BOK FINANCIAL CORP ET AL
Form 10-K
February 27, 2013

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

FORM 10-K
(Mark One)

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

For the quarterly period ended December 31, 2012

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	73-1373454
(State or other jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

Bank of Oklahoma Tower P.O. Box 2300 Tulsa, Oklahoma	74192
(Address of Principal Executive Offices)	(Zip Code)

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

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

Securities registered pursuant to Section 12 (g) of the Act:
Common stock, $0.00006 par value

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “larger accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of the registrant's common stock ("Common Stock") held by non-affiliates is approximately $1.5 billion (based on the June 30, 2012 closing price of Common Stock of $58.20 per share). As of January 31, 2013, there were 68,369,705 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant’s Proxy Statement for the 2012 Annual Meeting of Shareholders.

BOK Financial Corporation
Form 10-K
Year Ended December 31, 2012

Index

	Part I	
Item 1	Business	1
Item 1A	Risk Factors	7
Item 1B	Unresolved Staff Comments	11
Item 2	Properties	11
Item 3	Legal Proceedings	11
Item 4	Mine Safety Disclosures	11
	Part II	
Item 5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	12
Item 6	Selected Financial Data	14
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 7A	Quantitative and Qualitative Disclosures about Market Risk	84
Item 8	Financial Statements and Supplementary Data	88
Item 9	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	182
Item 9A	Controls and Procedures	182
Item 9B	Other Information	182
	Part III	
Item 10	Directors, Executive Officers and Corporate Governance	182
Item 11	Executive Compensation	182
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	183
Item 13	Certain Relationships and Related Transactions, and Director Independence	183
Item 14	Principal Accounting Fees and Services	183
	Part IV	
Item 15	Exhibits, Financial Statement Schedules	183
	Signatures	187
Exhibit 31.1	Chief Executive Officer Section 302 Certification	
Exhibit 31.2	Chief Financial Officer Section 302 Certification	
Exhibit 32	Section 906 Certifications	

PART I

ITEM 1. BUSINESS

General

Developments relating to individual aspects of the business of BOK Financial Corporation ("BOK Financial" or "the Company") are described below. Additional discussion of the Company's activities during the current year appears within Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Description of Business

BOK Financial is a financial holding company incorporated in the state of Oklahoma in 1990 whose activities are governed by the Bank Holding Company Act of 1956 ("BHCA"), as amended by the Financial Services Modernization Act or Gramm-Leach-Bliley Act. BOK Financial offers full service banking in Oklahoma, Texas, New Mexico, Northwest Arkansas, Colorado, Arizona, and Kansas/Missouri.

BOKF, NA ("the Bank") is a wholly owned subsidiary bank of BOK Financial. Operating divisions of the Bank include Bank of Albuquerque, Bank of Arizona, Bank of Arkansas, Bank of Kansas City, Bank of Oklahoma, Bank of Texas and Colorado State Bank and Trust. Other wholly owned subsidiaries of BOK Financial include BOSC, Inc., a broker/dealer that engages in retail and institutional securities sales and municipal bond underwriting. Other non-bank subsidiary operations do not have a significant effect on the Company's financial statements.

Our overall strategic objective is to emphasize growth in long-term value by building on our leadership position in Oklahoma through expansion into other high-growth markets in contiguous states. We operate primarily in the metropolitan areas of Tulsa and Oklahoma City, Oklahoma; Dallas, Fort Worth and Houston, Texas; Albuquerque, New Mexico; Denver, Colorado; Phoenix, Arizona, and Kansas City, Kansas/Missouri. Our acquisition strategy targets fairly priced quality organizations with demonstrated solid growth that would supplement our principal lines of business. We provide additional growth opportunities by hiring talent to enhance competitiveness, adding locations and broadening product offerings. Our operating philosophy embraces local decision-making in each of our geographic markets while adhering to common Company standards.

Our primary focus is to provide a comprehensive range of nationally competitive financial products and services in a personalized and responsive manner. Products and services include loans and deposits, cash management services, fiduciary services, mortgage banking and brokerage and trading services to middle-market businesses, financial institutions and consumers. Commercial banking represents a significant part of our business. Our credit culture emphasizes building relationships by making high quality loans and providing a full range of financial products and services to our customers. Our energy financing expertise enables us to offer commodity derivatives for customers to use in their risk management. We also offer derivative products for customers to use in managing their interest rate and foreign exchange risk. Our diversified base of revenue sources is designed to generate returns in a range of economic situations. Historically, fees and commissions provide 40 to 45% of our total revenue. Approximately 47% of our revenue came from fees and commission in 2012.

BOK Financial's corporate headquarters is located at Bank of Oklahoma Tower, P.O. Box 2300, Tulsa, Oklahoma 74192.

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports are available on the Company's website at www.bokf.com as soon as reasonably practicable after the Company electronically files such material with or furnishes it to the Securities and Exchange

Commission.

Operating Segments

BOK Financial operates 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 electronic funds 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. Discussion of these principal lines of business appears within the Lines of Business section of “Management's Discussion and Analysis of Financial Condition and Results of Operations” and within Note 17 of the Company’s Notes to Consolidated Financial Statements, both of which appear elsewhere herein.

Competition

BOK Financial and its operating segments face competition from other banks, thrifts, credit unions and other non-bank financial institutions, such as investment banking firms, investment advisory firms, brokerage firms, investment companies, government agencies, mortgage brokers and insurance companies. The Company competes largely on the basis of customer services, interest rates on loans and deposits, lending limits and customer convenience. Some operating segments face competition from institutions that are not as closely regulated as banks, and therefore are not limited by the same capital requirements and other restrictions. All market share information presented below is based upon share of deposits in specified areas according to SNL DataSource as of December 31, 2012.

We are the largest financial institution in the state of Oklahoma with 14% of the state's total deposits. Bank of Oklahoma has 31% and 12% of the market share in the Tulsa and Oklahoma City areas, respectively. We compete with two banks that have operations nationwide and have greater access to funds at lower costs, higher lending limits, and greater access to technology resources. We also compete with regional and locally-owned banks in both the Tulsa and Oklahoma City areas, as well as in every other community in which we do business throughout the state.

