BOK FINANCIAL CORP ET AL
Form 10-Q
August 02, 2013

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2013
OR

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

For the transition period from _____________ to ______________

Commission File No. 0-19341

BOK FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

| Oklahoma<br>(State or other jurisdiction<br>of Incorporation or Organization) | 73-1373454<br>(IRS Employer<br>Identification No.) |
|---|---|
| Bank of Oklahoma Tower<br>P.O. Box 2300<br>Tulsa, Oklahoma<br>(Address of Principal Executive Offices) | 74192<br>(Zip Code) |

(918) 588-6000
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 68,739,208 shares of common stock ($.00006 par value) as of June 30, 2013.

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BOK Financial Corporation
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Management's Discussion and Analysis of Financial Condition and Results of Operations

Performance Summary

BOK Financial Corporation ("the Company") reported net income of $79.9 million or $1.16 per diluted share for the second quarter of 2013, compared to $97.6 million or $1.43 per diluted share for the second quarter of 2012 and $88.0 million or $1.28 per diluted share for the first quarter of 2013.

Net income for the second quarter of 2012 included $14.5 million or $0.21 per diluted share from a gain on the sale of common stock received in settlement of a defaulted loan and a negative provision for credit losses. In addition, net income for the second quarter of 2012 included $3.8 million or $0.06 per diluted share related to a recovery of interest on a nonaccruing commercial loan and a recovery from the Lehman Brothers bankruptcy related to derivative contract losses incurred in 2008.

Net income for the six months ended June 30, 2013 totaled $167.9 million or $2.44 per diluted share compared with $181.2 million or $2.65 per diluted share for the six months ended June 30, 2012.

Highlights of the second quarter of 2013 included:

- Net interest revenue totaled $167.2 million for the second quarter of 2013, compared to $181.4 million for the second quarter of 2012 and $170.4 million for the first quarter of 2013. Net interest margin was 2.81% for the second quarter of 2013. Net interest margin was 3.30% for the second quarter of 2012 and 2.92% for the first quarter of 2013.
- Fees and commissions revenue totaled $160.9 million for the second quarter of 2013, compared to $155.8 million for the second quarter of 2012 and $158.1 million for the first quarter of 2013. Mortgage banking revenue decreased compared to the second quarter of 2012 and first quarter of 2013 primarily due to a narrowed gain on sale margin and a change in product mix, partially offset by increased loan production volume. Nearly all other fee-based revenue sources grew over the prior year and prior quarter.
- Operating expenses, excluding changes in the fair value of mortgage servicing rights, totaled $210.9 million for the second quarter of 2013, a decrease of $640 thousand compared to the second quarter of 2012 and up $6.9 million over the previous quarter. Personnel costs increased $5.8 million over the second quarter of 2012 primarily due to growth in headcount and incentive compensation. Personnel costs increased $2.5 million compared to the first quarter of 2013 due primarily to increased incentive compensation. Non-personnel expenses decreased $6.5 million compared to the second quarter of 2012 due to lower repossessed asset impairment charges and mortgage banking expense and increased $4.5 million over the prior quarter due to higher professional fees and data processing expense.
- No provision for credit losses was recorded in the second quarter of 2013 compared to an $8.0 million negative provision for credit losses in the second quarter of 2012 and an $8.0 million negative provision for credit losses in the first quarter of 2013. Gross charge-offs were $8.6 million in the second quarter of 2013, $11.5 million in the second quarter of 2012 and $8.9 million in the first quarter of 2013. Recoveries were $6.2 million in the second quarter of 2013 compared to $6.7 million in the second quarter of 2012 and $6.6 million in the first quarter of 2013.
- The combined allowance for credit losses totaled $205 million or 1.65% of outstanding loans at June 30, 2013 compared to $207 million or 1.71% of outstanding loans at March 31, 2013. Nonperforming assets that are not guaranteed by U.S. government agencies totaled $200 million or 1.62% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at June 30, 2013 and $207 million or 1.73% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at March 31, 2013.
- Outstanding loan balances were $12.4 billion at June 30, 2013, an increase of $347 million over March 31, 2013. Commercial loan balances grew by $290 million, commercial real estate loans increased $32 million and residential mortgage loans increased by $27 million. Consumer loans were largely unchanged compared to the prior quarter.
- Period end deposits totaled $19.5 billion at June 30, 2013 compared to $19.9 billion at March 31, 2013. Demand deposit account balances increased $244 million during the second quarter. Interest-bearing transaction accounts decreased $476 million and time deposits decreased $132 million.

- The tangible common equity ratio was 9.38% at June 30, 2013 and 9.70% at March 31, 2013. The tangible common equity ratio is a non-GAAP measure of capital strength used by the Company and investors based on shareholders' equity as defined by generally accepted accounting principles in the United States of America ("GAAP") minus intangible assets and equity that does not benefit common shareholders.
- The Company and its subsidiary bank continue to exceed the regulatory definition of well capitalized. The Company's Tier 1 capital ratios as defined by banking regulations were 13.37% at June 30, 2013 and 13.35% at March 31, 2013.
- The Company paid a regular quarterly cash dividend of $26 million or $0.38 per common share during the second quarter of 2013. On July 31, 2013, the board of directors approved a quarterly cash dividend of $0.38 per common share payable on or about August 30, 2013 to shareholders of record as of August 16, 2013.

## Results of Operations
### Net Interest Revenue and Net Interest Margin

Net interest revenue is the interest earned on debt securities, loans and other interest-earning assets less interest paid for interest-bearing deposits and other borrowings. The net interest margin is calculated by dividing net interest revenue by average interest-earning assets. Net interest spread is the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin is typically greater than net interest spread due to interest income earned on assets funded by non-interest bearing liabilities such as demand deposits and equity.

Net interest revenue totaled $167.2 million for the second quarter of 2013 compared to $181.4 million for the second quarter of 2012 and $170.4 million for the first quarter of 2013. Net interest margin was 2.81% for the second quarter of 2013, 2.92% for the first quarter of 2013 and 3.30% for the second quarter of 2012. Net interest revenue for the second quarter of 2012 included $2.9 million from a full recovery of a nonaccruing commercial loan. Excluding this recovery, net interest margin was 3.25% for the second quarter of 2012.

Net interest revenue decreased $14.2 million compared to the second quarter of 2012. Net interest revenue decreased $18.4 million due to lower interest rates. Cash flows from the securities portfolio were reinvested at lower current market rates and loan yields decreased due to renewal of maturing fixed-rate loans at current lower rates and narrowing credit spreads. The decrease in yield on earning assets was partially offset by lower funding costs. Net interest revenue increased $4.6 million primarily due to the growth in average loan and securities balances, partially offset by an increase in the average balance of other borrowings.

Net interest margin also declined compared to the second quarter of 2012. The tax-equivalent yield on earning assets was 3.11% for the second quarter of 2013, down 58 basis points from the second quarter of 2012. The available for sale securities portfolio yield decreased 61 basis points to 1.93%. Cash flows received from payments on residential mortgage-backed securities are currently being reinvested in short-duration securities that yield nearly 1.75%. Excluding the interest recovery in the prior year, the tax-equivalent yield on earning assets decreased 53 basis points and loan yields decreased 36 basis points. Credit spreads have narrowed due to market pricing pressure and improved credit quality in our loan portfolio. Funding costs were down 13 basis points from the second quarter of 2012. The cost of interest-bearing deposits decreased 10 basis points and the cost of other borrowed funds decreased 6 basis points. The average rate of interest paid on subordinated debentures decreased 141 basis points compared to the second quarter of 2012. The interest rate on $233 million of these subordinated debentures converted from a fixed rate of interest to a floating rate as of May 15, 2012. Additionally, the benefit to net interest margin from earning assets funded by non-interest bearing liabilities was 13 basis points in the second quarter of 2013 compared to 17 basis points in the second quarter of 2012.

Average earning assets for the second quarter of 2013 increased $1.9 billion or 8% over the second quarter of 2012. The average balance of available for sale securities increased $1.0 billion over the prior year. Available for sale securities consists largely of U.S. government agency issued residential mortgage-backed securities and U.S. agency commercial mortgage-backed securities that are purchased to supplement earnings and to manage interest rate risk. Growth was primarily in U.S. government agency commercial mortgage-backed securities, partially offset by a decrease in U.S. agency mortgage-backed securities. Average loans, net of allowance for loan losses, increased $699 million over the second quarter of 2012 due primarily to growth in average commercial loans.

Average deposits increased $1.1 billion over the second quarter of 2012, including a $611 million increase in average demand deposit balances and a $724 million increase in average interest-bearing transaction accounts, partially offset by a $314 million decrease in average time deposits. Average borrowed funds increased $859 million over the second quarter of 2012 due primarily to increased borrowing from the Federal Home Loan Banks.

Net interest margin decreased 11 basis points from the first quarter of 2013. The yield on average earning assets decreased 13 basis points. The yield on the available for sale securities portfolio decreased 16 basis points to 1.93% primarily due to cash flows being reinvested at lower current market rates, partially offset by slower prepayment speeds compared to the prior quarter. The loan portfolio yield decreased to 4.12% from 4.20% in the previous quarter primarily due to market pricing pressure and improved credit quality in our loan portfolio. Funding costs decreased 3 basis points to 0.43%. Rates paid on time deposits decreased 5 basis points. Rates paid on interest-bearing transaction accounts and savings accounts each decreased a basis point. The benefit to net interest margin from earning assets funded by non-interest bearing liabilities decreased 1 basis point in the second quarter. The cost of other borrowed funds decreased 3 basis points.

Average earning assets decreased $49 million during the second quarter of 2013. The available for sale securities portfolio decreased $231 million compared to the first quarter of 2013. Average outstanding loans increased $52 million. Average commercial loan balances increased $108 million. Average commercial real estate loan balances decreased $23 million, and residential mortgage loan balances decreased $21 million. The average balance of investment securities was up $76 million and the average balance of residential mortgage loans held for sale grew by $45 million.
Average deposits decreased $522 million compared to the previous quarter. Interest-bearing transaction account balances decreased $332 million. Demand deposit balances decreased $113 million and time deposit account balances decreased $95 million. The average balance of borrowed funds increased $883 million over the first quarter of 2013.

Our overall objective is to manage the Company's balance sheet to be relatively neutral to changes in interest rates as is further described in the Market Risk section of this report. Approximately two-thirds of our commercial and commercial real estate loan portfolios are either variable rate or fixed rate that will re-price within one year. These loans are funded primarily by deposit accounts that are either non-interest bearing, or that re-price more slowly than the loans. The result is a balance sheet that would be asset sensitive, which means that assets generally re-price more quickly than liabilities. Among the strategies that we use to manage toward a relatively rate-neutral position, we purchase fixed rate residential mortgage-backed securities issued primarily by U.S. government agencies and fund them with market rate sensitive liabilities. The liability-sensitive nature of this strategy provides an offset to the asset-sensitive characteristics of our loan portfolio. We also may use derivative instruments to manage our interest rate risk.

The effectiveness of these strategies is reflected in the overall change in net interest revenue due to changes in interest rates as shown in Table 1 and in the interest rate sensitivity projections as shown in the Market Risk section of this report.

Net interest margin may continue to decline. Our ability to further decrease funding costs is limited and our ability to provide near-term net interest revenue support through continued securities portfolio growth may be constrained by our conservative interest rate risk policies. Although we have sufficient capital and liquidity, further securities portfolio growth may result in unacceptable risk as interest rates rise. This interest rate risk policy constraint does not affect our ability to continue loan portfolio growth.

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Table 1 -- Volume/Rate Analysis
(In thousands)

| | Three Months Ended June 30, 2013 / 2012 | | | Six Months Ended June 30, 2013 / 2012 | | |
|---|---|---|---|---|---|---|
| | | Change Due To[1] | | | Change Due To[1] | |
| | Change | Volume | Yield / Rate | Change | Volume | Yield /Rate |
| Tax-equivalent interest revenue: | | | | | | |
| Funds sold and resell agreements | $— | $4 | $(4) | $— | $5 | $(5) |
| Trading securities | 281 | 160 | 121 | 542 | 452 | 90 |
| Investment securities: | | | | | | |
| Taxable securities | (678) | (661) | (17) | (1,314) | (1,333) | 19 |
| Tax-exempt securities | 107 | 1,807 | (1,700) | 41 | 3,250 | (3,209) |
| Total investment securities | (571) | 1,146 | (1,717) | (1,273) | 1,917 | (3,190) |
| Available for sale securities: | | | | | | |
| Taxable securities | (10,212) | 5,523 | (15,735) | (14,849) | 11,290 | (26,139) |
| Tax-exempt securities | 70 | 118 | (48) | 84 | 2,710 | (2,626) |
| Total available for sale securities | (10,142) | 5,641 | (15,783) | (14,765) | 14,000 | (28,765) |
| Fair value option securities | (1,298) | (798) | (500) | (3,620) | (2,420) | (1,200) |
| Residential mortgage loans held for sale | 510 | 642 | (132) | 534 | 944 | (410) |
| Loans | (6,399) | 7,369 | (13,768) | (7,721) | 15,299 | (23,020) |
| Total tax-equivalent interest revenue | (17,619) | 14,164 | (31,783) | (26,303) | 30,197 | (56,500) |
| Interest expense: | | | | | | |
| Transaction deposits | (810) | 258 | (1,068) | (1,490) | 431 | (1,921) |
| Savings deposits | (27) | 27 | (54) | (49) | 53 | (102) |
| Time deposits | (1,644) | (1,232) | (412) | (3,559) | (2,638) | (921) |
| Funds purchased | (469) | (307) | (162) | (417) | (349) | (68) |
| Repurchase agreements | (136) | (55) | (81) | (255) | (115) | (140) |
| Other borrowings | 589 | 10,986 | (10,397) | 621 | 17,978 | (17,357) |
| Subordinated debentures | (1,312) | (75) | (1,237) | (4,705) | (557) | (4,148) |
| Total interest expense | (3,809) | 9,602 | (13,411) | (9,854) | 14,803 | (24,657) |
| Tax-equivalent net interest revenue | (13,810) | 4,562 | (18,372) | (16,449) | 15,394 | (31,843) |
| Change in tax-equivalent adjustment | 395 | | | 920 | | |
| Net interest revenue | $(14,205) | | | $(17,369) | | |

[1] Changes attributable to both volume and yield/rate are allocated to both volume and yield/rate on an equal basis.

Other Operating Revenue

Other operating revenue was $150.8 million for the second quarter of 2013 compared to $186.3 million for the second quarter of 2012 and $159.1 million for the first quarter of 2013. Fees and commissions revenue increased $5.2 million over the second quarter of 2012. Net gains (losses) on securities, derivatives and other assets decreased $41.0 million compared to the second quarter of 2012.

Other operating revenue decreased $8.3 million compared to the first quarter of 2013. Fees and commissions revenue was up $2.8 million. Net gains on securities, derivatives and other assets decreased $10.8 million.

Table 2 – Other Operating Revenue
(In thousands)

| | Three Months Ended June 30, | | | | Three Months Ended | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | Increase(Decrease) | % Increase(Decrease) | Mar. 31, 2013 | Increase(Decrease) | % Increase(Decrease) |
| Brokerage and trading revenue | $32,874 | $32,600 | $ 274 | 1 % | $31,751 | $ 1,123 | 4 % |
| Transaction card revenue | 29,942 | 26,758 | 3,184 | 12 % | 27,692 | 2,250 | 8 % |
| Trust fees and commissions | 24,803 | 19,931 | 4,872 | 24 % | 22,313 | 2,490 | 11 % |
| Deposit service charges and fees | 23,962 | 25,216 | (1,254) | (5)% | 22,966 | 996 | 4 % |
| Mortgage banking revenue | 36,596 | 39,548 | (2,952) | (7)% | 39,976 | (3,380) | (8)% |
| Bank-owned life insurance | 2,236 | 2,838 | (602) | (21)% | 3,226 | (990) | (31)% |
| Other revenue | 10,496 | 8,860 | 1,636 | 18 % | 10,187 | 309 | 3 % |
| Total fees and commissions revenue | 160,909 | 155,751 | 5,158 | 3 % | 158,111 | 2,798 | 2 % |
| Gain (loss) on other assets, net | (1,666) | 1,689 | (3,355) | N/A | 467 | (2,133) | N/A |
| Gain (loss) on derivatives, net | (2,527) | 2,345 | (4,872) | N/A | (941) | (1,586) | N/A |
| Gain (loss) on fair value option securities, net | (9,156) | 6,852 | (16,008) | N/A | (3,171) | (5,985) | N/A |
| Gain on available for sale securities | 3,753 | 20,481 | (16,728) | N/A | 4,855 | (1,102) | N/A |
| Total other-than-temporary impairment | (1,138) | (135) | (1,003) | N/A | — | (1,138) | N/A |
| Portion of loss recognized in (reclassified from) other comprehensive income | 586 | (723) | 1,309 | N/A | (247) | 833 | N/A |
| Net impairment losses recognized in earnings | (552) | (858) | 306 | N/A | (247) | (305) | N/A |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total other operating revenue | $150,761 | $186,260 | $ (35,499 ) | (19 )% | $159,074 | $ (8,313 ) | (5 )% |

Certain percentage increases (decreases) in non-fees and commissions revenue are not meaningful for comparison purposes based on the nature of the item.

Fees and commissions revenue

Diversified sources of fees and commissions revenue are a significant part of our business strategy and represented 49% of total revenue for the second quarter of 2013, excluding provision for credit losses and gains and losses on asset sales, securities and derivatives. We believe that a variety of fee revenue sources provide an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile. As an example of this strength, many of the economic factors that cause net interest revenue compression also drive growth in our mortgage banking revenue. We expect continued growth in other operating revenue through offering new products and services and by further development of our presence in markets outside of Oklahoma. However, current and future economic conditions, regulatory constraints, increased competition and saturation in our existing markets could affect the rate of future increases.

Brokerage and trading revenue, which includes revenues from securities trading, retail brokerage, customer hedging and investment banking increased $274 thousand or 1% over the second quarter of 2012. The Company received a $2.9 million recovery from the Lehman Brothers bankruptcy in the second quarter of 2012 related to derivative contract losses incurred in 2008.

Securities trading revenue totaled $14.2 million for the second quarter of 2013, down $1.9 million or 12% compared to the second quarter of 2012 due primarily to the mark-to-market of municipal and U.S. government agency securities at June 30, 2013. The fair value of these securities decreased due to an increase in interest rates. Securities trading revenue represents net realized and unrealized gains primarily related to sales of U.S. government securities, residential mortgage-backed securities guaranteed by U.S. government agencies and municipal securities to institutional customers. We believe these activities will be permitted under the Volcker Rule of the Dodd-Frank Act.

Customer hedging revenue is based primarily on realized and unrealized changes in the fair value of derivative contracts held for customer risk management programs. As more fully discussed under Customer Derivative Programs in Note 3 of the Consolidated Financial Statements, we offer commodity, interest rate, foreign exchange and equity derivatives to our customers. Excluding the impact of the Lehman Brother recovery in the second quarter of 2012, customer hedging revenue increased $3.8 million over the prior year to $5.2 million for the second quarter of 2013 primarily due to increased activity by our mortgage banking customers.

Revenue earned from retail brokerage transactions increased $1.0 million or 13% over the second quarter of 2012 to $9.1 million. Retail brokerage revenue is primarily based on fees and commissions earned on sales of fixed income securities, annuities and mutual funds to retail customers. Revenue is primarily based on the volume of customer transactions during the quarter. The number of transactions typically increases with market volatility and decreases with market stability.

Investment banking, which includes fees earned upon completion of underwriting and financial advisory services and loan syndication fees, totaled $4.4 million for the second quarter of 2013, a $196 thousand or 5% increase over the second quarter of 2012 related to the timing and volume of completed transactions. The increased volume of transactions is primarily the result of the Company's expansion of its municipal financial advisory service capacity, particularly in the Texas market.

Brokerage and trading revenue increased $1.1 million over the first quarter of 2013. Customer hedging revenue was up $2.3 million primarily from increased activity by our mortgage banking customers. Securities trading revenue decreased $2.9 million primarily due to the impact of rising rates on the fair value of municipal securities and U.S. government agency securities held in our trading portfolio at quarter-end. Retail brokerage fees were up $908 thousand and investment banking fees were up $750 thousand.

The proposed Volcker Rule in Title VI of the Dodd-Frank Act prohibits banking entities from engaging in proprietary trading as defined by the Dodd-Frank Act and restricts sponsorship of, or investment in, private equity funds and hedge funds, subject to limited exceptions. Based on the proposed rules, we expect the Company's trading activity to be largely unaffected. The Company's private equity investment activity may be curtailed, but is not expected to result in a material impact to the Company's financial statements. A compliance program will be required for activities permitted under the proposed rules resulting in additional operating and compliance costs by the Company.

Title VII of the Dodd-Frank Act subjects nearly all derivative transactions to Commodity Futures Trading Commission (“CFTC”) or Securities and Exchange Commission (“SEC”) regulations. This includes registration, recordkeeping, reporting, capital, margin and business conduct requirements on major swap dealers and major swap participants. These regulations, which are now largely complete, are comprehensive and establish a wide range of compliance and reporting obligations. However, in the Company's view, do not appear to materially limit the Company's ability to effect derivative trades for its customers or materially increase compliance costs.

Transaction card revenue depends largely on the volume and amount of transactions processed, the number of TransFund automated teller machine (“ATM”) locations and the number of merchants served. Transaction card revenue

for the second quarter of 2013 increased $3.2 million or 12% over the second quarter of 2012. Revenues from the processing of transactions on behalf of the members of our TransFund electronic funds transfer ("EFT") network totaled $15.2 million, up $1.7 million or 13%, due to increased transaction volumes and increased dollar amount per transaction. Merchant services fees totaled $10.0 million, up $1.2 million or 13% on increased transaction activity. Revenue from interchange fees paid by merchants for transactions processed from debit cards issued by the Company totaled $4.7 million, up from $4.5 million for the second quarter of 2012.

Transaction card revenue increased $2.3 million compared to the first quarter of 2013. Merchant services fees and revenues from processing transactions on behalf of members of our TransFund EFT network both increased due to increased transaction activity. Interchange fees from debit cards issued by the Company were also up over of the prior quarter.

Trust fees and commissions increased $4.9 million or 24% over the second quarter of 2012. The acquisition of the Milestone Group by BOK Financial in third quarter of 2012 added $1.5 billion of fiduciary assets as of June 30, 2013 and resulted in a $2.6 million increase in trust fees and commissions over the second quarter of 2012. The remaining increase was primarily due to the growth in the fair value of fiduciary assets administered by the Company. Fiduciary assets are assets for which the Company possesses investment discretion on behalf of another or any other similar capacity. The fair value of fiduciary assets administered by the Company totaled $28.3 billion at June 30, 2013, $23.1 billion at June 30, 2012 and $27.6 billion at March 31, 2013. Trust fees and commissions were up $2.5 million primarily due to the seasonal timing of tax service fees.

In addition to trust fees and commissions where we served as a fiduciary, we also earn fees as administrator to and investment adviser for the Cavanal Hill Funds, a diversified, open-ended investment company established as a business trust under the Investment Company Act of 1940. The Bank is custodian and BOSC, Inc. is distributor for the Cavanal Hill Funds. Products of the Cavanal Hill Funds are offered to customers, employee benefit plans, trusts and the general public in the ordinary course of business. We have voluntarily waived administration fees on the Cavanal Hill money market funds in order to maintain positive yields on these funds in the current low short-term interest rate environment. Waived fees totaled $1.9 million for the second quarter of 2013 compared to $2.2 million for the second quarter of 2012 and $1.8 million for the first quarter of 2013.

Deposit service charges and fees decreased $1.3 million or 5% compared to the second quarter of 2012. Overdraft fees totaled $12.4 million for the second quarter of 2013, a decrease of $1.8 million or 13% compared to the second quarter of 2012. Consumers are generally maintaining higher average balances and better managing their accounts to reduce overdraft fees. Commercial account service charge revenue totaled $9.5 million, up $752 thousand or 9% over the prior year. Service charges on deposit accounts with a standard monthly fee were $2.1 million, down $163 thousand or 7% compared to the second quarter of 2012. Deposit service charges and fees increased $996 thousand over the prior quarter on increased overdraft fee volumes and increased commercial service charge revenue.

Mortgage banking revenue decreased $3.0 million compared to the second quarter of 2012. Revenue from originating and marketing mortgage loans totaled $26.4 million, down $3.3 million or 11% compared to the second quarter of 2012. Mortgage loans funded for sale totaled $1.2 billion in the second quarter of 2013, up from $841 million in the second quarter of 2012. Outstanding commitments to originate mortgage loans were up $155 million or 40% over June 30, 2012. Revenue growth from increased loan production was offset by an overall narrowing of gain on sale margins and a shift in product mix toward loans with narrower margins. Approximately 26% of loans originated in the second quarter of 2013 were through correspondent channels, up from 11% for the second quarter of 2012 and refinanced mortgage loans decreased to 48% of loans originated in 2013 from 51% of loans originated in 2012. Additionally, an increase in interest rates near the end of June 2013 decreased the fair value of both mortgage loans held for sale and mortgage loan commitments. We mitigate the risk of changes in the fair value of mortgage loans and commitments with forward sale contracts. We generally economically hedge all loans held for sale and an estimate of commitments that will ultimately become closed loans. The rapid increase in interest rates in response to comments by the Federal Reserve Bank increased the percent of commitments we expect to result in closed loans which resulted in lower hedge coverage at quarter end. The net impact decreased the fair value of mortgage loan commitments by approximately $3.5 million.

