL ASSETS				
Level 2 inputs:				
Cash and cash equivalents	$1,424,255	$1,424,255	$1,758,575	$1,758,575
Securities held for investment	928	933	1,792	1,803
Loans held for sale	8,174	8,174	6,173	6,173
Level 3 inputs:				
Securities held for investment	500	500	500	500
Loans, net of allowance for loan losses	4,924,587	4,901,159	4,670,329	4,663,608
FINANCIAL LIABILITIES				
Level 2 inputs:				
Deposits	6,605,495	6,713,542	6,415,045	6,490,309
Short-term borrowings	1,675	1,675	900	900
Junior subordinated debentures	26,804	29,549	31,959	34,661
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS				
Loan commitments		2,158		1,839
Letters of credit		421		428

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 (excluding mortgage servicing rights, which are valued periodically) and other non-financial long-lived assets measured at fair value and adjusted for impairment. These items are evaluated at least annually for impairment, of which there were none as of December 31, 2018 or 2017. 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 December 31, 2018 or 2017.

(21) 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 four principal business units are metropolitan banks, community banks, other financial services and executive, operations and support. Metropolitan and community banks 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. 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	Other Financial Services	Executive, Operations & Support	Eliminations	Consolidated
	(Dollars in thousands)					
December 31, 2018						
Net interest income	$84,043	$170,096	$5,341	$996	$—	$260,476
Provision for loan losses	79	4,178	(466)	11	—	3,802
Noninterest income	16,625	60,004	37,743	137,364	(126,537)	125,199
Depreciation and amortization	2,364	9,092	588	1,502	—	13,546
Other expenses	36,873	106,674	24,895	42,319	(2,186)	208,575
Income before taxes	$61,352	$110,156	$18,067	$94,528	$(124,351)	$159,752
Total assets	$2,743,876	$4,892,946	$84,706	$861,782	$(1,009,052)	$7,574,258
Capital expenditures	$3,003	$21,393	$1,035	$26,432	$—	$51,863
December 31, 2017						
Net interest income (expense)	$74,274	$147,731	$5,770	$(636)	$—	$227,139
Provision for loan losses	2,457	4,442	1,767	(154)	—	8,512
Noninterest income	15,698	54,353	37,842	97,368	(87,191)	118,070
Depreciation and amortization	2,192	7,790	584	1,225	—	11,791
Other expenses	35,488	93,619	24,474	36,531	(1,511)	188,601
Income before taxes	$49,835	$96,233	$16,787	$59,130	$(85,680)	$136,305
Total assets	$2,552,024	$4,544,196	$117,332	$885,590	$(845,986)	$7,253,156
Capital expenditures	$3,606	$12,334	$64	$2,003	$—	$18,007
December 31, 2016						
Net interest income (expense)	$63,519	$135,508	$6,132	$(1,331)	$—	$203,828
Provision for loan losses	2,229	7,509	1,653	128	—	11,519
Noninterest income	16,372	57,745	29,711	75,415	(72,211)	107,032
Depreciation and amortization	2,341	8,281	510	1,251	—	12,383
Other expenses	34,130	96,627	22,216	26,375	(327)	179,021
Income before taxes	$41,191	$80,836	$11,464	$46,330	$(71,884)	$107,937
Total assets	$2,493,096	$4,412,174	$83,594	$803,810	$(773,722)	$7,018,952
Capital expenditures	$1,525	$7,738	$125	$1,447	$—	$10,835

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.

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(22) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of the unaudited quarterly results of operations for the years ended December 31, 2018 and 2017 is as follows:

	Quarter			
	Fourth	Third	Second	First
	(Dollars in thousands, except per share data)			
2018				
Net interest income	$66,888	$65,673	$64,880	$63,035
Provision for loan losses	1,516	747	1,225	314
Securities transactions	10	(64)	115	(14)
Noninterest income	31,851	32,801	30,437	30,110
Noninterest expense	56,166	55,809	54,256	55,890
Net income	32,725	32,883	30,586	29,620
Net income per common share:				
Basic	1.00	1.01	0.93	0.91
Diluted	0.98	0.98	0.91	0.89
2017				
Net interest income	$58,699	$57,233	$56,439	$54,768
Provision for loan losses	3,323	3,276	1,841	72
Securities transactions	4,412	(22)	(330)	—
Noninterest income	32,833	29,169	27,983	28,085
Noninterest expense	51,251	50,600	48,953	49,588
Net income	19,497	21,710	23,182	22,050
Net income per common share:				
Basic	0.61	0.68	0.73	0.70
Diluted	0.59	0.67	0.71	0.68

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There were no disagreements with accountants regarding accounting and financial disclosure matters during the year ended December 31, 2018.

Item 9A. 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.

No changes were made to the Company’s internal control over financial reporting during the last fiscal quarter of 2018 that materially affected, or are likely to materially affect, the Company’s internal control over financial reporting.

Management's Report On Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining internal control over financial reporting and for assessing the effectiveness of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Management has assessed the effectiveness of the Company's internal control over financial reporting based on the criteria established in "Internal Control—Integrated Framework (2013 edition)," issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that assessment and criteria, management has determined that the Company has maintained effective internal control over financial reporting as of December 31, 2018.

BKD LLP, independent registered public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 and has issued an unqualified report thereon.

BancFirst Corporation

Oklahoma City, Oklahoma

February 26, 2019

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

/s/ Kevin Lawrence
Kevin Lawrence
Executive Vice President,

Chief Financial Officer
(Principal Financial Officer)

Report of Independent Registered Public Accounting Firm

Stockholders, Board of Directors and Audit Committee

BancFirst Corporation

Oklahoma City, Oklahoma

Opinion on the Internal Control over Financial Reporting

We have audited BancFirst Corporation's (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013), issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company and our report dated February 22, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definitions and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BKD, LLP

We have served as the Company’s auditor since 2013

Oklahoma City, Oklahoma

February 26, 2019

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Item 9B. Other Information.