Bank of Texas competes against numerous financial institutions, including some of the largest in the United States, and has a market share of approximately 2% in the Dallas, Fort Worth area and 1% in the Houston area. Bank of Albuquerque has a number three market share position with 11% of deposits in the Albuquerque area and competes with five large national banks, some regional banks and several locally-owned smaller community banks. Colorado State Bank and Trust has a market share of approximately 2% in the Denver area. Bank of Arkansas serves Benton and Washington counties in Arkansas with a market share of approximately 3%. Bank of Arizona operates as a community bank with locations in Phoenix, Mesa and Scottsdale and Bank of Kansas City serves the Kansas City, Kansas/Missouri market. The Company's ability to expand into additional states remains subject to various federal and state laws.

Employees

As of December 31, 2012, BOK Financial and its subsidiaries employed 4,704 full-time equivalent employees. None of the Company's employees are represented by collective bargaining agreements. Management considers its employee relations to be good.

Supervision and Regulation

BOK Financial and its subsidiaries are subject to extensive regulations under federal and state laws. These regulations are designed to promote safety and soundness, protect consumers and ensure the stability of the banking system as a whole. The purpose of these regulations is not necessarily to protect shareholders and creditors. As detailed below, these regulations require the Company and its subsidiaries to maintain certain capital balances and require the Company to provide financial support to its subsidiaries. These regulations may restrict the Company's ability to diversify, to acquire other institutions and to pay dividends on its capital stock. These regulations also include requirements on certain programs and services offered to our customers, including restrictions on fees charged for certain services.

The following information summarizes certain existing laws and regulations that affect the Company's operations. It does not summarize all provisions of these laws and regulations and does not include all laws and regulations that affect the Company presently or in the future.

General

As a financial holding company, BOK Financial is regulated under the BHCA and is subject to regular inspection, examination and supervision by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). Under the BHCA, BOK Financial files quarterly reports and other information with the Federal Reserve Board.

The Bank is organized as a national banking association under the National Banking Act, and is subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (the “OCC”), the Federal Deposit Insurance Corporation (the “FDIC”), the Federal Reserve Board, the Consumer Financial Protection Bureau and other federal and state regulatory agencies. The OCC has primary supervisory responsibility for national banks and must approve certain corporate or structural changes, including changes in capitalization, payment of dividends, change of place of business, and establishment of a branch or operating subsidiary. The OCC performs examinations concerning safety and soundness, the quality of management and directors, information technology and compliance with applicable regulations. The National Banking Act authorizes the OCC to examine every national bank as often as necessary.

A financial holding company, and the companies under its control, are permitted to engage in activities considered "financial in nature" as defined by the BHCA, Gramm-Leach-Bliley Act and Federal Reserve Board interpretations. Activities that are "financial in nature" include securities underwriting and dealing, insurance underwriting, merchant banking, operating a mortgage company, performing certain data processing operations, servicing loans and other extensions of credit, providing investment and financial advice, owning and operating savings and loan associations, and leasing personal property on a full pay-out, non-operating basis. In order for a financial holding company to commence any new activity permitted by the BHCA, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the Community Reinvestment Act. A financial holding company is required to notify the Federal Reserve Board within thirty days of engaging in new activities determined to be "financial in nature." BOK Financial is engaged in some of these activities and has notified the Federal Reserve Board.

The BHCA requires the Federal Reserve Board's prior approval for the direct or indirect acquisition of more than five percent of any class of voting stock of any non-affiliated bank. Under the Federal Bank Merger Act, the prior approval of the OCC is required for a national bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the applicant's performance record under the Community Reinvestment Act and fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

A financial holding company and its subsidiaries are prohibited under the BHCA from engaging in certain tie-in arrangements in connection with the provision of any credit, property or services. Thus, a subsidiary of a financial holding company may not extend credit, lease or sell property, furnish any services or fix or vary the consideration for these activities on the condition that (1) the customer obtain or provide additional credit, property or services from or to the financial holding company or any subsidiary thereof, or (2) the customer may not obtain some other credit, property or services from a competitor, except to the extent reasonable conditions are imposed to insure the soundness of credit extended.

The Bank and other non-bank subsidiaries are also subject to other federal and state laws and regulations. For example, BOSC, Inc., the Company's broker/dealer subsidiary that engages in retail and institutional securities sales and municipal bond underwriting, is regulated by the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA"), the Federal Reserve Board, and state securities regulators. As another example, Bank of Arkansas is subject to certain consumer-protection laws incorporated in the Arkansas Constitution, which, among other restrictions, limit the maximum interest rate on general loans to five percent above the Federal Reserve Discount Rate and limit the rate on consumer loans to the lower of five percent above the discount rate or seventeen percent.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law, giving federal banking agencies authority to increase regulatory capital requirements, impose additional rules and regulations over consumer financial products and services and limit the amount of interchange fees that may be charged in an electronic debit transaction. In addition, the Dodd-Frank Act made permanent the $250,000 limit for federal deposit insurance and provided unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand deposit accounts. It also repealed prohibitions on payment of interest on demand deposits, which could impact how interest is paid on business transaction and other accounts. Further, the Dodd-Frank Act prohibits banking entities from engaging in proprietary trading and restricts banking entities sponsorship of or investment in private equity funds and hedge funds. Many of the regulations required to implement the Dodd-Frank Act have yet to be adopted and the full impact of this legislation on fee income and operating expense remains

unknown. However, the potential reduction in revenue and increase in costs could be significant.

The Durbin Amendment to the Dodd-Frank Act required that interchange fees on electronic debit transactions paid by merchants must be “reasonable and proportional to the cost incurred by the issuer” and prohibited card network rules that have limited price competition among networks. Effective October 1, 2011, the Federal Reserve issued its final ruling to implement the Durbin Amendment. This ruling established a cap on interchange fees banks with more than $10 billion in total assets can charge merchants for certain debit card transactions. The Durbin Amendment interchange fee cap reduced annual non-interest income by approximately $19 million. See additional discussion in Management's Discussion and Analysis of Other Operating Revenue following. The Durbin Amendment also requires all banks to comply with the prohibition on network exclusivity and routing requirements. Debit card issuers are required to make at least two unaffiliated networks available to merchants. The final network exclusivity and routing requirements, which became effective April 1, 2012, did not have a significant impact on the Company.

The Dodd-Frank Act established the Consumer Financial Protection Bureau ("CFPB") with powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. Established July 21, 2011, the CFPB has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets for certain designated consumer laws and regulations. The CFPB issued mortgage servicing standards and mortgage lending rules, including “qualified mortgage” that are designed to protect consumers and ensure the reliability of mortgages. Those rules are effective in early 2014.