We expect that the recent increase in mortgage interest rates will decrease future mortgage loan production volume and continue to narrow gain on sale margins. Some of the cost structure of our mortgage banking division is variable related to changes in production volume.

Mortgage servicing revenue increased $382 thousand or 4% over the second quarter of 2012. The outstanding principal balance of mortgage loans serviced for others totaled $12.7 billion, an increase of $1.2 billion over June 30, 2012.

Mortgage banking revenue decreased $3.4 million compared to the first quarter of 2013 primarily due to narrowed gain on sale margins and the June 30, 2013 mark-to-market valuation adjustments. Residential mortgage loans funded for sale increased $240 million over the previous quarter. Outstanding commitments to originate mortgage loans were up $81 million or 17% over March 31, 2013.

Mortgage servicing revenue increased $174 thousand over the prior quarter. The outstanding balance of mortgage loans serviced for others increased $469 million over March 31, 2013.

Table 3 – Mortgage Banking Revenue
(In thousands)

| | Three Months Ended June 30, | | | % | Three Months Ended | | % |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | Increase (Decrease) | Increase (Decrease) | Mar. 31, 2013 | Increase (Decrease) | Increase (Decrease) |
| Originating and marketing revenue: | | | | | | | |
| Residential mortgages loan held for sale | $17,763 | $27,706 | $(9,943) | (36)% | $30,235 | $(12,472) | (41)% |
| Residential mortgage loan commitments | (15,052) | 6,900 | (21,952) | (318)% | 610 | (15,662) | (2,568)% |
| Forward sales contracts | 23,645 | (4,917) | 28,562 | (581)% | (935) | 24,580 | (2,629)% |
| Total originating and marketing revenue | 26,356 | 29,689 | (3,333) | (11)% | 29,910 | (3,554) | (12)% |
| Servicing revenue | 10,240 | 9,859 | 381 | 4% | 10,066 | 174 | 2% |
| Total mortgage revenue | $36,596 | $39,548 | $(2,952) | (7)% | $39,976 | $(3,380) | (8)% |
| | | | | | | | |
| Mortgage loans funded for sale | $1,196,038 | $840,765 | $355,273 | 42% | $956,315 | $239,723 | 25% |
| Mortgage loan refinances to total funded | 48% | 51% | | | 62% | | |

| | June 30, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | Increase | % Increase | March 31, 2013 | Increase | % Increase |
| Outstanding principal balance of mortgage loans serviced for others | $12,741,651 | $11,564,643 | $1,177,008 | 10% | $12,272,691 | $468,960 | 4% |

Net gains on securities, derivatives and other assets

In the second quarter of 2013, we recognized a $3.8 million gain from sales of $1.1 billion of available for sale securities. Securities were sold either because they had reached their expected maximum potential return or sold to reinvest those proceeds into shorter average life securities. In the second quarter of 2012, we recognized a $14.2 million gain on the sale of $26 million of common stock received in 2009 in partial satisfaction of a defaulted commercial loan. In addition, we recognized $6.1 million of gains on sales of $433 million of residential mortgage-backed securities guaranteed by U.S. government agencies. We recognized a $4.9 million gain on sales of $728 million of available for sale securities in the first quarter of 2013.

We also maintain a portfolio of residential mortgage-backed securities issued by U.S. government agencies and interest rate derivative contracts designated as an economic hedge of the changes in the fair value of our mortgage servicing rights. The fair value of our mortgage servicing rights fluctuate due to changes in prepayment speeds and other assumptions as more fully described in Note 5 to the Consolidated Financial Statements. As benchmark mortgage rates increase, prepayment speeds slow and the value of our mortgage servicing rights increase. As benchmark mortgage rates fall, prepayment speeds increase and the value of our mortgage servicing rights decrease.

Changes in the fair value of mortgage servicing rights are highly dependent on changes in primary mortgage rates, rates offered to borrowers, and assumptions about servicing revenues, servicing costs and discount rates. Changes in the fair value of residential mortgage-backed securities and interest rate derivative contracts are highly dependent on changes in secondary mortgage rates, or rates required by investors. While primary and secondary mortgage rates generally move in the same direction, the spread between them may widen and narrow due to market conditions and government intervention. Changes in assumptions and the spread between the primary and secondary rates can cause significant quarterly earnings volatility.

Table 4 following shows the relationship between changes in the fair value of mortgage servicing rights and the fair value of fair value option residential mortgage-backed securities and interest rate derivative contracts designated as an economic hedge.

Table 4 -- Gain (Loss) on Mortgage Servicing Rights
(In thousands)

| | Three Months Ended | | |
|---|---|---|---|
| | June 30, 2013 | March 31, 2013 | June 30, 2012 |
| Loss on mortgage hedge derivative contracts, net | $(2,526) | $(1,654) | $2,623 |
| Loss on fair value option securities, net | (9,102) | (3,232) | 6,908 |
| Loss on economic hedge of mortgage servicing rights | (11,628) | (4,886) | 9,531 |
| Gain on change in fair value of mortgage servicing rights | 14,315 | 2,658 | (11,450) |
| Gain (loss) on changes in fair value of mortgage servicing rights, net of economic hedges | $2,687 | $(2,228) | $(1,919) |
| Net interest revenue on fair value option securities | $910 | $828 | $2,148 |
| Average primary residential mortgage interest rate | 3.67% | 3.50% | 3.79% |
| Average secondary residential mortgage interest rate | 2.72% | 2.54% | 2.74% |

Primary rates disclosed in Table 4 above represent rates generally available to borrowers on 30 year conforming mortgage loans and affect the value of our mortgage servicing rights. Secondary rates represent rates generally paid on 30 year residential mortgage-backed securities guaranteed by U.S. government agencies and affect the value of securities and derivative contracts used as an economic hedge of our mortgage servicing rights. The difference between average primary and secondary rates for the second quarter of 2013 was 95 basis points compared to 96 basis points for the first quarter of 2013 and 105 basis points for the second quarter of 2012.

As more fully discussed in Note 2 to the Consolidated Financial Statements, we recognized $552 thousand of other-than-temporary impairment losses in earnings during the second quarter of 2013 on certain private-label residential mortgage-backed securities we do not intend to sell. We recognized other-than-temporary impairment losses in earnings of $858 thousand in the second quarter of 2012 and $247 thousand in the first quarter of 2013.

Other Operating Expense

Other operating expense for the second quarter of 2013 totaled $196.6 million, down $26.4 million or 12% compared to the second quarter of 2012. Changes in the fair value of mortgage servicing rights decreased operating expense $14.3 million in the second quarter of 2013 and increased operating expense $11.5 million in the second quarter of 2012. Excluding changes in the fair value of mortgage servicing rights, operating expenses were largely unchanged compared to the second quarter of 2012. Personnel expenses increased $5.8 million or 5%. Non-personnel expenses decreased $6.5 million or 7%.

Excluding changes in the fair value of mortgage servicing rights, operating expenses were up $6.9 million over the previous quarter. Personnel expenses increased $2.5 million and non-personnel expenses increased $4.5 million.

Table 5 -- Other Operating Expense
(In thousands)

| | Three Months Ended June 30, | | Increase | % Increase | Three Months Ended | Increase | % Increase |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | (Decrease) | (Decrease) | Mar. 31, 2013 | (Decrease) | (Decrease) |
| Regular compensation | $68,319 | $65,218 | $3,101 | 5 % | $67,858 | $461 | 1 % |
| Incentive compensation: | | | | | | | |
| Cash-based | 31,081 | 27,950 | 3,131 | 11 % | 27,045 | 4,036 | 15 % |
| Stock-based | 9,500 | 11,349 | (1,849) | (16)% | 10,700 | (1,200) | (11)% |
| Total incentive compensation | 40,581 | 39,299 | 1,282 | 3 % | 37,745 | 2,836 | 8 % |
| Employee benefits | 19,210 | 17,780 | 1,430 | 8 % | 20,051 | (841) | (4)% |
| Total personnel expense | 128,110 | 122,297 | 5,813 | 5 % | 125,654 | 2,456 | 2 % |
| Business promotion | 5,770 | 6,746 | (976) | (14)% | 5,453 | 317 | 6 % |
| Professional fees and services | 8,381 | 8,343 | 38 | — % | 6,985 | 1,396 | 20 % |
| Net occupancy and equipment | 16,909 | 16,906 | 3 | — % | 16,481 | 428 | 3 % |
| Insurance | 4,044 | 4,011 | 33 | 1 % | 3,745 | 299 | 8 % |
| Data processing and communications | 26,734 | 25,264 | 1,470 | 6 % | 25,450 | 1,284 | 5 % |
| Printing, postage and supplies | 3,580 | 3,903 | (323) | (8)% | 3,674 | (94) | (3)% |
| Net losses and operating expenses of repossessed assets | 282 | 5,912 | (5,630) | (95)% | 1,246 | (964) | (77)% |
| Amortization of intangible assets | 875 | 545 | 330 | 61 % | 876 | (1) | — % |
| Mortgage banking costs | 7,910 | 12,315 | (4,405) | (36)% | 7,354 | 556 | 8 % |
| Change in fair value of mortgage servicing rights | (14,315) | 11,450 | (25,765) | (225)% | (2,658) | (11,657) | 439 % |
| Other expense | 8,326 | 5,319 | 3,007 | 57 % | 7,064 | 1,262 | 18 % |
| Total other operating expense | $196,606 | $223,011 | $(26,405) | (12)% | $201,324 | $(4,718) | (2)% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Number of employees (full-time equivalent) | 4,712 | 4,585 | 127 | 3 | % | 4,697 | 15 | — | % |

Certain percentage increases (decreases) are not meaningful for comparison purposes.

Personnel expense

The increase in personnel expense was primarily due to standard annual merit increases in regular compensation which were effective for the majority of our staff March 1, increased incentive compensation and higher employee healthcare costs. Regular compensation, which consists of salaries and wages, overtime pay and temporary personnel costs increased $3.1 million or 5% over the second quarter of 2012.

Incentive compensation increased $1.3 million or 3% over the second quarter of 2012. Cash-based incentive compensation plans are either intended to provide current rewards to employees who generate long-term business opportunities for the Company based on growth in loans, deposits, customer relationships and other measurable metrics or intended to compensate employees with commissions on completed transactions. Total cash-based incentive compensation increased $3.1 million or 11% over the second quarter of 2012.

The Company also provides stock-based incentive compensation plans. Stock-based compensation plans include both equity and liability awards. Compensation expense for equity awards decreased $670 thousand compared to the second quarter of 2012. Expense for equity awards is based on the grant-date fair value of the awards and is unaffected by subsequent changes in fair value. Stock-based compensation expense also includes deferred compensation that will ultimately be settled in cash indexed to the investment performance or changes in earnings per share. Certain executive officers are permitted to defer recognition of taxable income from their stock-based compensation. Deferred compensation may also be diversified into investments other than BOK Financial common stock. Compensation expense reflects changes in the market value of BOK Financial common stock and other investments. Expense based on changes in the fair value of BOK Financial common stock and other investments decreased $100 thousand compared to the the second quarter of 2012. In addition, $7.0 million was accrued in second quarter of 2013 and $8.0 million was accrued in the second quarter of 2012 for the BOK Financial Corp. 2011 True-Up Plan. Approved by shareholders on April 26, 2011, the True-Up Plan is designed to adjust annual and long-term performance-based incentive compensation for certain senior executives either upward or downward based on the earnings per share performance and compensation of comparable senior executives at peer banks for 2006 through 2013. The accrual for the 2011 True-Up Plan totaled $57 million at June 30, 2013. Based on currently available information, amounts estimated to be payable under the 2011 True-Up Plans are approximately $72 million. The final amount due under the 2011 True-Up Plan will be determined as of December 31, 2013 and distributed in 2014. Performance measurement through 2013 may result in future upward or downward adjustments to compensation expense.

Employee benefit expense increased $1.4 million or 8% over the second quarter of 2012 primarily due to increased employee medical insurance costs and payroll taxes. The Company self-insures a portion of its employee health care coverage and these costs may be volatile.
Personnel costs increased $2.5 million over the first quarter of 2013 due largely to incentive compensation. Incentive compensation expense increased $2.8 million. Cash-based incentive compensation, which rewards employees as they generate business opportunities for the Company by growing loans, deposits, customer relationships or other measurable metrics, increased $4.0 million. Stock-based incentive compensation expense decreased $1.2 million primarily due decreased accruals for executive compensation plans, partially offset by the impact of the reversal of costs in the first quarter related to performance shares that did not vest.

Non-personnel operating expenses

Non-personnel operating expenses, excluding changes in the fair value of mortgage servicing rights, decreased $6.5 million compared over the second quarter of 2012. Net losses and operating expenses of repossessed assets were down $5.6 million primarily due to decreased impairment charges based on regularly scheduled appraisal updates. Mortgage banking costs were down $4.4 million primarily due to lower provision for potential losses on loans sold to U.S. government agencies under standard representations and warranties. Data processing and communications expense increased $1.5 million primarily due to transaction card activity. All other expenses were up $2.1 million over the second quarter of 2012.

Excluding changes in the fair value of mortgage servicing rights, non-personnel operating expenses increased $4.5 million over the first quarter of 2013. Professional fees and services increased $1.4 million and data processing and

communications expense increased $1.3 million over the prior quarter, both due to higher transaction activity. All other non-personnel expenses increased $1.8 million.

Income Taxes

Income tax expense was $41.4 million or 34% of book taxable income for the second quarter of 2013 compared to $53.1 million or 35% of book taxable income for the second quarter of 2012 and $47.1 million or 35% of book taxable income for the first quarter of 2013.

BOK Financial operates in numerous jurisdictions, which requires judgment regarding the allocation of income, expense and earnings under various laws and regulations of each of these taxing jurisdictions. Each jurisdiction may audit our tax returns and may take different positions with respect to these allocations. The reserve for uncertain tax positions was $13 million at June 30, 2013, March 31, 2013 and June 30, 2012.

Lines of Business

We operate three principal lines of business: Commercial Banking, Consumer Banking and Wealth Management. Commercial Banking includes lending, treasury and cash management services and customer risk management products for small businesses, middle market and larger commercial customers. Commercial Banking also includes the TransFund EFT network. Consumer Banking includes retail lending and deposit services and all mortgage banking activities. Wealth Management provides fiduciary services, brokerage and trading, private bank services and investment advisory services in all markets. Wealth Management also originates loans for high net worth clients.

In addition to our lines of business, we have a Funds Management unit. The primary purpose of this unit is to manage our overall liquidity needs and interest rate risk. Each line of business borrows funds from and provides funds to the Funds Management unit as needed to support their operations. Operating results for Funds Management and other include the effect of interest rate risk positions and risk management activities, securities gains and losses including impairment charges, the provision for credit losses in excess of net loans charged off, tax planning strategies and certain executive compensation costs that are not attributed to the lines of business.

We allocate resources and evaluate the performance of our lines of business after allocation of funds, certain indirect expenses, taxes based on statutory rates, actual net credit losses and capital costs. The cost of funds borrowed from the Funds Management unit by the operating lines of business is transfer priced at rates that approximate market rates for funds with similar duration. Market rates are generally based on the applicable LIBOR or interest rate swap rates, adjusted for prepayment risk. This method of transfer-pricing funds that support assets of the operating lines of business tends to insulate them from interest rate risk.

The value of funds provided by the operating lines of business to the Funds Management unit is also based on rates which approximate wholesale market rates for funds with similar duration and re-pricing characteristics. Market rates are generally based on LIBOR or interest rate swap rates. The funds credit formula applied to deposit products with indeterminate maturities is established based on their re-pricing characteristics reflected in a combination of the short-term LIBOR rate and a moving average of an intermediate term swap rate, with an appropriate spread applied to both. Shorter duration products are weighted towards the short term LIBOR rate and longer duration products are weighted towards the intermediate swap rates. The expected duration ranges from 30 days for certain rate-sensitive deposits to five years.

Economic capital is assigned to the business units by a capital allocation model that reflects management’s assessment of risk. This model assigns capital based upon credit, operating, interest rate and market risk inherent in our business lines and recognizes the diversification benefits among the units. The level of assigned economic capital is a combination of the risk taken by each business line, based on its actual exposures and calibrated to its own loss history where possible. Average invested capital includes economic capital and amounts we have invested in the lines of business.

As shown in Table 6, net income attributable to our lines of business decreased $2.5 million or 4% compared to the second quarter of 2012. Decreased net interest revenue was offset by lower net loans charged off compared to the prior year. Nearly all of our diversified revenue categories grew over the prior year, partially offset by increased personnel expenses. Non-personnel expense and net losses and operating expenses were both down compared to the prior year. The gain (loss) on mortgage servicing rights, net of economic hedges increased over the prior year. The second quarter of 2012 also included a $14.2 million gain on the sale of stock received in partial satisfaction of a defaulted loan which was attributed to the Commercial Banking line of business.

Table 6 -- Net Income by Line of Business
(In thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Commercial Banking | $39,537 | $43,317 | $78,060 | $76,300 |
| Consumer Banking | 20,327 | 15,411 | 40,746 | 35,552 |
| Wealth Management | 2,561 | 6,172 | 6,758 | 10,092 |
| Subtotal | 62,425 | 64,900 | 125,564 | 121,944 |
| Funds Management and other | 17,506 | 32,728 | 42,331 | 59,299 |
| Total | $79,931 | $97,628 | $167,895 | $181,243 |

Commercial Banking

Commercial Banking contributed $39.5 million to consolidated net income in the second quarter of 2013, down $3.8 million or 9% over the second quarter of 2012. Excluding the gain on the sale of stock received in partial satisfaction of a defaulted loan from net income for the second quarter of 2012, Commercial Banking net income increased $4.9 million or 14%.

Table 7 -- Commercial Banking
(Dollars in thousands)

| | Three Months Ended June 30, | | Increase | Six Months Ended June 30, | | Increase |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | (Decrease) | 2013 | 2012 | (Decrease) |
| Net interest revenue from external sources | $90,505 | $93,549 | $(3,044) | $181,349 | $183,041 | $(1,692) |
| Net interest expense from internal sources | (9,375) | (11,439) | 2,064 | (18,502) | (23,488) | 4,986 |
| Total net interest revenue | 81,130 | 82,110 | (980) | 162,847 | 159,553 | 3,294 |
| Net loans charged off | 86 | 748 | (662) | 1,107 | 7,140 | (6,033) |
| Net interest revenue after net loans charged off | 81,044 | 81,362 | (318) | 161,740 | 152,413 | 9,327 |
| | | | | | | |
| Fees and commissions revenue | 43,330 | 37,795 | 5,535 | 84,762 | 76,543 | 8,219 |
| Gain on financial instruments and other assets, net | 81 | 14,363 | (14,282) | 81 | 14,407 | (14,326) |
| Other operating revenue | 43,411 | 52,158 | (8,747) | 84,843 | 90,950 | (6,107) |
| | | | | | | |
| Personnel expense | 26,723 | 25,504 | 1,219 | 52,204 | 50,348 | 1,856 |
| Net losses (gains) and expenses of repossessed assets | (217) | 5,002 | (5,219) | 953 | 5,669 | (4,716) |
| Other non-personnel expense | 20,792 | 18,835 | 1,957 | 40,774 | 36,560 | 4,214 |
| Corporate allocations | 12,448 | 13,284 | (836) | 24,895 | 25,908 | (1,013) |
| Total other operating expense | 59,746 | 62,625 | (2,879) | 118,826 | 118,485 | 341 |
| | | | | | | |
| Income before taxes | 64,709 | 70,895 | (6,186) | 127,757 | 124,878 | 2,879 |
| Federal and state income tax | 25,172 | 27,578 | (2,406) | 49,697 | 48,578 | 1,119 |
| | | | | | | |
| Net income | $39,537 | $43,317 | $(3,780) | $78,060 | $76,300 | $1,760 |
| | | | | | | |
| Average assets | $10,359,660 | $9,865,389 | $494,271 | $10,486,541 | $9,939,627 | $546,914 |
| Average loans | 9,623,460 | 9,024,475 | 598,985 | 9,599,529 | 8,942,733 | 656,796 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Average deposits | 9,027,907 | 8,211,478 | 816,429 | 9,136,184 | 8,283,114 | 853,070 |
| Average invested capital | 899,088 | 862,816 | 36,272 | 895,749 | 883,408 | 12,341 |
| Return on average assets | 1.53 % | 1.77 % | (24 ) bp | 1.50 % | 1.54 % | (4 ) bp |
| Return on invested capital | 17.64 % | 20.19 % | (255 ) bp | 17.57 % | 17.37 % | 20 bp |
| Efficiency ratio | 48.00 % | 52.23 % | (423 ) bp | 47.99 % | 50.19 % | (220 ) bp |
| Net charge-offs (annualized) to average loans | — % | 0.03 % | (3 ) bp | 0.02 % | 0.16 % | (14 ) bp |

Net interest revenue was largely unchanged compared to the prior year. The second quarter of 2012 included $2.9 million from the recovery of foregone interest and fees on a nonaccruing loan. Excluding this recovery, growth in net interest revenue was due to a $599 million increase in average loan balances and a $816 million increase in average deposits over the second quarter of 2012, partially offset by reduced yields on loans and deposits sold to our Funds Management unit.

Fees and commissions revenue increased $5.5 million or 15% over the second quarter of 2012 primarily due to a $3.0 million increase in transaction card revenues. Brokerage and trading revenue was up $1.2 million primarily due to an increase in customer hedging activity. Commercial deposit service charges and fees increased $571 thousand compared to the prior year.

Operating expenses decreased $2.9 million or 5% compared to the second quarter of 2012. Personnel costs increased $1.2 million or 5% primarily due to standard annual merit increases and headcount. Net losses and operating expenses on repossessed assets decreased $5.2 million compared to the second quarter of 2012, primarily due to a decrease in impairment charges based on regularly scheduled appraisal updates. Other non-personnel expenses increased $2.0 million over the second quarter of 2012 primarily due to increased data processing expenses related to increased transaction card volumes. Corporate expense allocations were down $836 thousand compared to the prior year.

The average outstanding balance of loans attributed to Commercial Banking increased $599 million to $9.6 billion for the second quarter of 2013. See the Loans section of Management’s Discussion and Analysis of Financial Condition following for additional discussion of changes in commercial and commercial real estate loans which are primarily attributed to the Commercial Banking segment.

Average deposits attributed to Commercial Banking were $9.0 billion for the second quarter of 2013, up $816 million or 10% over the second quarter of 2012. Average balances attributed to our energy customers increased $384 million or 31%, commercial & industrial loan customers increased $177 million or 6% and small business customers increased $90 million or 5%. Average balances held by treasury services customers were down $10 million compared to the second quarter of 2012. Commercial customers continue to maintain high account balances due to continued economic uncertainty and persistently low yields available on high quality investments.

## Consumer Banking

Consumer Banking services are provided through five primary distribution channels: traditional branches, supermarket branches, the 24-hour ExpressBank call center, Internet banking and mobile banking. Consumer Banking also conducts mortgage banking activities through offices located outside of our consumer banking markets and through correspondent loan originators.

Consumer Banking contributed $20.3 million to consolidated net income for the second quarter of 2013, up $4.9 million over the second quarter of 2012 primarily due to a decrease in net loans charged off and an increase related to changes in the fair value of our mortgage servicing rights, net of economic hedge. Changes in fair value of our mortgage servicing rights, net of economic hedge, increased net income attributed to consumer banking by $1.6 million in the second quarter of 2013 compared to decreasing net income attributed to Consumer Banking by $1.2 million in the second quarter of 2012.