There is no information required to be disclosed in a report on Form 8-K during the fourth quarter of the year that was not reported.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 401 of Regulation S-K will be contained in the 2019 Proxy Statement under the caption “Election of Directors” and is hereby incorporated by reference. The information required by Item 405 of Regulation S-K will be contained in the 2019 Proxy Statement under the caption “16(a) Beneficial Ownership Reporting Compliance” and is hereby incorporated by reference. The information required by Item 406 of Regulation S-K will be contained in the 2019 Proxy Statement under the caption “Code of Ethics” and is hereby incorporated by reference.

Item 11. Executive Compensation.

The information required by Item 402 of Regulation S-K will be contained in the 2019 Proxy Statement under the captions “Executive Compensation” and “Compensation Discussion and Analysis” and is hereby incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by Item 201(d) of Regulation S-K with respect to securities authorized for issuance under equity compensation plans is included under Part II, Item 5 of this Annual Report on Form 10-K.

The information required by Item 403 of Regulation S-K will be contained in the 2019 Proxy Statement under the caption “Security Ownership” and is hereby incorporated by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information required by Item 404 of Regulation S-K will be contained in the 2019 Proxy Statement under the caption “Transactions with Related Persons” and is hereby incorporated by reference.

Item 14. Principal Accountant Fees and Services.

The information required by Item 9(e) of Schedule 14A will be contained in the 2019 Proxy Statement under the caption “Ratification of Selection of Independent Registered Public Accounting Firm” and is hereby incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) For the financial statements of BancFirst Corporation, reference is made to Part II, Item 8, of this Annual Report on Form 10-K.

(1) Financial Statements:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2018 and 2017

Consolidated Statements of Comprehensive Income for the three years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Stockholders' Equity for the three years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Cash Flow for the three years ended December 31, 2018, 2017 and 2016

Notes to Consolidated Financial Statements

(2) All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) The following Exhibits are filed with this Report or are incorporated by reference as set forth below:

Index to Exhibits

Exhibit Number	Exhibit
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	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).
4.3	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).
4.4	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).
4.5	Form of Certificate of 7.20% Junior Subordinated Deferrable Interest Debenture of BancFirst Corporation (filed as Exhibit 4.2 on Form S-3 to the Company's registration statement, File No. 333-112488 dated February 4, 2004 and incorporated herein by reference).
4.6	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).
4.7	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).
4.8	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).

4.9	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	Fifth Amended and Restated BancFirst Corporation Directors' Stock Option Plan (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016 and incorporated herein by reference).
10.4	Fifth Amended and Restated BancFirst Corporation Directors' Deferred Stock Compensation Plan (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2016 and incorporated herein by reference).
10.5	Fourteenth Amended and Restated BancFirst Corporation Stock Option Plan (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2016 and incorporated herein by reference).

Index to Exhibits

Exhibit Number	Exhibit
10.6	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).
10.7	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).
10.8	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).
10.9	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).
21.1*	Subsidiaries of Registrant.
23.1*	Consent of Independent Registered Public Accounting Firm.
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 and CFO's Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase

101.PRE* XBRL Taxonomy Extension Presentation Linkbase

*Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

February 26, 2019 BANCFIRST CORPORATION
/s/ David Harlow
David Harlow
President and Chief Executive Officer

(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 26, 2019.

David E. Rainbolt
Executive Chairman

/s/ David Harlow
David Harlow
President and Chief Executive Officer

(Principal Executive Officer)

/s/ Dennis L. Brand
Dennis L. Brand
Director

C. L. Craig, Jr.
Director

/s/ James R. Daniel
James R. Daniel
Vice Chairman of the Board

/s/ F. Ford Drummond
F. Ford Drummond
Director

/s/ Joe Ford
Joe Ford
Director

William O. Johnstone
Vice Chairman of the Board

Frank Keating
Director

Bill Lance
Director

Dave R. Lopez
Director

/s/ W. Scott Martin
W. Scott Martin
Director

/s/ Tom H. McCasland, III
Tom H. McCasland, III
Director

/s/ Ronald J. Norick
Ronald J. Norick
Director

/s/ H. E. Rainbolt

/s/ Robin Roberson

H. E. Rainbolt
Chairman Emeritus

Robin Roberson
Director

Michael S. Samis
Director

/s/ Darryl Schmidt
Darryl Schmidt
Chief Executive Officer, BancFirst and Director

Natalie Shirley
Director

/s/ Michael K. Wallace
Michael K. Wallace
Director

/s/ Gregory Wedel
Gregory Wedel
Director

G. Rainey Williams, Jr
Director

/s/ Kevin Lawrence
Kevin Lawrence
Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

/s/ Randy Foraker
Randy Foraker
Executive Vice President and Chief Risk Officer

(Principal Accounting Officer)

COMPANY PERFORMANCE

Presented below is a line graph which compares the percentage in the cumulative total return on the Company's Common Stock to the cumulative total return of the NASDAQ Stock Market (U.S. Companies) Index and the NASDAQ Bank Stock Index. The period presented is from January 1, 2014 through December 31, 2018. The graph assumes an investment on January 1, 2014 of $100 in the Company's Common Stock and in each index, and that any dividends were reinvested. The values presented for each quarter during the period represent the cumulative market values of the respective investment. The performance graph represents past performance and should not be considered to be an indication of future performance.