The proposed Volcker Rule in Title VI of the Dodd-Frank Act which 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, as our trading activities, as defined by the Volcker Rule, are done for the benefit of the customers and securities traded are mostly exempted under the proposed rules. 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 to the Company.

Title VII of the Dodd-Frank Act subjects nearly all derivative transactions to the regulations of the Commodity Futures Trading Commission (“CFTC”) or SEC. This includes registration, recordkeeping, reporting, capital, margin and business conduct requirements on swap dealers and major swap participants. In 2012, the CFTC and SEC both approved interim final rules on the definition "swap" and “swap dealer" which were effective October 2012. Under these rules, entities transacting in less than $8 billion in notional value of swaps over any 12 month period during the first three years after these rules are effective will be exempt from the definition of "swap dealer." After that three year period, this threshold may be reduced to $3 billion subject to the results of studies the commissions intend to undertake once the derivative rules are effective. The Company currently estimates that the nature and volume of swap activity will not require it to register as a swap dealer any time prior to October 2015. Although the ultimate impact of Title VII remains uncertain, we currently believe its full implementation is likely not to impose significantly higher compliance costs on the Company.

Some of the Company’s subsidiaries conduct underwriting and broker-dealer activities which are subject to regulation by the SEC, FINRA regulations, as well as other regulatory agencies. Such regulations generally include licensing of certain personnel, customer interactions, and trading operations.

As consumer compliance expectations increase with new regulation and increased oversight, the Company is increasing its investment in compliance management systems, including the appointment of a new Chief Compliance Officer effective January 1, 2013.

Capital Adequacy and Prompt Corrective Action

The Federal Reserve Board, the OCC and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations to ensure capital adequacy based upon the risk levels of assets and off-balance sheet financial instruments. In addition, these regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels, whether because of its financial condition or actual or anticipated growth. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators regarding components, risk weighting and other factors.

The Federal Reserve Board risk-based guidelines currently define a three-tier capital framework. Core capital (Tier 1) includes common shareholders' equity and qualifying preferred stock, less goodwill, most intangible assets and other adjustments. Supplementary capital (Tier 2) consists of preferred stock not qualifying as Tier 1 capital, qualifying mandatory convertible debt securities, limited amounts of subordinated debt, other qualifying term debt and allowances for credit losses, subject to limitations. Market risk capital (Tier 3) includes qualifying unsecured subordinated debt. Assets and off-balance sheet exposures are assigned to one of four categories of risk-weights, based primarily upon relative credit risk. Risk-based capital ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets. For a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, the institution's Tier 1 and total capital ratios must be at least 6% and 10% on a risk-adjusted basis, respectively. As of December 31, 2012, BOK Financial's Tier 1 and total capital ratios under these guidelines were 12.78% and 15.13%, respectively.

The leverage ratio is determined by dividing Tier 1 capital by adjusted average total assets. Banking organizations are required to maintain a ratio of at least 5% to be classified as well capitalized. BOK Financial's leverage ratio at December 31, 2012 was 9.01%.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (the "FDICIA"), among other things, identifies five capital categories for insured depository institutions from well capitalized to critically undercapitalized and requires the respective federal regulatory agencies to implement systems for prompt corrective action for institutions failing to meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive covenants on operations, management and capital distributions, depending upon the category in which an institution is classified.

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, Tier 1 risk-based capital and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under these guidelines, the Bank was considered well capitalized as of December 31, 2012.

The federal regulatory authorities' current risk-based capital guidelines are based upon the 1988 capital accord of the Basel Committee on Banking Supervision (the "BCBS"). The BCBS is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply.

On September 12, 2010, the Group of Governors and Heads of Supervision ("GHOS"), the oversight body of the BCBS, announced changes to strengthen the existing capital and liquidity requirements of internationally-active banking organizations commonly referred to as Basel III. In June 2012, federal banking regulators issued a Notice of Proposed Rulemaking that will incorporate Basel III capital changes for substantially all U.S. banking organizations. If adopted as proposed, these changes will establish a 7% threshold for the Tier 1 common equity ratio consisting of a minimum level plus a capital conservation buffer. Our estimated Tier 1 common equity ratio based on existing Basel I standards was 12.59% at December 31, 2012. Our estimated Tier 1 common equity ratio under a fully phased in Basel III framework is approximately 12.15%, nearly 515 basis points above the 7% regulatory threshold. This estimate is subject to interpretation of rules that are not yet final. Additionally, the proposed definition of Tier 1 common equity includes unrealized gains and losses on available for sale securities which will vary based on market conditions.

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 2014 with public disclosure of specified results to occur in June of 2015. The resulting capital stress test process may place constraints on capital distributions or require increases in regulatory capital under certain circumstances.

Further discussion of regulatory capital, including regulatory capital amounts and ratios, is set forth under the heading "Liquidity and Capital" within "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 15 of the Company's Notes to Consolidated Financial Statements, both of which appear elsewhere herein.

Deposit Insurance

Substantially all of the deposits held by the Bank are insured up to applicable limits by the Deposit Insurance Fund ("DIF") of the FDIC and are subject to deposit insurance assessments to maintain the DIF. In 2011, the FDIC released a final rule to implement provisions of the Dodd-Frank Act that affect deposit insurance assessments. Among other things, the Dodd-Frank Act raised the minimum designated reserve ratio from 1.15% to 1.35% of estimated insured deposits, removed the upper limit of the designated reserve ratio, required that the designated reserve ratio reach 1.35% by September 30, 2020, and required that the FDIC offset the effect of increasing the minimum designated reserve ratio on depository institutions with total assets of less than $10 billion. The Dodd-Frank Act also required that

the FDIC redefine the assessment base to average consolidated assets minus average tangible equity. This final rule reduced our deposit insurance assessment beginning in the second half of 2011.

In November, 2009 the FDIC required insured institutions to prepay over three years of estimated insurance assessments in order to strengthen the cash position of the DIF. Any prepaid assessment not exhausted as of June 30, 2013 will be returned. The Bank prepaid $78 million of deposit insurance assessments. As of December 31, 2012, $30 million of prepaid deposit insurance assessments remain and are included in Other assets on the Consolidated Balance Sheet of the Company.

Dividends

A key source of liquidity for BOK Financial is dividends from the Bank, which is limited by various banking regulations to net profits, as defined, for the year plus retained profits for the preceding two years and further restricted by minimum capital requirements. Based on the most restrictive limitations as well as management’s internal capital policy, the Bank had excess regulatory capital and could declare up to $48 million of dividends without regulatory approval as of December 31, 2012. This amount is not necessarily indicative of amounts that may be available to be paid in future periods.