Table 8 -- Consumer Banking
(Dollars in thousands)

| | Three Months Ended June 30, 2013 | 2012 | Increase (Decrease) | Six Months Ended June 30, 2013 | 2012 | Increase (Decrease) |
|---|---|---|---|---|---|---|
| Net interest revenue from external sources | $24,830 | $25,723 | $(893) | $48,925 | $52,310 | $(3,385) |
| Net interest revenue from internal sources | 5,167 | 4,803 | 364 | 10,650 | 9,683 | 967 |
| Total net interest revenue | 29,997 | 30,526 | (529) | 59,575 | 61,993 | (2,418) |
| Net loans charged off | 1,402 | 4,221 | (2,819) | 2,332 | 5,653 | (3,321) |
| Net interest revenue after net loans charged off | 28,595 | 26,305 | 2,290 | 57,243 | 56,340 | 903 |
| | | | | | | |
| Fees and commissions revenue | 61,337 | 64,286 | (2,949) | 124,541 | 120,221 | 4,320 |
| Gain (loss) on financial instruments and other assets, net | (13,344) | 10,234 | (23,578) | (19,406) | 4,539 | (23,945) |
| Other operating revenue | 47,993 | 74,520 | (26,527) | 105,135 | 124,760 | (19,625) |
| | | | | | | |
| Personnel expense | 23,563 | 23,088 | 475 | 46,088 | 44,211 | 1,877 |
| Net losses (gains) and expenses of repossessed assets | 206 | 179 | 27 | (44) | 394 | (438) |
| Change in fair value of mortgage servicing rights | (14,315) | 11,450 | (25,765) | (16,973) | 4,323 | (21,296) |
| Other non-personnel expense | 23,382 | 29,406 | (6,024) | 46,114 | 51,771 | (5,657) |
| Corporate allocations | 10,484 | 11,479 | (995) | 20,505 | 22,214 | (1,709) |
| Total other operating expense | 43,320 | 75,602 | (32,282) | 95,690 | 122,913 | (27,223) |
| | | | | | | |
| Income before taxes | 33,268 | 25,223 | 8,045 | 66,688 | 58,187 | 8,501 |
| Federal and state income tax | 12,941 | 9,812 | 3,129 | 25,942 | 22,635 | 3,307 |
| | | | | | | |
| Net income | $20,327 | $15,411 | $4,916 | $40,746 | $35,552 | $5,194 |
| | | | | | | |
| Average assets | $5,695,098 | $5,660,601 | $34,497 | $5,709,448 | $5,722,627 | $(13,179) |
| Average loans | 2,363,129 | 2,386,797 | (23,668) | 2,358,828 | 2,394,368 | (35,540) |
| Average deposits | 5,645,595 | 5,577,262 | 68,333 | 5,644,103 | 5,596,158 | 47,945 |
| Average invested capital | 297,675 | 289,443 | 8,232 | 297,376 | 286,420 | 10,956 |
| Return on average assets | 1.43 % | 1.09 % | 34 bp | 1.44 % | 1.25 % | 19 bp |
| Return on invested capital | 27.39 % | 21.41 % | 598 bp | 27.63 % | 24.96 % | 267 bp |
| Efficiency ratio | 63.10 % | 67.66 % | (456) bp | 61.19 % | 65.08 % | (389) bp |
| Net charge-offs (annualized) to average loans | 0.24 % | 0.71 % | (47) bp | 0.20 % | 0.47 % | (27) bp |

| | | | | | | |
|---|---|---|---|---|---|---|
| Residential mortgage loans funded for sale | $1,196,038 | $840,765 | $355,273 | $2,152,353 | $1,588,201 | $564,152 |

| | June 30, 2013 | June 30, 2012 | Increase (Decrease) |
|---|---|---|---|
| Banking locations | 225 | 213 | 12 |
| Residential mortgage loans servicing portfolio[1] | $13,846,184 | $12,635,324 | $1,210,860 |

[1] Includes outstanding principal for loans serviced for affiliates

Net interest revenue from Consumer Banking activities decreased $529 thousand compared to the second quarter of 2012. Interest earned on residential mortgage-backed securities held as an economic hedge of mortgage servicing rights declined by $1.1 million due to a $104 million reduction in the average balance of this portfolio. Average loan balances were largely unchanged compared to the second quarter of 2012. Decreased balances of indirect automobile loans were offset by growth in other consumer loans. Net interest earned on deposits sold to our Funds Management unit decreased $693 thousand. Increased net interest earned due to growth in average deposits was offset by lower yields on funds invested.

Net loans charged off by the Consumer Banking unit decreased $2.8 million compared to the second quarter of 2012. Net consumer banking charge-offs also includes indirect automobile loans, overdrawn deposit accounts and other direct consumer loans.

Fees and commissions revenue decreased $2.9 million or 5% over the second quarter of 2012. Mortgage banking revenue was down $3.0 million or 7% over the prior year as previously discussed. Deposit service charges and fees decreased $1.8 million compared to the prior year primarily due to lower overdraft fees, offset by a $1.7 million increase in other revenues.

Excluding the change in the fair value of mortgage servicing rights, operating expenses decreased $6.5 million compared to the second quarter of 2012. Personnel expenses were up $475 thousand or 2% primarily due to increased incentive compensation expense. Non-personnel expense decreased $6.0 million or 20% primarily due to decreased mortgage banking expenses. Accruals for potential credit losses on loans sold to U.S. government agencies under standard representations and warranties were higher in the prior year. Corporate expense allocations were down $995 thousand compared to the second quarter of 2012.

Average consumer deposits grew by $68 million or 1% over the second quarter of 2012. Average interest-bearing transaction accounts increased $116 million or 4% and average demand deposits increased $64 million or 10%. Average time deposit balances were down $159 million or 9% compared to the prior year.

Our Consumer Banking division originates, markets and services conventional and government-sponsored residential mortgage loans for all of our geographical markets. We funded $1.3 billion of residential mortgage loans in the second quarter of 2013 and $921 million in the second quarter of 2012. Mortgage loan fundings included $1.2 billion of mortgage loans funded for sale in the secondary market and $74 million funded for retention within the consolidated group. Approximately 25% of our mortgage loans funded were in the Oklahoma market, 16% in the Texas market, 13% in the New Mexico market and 11% in the Colorado market. In addition, 24% of our mortgage loan fundings came from correspondent lenders.

At June 30, 2013, the Consumer Banking division serviced $12.7 billion of mortgage loans for others and $1.1 billion of loans retained within the consolidated group. Approximately 96% of the mortgage loans serviced by the Consumer Banking division were to borrowers in our primary geographical market areas. Loans past due 90 days or more totaled $68 million or 0.54% of loans serviced for others at June 30, 2013 compared to $72 million or 0.58% of loans serviced for others at March 31, 2013. Mortgage servicing revenue, including revenue on loans serviced for the consolidated group, totaled $10.8 million, up $360 thousand or 3% over the second quarter of 2012.

Wealth Management

Wealth Management contributed $2.6 million to consolidated net income in second quarter of 2013, down $3.6 million or 59% compared to the second quarter of 2012.

Table 9 -- Wealth Management
(Dollars in thousands)

| | Three Months Ended June 30, | | Increase | Six Months Ended June 30, | | Increase |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | (Decrease) | 2013 | 2012 | (Decrease) |
| Net interest revenue from external sources | $6,557 | $7,137 | $(580) | $13,073 | $14,277 | $(1,204) |
| Net interest revenue from internal sources | 5,093 | 5,194 | (101) | 10,371 | 10,051 | 320 |
| Total net interest revenue | 11,650 | 12,331 | (681) | 23,444 | 24,328 | (884) |
| Net loans charged off | 931 | 521 | 410 | 1,449 | 1,171 | 278 |
| Net interest revenue after net loans charged off | 10,719 | 11,810 | (1,091) | 21,995 | 23,157 | (1,162) |
| | | | | | | |
| Fees and commissions revenue | 55,095 | 51,229 | 3,866 | 107,190 | 97,674 | 9,516 |
| Gain on financial instruments and other assets, net | 69 | 327 | (258) | 577 | 275 | 302 |
| Other operating revenue | 55,164 | 51,556 | 3,608 | 107,767 | 97,949 | 9,818 |
| | | | | | | |
| Personnel expense | 42,127 | 36,603 | 5,524 | 80,592 | 71,768 | 8,824 |
| Net losses and expenses of repossessed assets | 17 | 15 | 2 | 49 | 20 | 29 |
| Other non-personnel expense | 9,339 | 7,338 | 2,001 | 17,992 | 14,251 | 3,741 |
| Corporate allocations | 10,209 | 9,308 | 901 | 20,068 | 18,550 | 1,518 |
| Other operating expense | 61,692 | 53,264 | 8,428 | 118,701 | 104,589 | 14,112 |
| | | | | | | |
| Income before taxes | 4,191 | 10,102 | (5,911) | 11,061 | 16,517 | (5,456) |
| Federal and state income tax | 1,630 | 3,930 | (2,300) | 4,303 | 6,425 | (2,122) |
| | | | | | | |
| Net income | $2,561 | $6,172 | $(3,611) | $6,758 | $10,092 | $(3,334) |
| | | | | | | |
| Average assets | $4,543,947 | $4,166,137 | $377,810 | $4,615,054 | $4,167,268 | $447,786 |
| Average loans | 939,329 | 927,321 | 12,008 | 935,581 | 927,429 | 8,152 |
| Average deposits | 4,336,039 | 4,086,874 | 249,165 | 4,473,782 | 4,096,555 | 377,227 |
| | 206,216 | 176,703 | 29,513 | 204,158 | 175,376 | 28,782 |

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Average invested capital | | | | | | | | | | | | | | | | | |
| Return on average assets | 0.23 | % | 0.59 | % | (36 | ) | bp | 0.29 | % | 0.49 | % | (20 | ) | bp |
| Return on invested capital | 4.99 | % | 14.01 | % | (902 | ) | bp | 6.66 | % | 11.60 | % | (494 | ) | bp |
| Efficiency ratio | 92.43 | % | 83.80 | % | 863 | | bp | 90.87 | % | 85.73 | % | 514 | | bp |
| Net charge-offs (annualized) to average loans | 0.40 | % | 0.23 | % | 17 | | bp | 0.31 | % | 0.25 | % | 6 | | bp |

| | June 30, 2013 | June 30, 2012 | Increase (Decrease) |
|---|---|---|---|
| Fiduciary assets in custody for which BOKF has sole or joint discretionary authority | $11,580,842 | $10,225,038 | $1,355,804 |
| Fiduciary assets not in custody for which BOKF has sole or joint discretionary authority | 1,947,821 | 231,167 | 1,716,654 |
| Non-managed trust assets in custody | 14,751,551 | 12,680,420 | 2,071,131 |
| Total fiduciary assets | 28,280,214 | 23,136,625 | 5,143,589 |
| Assets held in safekeeping | 21,824,166 | 20,937,817 | 886,349 |
| Brokerage accounts under BOKF administration | 4,586,789 | 4,109,662 | 477,127 |
| Assets under management or in custody | $54,691,169 | $48,184,104 | $6,507,065 |

Net interest revenue for the second quarter of 2013 was down $681 thousand or 6% compared to the second quarter of 2012. Growth in average assets was largely due to funds sold to the Funds Management unit and was offset by lower yields. Average deposit balances were up $249 million or 6% over the prior year. Interest-bearing transaction account balances grew by $250 million and non-interest bearing demand deposits were up $29 million. Higher-costing time deposit balances decreased $31 million. Average loan balances were largely unchanged compared to the prior year. Residential mortgage loans previously originated by our Wealth Management division decreased, offset by growth in lower yielding consumer loan balances. Net loans charged off increased $410 thousand over the second quarter of 2012 to $931 thousand or 0.40% of average loans on an annualized basis.

Fees and commissions revenue was up $3.9 million or 8% over the second quarter of 2012. Trust fees and commissions were up $4.9 million or 24%. The acquisition of The Milestone Group, a Denver based investment adviser to high net worth clients, in the third quarter of 2012 added $1.5 billion of fiduciary assets as of June 30, 2013 and $2.6 million of revenue in the second quarter of 2013. The remaining increase was primarily due to the growth in the fair value of fiduciary assets administered by the Company. Brokerage and trading revenue decreased $788 thousand or 3%. Increased hedging activity by mortgage banking customers and growth in retail brokerage revenue was partially offset by a decrease in the fair value of trading securities held at quarter end due to higher interest rates.

Other operating revenue includes fees earned from state and municipal bond underwriting and financial advisory services, primarily in the Oklahoma and Texas markets. In the second quarter of 2013, the Wealth Management division participated in 159 underwritings that totaled $2.2 billion. As a participant, the Wealth Management division was responsible for facilitating the sale of approximately $1.1 billion of these underwritings. In the second quarter of 2012, the Wealth Management division participated in 137 underwritings that totaled approximately $1.7 billion. Our interest in these underwritings totaled approximately $719 million.

Operating expenses increased $8.4 million or 16% over the second quarter of 2012. Operating expenses were up $2.5 million related to The Milestone Group acquisition, including a $1.6 million increase in personnel expenses and a $818 thousand increase in non-personnel expenses. Excluding the impact of the Milestone acquisition, personnel expenses increased $3.9 million including a $1.8 million increase in regular compensation and $1.5 million increase in incentive compensation. Non-personnel expenses increased $1.2 million and corporate expense allocations increased $901 thousand.

Geographical Market Distribution

The Company secondarily evaluates performance by primary geographical market. Loans are generally attributed to geographical markets based on the location of the customer and may not reflect the location of the underlying collateral. Brokered deposits and other wholesale funds are not attributed to a geographical market. Funds Management and other also includes insignificant results of operations in locations outside our primary geographic regions. Mortgage origination and marketing revenue is attributed to the geography where the mortgage was originated. Mortgage origination and marketing revenue related to correspondent banking is attributed to the Bank of Oklahoma. All interest revenue on mortgage loans retained by BOKF and servicing revenue for mortgage loans sold in the secondary market and serviced for others is also attributed to the Bank of Oklahoma.

Table 10 -- Net Income (Loss) by Geographic Region
(In thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Bank of Oklahoma | $29,623 | $37,658 | $59,733 | $71,392 |
| Bank of Texas | 13,921 | 11,499 | 26,250 | 24,352 |
| Bank of Albuquerque | 3,919 | 4,884 | 10,235 | 9,364 |
| Bank of Arkansas | 2,760 | 5,453 | 5,113 | 7,622 |
| Colorado State Bank & Trust | 6,430 | 3,414 | 12,053 | 5,760 |
| Bank of Arizona | 2,180 | (942) | 3,159 | (2,778) |
| Bank of Kansas City | 1,929 | 2,219 | 4,286 | 4,579 |
| Subtotal | 60,762 | 64,185 | 120,829 | 120,291 |
| Funds Management and other | 19,169 | 33,443 | 47,066 | 60,952 |
| Total | $79,931 | $97,628 | $167,895 | $181,243 |

Bank of Oklahoma

Our Oklahoma offices are located primarily in the Tulsa and Oklahoma City metropolitan areas. Oklahoma is a significant market to the Company, representing 45% of our average loans, 54% of our average deposits and 37% of our consolidated net income in the second quarter of 2013. In addition, all of our mortgage servicing activity, TransFund EFT network and 63% of our fiduciary assets are attributed to the Oklahoma market.

Net income generated by the Bank of Oklahoma in the second quarter of 2013 decreased $8.0 million or 21% compared to the second quarter of 2012. A gain on the sale of common stock received in settlement of a defaulted loan added $8.7 million to net income for the second quarter of 2012. Changes in fair value of our mortgage servicing rights, net of economic hedge, increased net income attributed to the Bank of Oklahoma by $1.6 million in the second quarter of 2013 compared to decreasing net income attributed to the Bank of Oklahoma by $1.2 million in the second quarter of 2012.

Table 11 -- Bank of Oklahoma
(Dollars in thousands)

| | Three Months Ended June 30, 2013 | 2012 | Increase (Decrease) | Six Months Ended June 30, 2013 | 2012 | Increase (Decrease) |
|---|---|---|---|---|---|---|
| Net interest revenue | $55,989 | $59,812 | $(3,823) | $112,929 | $119,465 | $(6,536) |
| Net loans charged off | 132 | 3,426 | (3,294) | (126) | 5,080 | (5,206) |
| Net interest revenue after net loans charged off | 55,857 | 56,386 | (529) | 113,055 | 114,385 | (1,330) |
| | | | | | | |
| Fees and commissions revenue | 74,870 | 83,130 | (8,260) | 153,303 | 160,489 | (7,186) |
| Gain (loss) on financial instruments and other assets, net | (13,275) | 24,780 | (38,055) | (19,140) | 19,890 | (39,030) |
| Other operating revenue | 61,595 | 107,910 | (46,315) | 134,163 | 180,379 | (46,216) |
| | | | | | | |
| Personnel expense | 39,553 | 38,619 | 934 | 77,272 | 75,074 | 2,198 |
| Net losses and expenses of repossessed assets | 232 | 1,578 | (1,346) | 157 | 1,994 | (1,837) |
| Change in fair value of mortgage servicing rights | (14,315) | 11,450 | (25,765) | (16,973) | 4,323 | (21,296) |
| Other non-personnel expense | 38,236 | 42,344 | (4,108) | 77,512 | 77,694 | (182) |
| Corporate allocations | 5,263 | 8,671 | (3,408) | 11,488 | 18,834 | (7,346) |
| Total other operating expense | 68,969 | 102,662 | (33,693) | 149,456 | 177,919 | (28,463) |
| | | | | | | |
| Income before taxes | 48,483 | 61,634 | (13,151) | 97,762 | 116,845 | (19,083) |
| Federal and state income tax | 18,860 | 23,976 | (5,116) | 38,029 | 45,453 | (7,424) |
| | | | | | | |
| Net income | $29,623 | $37,658 | $(8,035) | $59,733 | $71,392 | $(11,659) |
| | | | | | | |
| Average assets | $11,365,259 | $11,373,035 | $(7,776) | $11,499,814 | $11,462,200 | $37,614 |
| Average loans | 5,572,803 | 5,816,241 | (243,438) | 5,596,518 | 5,726,207 | (129,689) |
| Average deposits | 10,537,284 | 10,186,285 | 350,999 | 10,632,891 | 10,264,402 | 368,489 |
| Average invested capital | 553,803 | 546,064 | 7,739 | 553,519 | 549,377 | 4,142 |
| Return on average assets | 1.05 % | 1.33 % | (28) bp | 1.05 % | 1.25 % | (20) bp |
| | 21.45 % | 27.74 % | (629) bp | 21.76 % | 26.13 % | (437) bp |

| | | | | | | |
|---|---|---|---|---|---|---|
| Return on invested capital | | | | | | |
| Efficiency ratio | 63.64 % | 63.81 % | (17 ) bp | 62.51 % | 62.01 % | 50 bp |
| Net charge-offs (annualized) to average loans | 0.01 % | 0.24 % | (23 ) bp | — % | 0.18 % | (18 ) bp |
| Residential mortgage loans funded for sale | $602,848 | $383,589 | $219,259 | $1,057,767 | $729,854 | $327,913 |

Net interest revenue decreased $3.8 million or 6% compared to the second quarter of 2012. Average loan balances were down $243 million and loan yields decreased. Net interest earned on residential mortgage-backed securities held as an economic hedge of mortgage servicing rights declined by $1.1 million due to a $104 million reduction in the average balance of this portfolio. The favorable net interest impact of the $351 million increase in average deposit balances was offset by lower yields on funds sold to the Funds Management unit.

Fees and commission revenue was down $8.3 million compared to the second quarter of 2012 largely due to a decrease in mortgage banking revenue. Revenue growth from increased loan production was offset by an overall narrowing of gain on sale margins and a shift in product mix toward loans with narrower margins. Additionally, the increase in interest rates near the end of June decreased the fair value of both our mortgage loans held for sale and outstanding mortgage loan commitments.

Transaction card revenue was up $2.3 million on increased transaction volumes. Brokerage and trading revenue was down $3.2 million primarily due to a decrease in the fair value of trading securities held at quarter end as a result of higher interest rates partially offset by growth in retail brokerage revenue.

Excluding the change in the fair value of mortgage servicing rights, other operating expenses were down $7.9 million compared to the prior year. Personnel expenses were up $934 thousand or 2%. Increased regular compensation expense due to annual merit increases was partially offset by decreased incentive compensation expense. Non-personnel expenses were down $4.1 million or 10% due primarily to decreased mortgage banking costs partially offset by higher data processing expenses related to increased transaction card activity. Accruals for potential credit losses on loans sold to U.S. government agencies under standard representations and warranties were higher in the prior year. Net losses and operating expenses of repossessed assets were down $1.3 million compared to the second quarter of 2012. Corporate expense allocations were down $3.4 million compared to the prior year.

Net loans charged off were $132 thousand or 0.01% of average loans on an annualized basis for second quarter of 2013 compared to $3.4 million or 0.24% of average loans on an annualized basis for the second quarter of 2012.

Average deposits attributed to the Bank of Oklahoma for the second quarter of 2013 increased $351 million over the prior year. Commercial Banking deposit balances increased $284 million or 6% over the prior year. Increased deposits related to energy, treasury services and commercial real estate customers were partially offset by decreased average balances from commercial & industrial and healthcare customers. Consumer deposits also increased $90 million over the second quarter of 2012. Wealth Management deposits decreased $22 million compared to the second quarter of 2012 primarily due to decreased trust deposits.

Bank of Texas

Our Texas offices are located primarily in the Dallas, Fort Worth and Houston metropolitan areas. Texas is our second largest market with 34% of our average loans, 24% of our average deposits and 17% of our consolidated net income in the second quarter of 2013.

Table 12 -- Bank of Texas
(Dollars in thousands)

| | Three Months Ended June 30, | | Increase | Six Months Ended June 30, | | Increase |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | (Decrease) | 2013 | 2012 | (Decrease) |
| Net interest revenue | $37,285 | $36,037 | $1,248 | $74,737 | $70,983 | $3,754 |
| Net loans charged off | 354 | 2,847 | (2,493) | 3,028 | 3,131 | (103) |
| Net interest revenue after net loans charged off | 36,931 | 33,190 | 3,741 | 71,709 | 67,852 | 3,857 |
| | | | | | | |
| Fees and commissions revenue | 26,235 | 22,003 | 4,232 | 49,175 | 41,270 | 7,905 |
| Gain on financial instruments and other assets, net | 81 | 143 | (62) | 81 | 188 | (107) |
| Other operating revenue | 26,316 | 22,146 | 4,170 | 49,256 | 41,458 | 7,798 |
| | | | | | | |
| Personnel expense | 22,532 | 20,402 | 2,130 | 43,154 | 40,058 | 3,096 |
| Net losses and expenses of repossessed assets | 178 | 994 | (816) | 429 | 417 | 12 |
| Other non-personnel expense | 6,646 | 6,290 | 356 | 13,018 | 12,114 | 904 |
| Corporate allocations | 12,139 | 9,683 | 2,456 | 23,348 | 18,671 | 4,677 |
| Total other operating expense | 41,495 | 37,369 | 4,126 | 79,949 | 71,260 | 8,689 |
| | | | | | | |
| Income before taxes | 21,752 | 17,967 | 3,785 | 41,016 | 38,050 | 2,966 |
| Federal and state income tax | 7,831 | 6,468 | 1,363 | 14,766 | 13,698 | 1,068 |
| | | | | | | |
| Net income | $13,921 | $11,499 | $2,422 | $26,250 | $24,352 | $1,898 |
| | | | | | | |
| Average assets | $5,226,144 | $4,963,531 | $262,613 | $5,329,249 | $4,993,750 | $335,499 |
| Average loans | 4,218,439 | 3,749,737 | 468,702 | 4,186,485 | 3,766,266 | 420,219 |
| Average deposits | 4,736,878 | 4,481,221 | 255,657 | 4,835,086 | 4,482,053 | 353,033 |
| Average invested capital | 497,671 | 475,484 | 22,187 | 494,415 | 481,821 | 12,594 |
| Return on average assets | 1.07 % | 0.93 % | 14 bp | 0.99 % | 0.98 % | 1 bp |
| Return on invested capital | 11.22 % | 9.73 % | 149 bp | 10.71 % | 10.16 % | 55 bp |
| Efficiency ratio | 65.33 % | 64.38 % | 95 bp | 64.52 % | 63.48 % | 104 bp |
| Net charge-offs (annualized) to average loans | 0.03 % | 0.31 % | (28) bp | 0.15 % | 0.17 % | (2) bp |

| | | | | | | |
|---|---|---|---|---|---|---|
| Residential mortgage loans funded for sale | $168,978 | $114,972 | $54,006 | $290,320 | $212,506 | $77,814 |

Net income for the Bank of Texas increased $2.4 million or 21% compared to the second quarter of 2012. Net interest revenue was up and net loans charged off declined from the prior year. Growth in fees and commissions was largely offset by increased operating expenses.

Net interest revenue increased $1.2 million or 3% over the second quarter of 2012 primarily due to decreased deposit costs and growth of the loan portfolio and average deposit balances. Average outstanding loans grew by $469 million or 12% over the second quarter of 2012 and average deposits increased by $256 million or 6%.

Fees and commissions revenue increased $4.2 million or 19% over the second quarter of 2012. Mortgage banking revenue was up $1.7 million or 33% over the prior year on increased mortgage loan originations. Brokerage and trading revenue grew by $1.5 million or 31% primarily due to increased securities trading and customer hedging revenues. Trust fees and commission and transaction card revenue all increased over the prior year.

Operating expenses increased $4.1 million or 11% over the second quarter of 2012. Personnel costs were up $2.1 million or 10% primarily due to increased incentive compensation in addition to growth in head count and annual merit increases. Net losses and operating expense of repossessed assets decreased $816 thousand over the second quarter of 2012 due primarily to lower impairment charges based on regularly scheduled appraisal updates. Non-personnel expenses increased $356 thousand and corporate expense allocations were up $2.5 million on increased customer transaction activity.

Net loans charged off totaled $354 thousand or 0.03% of average loans for the second quarter of 2013 on an annualized basis, compared to $2.8 million or 0.31% of average loans for the second quarter of 2012 on an annualized basis.

Bank of Albuquerque

Net income attributable to the Bank of Albuquerque totaled $3.9 million or 5% of consolidated net income, down $1.0 million or 20% from the second quarter of 2012 primarily due to increased net loans charged off, partially offset by growth in fees and commission revenue. Net interest revenue was up $394 thousand over the second quarter of 2012. Average loan balances grew by $45 million over the prior year, primarily due to commercial loan growth. Average deposit balances were up $59 million or 5% over the prior year. Net loans charged off totaled $4.0 million or 2.13% of average loans on annualized basis in the second quarter of 2013 compared to net loans charged off of $230 thousand or 0.13% of average loans on an annualized basis in the second quarter of 2012. Charge-offs in the second quarter were primarily composed of a charge-off of a single wholesale/retail sector loan.