Source of Strength Doctrine

According to Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to each subsidiary bank and to commit resources to support each such subsidiary. This support may be required at times when a bank holding company may not be able to provide such support.

Transactions with Affiliates

The Federal Reserve Board regulates transactions between the Company and its subsidiaries. Generally, the Federal Reserve Act and Regulation W, as amended by the Dodd-Frank Act, limit the Company’s banking subsidiary and its subsidiaries, to lending and other “covered transactions” with affiliates. The aggregate amount of covered transactions a banking subsidiary or its subsidiaries may enter into with an affiliate may not exceed 10% of the capital stock and surplus of the banking subsidiary. The aggregate amount of covered transactions with all affiliates may not exceed 20% of the capital stock and surplus of the banking subsidiary.

Covered transactions with affiliates are also subject to collateralization requirements and must be conducted on arm’s length terms. Covered transactions include (a) a loan or extension of credit by the banking subsidiary, including derivative contracts, (b) a purchase of securities issued to a banking subsidiary, (c) a purchase of assets by the banking subsidiary unless otherwise exempted by the Federal Reserve, (d) acceptance of securities issued by an affiliate to the banking subsidiary as collateral for a loan, and (e) the issuance of a guarantee, acceptance or letter of credit by the banking subsidiary on behalf of an affiliate. Effective July 21, 2012, the Dodd-Frank Act expanded the scope of the Covered Transaction Rules. These expanded rules may further restrict transactions between BOKF’s subsidiaries.

Bank Secrecy Act and USA PATRIOT Act

The Bank Secrecy Act (“BSA”) and the The USA PATRIOT Act of 2001 (“PATRIOT Act”) imposes many requirements on financial institutions in the interest of national security and law enforcement. BSA requires banks to maintain records and file suspicious activity reports that are of use to law enforcement and regulators in combating money laundering and other financial crimes. The Company must have a designated BSA Officer, internal controls, independent testing and training programs commensurate with the size and risk profile of the Company. As part of its internal control program, the Company is expected to have effective customer due diligence and enhanced due diligence requirements for high-risk customers, as well as processes to prohibit transaction with entities subject to Office of Foreign Asset Control sanctions. Documentation and recordkeeping requirements, as well as system requirements, aimed identifying and reporting suspicious activity reporting, must increase with the Company's size and complexity.

The Company has a low tolerance for customers, products or services that pose a more-than-normal degree of risk for financial crimes. However, as drug cartels, criminal organizations and terrorist regimes seeking to launder money through the U.S. financial systems have become more sophisticated, the Company is making significant investments in suspicious activity monitoring systems and other program elements, including staffing.

Failure to implement or maintain adequate programs and controls to combat terrorist financing and money laundering may have serious legal and reputational consequences.

Governmental Policies and Economic Factors

The operations of BOK Financial and its subsidiaries are affected by legislative changes and by the policies of various regulatory authorities and, in particular, the policies of the Federal Reserve Board. The Federal Reserve Board has statutory objectives to maximize employment and maintain price stability. Among the instruments of monetary policy used by the Federal Reserve Board to implement these objectives are: open-market operations in U.S. Government securities, changes in the discount rate and federal funds rate on bank borrowings, and changes in reserve requirements on bank deposits. The effect of future changes in such policies on the business and earnings of BOK Financial and its subsidiaries is uncertain.

In response to the significant recession in business activity which began in 2007, the Federal Reserve took aggressive actions to reduce interest rates and provide liquidity. While many of the crisis-related programs have expired or been closed, the Federal Reserve continues to put downward pressure on longer-term interest rates through purchases of longer-term securities. Additionally, the government continues to enact economic stimulus legislation and policies, including increases in government spending, reduction of certain taxes and home affordability programs. The Federal Reserve has indicated its intention to maintain historically low interest rates for the foreseeable future. The short-term effectiveness and long-term impact of these programs on the economy in general and on BOK Financial Corporation in particular are uncertain.

Foreign Operations

BOK Financial does not engage in operations in foreign countries, nor does it lend to foreign governments.

ITEM 1A. RISK FACTORS

The United States economy experienced a significant recession from 2007 to 2009. Business activity across a wide range of industries and geographic regions decreased and unemployment increased significantly. The financial services industry and capital markets were adversely affected by significantly declining asset values, rising delinquencies and defaults, and restricted liquidity. Numerous financial institutions failed or required a significant amount of government assistance due to credit losses and liquidity shortages. The rate of economic recovery remains slow and unemployment has remained persistently high. The Federal Reserve Board continues to take steps to promote more robust economic growth including maintaining a historically low federal funds rate for an extended period of time and promoting low intermediate and long-term interest rates. The current effect of these actions reduces earnings by narrowing net interest margins as maturing fixed-rate loans are refinanced and cash flow from the securities portfolio are reinvested at lower current rates. The long-term effect subjects banks to future interest rate risk once rates increase to more normal levels.

Adverse factors could impact BOK Financial's ability to implement its operating strategy.

Although BOK Financial has developed an operating strategy which it expects to result in continuing improved financial performance, BOK Financial cannot assure that it will be successful in fulfilling this strategy or that this operating strategy will be successful. Achieving success is dependent upon a number of factors, many of which are beyond BOK Financial's direct control. Factors that may adversely affect BOK Financial's ability to implement its operating strategy include:

- deterioration of BOK Financial's asset quality;
- inability to control BOK Financial's noninterest expenses;
- inability to increase noninterest income;
- deterioration in general economic conditions, especially in BOK Financial's core markets;
- inability to access capital;

- decreases in net interest margins;
- increases in competition;
- adverse regulatory developments.

Adverse regional economic developments could negatively affect BOK Financial's business.

At December 31, 2012, 44% of our loan portfolio is attributed to businesses and individuals in the state of Oklahoma and 32% is attributed to businesses and individuals in the state of Texas. Poor economic conditions in Oklahoma, Texas or other markets in the southwest region may cause BOK Financial to incur losses associated with higher default rates and decreased collateral values in BOK Financial's loan portfolio. A regional economic downturn could also adversely affect revenue from brokerage and trading activities, mortgage loan originations and other sources of fee-based revenue.

Adverse economic factors affecting particular industries could have a negative effect on BOK Financial customers and their ability to make payments to BOK Financial.