Fees and commission revenue increased $2.6 million or 25% over the prior year primarily due to a $2.5 million increase in mortgage banking revenue. Other operating expense increased $393 thousand or 3%. Personnel expenses were up $717 thousand primarily due to increased incentive compensation, annual merit increases and growth in headcount. Net losses and operating expenses of repossessed assets and non-personnel expenses were largely unchanged compared to the prior year. Corporate allocations expenses were down $481 thousand.

Table 13 -- Bank of Albuquerque
(Dollars in thousands)

| | Three Months Ended June 30, | | Increase | Six Months Ended June 30, | | Increase |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | (Decrease) | 2013 | 2012 | (Decrease) |
| Net interest revenue | $8,828 | $8,434 | $394 | $17,736 | $16,865 | $871 |
| Net loans charged off (recovered) | 3,993 | (230) | 4,223 | 4,388 | 656 | 3,732 |
| Net interest revenue after net loans charged off (recovered) | 4,835 | 8,664 | (3,829) | 13,348 | 16,209 | (2,861) |
| Other operating revenue – fees and commission | 13,336 | 10,694 | 2,642 | 26,470 | 21,108 | 5,362 |
| Personnel expense | 5,552 | 4,835 | 717 | 10,907 | 9,745 | 1,162 |
| Net losses (gains) and expenses of repossessed assets | 108 | 57 | 51 | 144 | (134) | 278 |
| Other non-personnel expense | 2,203 | 2,097 | 106 | 4,218 | 4,078 | 140 |
| Corporate allocations | 3,894 | 4,375 | (481) | 7,798 | 8,302 | (504) |
| Total other operating expense | 11,757 | 11,364 | 393 | 23,067 | 21,991 | 1,076 |
| Income before taxes | 6,414 | 7,994 | (1,580) | 16,751 | 15,326 | 1,425 |
| Federal and state income tax | 2,495 | 3,110 | (615) | 6,516 | 5,962 | 554 |
| Net income | $3,919 | $4,884 | $(965) | $10,235 | $9,364 | $871 |
| Average assets | $1,408,615 | $1,355,330 | $53,285 | $1,405,726 | $1,357,959 | $47,767 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Average loans | 750,450 | 705,853 | 44,597 | 756,283 | 707,328 | 48,955 |
| Average deposits | 1,291,364 | 1,232,354 | 59,010 | 1,289,333 | 1,229,809 | 59,524 |
| Average invested capital | 80,634 | 77,793 | 2,841 | 80,351 | 79,732 | 619 |
| Return on average assets | 1.12 % | 1.45 % | (33 ) bp | 1.47 % | 1.39 % | 8 bp |
| Return on invested capital | 19.49 % | 25.25 % | (576 ) bp | 25.69 % | 23.62 % | 207 bp |
| Efficiency ratio | 53.05 % | 59.41 % | (636 ) bp | 52.18 % | 57.91 % | (573 ) bp |
| Net charge-offs (recovered) to average loans (annualized) | 2.13 % | (0.13 )% | 226 bp | 1.17 % | 0.19 % | 98 bp |
| Residential mortgage loans funded for sale | $159,488 | $121,018 | $38,470 | $308,663 | $241,241 | $67,422 |

Bank of Arkansas

Net income attributable to the Bank of Arkansas decreased $2.7 million compared to the second quarter of 2012. Net interest revenue decreased $3.1 million. The second quarter of 2012 included a $2.9 million full recovery of a nonaccruing commercial loan. Average loans balances were down $58 million or 26% primarily due to a decrease in multifamily residential sector loans and the continued runoff of indirect automobile loans. Average deposits grew $9.9 million or 5% over the prior year.

Fees and commissions revenue was up $1.9 million over the prior year primarily due to increased securities trading revenue at our Little Rock office and increased mortgage banking revenue. Other operating expenses were up $1.2 million primarily due to increased incentive compensation costs related to trading activity and increased corporate expense allocations.

Table 14 -- Bank of Arkansas
(Dollars in thousands)

| | Three Months Ended June 30, | | Increase | Six Months Ended June 30, | | Increase |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | (Decrease) | 2013 | 2012 | (Decrease) |
| Net interest revenue | $1,468 | $4,541 | $(3,073) | $2,937 | $6,508 | $(3,571) |
| Net loans recovered | (68) | (2,165) | 2,097 | (139) | (2,102) | 1,963 |
| Net interest revenue after net loans recovered | 1,536 | 6,706 | (5,170) | 3,076 | 8,610 | (5,534) |
| Other operating revenue – fees and commissions | 14,442 | 12,502 | 1,940 | 26,670 | 23,751 | 2,919 |
| Personnel expense | 6,831 | 6,146 | 685 | 12,697 | 11,631 | 1,066 |
| Net losses and expenses of repossessed assets | 210 | 69 | 141 | 232 | 75 | 157 |
| Other non-personnel expense | 1,227 | 1,227 | — | 2,302 | 2,584 | (282) |
| Corporate allocations | 3,193 | 2,842 | 351 | 6,146 | 5,596 | 550 |
| Total other operating expense | 11,461 | 10,284 | 1,177 | 21,377 | 19,886 | 1,491 |
| Income before taxes | 4,517 | 8,924 | (4,407) | 8,369 | 12,475 | (4,106) |
| Federal and state income tax | 1,757 | 3,471 | (1,714) | 3,256 | 4,853 | (1,597) |
| Net income | $2,760 | $5,453 | $(2,693) | $5,113 | $7,622 | $(2,509) |
| Average assets | $294,551 | $245,053 | $49,498 | $246,563 | $260,348 | $(13,785) |
| Average loans | 166,295 | 224,074 | (57,779) | 169,533 | 241,830 | (72,297) |
| Average deposits | 210,991 | 201,116 | 9,875 | 216,466 | 211,185 | 5,281 |
| Average invested capital | 17,914 | 19,387 | (1,473) | 17,793 | 20,901 | (3,108) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Return on average assets | 3.76 % | 8.95 % | (519 ) bp | 4.18 % | 5.89 % | (171 ) bp |
| Return on invested capital | 61.80 % | 113.13 % | (5,133 ) bp | 57.95 % | 73.34 % | (1,539 ) bp |
| Efficiency ratio | 72.04 % | 60.34 % | 1,170 bp | 72.20 % | 65.72 % | 648 bp |
| Net recoveries to average loans (annualized) | (0.16 )% | (3.89 )% | 373 bp | (0.17 )% | (1.75 )% | 158 bp |
| Residential mortgage loans funded for sale | $32,099 | $26,235 | $5,864 | $58,179 | $50,754 | $7,425 |

Colorado State Bank & Trust

Net income attributed to Colorado State Bank & Trust grew by $3.0 million or 88% over the second quarter of 2012 to $6.4 million. Colorado State Bank & Trust experienced a net recovery of $1.5 million compared to net loans charged off of $409 thousand or 0.19% of average loans on an annualized basis in second quarter of 2012. Net interest revenue increased $1.1 million due primarily to a $186 million or 21% increase in average loans outstanding and lower deposit costs, partially offset by decreased yield on funds sold to the Funds Management unit. Average deposits grew $23 million or 2% over the second quarter of 2012. Interest-bearing transaction deposits grew by $39 million and demand deposits were up $18 million, partially offset by a $37 million decrease in time deposits.

Fees and commissions revenue was up $4.4 million over the second quarter of 2012. Trust fees and commissions increased $3.0 million i due primarily to the acquisition of the Milestone Group during the third quarter of 2012. The Milestone Group is a Denver-based registered investment adviser which provides wealth management services to high net worth clients in Colorado and Nebraska. In addition, mortgage banking revenue increased $1.0 million. Operating expenses were up $2.6 million over the prior year primarily due to the Milestone Group acquisition. Personnel expenses were up $2.0 million, and non-personnel expenses were up $801 thousand. Net gains on repossessed assets exceeded expenses by $156 thousand in the second quarter of 2013 compared to net losses and operating expense of repossessed assets of $90 thousand in the second quarter of 2012.

Table 15 -- Colorado State Bank & Trust
(Dollars in thousands)

| | Three Months Ended June 30, | | Increase | Six Months Ended June 30, | | Increase |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | (Decrease) | 2013 | 2012 | (Decrease) |
| Net interest revenue | $10,072 | $8,956 | $1,116 | $19,905 | $17,500 | $2,405 |
| Net loans charged off (recovered) | (1,545) | 409 | (1,954) | (2,011) | 2,297 | (4,308) |
| Net interest revenue after net loans charged off (recovered) | 11,617 | 8,547 | 3,070 | 21,916 | 15,203 | 6,713 |
| Other operating revenue – fees and commissions revenue | 13,293 | 8,845 | 4,448 | 25,411 | 16,569 | 8,842 |
| Personnel expense | 8,301 | 6,262 | 2,039 | 15,605 | 12,038 | 3,567 |
| Net losses (gains) and expenses of repossessed assets | (156) | 90 | (246) | (168) | 72 | (240) |
| Other non-personnel expense | 2,238 | 1,437 | 801 | 4,456 | 2,777 | 1,679 |
| Corporate allocations | 4,003 | 4,016 | (13) | 7,708 | 7,458 | 250 |
| Total other operating expense | 14,386 | 11,805 | 2,581 | 27,601 | 22,345 | 5,256 |
| Income before taxes | 10,524 | 5,587 | 4,937 | 19,726 | 9,427 | 10,299 |
| Federal and state income tax | 4,094 | 2,173 | 1,921 | 7,673 | 3,667 | 4,006 |
| Net income | $6,430 | $3,414 | $3,016 | $12,053 | $5,760 | $6,293 |
| Average assets | $1,334,101 | $1,282,221 | $51,880 | $1,382,641 | $1,303,534 | $79,107 |
| Average loans | 1,070,106 | 884,198 | 185,908 | 1,064,840 | 855,233 | 209,607 |
| Average deposits | 1,295,355 | 1,272,015 | 23,340 | 1,347,286 | 1,294,047 | 53,239 |
| Average invested capital | 147,888 | 117,673 | 30,215 | 148,081 | 119,210 | 28,871 |
| Return on average assets | 1.93% | 1.07% | 86 bp | 1.76% | 0.89% | 87 bp |
| Return on invested capital | 17.44% | 11.67% | 577 bp | 16.41% | 9.72% | 669 bp |
| Efficiency ratio | 61.57% | 66.32% | (475) bp | 60.91% | 65.59% | (468) bp |
| Net charge-offs (recoveries) to average loans (annualized) | (0.58)% | 0.19% | (77) bp | (0.38)% | 0.54% | (92) bp |
| Residential mortgage loans funded for sale | $133,068 | $102,549 | $30,519 | $237,835 | $192,815 | $45,020 |

Bank of Arizona

Bank of Arizona had net income of $2.2 million for the second quarter of 2013 compared to a net loss of $942 thousand for the second quarter of 2012. Bank of Arizona experienced a net recovery of $544 thousand for the second quarter of 2013 compared to net loans charged off of $797 thousand or 0.60% of average loans on an annualized basis for the second quarter of 2012.

Net interest revenue increased $1.4 million or 35% over the second quarter of 2012. Average loan balances were up $119 million or 22% over the second quarter of 2012. Average deposits were up $314 million or 119% over the second quarter of 2012. Interest-bearing transaction account balances increased $281 million and demand deposit balances increased $30 million both primarily due to growth in commercial and wealth management deposits.

Fees and commissions revenue was up $527 thousand primarily due to increased mortgage banking revenue and trust fees and commissions. Brokerage and trading revenue and transaction card revenues also both increased over the prior year. Other operating expense decreased $1.9 million or 26% compared to the second quarter of 2012. Personnel expenses increased due to increased headcount and annual merit increases. Net gains in excess of operating expenses of repossessed assets totaled $593 thousand in the second quarter of 2013 compared to net losses and operating expenses of $2.4 million in the second quarter of 2012. Impairment charges against repossessed assets based on regularly scheduled appraisal updates were less than the prior year. Non-personnel expenses and corporate allocations increased due to increased customer transaction activity.

Table 16 -- Bank of Arizona
(Dollars in thousands)

| | Three Months Ended June 30, | | Increase | Six Months Ended June 30, | | Increase |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | (Decrease) | 2013 | 2012 | (Decrease) |
| Net interest revenue | $5,342 | $3,959 | $1,383 | $9,969 | $8,227 | $1,742 |
| Net loans charged off (recovered) | (544) | 797 | (1,341) | (594) | 4,420 | (5,014) |
| Net interest revenue after net loans charged off (recovered) | 5,886 | 3,162 | 2,724 | 10,563 | 3,807 | 6,756 |
| | | | | | | |
| Fees and commissions revenue | 3,035 | 2,508 | 527 | 6,119 | 4,353 | 1,766 |
| Gain on financial instruments and other assets, net | — | — | — | 310 | — | 310 |
| Other operating revenue | 3,035 | 2,508 | 527 | 6,429 | 4,353 | 2,076 |
| | | | | | | |
| Personnel expense | 3,040 | 2,640 | 400 | 6,191 | 4,995 | 1,196 |
| Net losses and expenses of repossessed assets | (593) | 2,437 | (3,030) | 131 | 3,668 | (3,537) |
| Other non-personnel expense | 1,023 | 862 | 161 | 1,938 | 1,623 | 315 |
| Corporate allocations | 1,883 | 1,272 | 611 | 3,561 | 2,420 | 1,141 |
| Total other operating expense | 5,353 | 7,211 | (1,858) | 11,821 | 12,706 | (885) |
| | | | | | | |
| Income (loss) before taxes | 3,568 | (1,541) | 5,109 | 5,171 | (4,546) | 9,717 |
| Federal and state income tax | 1,388 | (599) | 1,987 | 2,012 | (1,768) | 3,780 |
| | | | | | | |
| Net income (loss) | $2,180 | $(942) | $3,122 | $3,159 | $(2,778) | $5,937 |
| | | | | | | |
| Average assets | $702,200 | $594,492 | $107,708 | $668,795 | $602,001 | $66,794 |
| Average loans | 656,309 | 537,763 | 118,546 | 619,806 | 546,214 | 73,592 |
| Average deposits | 576,404 | 262,692 | 313,712 | 567,762 | 255,002 | 312,760 |
| Average invested capital | 65,024 | 59,061 | 5,963 | 63,747 | 60,870 | 2,877 |
| Return on average assets | 1.25 % | (0.64)% | 189 bp | 0.95 % | (0.93)% | 188 bp |
| Return on invested capital | 13.45 % | (6.41)% | 1,986 bp | 9.99 % | (9.18)% | 1,917 bp |
| Efficiency ratio | 63.90 % | 111.50 % | (4,760) bp | 73.48 % | 101.00 % | (2,752) bp |
| Net charge-offs (recoveries) to average | (0.33)% | 0.60 % | (93) bp | (0.19)% | 1.63 % | (182) bp |

| | | | | | | |
|---|---|---|---|---|---|---|
| loans (annualized) | | | | | | |
| Residential mortgage loans funded for sale | $38,647 | $25,749 | $12,898 | $73,848 | $40,921 | $32,927 |

Bank of Kansas City

Net income attributed to the Bank of Kansas City was $1.9 million for the second quarter of 2013 compared to $2.2 million for the second quarter of 2012. Net interest revenue increased $539 thousand or 17%. Average loan balances increased $71 million or 17% and average deposits balances were up $121 million or 51%. Demand deposit balances grew $142 million due primarily to commercial account balances. Interest-bearing transaction account balances were down $14 million and higher costing time deposit balances decreased by $7.6 million. Net loans charged off totaled $20 thousand or 0.02% on an annualized basis for the second quarter of 2013 compared to a net recovery of $243 thousand for the second quarter of 2012.

Fees and commissions revenue decreased $436 thousand or 5% over the prior year primarily due to decreased mortgage banking revenue and brokerage and trading revenue. Deposit service charges and fees grew by $122 thousand or 34%. Personnel costs were up $355 thousand primarily due to the annual merit increase and growth in headcount. Non-personnel expense increased $421 thousand and corporate expense allocations decreased by $517 thousand.

Table 17 -- Bank of Kansas City
(Dollars in thousands)

| | Three Months Ended June 30, | | Increase | Six Months Ended June 30, | | Increase |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | (Decrease) | 2013 | 2012 | (Decrease) |
| Net interest revenue | $3,780 | $3,241 | $539 | $7,631 | $6,353 | $1,278 |
| Net loans charged off (recovered) | 20 | (243) | 263 | 148 | (156) | 304 |
| Net interest revenue after net loans charged off (recovered) | 3,760 | 3,484 | 276 | 7,483 | 6,509 | 974 |
| Other operating revenue – fees and commission | 8,703 | 9,139 | (436) | 17,867 | 17,931 | (64) |
| Personnel expense | 5,111 | 4,756 | 355 | 10,123 | 9,556 | 567 |
| Net losses and expenses of repossessed assets | 28 | (27) | 55 | 33 | (8) | 41 |
| Other non-personnel expense | 1,514 | 1,093 | 421 | 2,971 | 2,084 | 887 |
| Corporate allocations | 2,653 | 3,170 | (517) | 5,208 | 5,313 | (105) |
| Total other operating expense | 9,306 | 8,992 | 314 | 18,335 | 16,945 | 1,390 |
| Income before taxes | 3,157 | 3,631 | (474) | 7,015 | 7,495 | (480) |
| Federal and state income tax | 1,228 | 1,412 | (184) | 2,729 | 2,916 | (187) |
| Net income | $1,929 | $2,219 | $(290) | $4,286 | $4,579 | $(293) |
| Average assets | $511,411 | $440,109 | $71,302 | $520,170 | $439,706 | $80,464 |
| Average loans | 491,516 | 420,727 | 70,789 | 500,474 | 421,451 | 79,023 |
| Average deposits | 361,264 | 239,931 | 121,333 | 365,244 | 239,329 | 125,915 |
| Average invested capital | 38,840 | 32,729 | 6,111 | 38,286 | 32,600 | 5,686 |
| Return on average assets | 1.51% | 2.03% | (52) bp | 1.66% | 2.09% | (43) bp |
| Return on invested capital | 19.92% | 27.27% | (735) bp | 22.57% | 28.25% | (568) bp |

| | | | | | | |
|---|---|---|---|---|---|---|
| Efficiency ratio | 74.55 % | 72.63 % | 192 bp | 71.91 % | 69.78 % | 213 bp |
| Net charge-offs (annualized) to average loans | 0.02 % | (0.23 )% | 25 bp | 0.06 % | (0.07 )% | 13 bp |
| Residential mortgage loans funded for sale | $60,910 | $66,653 | $(5,743 ) | $125,741 | $120,110 | $5,631 |

Financial Condition
Securities

We maintain a securities portfolio to enhance profitability, support customer transactions, manage interest rate risk, provide liquidity and comply with regulatory requirements. Securities are classified as trading, held for investment, or available for sale. See Note 2 to the consolidated financial statements for the composition of the securities portfolio as of June 30, 2013, December 31, 2012 and June 30, 2012.

At June 30, 2013, the carrying value of investment (held-to-maturity) securities was $616 million and the fair value was $626 million. Investment securities consist primarily of long-term, fixed rate Oklahoma municipal bonds, taxable Texas school construction bonds and residential mortgage-backed securities issued by U.S. government agencies. The investment security portfolio is diversified among issuers. The largest obligation of any single issuer is $30 million. Substantially all of these bonds are general obligations of the issuers. Approximately $83 million of the Texas school construction bonds are also guaranteed by the Texas Permanent School Fund Guarantee Program supervised by the State Board of Education for the State of Texas.

Available for sale securities, which may be sold prior to maturity, are carried at fair value. Unrealized gains or losses, net of deferred taxes, are recorded as accumulated other comprehensive income in shareholders' equity. The amortized cost of available for sale securities totaled $10.7 billion at June 30, 2013, a decrease of $175 million from March 31, 2013. The decrease was primarily in U.S. government agency residential mortgage-backed securities partially offset by an increase in U.S. government agency backed commercial mortgage-backed securities. Commercial mortgage-backed securities have prepayment penalties similar to commercial loans. At June 30, 2013, residential mortgage-backed securities represented 81% of total available for sale securities.

A primary risk of holding residential mortgage-backed securities comes from extension during periods of rising interest rates or prepayment during periods of falling interest rates. We evaluate this risk through extensive modeling of risk both before making an investment and throughout the life of the security. Our best estimate of the duration of the residential mortgage-backed securities portfolio at June 30, 2013 is 3.3 years. Management estimates the duration extends to 3.8 years assuming an immediate 200 basis point upward shock. The estimated duration contracts to 3.0 years assuming a 50 basis point decline in the current rate environment. Net unamortized premiums are less than 1% of the available for sale securities portfolio amortized cost.

Residential mortgage-backed securities also have credit risk from delinquency or default of the underlying loans. We mitigate this risk by primarily investing in securities issued by U.S. government agencies. Principal and interest payments on the underlying loans are fully guaranteed. At June 30, 2013, approximately $8.3 billion of the amortized cost of the Company's residential mortgage-backed securities were issued by U.S. government agencies. The fair value of these residential mortgage-backed securities totaled $8.4 billion at June 30, 2013.

We also hold amortized cost of $292 million in residential mortgage-backed securities privately issued by publicly-owned financial institutions, a decrease of $15 million from March 31, 2013 primarily due to cash received. Other-than-temporary impairment losses charged against earnings related to privately issued mortgage-backed securities totaled $552 thousand during the second quarter of 2013. The fair value of our portfolio of privately issued residential mortgage-backed securities totaled $297 million at June 30, 2013.

The amortized cost of our portfolio of privately issued residential mortgage-backed securities included $179 million of Jumbo-A residential mortgage loans and $114 million of Alt-A residential mortgage loans. Jumbo-A residential mortgage loans generally meet government underwriting standards, but have loan balances that exceed agency maximums. Alt-A mortgage loans generally do not have sufficient documentation to meet government agency underwriting standards. Credit risk on residential mortgage-backed securities originated by private issuers is mitigated

by investment in senior tranches with additional collateral support. All of our Alt-A residential mortgage-backed securities were issued with credit support from additional layers of loss-absorbing subordinated tranches, including all Alt-A residential mortgage-backed securities held that were originated in 2007 and 2006. The weighted average original credit enhancement of the Alt-A residential mortgage-backed securities was 10.2% and has been fully absorbed as of June 30, 2013. The Jumbo-A residential mortgage-backed securities had original credit enhancement of 9.4% and the current level is 3.5%. Approximately 80% of our Alt-A mortgage-backed securities represent pools of fixed rate residential mortgage loans. None of the adjustable rate mortgages are payment option adjustable rate mortgages (“ARMs”). Approximately 23% of our Jumbo-A residential mortgage-backed securities represent pools of fixed rate residential mortgage loans and none of the adjustable rate mortgages are payment option ARMs.

The aggregate gross amount of unrealized losses on available for sale securities totaled $99 million at June 30, 2013, compared to $8.7 million at March 31, 2013. On a quarterly basis, we perform separate evaluations on debt and equity securities to determine if the unrealized losses are temporary as more fully described in Note 2 of the Consolidated Financial Statements. Other-than-temporary impairment charges of $552 thousand were recognized in earnings in the second quarter of 2013 related to certain privately issued residential mortgage-backed securities that we do not intend to sell.

Certain residential mortgage-backed securities issued by U.S. government agencies and included in fair value option securities on the Consolidated Balance Sheets, have been segregated and designated as economic hedges of changes in the fair value of our mortgage servicing rights. We have elected to carry these securities at fair value with changes in fair value recognized in current period income. These securities are held with the intent that gains or losses will offset changes in the fair value of mortgage servicing rights and related derivative contracts.

Bank-Owned Life Insurance

We have approximately $280 million of bank-owned life insurance at June 30, 2013. This investment is expected to provide a long-term source of earnings to support existing employee benefit programs. Approximately $248 million is held in separate accounts. Our separate account holdings are invested in diversified portfolios of investment-grade fixed income securities and cash equivalents, including U.S. Treasury and Agency securities, residential mortgage-backed securities, corporate debt, asset-backed and commercial mortgage-backed securities. The portfolios are managed by unaffiliated professional managers within parameters established in the portfolio’s investment guidelines. The cash surrender value of certain life insurance policies is further supported by a stable value wrap, which protects against changes in the fair value of the investments. At June 30, 2013, the cash surrender value represented by the underlying fair value of investments held in separate accounts was approximately $260 million. As the underlying fair value of the investments held in a separate account at June 30, 2013 exceeded the net book value of the investments, no cash surrender value was supported by the stable value wrap. The stable value wrap is provided by a domestic financial institution. The remaining cash surrender value of $32 million primarily represents the cash surrender value of policies held in general accounts and other amounts due from various insurance companies.

Loans

The aggregate loan portfolio before allowance for loan losses totaled $12.4 billion at June 30, 2013, an increase of $347 million over March 31, 2013.