Certain industry-specific economic factors also affect BOK Financial. For example, 20% of BOK Financial's total loan portfolio at December 31, 2012 is comprised of loans to borrowers in the energy industry, which is historically a cyclical industry. Low commodity prices may adversely affect that industry and, consequently, may affect BOK Financial's business negatively. The effect of volatility in commodity prices on our customer derivatives portfolio could adversely affect our liquidity and regulatory capital. In addition, BOK Financial's loan portfolio includes commercial real estate loans. A downturn in the real estate industry in general or in certain segments of the commercial real estate industry in Oklahoma and the southwest region could also have an adverse effect on BOK Financial's operations.

Adverse global economic factors could have a negative effect on BOK Financial customers and counterparties.

Poor economic conditions globally, including those of the European Union, could impact BOK Financial’s customers and counterparties with which we do business. We have no direct exposure to European sovereign debt and our aggregate gross exposure to European financial institutions totaled $6.6 million at December 31, 2012. In addition, we have an aggregate gross exposure to internationally active domestic financial institutions of approximately $270 million at December 31, 2012. The financial condition of these institutions is monitored on an on-going basis. We have not identified any significant customer exposures to European sovereign debt or European financial institutions.

Fluctuations in interest rates could adversely affect BOK Financial's business.

BOK Financial's business is highly sensitive to:

- the monetary policies implemented by the Federal Reserve Board, including the discount rate on bank borrowings and changes in reserve requirements, which affect BOK Financial's ability to make loans and the interest rates we may charge;
- changes in prevailing interest rates, due to the dependency of the Bank on interest income;
- open market operations in U.S. Government securities.

A significant increase in market interest rates, or the perception that an increase may occur, could adversely affect both BOK Financial's ability to originate new loans and BOK Financial's ability to grow. Conversely, a decrease in interest rates could result in acceleration in the payment of loans, including loans underlying BOK Financial's holdings of residential mortgage-backed securities and termination of BOK Financial's mortgage servicing rights. In addition, changes in market interest rates, changes in the relationships between short-term and long-term market interest rates or changes in the relationships between different interest rate indices, could affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income which would reduce the Company’s net interest revenue. In a low interest rate environment, the Company's ability to support net interest revenue through continued securities portfolio growth or further reduce deposit costs could be limited. An increase in market interest rates also could adversely affect the ability of BOK Financial's floating-rate borrowers to meet their higher payment obligations. If this occurred, it could cause an increase in nonperforming assets and net charge-offs, which could adversely affect BOK Financial's business.

Changes in mortgage interest rates could adversely affect mortgage banking operations as well as BOK Financial's substantial holdings of residential mortgage-backed securities and mortgage servicing rights.

Our available for sale residential mortgage-backed security portfolio represents investment interests in pools of residential mortgages, composing $10 billion or 36% of total assets of the Company at December 31, 2012. Residential mortgage-backed securities are highly sensitive to changes in interest rates. BOK Financial mitigates this risk somewhat by investing principally in shorter duration mortgage products, which are less sensitive to changes in interest rates. A significant decrease in interest rates has led mortgage holders to refinance the mortgages constituting the pool backing the securities, subjecting BOK Financial to a risk of prepayment and decreased return on investment due to subsequent reinvestment at lower interest rates. A significant decrease in interest rates has also accelerated premium amortization. Conversely, a significant increase in interest rates could cause mortgage holders to extend the term over which they repay their loans, which delays the Company's opportunity to reinvest funds at higher rates.

Residential mortgage-backed securities are also subject to credit risk from delinquency or default of the underlying loans. BOK Financial mitigates this risk somewhat by investing in securities issued by U.S. government agencies. Principal and interest payments on the loans underlying these securities are guaranteed by these agencies.

The Federal Reserve Board and other government agencies have implemented policies and programs to stimulate the U.S. economy and housing market. These policies and programs have significantly reduced both primary mortgage interest rates, the rates paid by borrowers, and secondary mortgage interest rates, the rates required by investors in mortgage backed securities. They have also reduced barriers to mortgage refinancing such as insufficient home values.

BOK Financial derives a substantial amount of revenue from mortgage activities, including $129 million from the production and sale of mortgage loans, $40 million from the servicing of mortgage loans and $25 million from sales of financial instruments to other mortgage lenders. These activities, as well our substantial holdings of residential mortgage backed securities and mortgage servicing rights may be adversely affected by changes in government policies and programs.

In addition, as part of BOK Financial's mortgage banking business, BOK Financial has substantial holdings of mortgage servicing rights, totaling $101 million or 0.36% of total assets at December 31, 2012. The value of these rights is also very sensitive to changes in interest rates. Falling interest rates tend to increase loan prepayments, which may lead to cancellation of the related servicing rights. BOK Financial's investments and dealings in mortgage-related products increase the risk that falling interest rates could adversely affect BOK Financial's business. BOK Financial attempts to manage this risk by maintaining an active hedging program for its mortgage servicing rights. BOK Financial's hedging program has only been partially successful in recent years. The value of mortgage servicing rights may also decrease due to rising delinquency or default of the loans serviced. This risk is mitigated somewhat by adherence to underwriting standards on loans originated for sale.

Market disruptions could impact BOK Financial’s funding sources.

BOK Financial’s subsidiary bank may rely on other financial institutions and the Federal Home Loan Bank of Topeka as a significant source of funds. Our ability to fund loans, manage our interest rate risk and meet other obligations depends on funds borrowed from these sources. The inability to borrow funds at market interest rates could have a material adverse effect on our operations.

Substantial competition could adversely affect BOK Financial.

Banking is a competitive business. BOK Financial competes actively for loan, deposit and other financial services business in the southwest region of the United States. BOK Financial's competitors include a large number of small and large local and national banks, savings and loan associations, credit unions, trust companies, broker-dealers and underwriters, as well as many financial and nonfinancial firms that offer services similar to BOK Financial's. Large national financial institutions have substantial capital, technology and marketing resources. Such large financial institutions may have greater access to capital at a lower cost than BOK Financial does, which may adversely affect BOK Financial's ability to compete effectively.

BOK Financial has expanded into markets outside of Oklahoma, where it competes with a large number of financial institutions that have an established customer base and greater market share than BOK Financial. BOK Financial may not be able to continue to compete successfully in these markets outside of Oklahoma. With respect to some of its services, BOK Financial competes with non-bank companies that are not subject to regulation. The absence of regulatory requirements may give non-banks a competitive advantage.

Government regulations could adversely affect BOK Financial.

BOK Financial and its subsidiaries are extensively regulated under both federal and state law. In particular, BOK Financial is subject to the BHCA, the National Bank Act, the Dodd-Frank Act and many other laws and regulations.

In the past, BOK Financial's business has been materially affected by these regulations. For example, regulations limit BOK Financial's business to banking and related businesses, limit the location of BOK Financial's branches and offices, as well as the amount of deposits that it can hold in a particular state and have added pricing constraints to our transaction card business. Regulations may limit BOK Financial's ability to grow and expand into new markets and businesses.

Additionally, under the Community Reinvestment Act, BOK Financial is required to provide services in traditionally underserved areas. BOK Financial's ability to make acquisitions and engage in new business may be limited by these requirements.

Bank regulations require us to maintain specified capital ratios and proposed Dodd-Frank Act and Basel III capital rules will likely increase the levels of required capital, and to stress-test our capital under various economic scenarios. Any risk of failure to meet minimum required capital ratios would limit the growth potential of BOK Financial's business.

Under a long-standing policy of the Board of Governors of the Federal Reserve System, a bank holding company is expected to act as a source of financial strength for its subsidiary bank. As a result of that policy, BOK Financial may be required to commit financial and other resources to its subsidiary bank in circumstances where we might not otherwise do so.

The trend of increasingly extensive regulation is likely to continue and become more costly in the future. Laws, regulations or policies currently affecting BOK Financial and its subsidiaries may change. The implementation of the Dodd-Frank Act has and will continue to affect BOK Financial’s businesses, including interchange revenue, mortgage banking, derivative and trading activities on behalf of customers, consumer products and funds management.

Regulatory authorities may change their interpretation of these statutes and regulations and are likely to increase their supervisory activities, including the OCC, our primary regulator, and the CFPB, our new regulator for certain designated consumer laws and regulations. Violations of laws and regulations could limit the growth potential of BOK Financial's businesses.

Adverse political environment could negatively impact BOK Financial’s business.

As a result of the financial crisis and related government intervention to stabilize the banking system, there have been a series of laws and related regulations proposed or enacted in an attempt to ensure the crisis is not repeated. Many of the proposed new regulations are far-reaching. The intervention by the government also impacted populist sentiment with a negative view of financial institutions. This sentiment may increase litigation risk to the Company. While the Company did not participate in the Troubled Asset Relief Program and performed well throughout the downturn, the adverse political environment could have an adverse impact on BOK Financial’s future operations.

Statutory restrictions on subsidiary dividends and other distributions and debts of BOK Financial's subsidiaries could limit amounts BOK Financial's subsidiaries may pay to BOK Financial.

BOK Financial is a financial holding company, and a substantial portion of BOK Financial's cash flow typically comes from dividends that BOK Financial's bank and nonbank subsidiaries pay to BOK Financial. Various statutory provisions restrict the amount of dividends BOK Financial's subsidiaries can pay to BOK Financial without regulatory approval. Management also developed, and the BOK Financial board of directors approved, an internal capital policy that is more restrictive than the regulatory capital standards. Subsidiary creditors are entitled to receive distributions from the assets of that subsidiary in the event of liquidation before BOK Financial, as holder of an equity interest in the subsidiary, is entitled to receive any of the assets of the subsidiary. However, if BOK Financial is a creditor of the subsidiary with recognized claims against it, BOK Financial will be in the same position as other creditors.

Although publicly traded, BOK Financial's common stock has substantially less liquidity than the average trading market for a stock quoted on the NASDAQ National Market System.

A relatively small fraction of BOK Financial's outstanding common stock is actively traded. The risks of low liquidity include increased volatility of the price of BOK Financial's common stock. Low liquidity may also limit holders of BOK Financial's common stock in their ability to sell or transfer BOK Financial's shares at the price, time and quantity desired.

BOK Financial's principal shareholder controls a majority of BOK Financial's common stock.

Mr. George B. Kaiser owns approximately 62% of the outstanding shares of BOK Financial's common stock at December 31, 2012. Mr. Kaiser is able to elect all of BOK Financial's directors and effectively control the vote on all

matters submitted to a vote of BOK Financial's common shareholders. Mr. Kaiser's ability to prevent an unsolicited bid for BOK Financial or any other change in control could have an adverse effect on the market price for BOK Financial's common stock. A substantial majority of BOK Financial's directors are not officers or employees of BOK Financial or any of its affiliates. However, because of Mr. Kaiser's control over the election of BOK Financial's directors, he could change the composition of BOK Financial's Board of Directors so that it would not have a majority of outside directors.

Possible future sales of shares by BOK Financial's principal shareholder could adversely affect the market price of BOK Financial's common stock.

Mr. Kaiser has the right to sell shares of BOK Financial's common stock in compliance with the federal securities laws at any time, or from time to time. The federal securities laws will be the only restrictions on Mr. Kaiser's ability to sell. Because of his current control of BOK Financial, Mr. Kaiser could sell large amounts of his shares of BOK Financial's common stock by

---

causing BOK Financial to file a registration statement that would allow him to sell shares more easily. In addition, Mr. Kaiser could sell his shares of BOK Financial's common stock without registration under Rule 144 of the Securities Act. Although BOK Financial can make no predictions as to the effect, if any, that such sales would have on the market price of BOK Financial's common stock, sales of substantial amounts of BOK Financial's common stock, or the perception that such sales could occur, could adversely affect market prices. If Mr. Kaiser sells or transfers his shares of BOK Financial's common stock as a block, another person or entity could become BOK Financial's controlling shareholder.

Dependence on technology increases cyber security risk.

As a financial institution, we process a significant number of customer transactions and possess a significant amount of sensitive customer information. We engage certain third-party vendors to support our data processing systems. As technology advances, the ability to initiate transactions and access data has become more widely distributed among mobile phones, personal computers, automated teller machines, remote deposit capture sites and similar access points. These technological advances increase cyber security risk. While the Company maintains programs intended to prevent or limit the effects of cyber security risk, there is no assurance that unauthorized transactions or unauthorized access to customer information will not occur. The financial, reputational and regulatory impact of unauthorized transactions or unauthorized access to customer information could be significant.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

BOK Financial and its subsidiaries own and lease improved real estate that is carried at $183 million, net of depreciation and amortization. The Company’s principal offices are located in leased premises in the Bank of Oklahoma Tower in Tulsa, Oklahoma. Banking offices are primarily located in Tulsa and Oklahoma City, Oklahoma; Dallas, Fort Worth and Houston, Texas; Albuquerque, New Mexico; Denver, Colorado; Phoenix, Arizona; and Kansas City, Kansas/Missouri. Primary operations facilities are located in Tulsa and Oklahoma City, Oklahoma; Dallas, Texas and Albuquerque, New Mexico. The Company’s facilities are suitable for their respective uses and present needs.