Table 18 -- Loans
(In thousands)

| | June 30, 2013 | March 31, 2013 | December 31, 2012 | September 30, 2012 | June 30, 2012 |
|---|---|---|---|---|---|
| Commercial: | | | | | |
| Energy | $2,384,746 | $2,349,432 | $2,460,659 | $2,416,877 | $2,268,852 |
| Services | 2,204,253 | 2,114,799 | 2,164,186 | 1,967,568 | 1,988,330 |
| Wholesale/retail | 1,175,543 | 1,085,000 | 1,106,439 | 1,060,061 | 946,684 |
| Manufacturing | 386,133 | 399,818 | 348,484 | 343,360 | 347,086 |
| Healthcare | 1,118,810 | 1,081,636 | 1,081,406 | 1,022,851 | 984,340 |
| Integrated food services | 163,551 | 173,800 | 191,106 | 200,453 | 206,269 |
| Other commercial and industrial | 275,084 | 213,820 | 289,632 | 255,737 | 293,974 |
| Total commercial | 7,708,120 | 7,418,305 | 7,641,912 | 7,266,907 | 7,035,535 |
| | | | | | |
| Commercial real estate: | | | | | |
| Construction and land development | 225,654 | 237,829 | 253,093 | 293,733 | 292,097 |
| Retail | 553,412 | 584,279 | 522,786 | 535,456 | 506,146 |
| Office | 459,558 | 420,644 | 427,872 | 414,246 | 395,339 |
| Multifamily | 500,452 | 460,474 | 402,896 | 393,129 | 358,416 |
| Industrial | 253,990 | 237,049 | 245,994 | 183,846 | 228,725 |
| Other real estate | 324,030 | 344,885 | 376,358 | 356,862 | 369,007 |
| Total commercial real estate | 2,317,096 | 2,285,160 | 2,228,999 | 2,177,272 | 2,149,730 |
| | | | | | |
| Residential mortgage: | | | | | |
| Permanent mortgage | 1,095,871 | 1,091,575 | 1,123,965 | 1,138,960 | 1,144,839 |
| Permanent mortgages guaranteed by U.S. government agencies | 156,887 | 162,419 | 160,444 | 162,271 | 162,240 |
| Home equity | 787,027 | 758,456 | 760,631 | 715,072 | 695,806 |
| Total residential mortgage | 2,039,785 | 2,012,450 | 2,045,040 | 2,016,303 | 2,002,885 |
| | | | | | |
| Consumer: | | | | | |
| Indirect automobile | 16,555 | 24,368 | 34,735 | 47,281 | 62,938 |
| Other consumer | 359,226 | 353,281 | 360,770 | 324,604 | 325,343 |
| Total consumer | 375,781 | 377,649 | 395,505 | 371,885 | 388,281 |
| | | | | | |
| Total | $12,440,782 | $12,093,564 | $12,311,456 | $11,832,367 | $11,576,431 |

Outstanding commercial loan balances increased $290 million over March 31, 2013 due primarily to a $140 million increase in commercial loan balances attributed to the Oklahoma market and a $132 million increase in commercial loan balances attributed to the Texas market. Commercial real estate loans grew by $32 million during the second quarter of 2013 primarily in the Kansas City and Arizona markets, partially offset by a decrease in loan balances attributed to the Colorado market. Residential mortgage loans were up $27 million over March 31, 2013 due primarily to an increase in first lien, fully amortizing home equity loans. Consumer loans were largely unchanged compared to March 31, 2013.

A breakdown by geographical market follows on Table 19 with discussion of changes in the balance by portfolio and geography. This breakdown may not always represent the location of the borrower or the collateral.

Table 19 -- Loans by Principal Market
(In thousands)

| | June 30, 2013 | March 31, 2013 | December 31, 2012 | September 30, 2012 | June 30, 2012 |
|---|---|---|---|---|---|
| Bank of Oklahoma: | | | | | |
| Commercial | $2,993,247 | $2,853,608 | $3,089,686 | $3,015,621 | $3,012,458 |
| Commercial real estate | 569,780 | 568,500 | 580,694 | 598,667 | 614,541 |
| Residential mortgage | 1,503,457 | 1,468,434 | 1,488,486 | 1,466,590 | 1,452,269 |
| Consumer | 211,744 | 207,662 | 220,096 | 197,457 | 201,926 |
| Total Bank of Oklahoma | 5,278,228 | 5,098,204 | 5,378,962 | 5,278,335 | 5,281,194 |
| | | | | | |
| Bank of Texas: | | | | | |
| Commercial | 2,849,888 | 2,718,050 | 2,726,925 | 2,572,928 | 2,443,946 |
| Commercial real estate | 813,659 | 800,577 | 771,796 | 712,899 | 678,882 |
| Residential mortgage | 263,916 | 272,406 | 275,408 | 268,250 | 269,704 |
| Consumer | 105,390 | 110,060 | 116,252 | 108,854 | 115,203 |
| Total Bank of Texas | 4,032,853 | 3,901,093 | 3,890,381 | 3,662,931 | 3,507,735 |
| | | | | | |
| Bank of Albuquerque: | | | | | |
| Commercial | 296,036 | 271,075 | 265,830 | 267,467 | 262,493 |
| Commercial real estate | 314,871 | 332,928 | 326,135 | 316,040 | 308,060 |
| Residential mortgage | 133,058 | 129,727 | 130,337 | 120,606 | 115,599 |
| Consumer | 14,364 | 14,403 | 15,456 | 15,883 | 15,534 |
| Total Bank of Albuquerque | 758,329 | 748,133 | 737,758 | 719,996 | 701,686 |
| | | | | | |
| Bank of Arkansas: | | | | | |
| Commercial | 61,414 | 54,191 | 62,049 | 48,097 | 49,344 |
| Commercial real estate | 85,546 | 88,264 | 90,821 | 119,306 | 119,919 |
| Residential mortgage | 10,691 | 11,285 | 13,046 | 12,939 | 13,083 |
| Consumer | 11,819 | 13,943 | 15,421 | 19,720 | 24,246 |
| Total Bank of Arkansas | 169,470 | 167,683 | 181,337 | 200,062 | 206,592 |
| | | | | | |
| Colorado State Bank & Trust: | | | | | |
| Commercial | 786,262 | 822,942 | 776,610 | 708,223 | 662,583 |
| Commercial real estate | 146,137 | 171,251 | 173,327 | 158,387 | 163,175 |
| Residential mortgage | 62,490 | 56,052 | 59,363 | 59,395 | 62,313 |
| Consumer | 23,148 | 20,990 | 19,333 | 19,029 | 20,570 |
| Total Colorado State Bank & Trust | 1,018,037 | 1,071,235 | 1,028,633 | 945,034 | 908,641 |
| | | | | | |
| Bank of Arizona: | | | | | |
| Commercial | 355,698 | 326,266 | 313,296 | 300,544 | 278,184 |
| Commercial real estate | 258,938 | 229,020 | 201,760 | 204,164 | 199,252 |
| Residential mortgage | 51,774 | 54,285 | 57,803 | 65,513 | 67,767 |
| Consumer | 4,947 | 5,664 | 4,686 | 6,150 | 6,220 |
| Total Bank of Arizona | 671,357 | 615,235 | 577,545 | 576,371 | 551,423 |
| | | | | | |
| Bank of Kansas City: | | | | | |
| Commercial | 365,575 | 372,173 | 407,516 | 354,027 | 326,527 |
| Commercial real estate | 128,165 | 94,620 | 84,466 | 67,809 | 65,901 |

| | | | | | |
|---|---|---|---|---|---|
| Residential mortgage | 14,399 | 20,261 | 20,597 | 23,010 | 22,150 |
| Consumer | 4,369 | 4,927 | 4,261 | 4,792 | 4,582 |
| Total Bank of Kansas City | 512,508 | 491,981 | 516,840 | 449,638 | 419,160 |
| | | | | | |
| Total BOK Financial loans | $12,440,782 | $12,093,564 | $12,311,456 | $11,832,367 | $11,576,431 |

Commercial

Commercial loans represent loans for working capital, facilities acquisition or expansion, purchases of equipment and other needs of commercial customers primarily located within our geographical footprint. Commercial loans are underwritten individually and represent on-going relationships based on a thorough knowledge of the customer, 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, interests 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. Inherent lending risks are centrally monitored on a continuous basis from underwriting throughout the life of the loan for compliance with commercial lending policies.

The commercial loan portfolio grew $290 million during the second quarter of 2013. Wholesale/retail sector loans increased $91 million primarily in the Texas, Oklahoma and Arizona markets. Service sector loans increased $89 million, growing primarily in the Oklahoma and New Mexico markets. Other commercial and industrial sector loans increased $61 million primarily in the Oklahoma market. Healthcare sector loans were up $37 million primarily in the Arizona market. Energy sector loans increased $35 million, primarily in the Oklahoma market.

The commercial sector of our loan portfolio is distributed as follows in Table 20.

Table 20 -- Commercial Loans by Principal Market
(In thousands)

| | Bank of Oklahoma | Bank of Texas | Bank of Albuquerque | Bank of Arkansas | Colorado State Bank & Trust | Bank of Arizona | Bank of Kansas City | Total |
|---|---|---|---|---|---|---|---|---|
| Energy | $938,944 | $986,578 | $6,935 | $203 | $452,086 | $— | $— | $2,384,746 |
| Services | 728,792 | 765,968 | 203,691 | 10,909 | 220,685 | 166,873 | 107,335 | 2,204,253 |
| Wholesale/retail | 403,214 | 543,635 | 26,783 | 42,349 | 13,333 | 94,138 | 52,091 | 1,175,543 |
| Healthcare | 599,066 | 306,642 | 42,908 | 3,721 | 77,610 | 65,617 | 23,246 | 1,118,810 |
| Manufacturing | 188,710 | 137,514 | 4,985 | 3,640 | 8,299 | 27,768 | 15,217 | 386,133 |
| Integrated food services | 2,908 | 5,357 | — | — | 11,657 | — | 143,629 | 163,551 |
| Other commercial and industrial | 131,613 | 104,194 | 10,734 | 592 | 2,592 | 1,302 | 24,057 | 275,084 |
| Total commercial loans | $2,993,247 | $2,849,888 | $296,036 | $61,414 | $786,262 | $355,698 | $365,575 | $7,708,120 |

Supporting the energy industry with loans to producers and other energy-related entities has been a hallmark of the Company since its founding and represents a large portion of our commercial loan portfolio. In addition, energy production and related industries have a significant impact on the economy in our primary markets. Loans collateralized by oil and gas properties are subject to a semi-annual engineering review by our internal staff of petroleum engineers. This review is utilized as the basis for developing the expected cash flows supporting the loan amount. The projected cash flows are discounted according to risk characteristics of the underlying oil and gas properties. Loans are evaluated to demonstrate with reasonable certainty that crude oil, natural gas and natural gas liquids can be recovered from known oil and gas reservoirs under existing economic and operating conditions at current pricing levels and with existing conventional equipment and operating methods and costs. As part of our evaluation of credit quality, we analyze rigorous stress tests over a range of commodity prices and take proactive steps to mitigate risk when appropriate.

Outstanding energy loans totaled $2.4 billion or 19% of total loans at June 30, 2013. Unfunded energy loan commitments increased by $137 million to $2.5 billion at June 30, 2013. Approximately $2.1 billion of energy loans were to oil and gas producers, down $62 million compared to March 31, 2013. Approximately 59% of the committed production loans are secured by properties primarily producing oil and 41% of the committed production loans are secured by properties primarily producing natural gas. Loans to borrowers engaged in wholesale or retail energy sales increased $120 million to $239 million. At June 30, 2013, loans to borrowers that provide services to the energy industry were $63 million and loans to borrowers that manufacture equipment primarily for the energy industry were $24 million, largely unchanged from compared to the prior quarter.

The services sector of the loan portfolio totaled $2.2 billion or 18% of total loans and consists of a large number of loans to a variety of businesses, including community foundations, gaming, public finance, insurance and educational. Service sector loans increased $89 million from March 31, 2013. Approximately $1.1 billion of the services category is made up of loans with individual balances of less than $10 million. Service sector loans are generally secured by the assets of the borrower with repayment coming from the cash flows of ongoing operations of the customer's business.

We participate in shared national credits when appropriate to obtain or maintain business relationships with local customers. Shared national credits are defined by banking regulators as credits of more than $20 million and with three or more non-affiliated banks as participants. At June 30, 2013, the outstanding principal balance of these loans totaled $2.4 billion. Substantially all of these loans are to borrowers with local market relationships. We serve as the agent lender in approximately 14% of our shared national credits, based on dollars committed. We hold shared credits to the same standard of analysis and perform the same level of review as internally originated credits. Our lending policies generally avoid loans in which we do not have the opportunity to maintain or achieve other business relationships with the customer. In addition to management's quarterly assessment of credit risk, grading of shared national credits is provided annually by banking regulators.

Commercial Real Estate

Commercial real estate represents loans for the construction of buildings or other improvements to real estate and property held by borrowers for investment purposes generally within our geographical footprint. We require 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. The expected cash flows from all significant new or renewed income producing property commitments are stress tested to reflect the risks in varying interest rates, vacancy rates and rental rates. As with commercial loans, inherent lending risks are centrally monitored on a continuous basis from underwriting throughout the life of the loan for compliance with applicable lending policies.

Commercial real estate loans totaled $2.3 billion or 19% of the loan portfolio at June 30, 2013. The outstanding balance of commercial real estate loans increased $32 million over the first quarter of 2013. Loans secured by multifamily residential properties grew by $40 million, growing in almost all of our geographical markets, partially offset by decreases in loans attributed to the Colorado and Arkansas markets. Loans secured by office buildings grew by $39 million primarily in the Arizona and Kansas City markets. Industrial sector loans were up $17 million primarily related to growth in the Kansas City market. Retail sector loans decreased $31 million, primarily in the Oklahoma, Arizona and New Mexico markets. Other real estate loans decreased $21 million primarily in the New Mexico market. The commercial real estate loan balance as a percentage of our total loan portfolio has ranged from 18% to 22% over the past five years. The commercial real estate sector of our loan portfolio is distributed as follows in Table 21.

Table 21 -- Commercial Real Estate Loans by Principal Market
(In thousands)

| | Bank of Oklahoma | Bank of Texas | Bank of Albuquerque | Bank of Arkansas | Colorado State Bank & Trust | Bank of Arizona | Bank of Kansas City | Total |
|---|---|---|---|---|---|---|---|---|
| Construction and land development | $73,940 | $39,400 | $48,162 | $15,833 | $32,720 | $7,557 | $8,042 | $225,654 |
| Retail | 129,005 | 232,256 | 64,365 | 12,273 | 23,482 | 76,044 | 15,987 | 553,412 |
| Office | 76,259 | 188,606 | 95,218 | 8,631 | 21,153 | 56,894 | 12,797 | 459,558 |
| Multifamily | 143,205 | 159,491 | 42,970 | 19,479 | 11,811 | 68,594 | 54,902 | 500,452 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Industrial | 51,281 | 113,561 | 36,908 | 427 | 6,527 | 23,055 | 22,231 | 253,990 |
| Other real estate | 96,090 | 80,345 | 27,248 | 28,903 | 50,444 | 26,794 | 14,206 | 324,030 |
| Total commercial real estate loans | $569,780 | $813,659 | $314,871 | $85,546 | $146,137 | $258,938 | $128,165 | $2,317,096 |

Construction and land development loans, which consist primarily of residential construction properties and developed building lots, decreased $12 million from March 31, 2013 to $226 million at June 30, 2013 primarily due to payments. We had $604 thousand of foreclosures related to constructions and land development loans in the second quarter of 2013.

Residential Mortgage and Consumer

Residential mortgage loans provide funds for our customers to purchase or refinance their primary residence or to borrow against the equity in their home. Residential mortgage loans are secured by a first or second-mortgage on the customer's primary residence. Consumer loans include direct loans secured by and for the purchase of automobiles, recreational and marine equipment as well as other unsecured loans. Consumer loans also include indirect automobile loans made through primary dealers. Residential mortgage and consumer loans are made in accordance with underwriting policies we believe to be conservative and are fully documented. Credit scoring is assessed based on significant credit characteristics including credit history, residential and employment stability.

Residential mortgage loans totaled $2.0 billion, an increase of $27 million over March 31, 2013. In general, we sell the majority of our conforming fixed rate loan originations in the secondary market and retain the majority of our non-conforming and adjustable-rate mortgage loans. We have no concentration in sub-prime residential mortgage loans. Our mortgage loan portfolio does not include payment option adjustable rate mortgage loans or adjustable rate mortgage loans with initial rates that are below market.

The majority of our permanent mortgage loan portfolio is primarily composed of various non-conforming mortgage programs to support customer relationships including jumbo mortgage loans, non-builder construction loans and special loan programs for high net worth individuals or certain professionals. The aggregate outstanding balance of loans in these programs is $1.0 billion. Jumbo loans may be fixed or variable rate and are fully amortizing. The size of jumbo loans exceed maximums set under government sponsored entity standards, but otherwise generally conform to those standards. These loans generally require a minimum FICO score of 720 and a maximum debt-to-income ratio ("DTI") of 38%. Loan-to-value ratios ("LTV") are tiered from 60% to 100%, depending on the market. Special mortgage programs include fixed and variable rate fully amortizing loans tailored to the needs of certain healthcare professionals. Variable rate loans are fully indexed at origination and may have fixed rates for three to ten years, then adjust annually thereafter.

Approximately $64 million or 6% of the non-guaranteed portion of the permanent mortgage loans consist of first lien, fixed-rate residential mortgage loans originated under various community development programs. The outstanding balance of these loans is down from $67 million at March 31, 2013. These loans were underwritten to standards approved by various U.S. government agencies under these programs and include full documentation. However, these loans do have a higher risk of delinquency and losses in the event of default than traditional residential mortgage loans. The initial maximum LTV of loans in these programs was 103%.

At June 30, 2013, $157 million of permanent residential mortgage loans are guaranteed by U.S. government agencies. We have minimal credit exposure on loans guaranteed by the agencies. This amount includes residential mortgage loans previously sold into GNMA mortgage pools that the Company may repurchase when certain defined delinquency criteria are met. Because of this repurchase right, the Company is deemed to have regained effective control over these loans and must include them on the Consolidated Balance Sheet. Permanent residential mortgage loans guaranteed by U.S. government agencies decreased $5.5 million over March 31, 2013.

Home equity loans totaled $787 million at June 30, 2013, a $29 million increase over March 31, 2013. Our home equity loan portfolio is primarily composed of first-lien, fully amortizing home equity loans. Home equity loans generally require a minimum FICO score of 700 and a maximum DTI of 40%. The maximum loan amount available for our home equity loan products is generally $400 thousand. Revolving loans have a 5 year revolving period followed by 15 year term of amortizing repayment. Interest-only home equity loans may not be extended for any additional revolving time. All other home equity loans may be extended at management's discretion for an additional 5 year revolving term subject to an update of certain credit information. A summary of our home equity loan portfolio at June 30, 2013 by lien position and amortizing status follows in Table 22.

Table 22 -- Home Equity Loans
(In thousands)

| | Revolving | Amortizing | Total |
|---|---|---|---|
| First lien | $38,247 | $513,492 | $551,739 |
| Junior lien | 56,153 | 179,135 | 235,288 |
| Total home equity | $94,400 | $692,627 | $787,027 |

Indirect automobile loans decreased $7.8 million from March 31, 2013, primarily due to the previously-disclosed decision by the Company to exit the business in the first quarter of 2009. Approximately $17 million of indirect automobile loans remain outstanding at June 30, 2013. Other consumer loans increased $5.9 million during the second quarter of 2013.

The composition of residential mortgage and consumer loans at June 30, 2013 is as follows in Table 23. All permanent residential mortgage loans originated and serviced by our mortgage banking unit are attributed to the Oklahoma market. Other permanent residential mortgage loans originated by the Bank are attributed to their respective principal market.

Table 23 -- Residential Mortgage and Consumer Loans by Principal Market
(In thousands)

| | Bank of Oklahoma | Bank of Texas | Bank of Albuquerque | Bank of Arkansas | Colorado State Bank & Trust | Bank of Arizona | Bank of Kansas City | Total |
|---|---|---|---|---|---|---|---|---|
| Residential mortgage: | | | | | | | | |
| Permanent mortgage | $879,144 | $124,417 | $7,503 | $5,506 | $32,284 | $41,123 | $5,894 | $1,095,871 |
| Permanent mortgages guaranteed by U.S. government agencies | 156,887 | — | — | — | — | — | — | 156,887 |
| Home equity | 467,426 | 139,499 | 125,555 | 5,185 | 30,206 | 10,651 | 8,505 | 787,027 |
| Total residential mortgage | $1,503,457 | $263,916 | $133,058 | $10,691 | $62,490 | $51,774 | $14,399 | $2,039,785 |
| | | | | | | | | |
| Consumer: | | | | | | | | |
| Indirect automobile | $7,850 | $3,365 | $— | $5,340 | $— | $— | $— | $16,555 |
| Other consumer | 203,894 | 102,025 | 14,364 | 6,479 | 23,148 | 4,947 | 4,369 | 359,226 |
| Total consumer | $211,744 | $105,390 | $14,364 | $11,819 | $23,148 | $4,947 | $4,369 | $375,781 |

Loan Commitments

We enter into certain off-balance sheet arrangements in the normal course of business. These arrangements included unfunded loan commitments which totaled $7.0 billion and standby letters of credit which totaled $454 million at June 30, 2013. Loan commitments may be unconditional obligations to provide financing or conditional obligations that depend on the borrower’s financial condition, collateral value or other factors. Standby letters of credit are unconditional commitments to guarantee the performance of our customer to a third party. Since some of these commitments are expected to expire before being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Approximately $629 thousand of the outstanding standby letters of credit were issued on behalf of customers whose loans are nonperforming at June 30, 2013.

As more fully described in Note 5 to the Consolidated Financial Statements, we have off-balance sheet commitments related to certain residential mortgage loans originated under community development loan programs that were sold to a U.S. government agency with full recourse. These mortgage loans were underwritten to standards approved by the agencies, including full documentation and originated under programs available only for owner-occupied properties. The Company no longer sells residential mortgage loans with recourse other than obligations under standard representations and warranties. We are obligated to repurchase these loans for the life of these loans in the event of foreclosure for the unpaid principal and interest at the time of foreclosure. At June 30, 2013, the principal balance of residential mortgage loans sold subject to recourse obligations totaled $212 million, down from $220

million at March 31, 2013. Substantially all of these loans are to borrowers in our primary markets including $148 million to borrowers in Oklahoma, $22 million to borrowers in Arkansas, $14 million to borrowers in New Mexico and $11 million to borrowers in the Kansas/Missouri.

We also have an off-balance sheet obligation to repurchase residential mortgage loans sold to government sponsored entities through our mortgage banking activities due to standard representations and warranties made under contractual agreements as described further in Note 5 to the Consolidated Financial Statements. For the period from 2010 through the second quarter of 2013 combined, approximately 12% of repurchase requests have currently resulted in actual repurchases or indemnification by the Company. The accrual for credit losses related to potential loan repurchases under representations and warranties totaled $6.2 million at June 30, 2013 and $5.9 million at March 31, 2013.

Customer Derivative Programs

We offer programs that permit our customers to hedge various risks, including fluctuations in energy, cattle and other agricultural product prices, interest rates and foreign exchange rates, or to take positions in derivative contracts. Each of these programs work essentially the same way. Derivative contracts are executed between the customers and the Company. Offsetting contracts are executed between the Company and selected counterparties to minimize market risk due to changes in commodity prices, interest rates or foreign exchange rates. The counterparty contracts are identical to the customer contracts, except for a fixed pricing spread or a fee paid to us as compensation for administrative costs, credit risk and profit.

The customer derivative programs create credit risk for potential amounts due to the Company from our customers and from the counterparties. Customer credit risk is monitored through existing credit policies and procedures. The effects of changes in commodity prices, interest rates or foreign exchange rates are evaluated across a range of possible options to determine the maximum exposure we are willing to have individually to any customer. Customers may also be required to provide cash margin or other collateral in conjunction with our credit agreements to further limit our credit risk.

Counterparty credit risk is evaluated through existing policies and procedures. This evaluation considers the total relationship between BOK Financial and each of the counterparties. Individual limits are established by management, approved by Credit Administration and reviewed by the Asset / Liability Committee. Margin collateral is required if the exposure between the Company and any counterparty exceeds established limits. Based on declines in the counterparties' credit ratings, these limits may be reduced and additional margin collateral may be required.

A deterioration of the credit standing of one or more of the customers or counterparties to these contracts may result in BOK Financial recognizing a loss as the fair value of the affected contracts may no longer move in tandem with the offsetting contracts. This occurs if the credit standing of the customer or counterparty deteriorated such that either the fair value of underlying collateral no longer supported the contract or the customer or counterparty's ability to provide margin collateral was impaired. Credit losses on customer derivatives reduce brokerage and trading revenue in the Consolidated Statement of Earnings.

Derivative contracts are carried at fair value. At June 30, 2013, the net fair values of derivative contracts, before consideration of cash margin, reported as assets under these programs totaled $551 million compared to $322 million at March 31, 2013. Derivative contracts carried as assets included to-be-announced residential mortgage-backed securities sold to our mortgage banking customers considered interest rate derivative contracts with fair values of $277 million, interest rate swaps sold to loan customers with fair values of $52 million, energy contracts with fair values of $30 million and foreign exchange contracts with fair values of $178 million. The aggregate net fair values of derivative contracts, before consideration of cash margin, held under these programs reported as liabilities totaled $545 million at June 30, 2013 and $319 million at March 31, 2013.

At June 30, 2013, total derivative assets were reduced by $5.1 million of cash collateral received from counterparties and total derivative liabilities were reduced by $25 million of cash collateral paid to counterparties related to instruments executed with the same counterparty under a master netting agreement.

A table showing the notional and fair value of derivative assets and liabilities on both a gross and net basis is presented in Note 3 to the Consolidated Financial Statements.

The fair value of derivative contracts reported as assets under these programs, net of cash margin held by the Company, by category of debtor at June 30, 2013 follows in Table 24.

Table 24 -- Fair Value of Derivative Contracts

| (In thousands) | |
| --- | --- |
| Exchanges and clearing organizations | $284,571 |
| Customers | 163,859 |
| Banks and other financial institutions | 95,787 |
| Energy companies | 1,989 |
| Fair value of customer risk management program asset derivative contracts, net | $546,206 |

At June 30, 2013, our largest exposure to a single exchange and clearing organization was $267 million. Our largest exposure to an individual counterparty was to a loan customer for an interest rate swap which totaled $8.9 million at June 30, 2013. We have no direct exposure to European sovereign debt and our aggregate gross exposure to European financial institutions totaled $6.0 million at June 30, 2013. In addition, we have an aggregate gross exposure to internationally active domestic financial institutions of approximately $210 million at June 30, 2013.

Our customer derivative program also introduces liquidity and capital risk. We are required to provide cash margin to certain counterparties when the net negative fair value of the contracts exceeds established limits. Also, changes in commodity prices affect the amount of regulatory capital we are required to hold as support for the fair value of our derivative assets. These risks are modeled as part of the management of these programs. Based on current prices, a decrease in market prices equivalent to $28.20 per barrel of oil would increase the fair value of derivative assets by $24 million. An increase in prices equivalent to $155.37 per barrel of oil would increase the fair value of derivative assets by $425 million as current prices move away from the fixed prices embedded in our existing contracts. Liquidity requirements of this program are also affected by our credit rating. A decrease in credit rating to below investment grade would increase our obligation to post cash margin on existing contracts by approximately $29 million. The fair value of our to-be-announced residential mortgage-backed securities and interest rate swap derivative contracts is affected by changes in interest rates. Based on our assessment as of June 30, 2013, changes in interest rate would not materially impact regulatory capital or liquidity needed to support this portion of our customer derivative program.

Summary of Loan Loss Experience

We maintain an allowance for loan losses and an accrual for off-balance sheet credit risk. The combined allowance for loan losses and off-balance sheet credit losses totaled $205 million or 1.65% of outstanding loans and 168% of nonaccruing loans at June 30, 2013. The allowance for loans losses was $203 million and the accrual for off-balance sheet credit losses was $1.6 million. At March 31, 2013, the combined allowance for credit losses was $207 million or 1.71% of outstanding loans and 156% of nonaccruing loans at March 31, 2013. The allowance for loan losses was $206 million and the accrual for off-balance sheet credit losses was $1.1 million.

The provision for credit losses is the amount necessary to maintain the allowance for loan losses and an accrual for off-balance sheet credit risk at an amount determined by management to be appropriate based on its evaluation. The provision includes the combined charge to expense for both the allowance for loan losses and the accrual for off-balance sheet credit risk. All losses incurred from lending activities will ultimately be reflected in charge-offs against the allowance for loan losses following funds advanced against outstanding commitments. After evaluating all credit factors, the Company determined that no provision for credit losses was necessary during the second quarter of 2013. Additional allowance required by growth in outstanding loan balances during the quarter was offset by a decrease in inherent risks for certain loan classes. An $8.0 million negative provision for credit losses was recorded in both the first quarter of 2013 and the second quarter of 2012.

Table 25 -- Summary of Loan Loss Experience
(In thousands)

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | June 30, 2013 | March 31, 2013 | December 31, 2012 | September 30, 2012 | June 30, 2012 |
| Allowance for loan losses: | | | | | |
| Beginning balance | $205,965 | $215,507 | $233,756 | $231,669 | $244,209 |
| Loans charged off: | | | | | |
| Commercial | (4,538) | (298) | (1,501) | (812) | (4,094) |
| Commercial real estate | (450) | (4,800) | (1,094) | (2,607) | (1,216) |
| Residential mortgage | (2,057) | (1,779) | (2,600) | (1,600) | (4,061) |
| Consumer | (1,507) | (2,032) | (2,805) | (3,902) | (2,172) |
| Total | (8,552) | (8,909) | (8,000) | (8,921) | (11,543) |
| Recoveries of loans previously charged off: | | | | | |
| Commercial | 1,940 | 3,393 | 947 | [1] (890) | 4,125 |
| Commercial real estate | 2,727 | 1,124 | 1,166 | 2,684 | 544 |
| Residential mortgage | 444 | 572 | 469 | 298 | 750 |
| Consumer | 1,099 | 1,468 | 1,141 | 1,112 | 1,283 |
| Total | 6,210 | 6,557 | 3,723 | 3,204 | 6,702 |
| Net loans charged off | (2,342) | (2,352) | (4,277) | (5,717) | (4,841) |
| Provision for loan losses | (499) | (7,190) | (13,972) | 7,804 | (7,699) |
| Ending balance | $203,124 | $205,965 | $215,507 | $233,756 | $231,669 |
| Accrual for off-balance sheet credit losses: | | | | | |
| Beginning balance | $1,105 | $1,915 | $1,943 | $9,747 | $10,048 |
| Provision for off-balance sheet credit losses | 499 | (810) | (28) | (7,804) | (301) |
| Ending balance | $1,604 | $1,105 | $1,915 | $1,943 | $9,747 |
| Total combined provision for credit losses | $— | $(8,000) | $(14,000) | $— | $(8,000) |
| Allowance for loan losses to loans outstanding at period-end | 1.63% | 1.70% | 1.75% | 1.98% | 2.00% |
| Net charge-offs (annualized) to average loans | 0.08% | 0.08% | 0.14% | [1] 0.19% | 0.17% |
| Total provision for credit losses (annualized) to average loans | —% | (0.26)% | (0.47)% | —% | (0.28)% |
| Recoveries to gross charge-offs | 72.61% | 73.60% | 46.54% | 35.92% | 58.06% |
| Accrual for off-balance sheet credit losses to off-balance sheet credit commitments | 0.02% | 0.02% | 0.03% | 0.03% | 0.15% |
| Combined allowance for credit losses to loans outstanding at period-end | 1.65% | 1.71% | 1.77% | 1.99% | 2.09% |

[1] Includes $7.1 million of negative recovery related to a refund of a settlement between BOK Financial and the City of Tulsa invalidated by the Oklahoma Supreme Court. Excluding this refund, BOK Financial had net charge-offs (recoveries) to average loans of (0.05%) on an annualized basis.

Allowance for Loan Losses

The appropriateness of the allowance for loan losses is assessed by management based on an ongoing quarterly evaluation of the probable estimated losses inherent in the portfolio. The allowance consists of specific allowances attributed to certain impaired loans, general allowances based on estimated loss rates by loan class and non-specific allowances based on general economic conditions, concentration in loans with large balances and other relevant factors.

Loans are considered to be impaired when it is probable that we will not collect all amounts due according to the contractual terms of the loan agreement. This includes all nonaccruing loans, all loans modified in troubled debt restructurings and all government guaranteed loans repurchased from GNMA pools. At June 30, 2013, impaired loans totaled $279 million, including $5.7 million with specific allowances of $2.0 million and $273 million with no specific allowances because the loans balances represent the amounts we expect to recover. At March 31, 2013, impaired loans totaled $295 million, including $3.1 million of impaired loans with specific allowances of $1.0 million and $292 million with no specific allowances.

General allowances for unimpaired loans are based on an estimated loss rate by loan class. Estimated loss rates for risk-graded loans are either increased or decreased based on changes in risk grading for each loan class. Estimated loss rates for both risk-graded and non-risk graded loans may be further adjusted for inherent risk identified for the given loan class which have not yet been captured in the loss rate.

The aggregate amount of general allowances for all unimpaired loans totaled $159 million at June 30, 2013 compared to $162 million at March 31, 2013. The decrease in the general allowance was due primarily to a $2.6 million decrease in general allowance related to commercial loans. Inherent risks related to certain commercial loan groups have moderated. In addition, risk grading has improved related to service sector loans, partially offset by growth in commercial loan balances.

Nonspecific allowances are maintained for risks beyond factors specific to a particular portfolio segment or loan class. These factors include trends in the economy in our primary lending areas, concentrations in loans with large balances and other relevant factors. Nonspecific allowances totaled $42 million at June 30, 2013, largely unchanged from March 31, 2013. The nonspecific allowance at both June 30, 2013 and March 31, 2013 includes consideration of the bankruptcy filing by a major employer in the Tulsa, Dallas/Ft. Worth and Kansas City markets. Although we have no direct exposure, the secondary effect on employees, retirees, vendors, suppliers and other business partners could be significant. The nonspecific allowance also considers the possible impact of the European debt crisis and similar economic factors on our loan portfolio. Based on on-going monitoring of the impact of this crises on our loan portfolio, this risk has lessened. Additionally, domestic economic risks have also improved, offset by a newly identified risk related to the rapid rise in interest rates during the quarter. As interest rates increase and variable rate loans re-price, borrowers are impacted as their debt service increases.

An allocation of the allowance for loan losses by loan category is included in Note 4 to the Consolidated Financial Statements.

Our loan monitoring process also identified loans that possess more than the normal amount of risk due to deterioration in the financial condition of the borrower or the value of the collateral. Because the borrowers are still performing in accordance with the original terms of the loans agreements, and no loss of principal or interest is anticipated, these loans were not included in nonperforming assets. Known information does, however, cause management concern as to the borrowers' ability to comply with current repayment terms. The potential problem loans totaled $91 million at June 30, 2013, primarily composed of $26 million of service sector loans, $20 million of construction and land development loans and $12 million of other commercial real estate loans. Potential problem loans totaled $141 million at March 31, 2013.

Net Loans Charged Off

Loans are charged off against the allowance for loan losses when the loan balance or a portion of the loan balance is no longer covered by the paying capacity of the borrower based on an evaluation of available cash resources and collateral value. Internally risk graded loans are evaluated quarterly and charge-offs are taken in the quarter in which the loss is identified. Non-risk graded loans are generally charged off when payments are between 60 days and 180 days past due, depending on loan class. In addition, non-risk graded loans are are generally charged-down to collateral

value within 60 days of being notified of a borrower's bankruptcy filing, regardless of payment status.

Net loans charged off during the second quarter of 2013 totaled $2.3 million compared to $2.4 million in the first quarter of 2013 and $4.8 million in the second quarter of 2012. The ratio of net loans charged off to average loans on an annualized basis was 0.08% for the second quarter of 2013 compared with 0.08% for the first quarter of 2013 and 0.17% for the second quarter of 2012. Net loans charged off in the second quarter of 2013 were largely unchanged compared to the previous quarter.

Net loans charged off (recovered) by portfolio segment category and principal market area during the second quarter of 2013 follow in Table 26.



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Table 26 -- Net Loans Charged Off (Recovered)
(In thousands)

| | Oklahoma | Texas | Colorado | Arkansas | New Mexico | Arizona | Kansas/ Missouri | Total |
|---|---|---|---|---|---|---|---|---|
| Commercial | $(580) | $(431) | $20 | $(22) | $3,975 | $(363) | $(1) | $2,598 |
| Commercial real estate | (419) | (62) | (1,609) | (6) | (4) | (177) | — | (2,277) |
| Residential mortgage | 966 | 642 | 26 | 35 | (62) | (10) | 16 | 1,613 |
| Consumer | 165 | 205 | 18 | (75) | 84 | 6 | 5 | 408 |
| Total net loans charged off (recovered) | $132 | $354 | $(1,545) | $(68) | $3,993 | $(544) | $20 | $2,342 |

Net commercial loans charged off during the second quarter of 2013 increased $5.7 million and were comprised primarily of a $4.0 million charge-off related to a single wholesale/retail sector customer in the New Mexico market.

Net charge-offs of commercial real estate loans decreased $6.0 million compared to the first quarter of 2013 and were primarily comprised of a $1.8 million recovery from a single construction and land development relationship attributed to the Colorado market.

Residential mortgage net charge-offs were up $406 thousand over the previous quarter and consumer loan net charge-offs, which include indirect auto loan and deposit account overdraft losses, decreased $156 thousand. Net charge-offs related to residential mortgage loans serviced by the our mortgage banking division that were originated across the geographical footprint and retained by the Company are attributed to the Oklahoma market.

Nonperforming Assets

Table 27 -- Nonperforming Assets
(In thousands)

| | June 30, 2013 | March 31, 2013 | December 31, 2012 | September 30, 2012 | June 30, 2012 |
|---|---|---|---|---|---|
| Nonaccruing loans: | | | | | |
| Commercial | $20,869 | $19,861 | $24,467 | $21,762 | $34,529 |
| Commercial real estate | 58,693 | 65,175 | 60,626 | 75,761 | 80,214 |
| Residential mortgage | 40,534 | 45,426 | 46,608 | 29,267 | 22,727 |
| Consumer | 2,037 | 2,171 | 2,709 | 5,109 | 7,012 |
| Total nonaccruing loans | 122,133 | 132,633 | 134,410 | 131,899 | 144,482 |
| Accruing renegotiated loans: | | | | | |
| Guaranteed by U.S. government agencies | 48,733 | 47,942 | 38,515 | 24,590 | 24,760 |
| Other | — | — | — | 3,402 | 3,655 |
| Total accruing renegotiated loans | 48,733 | 47,942 | 38,515 | 27,992 | 28,415 |
| Total nonperforming loans | 170,866 | 180,575 | 172,925 | 159,891 | 172,897 |
| Real estate and other repossessed assets: | | | | | |
| Guaranteed by U.S. government agencies | 32,155 | 27,864 | 22,365 | 22,819 | 21,405 |
| Other | 77,957 | 74,837 | 81,426 | 81,309 | 84,303 |
| Real estate and other repossessed assets | 110,112 | 102,701 | 103,791 | 104,128 | 105,708 |
| Total nonperforming assets | $280,978 | $283,276 | $276,716 | $264,019 | $278,605 |
| Total nonperforming assets excluding those guaranteed by U.S. government agencies | $200,007 | $207,256 | $215,347 | $216,610 | $232,440 |
| | | | | | |
| Nonaccruing loans by principal market: | | | | | |
| Bank of Oklahoma | $52,541 | $54,392 | $56,424 | $41,599 | $49,931 |
| Bank of Texas | 21,620 | 37,571 | 31,623 | 28,046 | 24,553 |
| Bank of Albuquerque | 24,134 | 12,479 | 13,401 | 13,233 | 13,535 |
| Bank of Arkansas | 998 | 1,008 | 1,132 | 5,958 | 6,865 |
| Colorado State Bank & Trust | 9,510 | 11,771 | 14,364 | 22,878 | 28,239 |
| Bank of Arizona | 13,323 | 15,392 | 17,407 | 20,145 | 21,326 |
| Bank of Kansas City | 7 | 20 | 59 | 40 | 33 |
| Total nonaccruing loans | $122,133 | $132,633 | $134,410 | $131,899 | $144,482 |
| | | | | | |
| Nonaccruing loans by loan portfolio segment and class: | | | | | |
| Commercial: | | | | | |
| Energy | $2,277 | $2,377 | $2,460 | $3,063 | $3,087 |
| Manufacturing | 876 | 1,848 | 2,007 | 2,283 | 12,230 |
| Wholesale / retail | 6,700 | 2,239 | 3,077 | 2,007 | 4,175 |
| Integrated food services | — | — | 684 | — | — |
| Services | 7,448 | 9,474 | 12,090 | 10,099 | 10,123 |
| Healthcare | 2,670 | 2,962 | 3,166 | 3,305 | 3,310 |
| Other | 898 | 961 | 983 | 1,005 | 1,604 |
| Total commercial | 20,869 | 19,861 | 24,467 | 21,762 | 34,529 |

| | June 30, 2013 | March 31, 2013 | December 31, 2012 | September 30, 2012 | June 30, 2012 |
|---|---|---|---|---|---|
| Commercial real estate: | | | | | |
| Land development and construction | 21,135 | 23,462 | 26,131 | 38,143 | 46,050 |
| Retail | 8,406 | 8,921 | 8,117 | 6,692 | 7,908 |
| Office | 7,828 | 12,851 | 6,829 | 9,833 | 10,589 |
| Multifamily | 6,447 | 4,501 | 2,706 | 3,145 | 3,219 |
| Industrial | — | 2,198 | 3,968 | 4,064 | — |
| Other commercial real estate | 14,877 | 13,242 | 12,875 | 13,884 | 12,448 |
| Total commercial real estate | 58,693 | 65,175 | 60,626 | 75,761 | 80,214 |
| Residential mortgage: | | | | | |
| Permanent mortgage | 32,747 | 38,153 | 39,863 | 23,717 | 18,136 |
| Permanent mortgage guaranteed by U.S. government agencies | 83 | 214 | 489 | — | — |
| Home equity | 7,704 | 7,059 | 6,256 | 5,550 | 4,591 |
| Total residential mortgage | 40,534 | 45,426 | 46,608 | 29,267 | 22,727 |
| Consumer | 2,037 | 2,171 | 2,709 | 5,109 | 7,012 |
| Total nonaccrual loans | $122,133 | $132,633 | $134,410 | $131,899 | $144,482 |
| | | | | | |
| Ratios: | | | | | |
| Allowance for loan losses to nonaccruing loans | 166.31 % | 155.29 % | 160.34 % | 177.22 % | 160.34 % |
| Nonaccruing loans to period-end loans | 0.98 % | 1.10 % | 1.09 % | 1.11 % | 1.25 % |
| Accruing loans 90 days or more past due[1] | $2,460 | $4,229 | $3,925 | $1,181 | $691 |

[1] Excludes residential mortgage guaranteed by agencies of the U.S. Government

Nonperforming assets totaled $281 million or 2.24% of outstanding loans and repossessed assets at June 30, 2013. Nonaccruing loans totaled $122 million, accruing renegotiated residential mortgage loans totaled $49 million and real estate and other repossessed assets totaled $110 million. All accruing renegotiated residential mortgage loans, $83 thousand of nonaccruing loans and $32 million of real estate and other repossessed assets are guaranteed by U.S. government agencies. Nonperforming assets decreased $7 million during the first quarter, excluding assets guaranteed by U.S. government agencies. The Company generally retains nonperforming assets to maximize potential recovery which may cause future nonperforming assets to decrease more slowly.

Loans are generally classified as nonaccruing when it becomes probable that we will not collect the full contractual principal and interest. As more fully discussed in Note 4 to the Consolidated Financial Statements, we may modify nonaccruing commercial and commercial real estate loans in troubled debt restructurings. Modifications may include extension of payment terms and rate concessions. We do not forgive principal or accrued but unpaid interest. All loans modified in troubled debt restructurings, except for residential mortgage loans guaranteed by U.S. government agencies, are classified as nonaccruing. We may also renew matured nonaccruing loans. All nonaccuring loans, including those renewed or modified in troubled debt restructurings, are charged off when the loan balance is no longer covered by the paying capacity of the borrower based on a quarterly evaluation of available cash resources and collateral value. All nonaccruing loans generally remain on nonaccrual status until full collection of principal and interest in accordance with the original terms, including principal previously charged off, is probable. We generally do not voluntarily modify consumer loans to troubled borrowers. Consumer loans modified at the direction of bankruptcy court orders are identified as troubled debt restructurings and classified as nonaccruing.

At June 30, 2013, renegotiated loans consist solely of accruing residential mortgage loans guaranteed by U.S. government agencies that have been modified in troubled debt restructurings. See Note 4 to the Consolidated Financial Statements for additional discussion of troubled debt restructurings. Generally, we modify residential mortgage loans primarily by reducing interest rates and extending the number of payments in accordance with U.S. government agency guidelines. No unpaid principal or interest is forgiven. Interest continues to accrue based on the modified terms of the loan. Modified loans guaranteed by U.S. government agencies under residential mortgage loan programs may be sold once they become eligible according to U.S. government agency guidelines.

A rollforward of nonperforming assets for the second quarter of 2013 follows in Table 28.

Table 28 -- Rollforward of Nonperforming Assets
(In thousands)

| | Three Months Ended June 30, 2013 | | | |
|---|---|---|---|---|
| | Nonaccruing Loans | Renegotiated Loans | Real Estate and Other Repossessed Assets | Total Nonperforming Assets |
| Balance, Mar. 31, 2013 | $ 132,633 | $ 47,942 | $ 102,701 | $ 283,276 |
| Additions | 39,429 | 14,746 | — | 54,175 |
| Transfers from premises and equipment | — | — | 668 | 668 |
| Payments | (11,980) | (299) | — | (12,279) |
| Charge-offs | (8,552) | — | — | (8,552) |
| Net gains and write-downs | — | — | 1,113 | 1,113 |
| Foreclosure of nonperforming loans | (14,336) | — | 14,336 | — |
| Foreclosure of loans guaranteed by U.S. government agencies | (15,664) | — | 15,664 | — |
| Proceeds from sales | — | (13,726) | (12,882) | (26,608) |
| Conveyance to U.S. government agencies | — | — | (11,372) | (11,372) |
| Net transfers to nonaccruing loans | — | — | — | — |
| Return to accrual status | — | — | — | — |
| Other, net | 603 | 70 | (116) | 557 |
| Balance, June 30, 2013 | $ 122,133 | $ 48,733 | $ 110,112 | $ 280,978 |

| | Six Months Ended June 30, 2013 | | | |
|---|---|---|---|---|
| | Nonaccruing Loans | Renegotiated Loans | Real Estate and Other Repossessed Assets | Total Nonperforming Assets |
| Balance, Dec. 31, 2012 | $ 134,410 | $ 38,515 | $ 103,791 | $ 276,716 |
| Additions | 81,572 | 29,046 | — | 110,618 |
| Transfers from premises and equipment | — | — | 668 | 668 |
| Payments | (25,745) | (881) | — | (26,626) |
| Charge-offs | (17,461) | — | — | (17,461) |
| Net gains and write-downs | — | — | 1,386 | 1,386 |
| Foreclosure of nonperforming loans | (19,981) | — | 19,981 | — |
| Foreclosure of loans guaranteed by U.S. government agencies | (32,318) | — | 32,318 | — |
| Proceeds from sales | — | (18,659) | (25,380) | (44,039) |
| Conveyance to U.S. government agencies | — | — | (22,527) | (22,527) |
| Net transfers to nonaccruing loans | 348 | (348) | — | — |
| Return to accrual status | (129) | — | — | (129) |
| Other, net | 1,437 | 1,060 | (125) | 2,372 |
| Balance, June 30, 2013 | $ 122,133 | $ 48,733 | $ 110,112 | $ 280,978 |

We foreclose on loans guaranteed by U.S. government agencies in accordance with agency guidelines. Generally these loans are not eligible for modification programs or have failed to comply with modified loan terms. Principal is guaranteed by agencies of the U.S. government, subject to limitations and credit risk is minimal. These properties will

be conveyed to the agencies once applicable criteria have been met. During the second quarter of 2013, $16 million of properties guaranteed by U.S. government agencies were foreclosed on and $11 million of properties were conveyed to the applicable U.S. government agencies.

Nonaccruing loans totaled $122 million or 0.98% of outstanding loans at June 30, 2013 and $133 million or 1.10% of outstanding loans at March 31, 2013. Nonaccruing loans decreased $11 million from March 31, 2013 due primarily to $12 million of payments, $8.6 million of charge-offs and $30 million of foreclosures. Newly identified nonaccruing loans totaled $39 million for the second quarter of 2013.

The distribution of nonaccruing loans among our various markets follows in Table 29.