The information set forth in Notes 5 and 14 of the Company’s Notes to Consolidated Financial Statements, which appear elsewhere herein, provides further discussion related to properties.

ITEM 3. LEGAL PROCEEDINGS

The information set forth in Note 14 of the Company’s Notes to Consolidated Financial Statements, which appear elsewhere herein, provides discussion related to legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

BOK Financial's $0.00006 par value common stock is traded on the NASDAQ Stock Market under the symbol BOKF. As of January 31, 2013, common shareholders of record numbered 835 with 68,369,705 shares outstanding.

The highest and lowest closing bid price for shares and cash dividends per share of BOK Financial common stock follows:

	First	Second	Third	Fourth	
2012:					
Low	$52.56	$53.34	$55.63	$54.19	
High	59.02	58.12	59.47	59.77	
Cash dividends	0.33	0.38	0.38	1.38	[1]
2011:					
Low	$50.37	$50.13	$44.00	$45.68	
High	56.32	54.72	55.81	55.90	
Cash dividends	0.25	0.275	0.275	0.33	

[1] Includes $1.00 per share special cash dividend.

Shareholder Return Performance Graph

Set forth below is a line graph comparing the change in cumulative shareholder return of the NASDAQ Index, the NASDAQ Bank Index, and the KBW 50 Bank Index for the period commencing December 31, 2007 and ending December 31, 2012.*

	Period Ending					
Index	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
BOK Financial Corporation	100.00	79.56	95.78	109.82	115.52	119.71
NASDAQ Composite	100.00	60.02	87.24	103.08	102.26	120.42
NASDAQ Bank Index	100.00	78.46	65.67	74.97	67.10	79.64
KBW 50	100.00	52.45	51.53	63.57	48.83	64.96

* Graph assumes value of an investment in the Company's Common Stock for each index was $100 on December 31, 2007. The KBW 50 Bank index is the Keefe, Bruyette & Woods, Inc. index, which is available only for calendar quarter end periods. Cash dividends on Common Stock are assumed to have been reinvested in BOK Financial Common Stock.

The following table provides information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of the Company's common stock during the three months ended December 31, 2012.

Period	Total Number of Shares Purchased [2]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	Maximum Number of Shares that May Yet Be Purchased Under the Plans
October 1, 2012 to October 31, 2012	91	$59.17	—	1,960,504
November 1, 2012 to November 30, 2012	49,126	$56.71	—	1,960,504
December 1, 2012 to December 31, 2012	30,569	$54.95	—	1,960,504
Total	79,786		—	

[1] On April 24, 2012, the Company's board of directors authorized the Company to repurchase up to two million shares of the Company's common stock. As of December 31, 2012, the Company had repurchased 39,496 shares under this plan.

[2] The Company routinely repurchases mature shares from employees to cover the exercise price and taxes in connection with employee stock option exercises.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data is set forth within Table 1 of Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

Table 1 -- Consolidated Selected Financial Data
(Dollars in thousands, except per share data)

	December 31, 2012	2011	2010	2009	2008
Selected Financial Data					
For the year:					
Interest revenue	$791,648	$811,595	$851,082	$914,569	$1,061,645
Interest expense	87,322	120,101	142,030	204,205	414,783
Net interest revenue	704,326	691,494	709,052	710,364	646,862
Provision for for credit losses	(22,000)	(6,050)	105,139	195,900	202,593
Fees and commissions revenue	632,103	528,643	516,394	480,512	415,194
Net income	351,191	285,875	246,754	200,578	153,232
Period-end:					
Loans	12,311,456	11,269,743	10,643,036	11,279,698	12,876,006
Assets	28,148,631	25,493,946	23,941,603	23,516,831	22,734,648
Deposits	21,179,060	18,762,580	17,179,061	15,518,228	14,982,607
Subordinated debentures	347,633	398,881	398,701	398,539	398,407
Shareholders' equity	2,957,860	2,750,468	2,521,726	2,205,813	1,846,257
Nonperforming assets[2]	276,716	356,932	394,469	484,295	342,291
Profitability Statistics					
Earnings per share (based on average equivalent shares):					
Basic	$5.15	$4.18	$3.63	$2.96	$2.27
Diluted	5.13	4.17	3.61	2.96	2.27
Percentages (based on daily averages):					
Return on average assets	1.34 %	1.17 %	1.04 %	0.87 %	0.71 %
Return on average shareholders' equity	12.09	10.66	10.18	9.66	7.87
Average shareholders' equity to average assets	11.05	10.95	10.19	8.98	9.01
Common Stock Performance					
Per Share:					
Book value per common share	$43.29	$40.36	$36.97	$32.53	$27.36
Market price: December 31 close	54.46	54.93	53.40	47.52	40.40
Market range – High close	59.77	56.30	55.68	48.13	60.84
Market range – Low close	52.56	44.00	42.89	22.98	38.48
Cash dividends declared	2.47	1.13	0.99	0.945	0.875
Dividend payout ratio	48.01 %[5]	27.01 %	27.16 %	31.93 %	38.55 %
Selected Balance Sheet Statistics					
Period-end:					
Tier 1 capital ratio	12.78 %	13.27 %	12.69 %	10.86 %	9.40 %
Total capital ratio	15.13	16.49	16.20	14.43	12.81
Leverage ratio	9.01	9.15	8.74	8.05	7.89

Tangible common equity ratio[1]	9.25	9.56	9.21	7.99	6.64
Allowance for loan losses to nonaccruing loans	160.34	125.93	126.93	86.07	77.73
Allowance for loan losses to loans	1.75	2.25	2.75	2.59	1.81
Combined allowances for credit losses to loans [4]	1.77	2.33	2.89	2.72	1.93

15

Table 1 -- Consolidated Selected Financial Data
(Dollars in thousands, except per share data)

	December 31,				
	2012	2011	2010	2009	2008
Miscellaneous (at December 31)					
Number of employees (full-time equivalent)	4,704	4,511	4,432	4,355	4,300
Number of banking locations	217	212	207	202	202
Number of TransFund locations	1,970	1,912	1,943	1,896	1,933
Fiduciary assets	25,829,038	22,821,813	22,914,737	20,642,512	18,987,025
Mortgage loan servicing portfolio[3]	13,091,482	12,356,917	12,059,241	7,366,780	5,983,824

[1] Shareholders' equity as defined by generally accepted accounting principles in the United State of America less goodwill, intangible assets and equity which does not benefit common shareholders divided by total assets less goodwill and intangible assets.