Table 29 -- Nonaccruing Loans by Principal Market
(Dollars in thousands)

| | June 30, 2013 | | March 31, 2013 | | Change | |
|---|---|---|---|---|---|---|
| | Amount | % of outstanding loans | Amount | % of outstanding loans | Amount | % of outstanding loans |
| Bank of Oklahoma | $52,541 | 1.00 % | $54,392 | 1.07 % | $(1,851) | (7) bp |
| Bank of Texas | 21,620 | 0.54 % | 37,571 | 0.96 % | (15,951) | (42) |
| Bank of Albuquerque | 24,134 | 3.18 % | 12,479 | 1.67 % | 11,655 | 151 |
| Bank of Arkansas | 998 | 0.59 % | 1,008 | 0.60 % | (10) | (1) |
| Colorado State Bank & Trust | 9,510 | 0.93 % | 11,771 | 1.10 % | (2,261) | (17) |
| Bank of Arizona | 13,323 | 1.98 % | 15,392 | 2.50 % | (2,069) | (52) |
| Bank of Kansas City | 7 | — % | 20 | — % | (13) | — |
| Total | $122,133 | 0.98 % | $132,633 | 1.10 % | $(10,500) | (12) bp |

Nonaccruing loans attributed to the Bank of Oklahoma are primarily composed of $32 million of residential mortgage loans and $14 million of commercial real estate loans. All residential mortgage loans retained by the Company that were originated across our geographical footprint and serviced by our mortgage company are attributed to the Bank of Oklahoma. Nonaccruing loans attributed to the Bank of Texas included $12 million of commercial real estate loans and $4.5 million of residential mortgage loans. Nonaccruing loans attributed to the Bank of Albuquerque included $16 million of commercial real estate loans and $4.9 million of commercial loans. Nonaccruing loans attributed to the Bank of Arizona and Colorado State Bank & Trust both consisted primarily of commercial real estate loans.
Commercial

Nonaccruing commercial loans totaled $21 million or 0.27% of total commercial loans at June 30, 2013, compared to $20 million or 0.27% of total commercial loans at March 31, 2013. Nonaccruing commercial loans at June 30, 2013 were primarily composed of $7.4 million or 0.34% of total services sector loans primarily attributed to the Bank of Arizona and Bank of Texas. Nonaccruing commercial loans attributed to the Bank of Albuquerque were primarily composed of a single wholesale/retail sector loan. Nonaccruing commercial loans increased $1.0 million in the second quarter of 2013. Newly identified nonaccruing commercial loans of $9.5 million were partially offset by $4.5 million of charge-offs and $4.0 million in payments during the second quarter.

The distribution of nonaccruing commercial loans among our various markets was as follows in Table 30.

Table 30 -- Nonaccruing Commercial Loans by Principal Market
(Dollars in thousands)

| | June 30, 2013 | | March 31, 2013 | | Change | |
|---|---|---|---|---|---|---|
| | Amount | % of outstanding loans | Amount | % of outstanding loans | Amount | % of outstanding loans |
| Bank of Oklahoma | $5,166 | 0.17 % | $6,816 | 0.24 % | $(1,650) | (7) bp |
| Bank of Texas | 4,475 | 0.16 % | 5,880 | 0.22 % | (1,405) | (6) |
| Bank of Albuquerque | 6,106 | 2.06 % | 1,367 | 0.50 % | 4,739 | 156 |
| Bank of Arkansas | 298 | 0.49 % | 313 | 0.58 % | (15) | (9) |
| Colorado State Bank & Trust | 632 | 0.08 % | 674 | 0.08 % | (42) | — |
| Bank of Arizona | 4,192 | 1.18 % | 4,811 | 1.47 % | (619) | (29) |
| Bank of Kansas City | — | — % | — | — % | — | — |
| Total commercial | $20,869 | 0.27 % | $19,861 | 0.27 % | $1,008 | — bp |

Commercial Real Estate

Nonaccruing commercial real estate loans decreased to $59 million or 2.53% of outstanding commercial real estate loans at June 30, 2013 from $65 million or 2.85% of outstanding commercial real estate loans at March 31, 2013. Nonaccruing commercial real estate loans continue to be largely concentrated in land development and residential construction loans. Newly identified nonaccruing commercial real estate loans totaled $10 million, were offset by $10 million of foreclosures, $5.7 million of cash payments received and $450 thousand of charge-offs. The distribution of our nonaccruing commercial real estate loans among our geographic markets follows in Table 31.

Table 31 -- Nonaccruing Commercial Real Estate Loans by Principal Market
(Dollars in thousands)

| | June 30, 2013 | | March 31, 2013 | | Change | |
|---|---|---|---|---|---|---|
| | Amount | % of outstanding loans | Amount | % of outstanding loans | Amount | % of outstanding loans |
| Bank of Oklahoma | $14,404 | 2.53 % | $13,563 | 2.39 % | $841 | 14 bp |
| Bank of Texas | 12,213 | 1.50 % | 22,726 | 2.84 % | (10,513) | (134) |
| Bank of Albuquerque | 15,590 | 4.95 % | 9,198 | 2.76 % | 6,392 | 219 |
| Bank of Arkansas | — | — % | — | — % | — | — |
| Colorado State Bank & Trust | 8,697 | 5.95 % | 10,501 | 6.13 % | (1,804) | (18) |
| Bank of Arizona | 7,789 | 3.01 % | 9,187 | 4.01 % | (1,398) | (100) |
| Bank of Kansas City | — | — % | — | — % | — | — |
| Total commercial real estate | $58,693 | 2.53 % | $65,175 | 2.85 % | $(6,482) | (32) bp |

Nonaccruing land development and residential construction loans totaled $21 million at June 30, 2013, primarily concentrated in the New Mexico, Texas and Colorado markets. Other nonaccruing commercial real estate loans totaled $15 million primarily concentrated in the Arizona and Colorado markets.

Residential Mortgage and Consumer

Nonaccruing residential mortgage loans totaled $41 million or 1.99% of outstanding residential mortgage loans at June 30, 2013 compared to $45 million or 2.26% of outstanding residential mortgage loans at March 31, 2013. Newly identified nonaccruing residential mortgage loans totaled $19 million, partially offset by $19 million of foreclosures,

$2.2 million of payments and $2.1 million of loans charged off during the quarter. Nonaccruing residential mortgage loans primarily consist of non-guaranteed permanent residential mortgage loans which totaled $33 million or 2.99% of outstanding non-guaranteed permanent residential mortgage loans at June 30, 2013. Nonaccruing home equity loans totaled $7.7 million or 0.98% of total home equity loans.



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Payments of accruing residential mortgage loans and consumer loans may be delinquent. The composition of residential mortgage loans and consumer loans past due but still accruing is included in the following Table 32. Substantially all non-guaranteed residential loans past due 90 days or more are nonaccruing. Residential mortgage loans 30 to 89 days past due increased $2.7 million in the second quarter to $11 million at June 30, 2013. Consumer loans past due 30 to 89 days decreased $288 thousand from March 31, 2013.

Table 32 -- Residential Mortgage and Consumer Loans Past Due
(In thousands)

| | June 30, 2013 | | March 31, 2013 | |
|---|---|---|---|---|
| | 90 Days or More | 30 to 89 Days | 90 Days or More | 30 to 89 Days |
| Residential mortgage: | | | | |
| Permanent mortgage[1] | $— | $8,689 | $— | $5,774 |
| Home equity | — | 2,451 | — | 2,638 |
| Total residential mortgage | $— | $11,140 | — | $8,412 |
| Consumer: | | | | |
| Indirect automobile | $— | $540 | $— | $685 |
| Other consumer | 19 | 1,942 | 314 | 1,509 |
| Total consumer | $19 | $2,482 | $314 | $2,194 |

[1] Excludes past due residential mortgage loans guaranteed by agencies of the U.S. government.

Real Estate and Other Repossessed Assets

Real estate and other repossessed assets are assets acquired in partial or total forgiveness of loans. The assets are carried at the lower of cost as determined by fair value at date of foreclosure or current fair value, less estimated selling costs.

Real estate and other repossessed assets totaled $110 million at June 30, 2013, a $7.4 million increase from March 31, 2013. The distribution of real estate and other repossessed assets attributed by geographical market is included in Table 33 following.

Table 33 -- Real Estate and Other Repossessed Assets by Principal Market
(In thousands)

| | Oklahoma | Texas | Colorado | Arkansas | New Mexico | Arizona | Kansas/ Missouri | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Developed commercial real estate properties | $2,214 | $2,879 | $2,172 | $1,050 | $8,720 | $1,428 | $905 | $7,048 | $26,416 |
| 1-4 family residential properties guaranteed by U.S. government agencies | 6,570 | 1,063 | 1,181 | 1,074 | 18,597 | 681 | 2,138 | 851 | 32,155 |
| 1-4 family residential properties | 6,109 | 3,071 | 998 | 1,176 | 2,155 | 6,783 | 625 | 327 | 21,244 |
| Undeveloped land | 999 | 4,344 | 4,046 | 68 | 132 | 5,692 | 1,294 | 599 | 17,174 |
| | 375 | 1,139 | 1,827 | 2,312 | 1,359 | 5,380 | 146 | — | 12,538 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Residential land development properties | | | | | | | | | |
| Oil and gas properties | — | 213 | — | — | — | — | — | — | 213 |
| Vehicles | 6 | 17 | — | 19 | — | — | — | — | 42 |
| Other | — | — | — | — | — | 324 | — | 6 | 330 |
| Total real estate and other repossessed assets | $16,273 | $12,726 | $10,224 | $5,699 | $30,963 | $20,288 | $5,108 | $8,831 | $110,112 |

Undeveloped land is primarily zoned for commercial development. Developed commercial real estate properties are primarily completed with no additional construction necessary for sale.

Liquidity and Capital
Subsidiary Bank

Deposits and borrowed funds are the primary sources of liquidity for the subsidiary bank. Based on the average balances for the second quarter of 2013, approximately 71% of our funding was provided by deposit accounts, 14% from borrowed funds, 1% from long-term subordinated debt and 11% from equity. Our funding sources, which primarily include deposits and borrowings from the Federal Home Loan Banks and other banks, provide adequate liquidity to meet our operating needs.

Deposit accounts represent our largest funding source. We compete for retail and commercial deposits by offering a broad range of products and services and focusing on customer convenience. Retail deposit growth is supported through our Perfect Banking sales and customer service program, free checking, online bill paying services, mobile banking services, an extensive network of branch locations and ATMs and a 24-hour Express Bank call center. Commercial deposit growth is supported by offering treasury management and lockbox services. We also acquire brokered deposits when the cost of funds is advantageous to other funding sources.

Average deposits for the second quarter of 2013 totaled $19.5 billion and represented approximately 71% of total liabilities and capital compared with $20.0 billion and 73% of total liabilities and capital for the first quarter of 2013. Average deposits decreased $522 million from the first quarter of 2013. Interest-bearing transaction deposit accounts decreased $332 million, demand deposits decreased $113 million and average time deposits decreased $95 million.

Average Commercial Banking deposit balances decreased $218 million compared to the first quarter of 2013. Average commercial deposits were down primarily due to the full quarter impact of the redeployment of deposits in the first quarter 2013 generatedfrom the sale of businesses and assets by customers in the fourth quarter of 2012. Balances related to our energy customers decreased $150 million, commercial real estate balances were down $140 million and balances related to commercial & industrial customers were down $52 million. Balances related to our healthcare customers were up $116 million over the first quarter of 2013. Commercial customers continue to retain large cash reserves primarily due to low yields available on other high quality investment alternatives and to minimize deposit service charges through the earnings credit. The earnings credit is a non-cash method that enables commercial customers to offset deposits service charges based on account balances. Average Consumer Banking deposit balances were largely unchanged compared to the prior quarter. Demand deposit balances grew by $18 million and savings account deposits grew by $16 million, offset by a $37 million decrease in time deposits. Average Wealth Management deposits decreased $277 million compared to the first quarter of 2013 primarily due to tax payments in the second quarter. Interest-bearing transaction deposit account balances decreased $249 million and time deposits decreased $22 million.

Brokered deposits included in time deposits averaged $145 million for the second quarter of 2013, down $31 million compared to the first quarter of 2013. Average interest-bearing transaction accounts for the second quarter include $265 million of brokered deposits, a decrease of $23 million from the first quarter of 2013.

The distribution of our period end deposit account balances among principal markets follows in Table 34.

Table 34 -- Period End Deposits by Principal Market Area
(In thousands)

| | June 30, 2013 | March 31, 2013 | December 31, 2012 | September 30, 2012 | June 30, 2012 |
|---|---|---|---|---|---|
| Bank of Oklahoma: | | | | | |
| Demand | $3,561,255 | $3,602,581 | $4,223,923 | $3,734,901 | $3,499,834 |
| Interest-bearing: | | | | | |
| Transaction | 5,653,062 | 6,140,899 | 6,031,541 | 5,496,724 | 5,412,002 |
| Savings | 185,345 | 185,363 | 163,512 | 155,276 | 150,353 |
| Time | 1,180,265 | 1,264,415 | 1,267,904 | 1,274,336 | 1,354,148 |
| Total interest-bearing | 7,018,672 | 7,590,677 | 7,462,957 | 6,926,336 | 6,916,503 |
| Total Bank of Oklahoma | 10,579,927 | 11,193,258 | 11,686,880 | 10,661,237 | 10,416,337 |
| | | | | | |
| Bank of Texas: | | | | | |
| Demand | 2,299,631 | 2,098,891 | 2,606,176 | 1,983,678 | 1,966,465 |
| Interest-bearing: | | | | | |
| Transaction | 1,931,758 | 1,979,318 | 2,129,084 | 1,782,296 | 1,813,209 |
| Savings | 63,745 | 63,218 | 58,429 | 52,561 | 51,114 |
| Time | 692,888 | 717,974 | 762,233 | 789,725 | 772,809 |
| Total interest-bearing | 2,688,391 | 2,760,510 | 2,949,746 | 2,624,582 | 2,637,132 |
| Total Bank of Texas | 4,988,022 | 4,859,401 | 5,555,922 | 4,608,260 | 4,603,597 |
| | | | | | |
| Bank of Albuquerque: | | | | | |
| Demand | 455,580 | 446,841 | 427,510 | 416,796 | 357,367 |
| Interest-bearing: | | | | | |
| Transaction | 525,481 | 513,611 | 511,593 | 526,029 | 506,165 |
| Savings | 34,096 | 35,560 | 31,926 | 31,940 | 31,215 |
| Time | 346,506 | 354,303 | 364,928 | 375,611 | 383,350 |
| Total interest-bearing | 906,083 | 903,474 | 908,447 | 933,580 | 920,730 |
| Total Bank of Albuquerque | 1,361,663 | 1,350,315 | 1,335,957 | 1,350,376 | 1,278,097 |
| | | | | | |
| Bank of Arkansas: | | | | | |
| Demand | 31,108 | 31,957 | 38,935 | 29,254 | 16,921 |
| Interest-bearing: | | | | | |
| Transaction | 186,689 | 155,571 | 101,366 | 168,827 | 172,829 |
| Savings | 1,974 | 2,642 | 2,239 | 2,246 | 2,220 |
| Time | 37,272 | 41,613 | 42,573 | 45,719 | 48,517 |
| Total interest-bearing | 225,935 | 199,826 | 146,178 | 216,792 | 223,566 |
| Total Bank of Arkansas | 257,043 | 231,783 | 185,113 | 246,046 | 240,487 |
| | | | | | |
| Colorado State Bank & Trust: | | | | | |
| Demand | 365,161 | 295,067 | 331,157 | 330,641 | 301,646 |
| Interest-bearing: | | | | | |
| Transaction | 519,580 | 528,056 | 676,140 | 627,015 | 465,276 |
| Savings | 27,948 | 27,187 | 25,889 | 24,689 | 24,202 |
| Time | 451,168 | 461,496 | 472,305 | 476,564 | 491,280 |
| Total interest-bearing | 998,696 | 1,016,739 | 1,174,334 | 1,128,268 | 980,758 |
| Total Colorado State Bank & Trust | 1,363,857 | 1,311,806 | 1,505,491 | 1,458,909 | 1,282,404 |

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| | June 30, 2013 | March 31, 2013 | December 31, 2012 | September 30, 2012 | June 30, 2012 |
|---|---|---|---|---|---|
| Bank of Arizona: | | | | | |
| Demand | 186,381 | 157,754 | 161,094 | 151,738 | 137,313 |
| Interest-bearing: | | | | | |
| Transaction | 376,305 | 378,421 | 360,275 | 298,048 | 113,310 |
| Savings | 2,238 | 2,122 | 1,978 | 2,201 | 2,313 |
| Time | 35,490 | 34,690 | 31,371 | 33,169 | 31,539 |
| Total interest-bearing | 414,033 | 415,233 | 393,624 | 333,418 | 147,162 |
| Total Bank of Arizona | 600,414 | 572,987 | 554,718 | 485,156 | 284,475 |
| | | | | | |
| Bank of Kansas City: | | | | | |
| Demand | 246,207 | 267,769 | 249,491 | 201,393 | 160,829 |
| Interest-bearing: | | | | | |
| Transaction | 73,685 | 46,426 | 78,039 | 103,628 | 69,083 |
| Savings | 1,029 | 983 | 771 | 660 | 581 |
| Time | 24,383 | 25,563 | 26,678 | 27,202 | 26,307 |
| Total interest-bearing | 99,097 | 72,972 | 105,488 | 131,490 | 95,971 |
| Total Bank of Kansas City | 345,304 | 340,741 | 354,979 | 332,883 | 256,800 |
| Total BOK Financial deposits | $19,496,230 | $19,860,291 | $21,179,060 | $19,142,867 | $18,362,197 |

In addition to deposits, subsidiary bank liquidity is provided primarily by federal funds purchased, securities repurchase agreements and Federal Home Loan Bank borrowings. Federal funds purchased consist primarily of unsecured, overnight funds acquired from other financial institutions. Funds are primarily purchased from bankers' banks and Federal Home Loan banks from across the country. The largest single source of federal funds purchased totaled $311 million at June 30, 2013. Securities repurchase agreements generally mature within 90 days and are secured by certain available for sale securities. Federal Home Loan Bank borrowings are generally short term and are secured by a blanket pledge of eligible collateral (generally unencumbered U.S. Treasury and mortgage-backed securities, 1-4 family residential mortgage loans, multifamily and other qualifying commercial real estate loans). Amounts borrowed from the Federal Home Loan Bank of Topeka averaged $2.1 billion during the quarter, up from $827 million for the first quarter of 2013.

At June 30, 2013, the estimated unused credit available to the subsidiary bank from collateralized sources was approximately $8.0 billion.

A summary of other borrowing by the subsidiary bank follows in Table 35.

Table 35 -- Borrowed Funds
(In thousands)

| | | Three Months Ended June 30, 2013 | | | | | Three Months Ended March 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | June 30, 2013 | Average Balance During the Quarter | Rate | | Maximum Outstanding At Any Month End During the Quarter | March 31, 2013 | Average Balance During the Quarter | Rate | | Maximum Outstanding At Any Month End During the Quarter |
| Parent Company and Other Non-Bank Subsidiaries: | | | | | | | | | | |
| Other borrowings - Other | $— | $— | — | % | $— | $— | $1,321 | 1.34 | % | $— |
| Subsidiary Bank: | | | | | | | | | | |
| Funds purchased | 747,165 | 789,302 | 0.10 | % | 747,165 | 853,843 | 1,155,983 | 0.13 | % | 853,843 |
| Repurchase agreements | 845,106 | 819,373 | 0.06 | % | 845,106 | 806,526 | 878,679 | 0.07 | % | 881,033 |
| Other borrowings: | | | | | | | | | | |
| Federal Home Loan Bank advances | 2,451,197 | 2,144,513 | 0.19 | % | 2,451,197 | 1,705,297 | 826,743 | 0.24 | % | 1,705,297 |
| GNMA repurchase liability | 13,973 | 11,464 | 5.50 | % | 13,973 | 11,347 | 18,928 | 5.41 | % | 21,055 |
| Other | 16,474 | 16,440 | 2.93 | % | 16,475 | 16,403 | 16,368 | 3.01 | % | 16,404 |
| Total other borrowings | 2,481,644 | 2,172,417 | 0.24 | % | | 1,733,047 | 862,039 | 0.41 | % | |
| Subordinated debentures | 347,716 | 347,695 | 2.54 | % | 347,716 | 347,674 | 347,654 | 2.52 | % | 347,674 |
| Total Subsidiary Bank | 4,421,631 | 4,128,787 | 0.38 | % | | 3,741,090 | 3,244,355 | 0.45 | % | |
| Total Borrowed Funds | $4,421,631 | $4,128,787 | 0.38 | % | | $3,741,090 | $3,245,676 | 0.45 | % | |

In 2007, the Company issued $250 million of subordinated debt due May 15, 2017 to fund the Worth National Bank and First United Bank acquisitions and fund continued asset growth. Interest on this debt was based on a fixed rate of 5.75% through May 14, 2012 which then converted to a floating rate of three-month LIBOR plus 0.69%. At June 30, 2013, $226 million of this subordinated debt remains outstanding.
In 2005, the Bank issued $150 million of 10-year, fixed rate subordinated debt. The cost of this subordinated debt, including issuance discounts and hedge loss is 5.56%. The proceeds of this debt were used to repay $95 million of BOK Financial's unsecured revolving line of credit and to provide additional capital to support assets growth. At June 30, 2013, $122 million of this subordinated debt remains outstanding.
The Bank also has a liability related to the repurchase of certain delinquent residential mortgage loans previously sold in GNMA mortgage pools. Interest is payable monthly at rates contractually due to investors.
Parent Company

The primary sources of liquidity for BOK Financial are cash on hand and dividends from the subsidiary bank. Dividends from the subsidiary bank are limited by various banking regulations to net profits, as defined, for the year plus retained profits for the two preceding years. Dividends are further restricted by minimum capital requirements. At June 30, 2013, based on the most restrictive limitations as well as management's internal capital policy, the subsidiary bank could declare up to $240 million of dividends without regulatory approval. Future losses or increases in required regulatory capital at the subsidiary bank could affect its ability to pay dividends to the parent company.

The Company has a $100 million senior unsecured 364 day revolving credit facility with Wells Fargo Bank, National Association, administrative agent and other commercial banks (“the Credit Facility”). Interest on amounts outstanding under the Credit Facility is to be paid at a defined base rate minus 1.25% or LIBOR plus 1.00% based upon the Company’s option. Interest on amounts borrowed for certain acquisitions converted to a term loan at the Company's option is to be paid at a defined base rate minus 1.25% or LIBOR plus 1.25%. A commitment fee equal to 0.20% shall be paid quarterly on the unused portion of the credit commitment under the Credit Facility and there are no prepayment penalties. Any amounts outstanding at the end of the Credit Facility term shall be converted into a term loan which, except for amounts borrowed for certain acquisitions, shall be payable June 5, 2014. The Credit Agreement contains customary representations and warranties, as well as affirmative and negative covenants including limits on the Company’s ability to borrow additional funds, make investments and sell assets. These covenants also require BOKF to maintain minimum capital levels. No amounts were outstanding under the Credit Facility at June 30, 2013 and the Company met all of the covenants.

Our equity capital at June 30, 2013 was $3.0 billion, a decrease of $55 million over March 31, 2013. Net income less cash dividends paid increased equity $54 million during the second quarter of 2013. This was offset by a $114 million decrease in accumulated other comprehensive income primarily related to the change in unrealized gains on available for sale securities. Capital is managed to maximize long-term value to the shareholders. Factors considered in managing capital include projections of future earnings, asset growth and acquisition strategies, and regulatory and debt covenant requirements. Capital management may include subordinated debt issuance, share repurchase and stock and cash dividends.

On April 24, 2012, the Board of Directors authorized the Company to purchase up to two million shares of our common stock. The specific timing and amount of shares repurchased will vary based on market conditions, regulatory limitations and other factors. Repurchases may be made over time in open market or privately negotiated transactions. The repurchase program may be suspended or discontinued at any time without prior notice. As of June 30, 2013, the Company has repurchased 39,496 shares for $2.1 million under this program. No shares were repurchased in the second quarter of 2013.

BOK Financial and the subsidiary bank are subject to various capital requirements administered by federal agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that could have a material impact on operations. These capital requirements include quantitative measures of assets, liabilities and off-balance sheet items. The capital standards are also subject to qualitative judgments by the regulators.

For a banking institution to qualify as well capitalized, its Tier 1, Total and Leverage capital ratios must be at least 6%, 10% and 5%, respectively. The Company’s banking subsidiary exceeded the regulatory definitions of well capitalized. The capital ratios for BOK Financial on a consolidated basis are presented in Table 36.

Table 36 -- Capital Ratios

| | Well Capitalized Minimums | | June 30, 2013 | | March 31, 2013 | | December 31, 2012 | | September 30, 2012 | | June 30, 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Average total equity to average assets | — | | 10.95 | % | 10.90 | % | 10.81 | % | 11.08 | % | 11.23 | % |
| Tangible common equity ratio | — | | 9.38 | % | 9.70 | % | 9.25 | % | 9.67 | % | 10.07 | % |
| Tier 1 common equity ratio | — | | 13.19 | % | 13.16 | % | 12.59 | % | 13.01 | % | 13.41 | % |
| Risk-based capital: | | | | | | | | | | | | |
| Tier 1 capital | 6.00 | % | 13.37 | % | 13.35 | % | 12.78 | % | 13.21 | % | 13.62 | % |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total capital | 10.00 % | 15.28 % | 15.68 % | 15.13 % | 15.71 % | 16.19 % |
| Leverage | 5.00 % | 9.43 % | 9.28 % | 9.01 % | 9.34 % | 9.64 % |

In July 2013, banking regulators issued the final rule revising regulatory capital rules for substantially all U.S. banking organizations. The new capital rule will be effective for BOK Financial on January 1, 2015 and components of the rule will phase in through January 1, 2019. The new capital rule establishes a 7% threshold for the Tier 1 common equity ratio consisting of a minimum level plus capital conservation buffer. The Company expects to exclude unrealized gains and losses from available for sale securities from its calculation of Tier 1 capital, consistent with the treatment under current capital rules. BOK Financial's Tier 1 common equity ratio based on the existing Basel I standards was 13.19% as of June 30, 2013. Based on our interpretation of the new capital rule, our estimated Tier 1 common equity ratio is approximately 12.20%, nearly 520 basis points above the 7% regulatory threshold.

The rule also changes both the Tier 1 risk based capital requirements and the total risk based requirements to a minimum of 6% and 8%, respectively, plus a capital conservation buffer of 2.5% totaling 8.5% and 10.5%, respectively. The leverage ratio requirements under the rule is 5%. A bank which falls below these levels, including the capital conservation buffer, would be subject to regulatory restrictions on capital distributions (including but not limited to dividends and share repurchases) and executive bonus payments.

Capital resources of financial institutions are also regularly measured by the tangible common shareholders' equity ratio. Tangible common shareholders' equity is shareholders' equity as defined by generally accepted accounting principles in the United States of America ("GAAP") less intangible assets and equity which does not benefit common shareholders. Equity that does not benefit common shareholders includes preferred equity. Tier 1 common equity is tier 1 equity as defined by banking regulations, adjusted for other comprehensive income (loss) and equity which does not benefit common shareholders. These non-GAAP measures are valuable indicators of a financial institution's capital strength since it eliminates intangible assets from shareholders' equity and retains the effect of unrealized losses on securities and other components of accumulated other comprehensive income in shareholders' equity.

In accordance with the Dodd-Frank Act, the Federal Reserve must publish regulations that require bank holding companies with $10 billion to $50 billion in assets to perform annual capital stress tests. The requirements for annual capital stress tests will become effective for the Company in the fourth quarter of 2013 with public disclosure of specified results to occur in June of 2014. The resulting capital stress test process may place constraints on capital distributions or increases in required regulatory capital under certain circumstances.

Table 37 following provides a reconciliation of the non-GAAP measures with financial measures defined by GAAP.

Table 37 -- Non-GAAP Measures
(Dollars in thousands)

| | June 30, 2013 | March 31, 2013 | December 31, 2012 | September 30, 2012 | June 30, 2012 |
|---|---|---|---|---|---|
| Tangible common equity ratio: | | | | | |
| Total shareholders' equity | $2,957,637 | $3,011,958 | $2,957,860 | $2,975,657 | $2,885,934 |
| Less: Goodwill and intangible assets, net | 386,001 | 386,876 | 390,171 | 392,158 | 344,699 |
| Tangible common equity | 2,571,636 | 2,625,082 | 2,567,689 | 2,583,499 | 2,541,235 |
| Total assets | 27,808,200 | 27,447,158 | 28,148,631 | 27,117,641 | 25,576,046 |
| Less: Goodwill and intangible assets, net | 386,001 | 386,876 | 390,171 | 392,158 | 344,699 |
| Tangible assets | $27,422,199 | $27,060,282 | $27,758,460 | $26,725,483 | $25,231,347 |
| Tangible common equity ratio | 9.38 % | 9.70 % | 9.25 % | 9.67 % | 10.07 % |
| Tier 1 common equity ratio: | | | | | |
| Tier 1 capital | $2,561,399 | $2,503,892 | $2,430,671 | $2,436,791 | $2,418,985 |
| Less: Non-controlling interest | 35,245 | 35,934 | 35,821 | 36,818 | 36,787 |
| Tier 1 common equity | 2,526,154 | 2,467,958 | 2,394,850 | 2,399,973 | 2,382,198 |
| Risk weighted assets | $19,157,978 | $18,756,648 | $19,016,673 | $18,448,854 | $17,758,118 |
| Tier 1 common equity ratio | 13.19 % | 13.16 % | 12.59 % | 13.01 % | 13.41 % |

Off-Balance Sheet Arrangements

See Note 7 to the Consolidated Financial Statements for a discussion of the Company's significant off-balance sheet commitments.

Market Risk

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of a financial instrument. These changes may be the result of various factors, including interest rates, foreign exchange rates, commodity prices or equity prices. Financial instruments that are subject to market risk can be classified either as held for trading or held for purposes other than trading. Market risk excludes changes in fair value due to credit of the individual issuers of financial instruments.

BOK Financial is subject to market risk primarily through the effect of changes in interest rates on both its assets held for purposes other than trading and trading assets. The effects of other changes, such as foreign exchange rates, commodity prices or equity prices do not pose significant market risk to BOK Financial. BOK Financial has no material investments in assets that are affected by changes in foreign exchange rates or equity prices. Energy and agricultural product derivative contracts, which are affected by changes in commodity prices, are matched against offsetting contracts as previously discussed.

The Asset / Liability Committee is responsible for managing market risk in accordance with policy guidelines established by the Board of Directors. The Committee monitors projected variation in net interest revenue, net interest income and economic value of equity due to specified changes in interest rates. The internal policy limit for net interest revenue variation is a maximum decline of 5% to an up or down 200 basis point change over twelve months. These guidelines also set maximum levels for short-term borrowings, short-term assets, public funds and brokered deposits and establish minimum levels for unpledged assets, among other things. Compliance with these internal guidelines is reviewed monthly.

Interest Rate Risk – Other than Trading

As previously noted in the Net Interest Revenue section of this report, management has implemented strategies to manage the Company’s balance sheet to have relatively limited exposure to changes in interest rates over a twelve-month period. The effectiveness of these strategies in managing the overall interest rate risk is evaluated through the use of an asset/liability model. BOK Financial performs a sensitivity analysis to identify more dynamic interest rate risk exposures, including embedded option positions, on net interest revenue, net income and economic value of equity. A simulation model is used to estimate the effect of changes in interest rates over the next 12 months and longer time periods based on multiple interest rate scenarios. Two specified interest rate scenarios are used to evaluate interest rate risk against policy guidelines. The first assumes a sustained parallel 200 basis point increase and the second assumes a sustained parallel 50 basis point decrease in interest rates. Management historically evaluated interest rate sensitivity for a sustained 200 basis point decrease in interest rates. However, the results of a 200 basis point decrease in interest rates in the current low-rate environment are not meaningful.

The Company’s primary interest rate exposures include the Federal Funds rate, which affects short-term borrowings, and the prime lending rate and LIBOR, which are the basis for much of the variable rate loan pricing. Additionally, residential mortgage rates directly affect the prepayment speeds for residential mortgage-backed securities and mortgage servicing rights. Derivative financial instruments and other financial instruments used for purposes other than trading are included in this simulation. The model incorporates assumptions regarding the effects of changes in interest rates and account balances on indeterminable maturity deposits based on a combination of historical analysis and expected behavior. The impact of planned growth and new business activities is factored into the simulation model. The effects of changes in interest rates on the value of mortgage servicing rights are excluded from Table 38 due to the extreme volatility over such a large rate range and our active risk management approach for that asset. The effects of interest rate changes on the value of mortgage servicing rights and financial instruments identified as economic hedges are presented in Note 5 to the Consolidated Financial Statements.

The simulations used to manage market risk are based on numerous assumptions regarding the effects of changes in interest rates on the timing and extent of re-pricing characteristics, future cash flows and customer behavior. These assumptions are inherently uncertain and, as a result, the model cannot precisely estimate net interest revenue, net income or economic value of equity or precisely predict the impact of higher or lower interest rates on net interest revenue, net income or economic value of equity. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes, market conditions and management strategies, among other factors.



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Table 38 -- Interest Rate Sensitivity
(Dollars in thousands)

| | 200 bp Increase | | 50 bp Decrease | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Anticipated impact over the next twelve months on net interest revenue | $16,219 | $27,360 | $(13,330) | $(16,658) |
| | (2.27)% | 4.11% | (1.87)% | (2.50)% |

Trading Activities

BOK Financial enters into trading activities both as an intermediary for customers and for its own account. As an intermediary, BOK Financial will take positions in securities, generally residential mortgage-backed securities, government agency securities and municipal bonds. These securities are purchased for resale to customers, which include individuals, corporations, foundations and financial institutions. On a limited basis, BOK Financial may also take trading positions in U.S. Treasury securities, residential mortgage-backed securities, municipal bonds and derivative contracts to enhance returns on its securities portfolios. Both of these activities involve interest rate risk. BOK Financial has an insignificant exposure to foreign exchange risk and does not take positions in commodity derivatives.

A variety of methods are used to manage the interest rate risk of trading activities. These methods include daily marking of all positions to market value, independent verification of inventory pricing, and position limits for each trading activity. Hedges in either the futures or cash markets may be used to reduce the risk associated with some trading programs.

Management uses a Value at Risk ("VAR") methodology to measure the market risk due to changes in interest rates inherent in its trading activities. VAR is calculated based upon historical simulations over the past five years using a variance / covariance matrix of interest rate changes, a 10 business day holding period and a 99% confidence interval. It represents an amount of market loss that is likely to be exceeded in only one out of every 100 two-week periods. Trading positions are managed within guidelines approved by the Board of Directors. These guidelines limit the VAR to $7.3 million. There were no instances of VAR being exceeded during the three months ended June 30, 2013 and 2012. At June 30, 2013, there were no trading positions for the purposes of enhancing returns on the Company's securities portfolio.

The average, high and low VAR amounts for the three and six months ended June 30, 2013 and 2012 are as follows in Table 39.

Table 39 -- Value at Risk (VAR)
(In thousands)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2013 | June 30, 2012 | June 30, 2013 | June 30, 2012 |
| Average | $3,378 | $2,906 | $3,471 | $2,624 |
| High | 5,826 | 6,672 | 5,826 | 6,672 |
| Low | 1,893 | 2,010 | 1,893 | 1,075 |

Controls and Procedures

As required by Rule 13a-15(b), BOK Financial's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by their report, of the effectiveness of the Company's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report. As required by Rule 13a-15(d), BOK

Financial's management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company's internal controls over financial reporting to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.



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Forward-Looking Statements

This report contains forward-looking statements that are based on management’s beliefs, assumptions, current expectations, estimates, and projections about BOK Financial, the financial services industry and the economy in general. Words such as “anticipates,” “believes,” “estimates,” “expects,” “forecasts,” “plans,” “projects,” variations of such wo and similar expressions are intended to identify such forward-looking statements. Management judgments relating to and discussion of the provision and allowance for loan losses involve judgments as to expected events and are inherently forward-looking statements. Assessments that BOK Financial’s acquisitions and other growth endeavors will be profitable are necessary statements of belief as to the outcome of future events, based in part on information provided by others that BOK Financial has not independently verified. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what is expressed, implied, or forecasted in such forward-looking statements. Internal and external factors that might cause such a difference include, but are not limited to: (1) the ability to fully realize expected cost savings from mergers within the expected time frames, (2) the ability of other companies on which BOK Financial relies to provide goods and services in a timely and accurate manner, (3) changes in interest rates and interest rate relationships, (4) demand for products and services, (5) the degree of competition by traditional and nontraditional competitors, (6) changes in banking regulations, tax laws, prices, levies, and assessments, (7) the impact of technological advances and (8) trends in customer behavior as well as their ability to repay loans. BOK Financial and its affiliates undertake no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

Consolidated Statements of Earnings (Unaudited)

| (In thousands, except share and per share data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| Interest revenue | 2013 | 2012 | 2013 | 2012 |
| Loans | $124,297 | $131,175 | $249,410 | $258,158 |
| Residential mortgage loans held for sale | 2,294 | 1,784 | 4,086 | 3,552 |
| Trading securities | 621 | 364 | 1,099 | 664 |
| Taxable securities | 3,604 | 4,282 | 7,402 | 8,716 |
| Tax-exempt securities | 1,150 | 921 | 2,178 | 1,898 |
| Total investment securities | 4,754 | 5,203 | 9,580 | 10,614 |
| Taxable securities | 51,371 | 61,583 | 106,390 | 121,239 |
| Tax-exempt securities | 687 | 631 | 1,291 | 1,232 |
| Total available for sale securities | 52,058 | 62,214 | 107,681 | 122,471 |
| Fair value option securities | 1,013 | 2,311 | 2,178 | 5,798 |
| Funds sold and resell agreements | 4 | 4 | 6 | 6 |
| Total interest revenue | 185,041 | 203,055 | 374,040 | 401,263 |
| Interest expense | | | | |
| Deposits | 13,909 | 16,390 | 28,790 | 33,888 |
| Borrowed funds | 1,776 | 1,792 | 3,330 | 3,381 |
| Subordinated debentures | 2,200 | 3,512 | 4,359 | 9,064 |
| Total interest expense | 17,885 | 21,694 | 36,479 | 46,333 |
| Net interest revenue | 167,156 | 181,361 | 337,561 | 354,930 |
| Provision for credit losses | — | (8,000) | (8,000) | (8,000) |
| Net interest revenue after provision for credit losses | 167,156 | 189,361 | 345,561 | 362,930 |
| Other operating revenue | | | | |
| Brokerage and trading revenue | 32,874 | 32,600 | 64,625 | 63,711 |
| Transaction card revenue | 29,942 | 26,758 | 57,634 | 52,188 |
| Trust fees and commissions | 24,803 | 19,931 | 47,116 | 38,369 |
| Deposit service charges and fees | 23,962 | 25,216 | 46,928 | 49,595 |
| Mortgage banking revenue | 36,596 | 39,548 | 76,572 | 72,626 |
| Bank-owned life insurance | 2,236 | 2,838 | 5,462 | 5,709 |
| Other revenue | 10,496 | 8,860 | 20,683 | 18,124 |
| Total fees and commissions | 160,909 | 155,751 | 319,020 | 300,322 |
| Gain (loss) on assets, net | (1,666) | 1,689 | (1,199) | (2,004) |
| Gain (loss) on derivatives, net | (2,527) | 2,345 | (3,468) | (128) |
| Gain (loss) on fair value option securities, net | (9,156) | 6,852 | (12,327) | 5,119 |
| Gain on available for sale securities, net | 3,753 | 20,481 | 8,608 | 24,812 |
| Total other-than-temporary impairment losses | (1,138) | (135) | (1,138) | (640) |
| Portion of loss recognized in (reclassified from) other comprehensive income | 586 | (723) | 339 | (3,940) |
| Net impairment losses recognized in earnings | (552) | (858) | (799) | (4,580) |
| Total other operating revenue | 150,761 | 186,260 | 309,835 | 323,541 |
| Other operating expense | | | | |
| Personnel | 128,110 | 122,297 | 253,764 | 237,066 |
| Business promotion | 5,770 | 6,746 | 11,223 | 11,134 |
| Professional fees and services | 8,381 | 8,343 | 15,366 | 15,942 |
| Net occupancy and equipment | 16,909 | 16,906 | 33,390 | 32,929 |
| Insurance | 4,044 | 4,011 | 7,789 | 7,877 |

| | | | | |
|---|---|---|---|---|
| Data processing and communications | 26,734 | 25,264 | 52,184 | 47,408 |
| Printing, postage and supplies | 3,580 | 3,903 | 7,254 | 7,214 |
| Net losses and operating expenses of repossessed assets | 282 | 5,912 | 1,528 | 8,157 |
| Amortization of intangible assets | 875 | 545 | 1,751 | 1,120 |
| Mortgage banking costs | 7,910 | 12,315 | 15,264 | 20,754 |
| Change in fair value of mortgage servicing rights | (14,315) | 11,450 | (16,973) | 4,323 |
| Other expense | 8,326 | 5,319 | 15,390 | 11,224 |
| Total other operating expense | 196,606 | 223,011 | 397,930 | 405,148 |
| Net income before taxes | 121,311 | 152,610 | 257,466 | 281,323 |
| Federal and state income taxes | 41,423 | 53,149 | 88,519 | 98,669 |
| Net income | 79,888 | 99,461 | 168,947 | 182,654 |
| Net income (loss) attributable to non-controlling interest | (43) | 1,833 | 1,052 | 1,411 |
| Net income attributable to BOK Financial Corporation shareholders | $79,931 | $97,628 | $167,895 | $181,243 |
| Earnings per share: | | | | |
| Basic | $1.16 | $1.43 | $2.45 | $2.66 |
| Diluted | $1.16 | $1.43 | $2.44 | $2.65 |
| Average shares used in computation: | | | | |
| Basic | 67,993,822 | 67,472,665 | 67,904,599 | 67,573,280 |
| Diluted | 68,212,497 | 67,744,828 | 68,126,751 | 67,847,659 |
| Dividends declared per share | $0.38 | $0.38 | $0.76 | $0.71 |

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income (Unaudited)
(In thousands, except share and per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | $79,888 | $99,461 | $168,947 | $182,654 |
| Other comprehensive income before income taxes: | | | | |
| Net change in unrealized gain (loss) | (183,186 ) | (15,401 ) | (204,545 ) | 40,034 |
| Reclassification adjustments included in earnings: | | | | |
| Interest revenue, Investments securities, Taxable securities | (873 ) | (1,633 ) | (2,021 ) | (3,421 ) |
| Interest expense, Subordinated debentures | 72 | 279 | 124 | 331 |
| Net impairment losses recognized in earnings | 552 | 858 | 799 | 4,580 |
| Gain on available for sale securities, net | (3,753 ) | (20,481 ) | (8,608 ) | (24,812 ) |
| Other comprehensive income (loss) before income taxes | (187,188 ) | (36,378 ) | (214,251 ) | 16,712 |
| Income tax benefit (expense) | 72,819 | 14,150 | 83,345 | (6,501 ) |
| Other comprehensive income (loss), net of income taxes | (114,369 ) | (22,228 ) | (130,906 ) | 10,211 |
| Comprehensive income (loss) | (34,481 ) | 77,233 | 38,041 | 192,865 |
| Comprehensive income (loss) attributable to non-controlling interests | (43 ) | 1,833 | 1,052 | 1,411 |
| Comprehensive income (loss) attributed to BOK Financial Corp. shareholders | $(34,438 ) | $75,400 | $36,989 | $191,454 |

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets
(In thousands, except share data)

| | June 30, 2013 | December 31, 2012 | June 30, 2012 |
|---|---|---|---|
| | (Unaudited) | (Footnote 1) | (Unaudited) |
| Assets | | | |
| Cash and due from banks | $1,026,497 | $1,266,834 | $628,092 |
| Funds sold and resell agreements | 51,888 | 19,405 | 11,171 |
| Trading securities | 190,591 | 214,102 | 149,317 |
| Investment securities (fair value: June 30, 2013 – $625,705; December 31, 2012 – $528,458; June 30, 2012 – $440,638) | 615,790 | 499,534 | 412,479 |
| Available for sale securities | 10,698,074 | 11,287,221 | 10,395,415 |
| Fair value option securities | 205,756 | 284,296 | 325,177 |
| Residential mortgage loans held for sale | 301,057 | 293,762 | 259,174 |
| Loans | 12,440,782 | 12,311,456 | 11,576,431 |
| Allowance for loan losses | (203,124) | (215,507) | (231,669) |
| Loans, net of allowance | 12,237,658 | 12,095,949 | 11,344,762 |
| Premises and equipment, net | 271,191 | 265,920 | 261,508 |
| Receivables | 136,605 | 114,185 | 121,944 |
| Goodwill | 359,759 | 361,979 | 335,601 |
| Intangible assets, net | 26,242 | 28,192 | 9,098 |
| Mortgage servicing rights, net | 132,889 | 100,812 | 91,783 |
| Real estate and other repossessed assets, net of allowance (June 30, 2013 – $26,837; December 31, 2012 – $36,873; June 30, 2012 – $32,730) | 110,112 | 103,791 | 105,708 |
| Bankers’ acceptances | 198 | 605 | 2,873 |
| Derivative contracts | 546,206 | 338,106 | 366,204 |
| Cash surrender value of bank-owned life insurance | 280,047 | 274,531 | 269,093 |
| Receivable on unsettled securities sales | 182,147 | 211,052 | 32,876 |
| Other assets | 435,493 | 388,355 | 453,771 |
| Total assets | $27,808,200 | $28,148,631 | $25,576,046 |
| | | | |
| Noninterest-bearing demand deposits | $7,145,323 | $8,038,286 | $6,440,375 |
| Interest-bearing deposits: | | | |
| Transaction | 9,266,560 | 9,888,038 | 8,551,874 |
| Savings | 316,375 | 284,744 | 261,998 |
| Time | 2,767,972 | 2,967,992 | 3,107,950 |
| Total deposits | 19,496,230 | 21,179,060 | 18,362,197 |
| Funds purchased | 747,165 | 1,167,416 | 1,453,750 |
| Repurchase agreements | 845,106 | 887,030 | 1,136,948 |
| Other borrowings | 2,481,644 | 651,775 | 58,056 |
| Subordinated debentures | 347,716 | 347,633 | 353,378 |
| Accrued interest, taxes and expense | 175,677 | 176,678 | 140,434 |
| Bankers’ acceptances | 198 | 605 | 2,873 |
| Derivative contracts | 521,991 | 283,589 | 370,053 |
| Due on unsettled securities purchases | 49,369 | 297,453 | 603,800 |
| Other liabilities | 150,222 | 163,711 | 171,836 |
| Total liabilities | 24,815,318 | 25,154,950 | 22,653,325 |
| Shareholders' equity: | | | |
| | 4 | 4 | 4 |

| | | | |
|---|---|---|---|
| Common stock ($.00006 par value; 2,500,000,000 shares authorized; shares issued and outstanding: June 30, 2013 – 73,029,101; December 31, 2012 – 72,415,346; June 30, 2012 – 72,006,628) | | | |
| Capital surplus | 884,238 | 859,278 | 836,065 |
| Retained earnings | 2,253,810 | 2,137,541 | 2,086,565 |
| Treasury stock (shares at cost: June 30, 2013 – 4,289,893; December 31, 2012 – 4,087,995; June 30, 2012 – 3,862,469) | (199,429 ) | (188,883 ) | (175,890 ) |
| Accumulated other comprehensive income | 19,014 | 149,920 | 139,190 |
| Total shareholders’ equity | 2,957,637 | 2,957,860 | 2,885,934 |
| Non-controlling interest | 35,245 | 35,821 | 36,787 |
| Total equity | 2,992,882 | 2,993,681 | 2,922,721 |
| Total liabilities and equity | $27,808,200 | $28,148,631 | $25,576,046 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity (Unaudited)
(In thousands)

| | Common Stock | | Accumulated Other Comprehensive Income | Capital Surplus | Retained Earnings | Treasury Stock | | Total Shareholders' Equity | Non-Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | Shares | Amount | | | |
| Balance, December 31, 2011 | 71,533 | $4 | $128,979 | $818,817 | $1,953,332 | 3,380 | $(150,664) | $2,750,468 | $36,184 | $2,786,652 |
| Net income | — | — | — | — | 181,243 | — | — | 181,243 | 1,411 | 182,654 |
| Other comprehensive income | — | — | 10,211 | — | — | — | — | 10,211 | — | 10,211 |
| Treasury stock purchases | — | — | — | — | — | 384 | (20,558) | (20,558) | — | (20,558) |
| Exercise of stock options | 473 | — | — | 13,122 | — | 98 | (4,668) | 8,454 | — | 8,454 |
| Tax benefit on exercise of stock options | — | — | — | (677) | — | — | — | (677) | — | (677) |
| Stock-based compensation | — | — | — | 4,803 | — | — | — | 4,803 | — | 4,803 |
| Cash dividends on common stock | — | — | — | — | (48,010) | — | — | (48,010) | — | (48,010) |
| Capital calls and distributions, net | — | — | — | — | — | — | — | — | (808) | (808) |
| Balance, June 30, 2012 | 72,006 | $4 | $139,190 | $836,065 | $2,086,565 | 3,862 | $(175,890) | $2,885,934 | $36,787 | $2,922,721 |
| Balances at December 31, 2012 | 72,415 | $4 | $149,920 | $859,278 | $2,137,541 | 4,088 | $(188,883) | $2,957,860 | $35,821 | $2,993,681 |
| Net income | — | — | — | — | 167,895 | — | — | 167,895 | 1,052 | 168,947 |
| Other comprehensive loss | — | — | (130,906) | — | — | — | — | (130,906) | — | (130,906) |
| Treasury stock purchases | — | — | — | — | — | — | — | — | — | — |
| Exercise of stock options | 614 | — | — | 23,425 | — | 202 | (10,546) | 12,879 | — | 12,879 |
| Tax benefit on exercise of stock options | — | — | — | 178 | — | — | — | 178 | — | 178 |
| | — | — | — | 1,357 | — | — | — | 1,357 | — | 1,357 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Stock-based compensation | | | | | | | | | | |
| Cash dividends on common stock | — | — | — | — | (51,626) | — | — | (51,626) | — | (51,626) |
| Capital calls and distributions, net | — | — | — | — | — | — | — | — | (1,628) | (1,628) |
| Balance, June 30, 2013 | 73,029 | $4 | $19,014 | $884,238 | $2,253,810 | 4,290 | $(199,429) | $2,957,637 | $35,245 | $2,992,882 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows (Unaudited)

| (in thousands) | Six Months Ended June 30, | |
| --- | --- | --- |
| | 2013 | 2012 |
| Cash Flows From Operating Activities: | | |
| Net income | $168,947 | $182,654 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | (8,000) | (8,000) |
| Change in fair value of mortgage servicing rights | (16,973) | 4,323 |
| Unrealized (gains) losses from derivatives | 6,137 | (7,626) |
| Tax benefit on exercise of stock options | (178) | 677 |
| Change in bank-owned life insurance | (5,462) | (5,709) |
| Stock-based compensation | 1,357 | 4,803 |