[2] Includes nonaccrual loans, renegotiated loans and assets acquired in satisfaction of loans. Excludes loans past due 90 days or more and still accruing.

[3] Includes outstanding principal for loans serviced for affiliates.

[4] Includes allowance for loan losses and accrual for off-balance sheet credit risk.

[5] Includes $1.00 per share special dividend.

Management’s Assessment of Operations and Financial Condition

Overview

The following discussion is management’s analysis to assist in the understanding and evaluation of the financial condition and results of operations of BOK Financial Corporation (“BOK Financial” or “the Company”). This discussion should be read in conjunction with the consolidated financial statements and footnotes and selected financial data presented elsewhere in this report.

Following the severe recession from 2007 to 2009, economic growth in the United State has been modest and gradual. National unemployment rates have improved from 8.5% in December of 2011 to 7.8% in December of 2012. With subdued indications of inflation, the U.S. government has provided accommodative economic policy to support growth in the economy and further reduction in the unemployment rate. Long-term and short-term interest rates remained at historic lows throughout the year. Low national mortgage rates during much of the year sustained a record level of mortgage lending activity. This low interest rate environment has presented challenges for all financial institutions as cash flows from loan and securities portfolios are reinvested at current rates. The Federal Reserve has continued to affirm its intention to keep interest rates low for the foreseeable future. Both personal and corporate balance sheets have improved during the year. Corporations have amassed a significant amount of cash, placing the U.S. in a strong position to fund growth opportunities and reinvest. However, this has been hindered by the uncertainty in tax and regulatory policy as we address the high level of national debt and deficit issues.

Performance Summary

Net income for the year ended December 31, 2012 totaled $351.2 million or $5.13 per diluted share compared with net income of $285.9 million or $4.17 per diluted share for the year ended December 31, 2011. Net income was up 23% over last year primarily due to a record level of mortgage banking revenue and sustained improvement in credit quality.

Highlights of 2012 included:

- Net interest revenue totaled $704.3 million for 2012 compared to $691.5 million for 2011. Net interest earned from the increase in average loan and securities balances was largely offset by the reinvestment of cash flows from the securities portfolio at lower current market rates and decreased loan yield. Net interest margin was 3.14% for 2012 compared to 3.34% for 2011.
- Fees and commissions revenue increased $103.5 million or 20% over 2011. Mortgage banking revenue increased $77.7 million or 85% over the prior year. BOK Financial originated a record number of residential mortgage loans during the year and benefited from improved pricing of loans sold in the secondary market. Brokerage fees and commission revenue increased $22.7 million or 22% primarily due to increased mortgage-related securities trading and customer hedging

revenue. Transaction card revenue was down $8.8 million compared to the prior year. Increased transaction volume was offset by the impact of debit card interchange fee regulations which were effective in the fourth quarter of 2011.

- Operating expenses, excluding changes in the fair value of mortgage servicing rights, totaled $840.4 million, up $61.1 million or 8% over 2011. Personnel costs increased $61.0 million due largely to incentive compensation. Non-personnel expenses were largely unchanged compared to the prior year.
- The Company recorded a $22.0 million negative provision for credit losses in 2012 and a $6.1 million negative provision for credit losses in 2011. Net loans charged off totaled $23.3 million or 0.20% of average loans for 2012 compared to $38.5 million or 0.35% of average loans for 2011. Gross charge-offs decreased to $42.1 million in 2012 from $56.8 million in 2011.
- The combined allowance for credit losses totaled $217 million or 1.77% of outstanding loans at December 31, 2012 compared to $263 million or 2.33% of outstanding loans at December 31, 2011. Nonperforming assets totaled $277 million or 2.23% of outstanding loans and repossessed assets at December 31, 2012, down from $357 million or 3.13% of outstanding loans and repossessed assets at December 31, 2011. During 2012, nonaccruing loans decreased $67 million and repossessed assets decreased $19 million.
- Outstanding loan balances were $12.3 billion at December 31, 2012, up $1.0 billion over the prior year. Commercial loan balances grew by $1.1 billion or 17%. Commercial real estate loans decreased $62 million, residential mortgage loans increased $71 million and consumer loans decreased $53 million.
- The available for sale securities portfolio increased by $1.1 billion during 2012 to $11.3 billion at December 31, 2012. The Company increased its holdings of low duration residential mortgage-backed securities guaranteed by U.S. government agencies.
- Period-end deposits totaled $21.2 billion at December 31, 2012 compared to $18.8 billion at December 31, 2011. Demand deposit accounts grew by $2.2 billion. Interest-bearing transaction accounts increased $534 million and time deposits decreased $414 million.
- The tangible common equity ratio was 9.25% at December 31, 2012 and 9.56% at December 31, 2011. 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 decrease in tangible common equity was primarily due to payment of a special dividend during the year partially offset by retained earnings.
- The Company and its subsidiary bank exceeded the regulatory definition of well capitalized. The Company's Tier 1 capital ratios, as defined by banking regulations, were 12.78% at December 31, 2012 and 13.27% at December 31, 2011.
- Regular cash dividends paid on common shares were $1.47 per common share in 2012. In addition, the Company paid a special dividend of $1.00 per common share in the fourth quarter of 2012. Cash dividends paid on common shares in 2011 totaled $1.13.

Net income for the fourth quarter of 2012 totaled $82.6 million or $1.21 per diluted share compared to $67.0 million or $0.98 per diluted share for the fourth quarter of 2011.

Highlights of the fourth quarter of 2012 included:

- Net interest revenue totaled $173.4 million for the fourth quarter of 2012 compared to $171.5 million for the fourth quarter of 2011. Net interest margin was 2.95% for the fourth quarter of 2012 compared to 3.20% for the fourth quarter of 2011. Net interest earned from the increase in average loan and securities balances was largely offset by the reinvestment of cash flows from the securities portfolio at lower current market rates.
- Fees and commissions revenue increased $34.0 million over the prior year to $165.8 million for the fourth quarter of 2012. Mortgage banking revenue increased $21.0 million due primarily to an increase in loan production volume and improved pricing of loans sold. Nearly all other fee-based revenue sources increased over the prior year and quarter.
- Operating expenses, excluding changes in the fair value of mortgage servicing rights, totaled $226.8 million, up $13.1 million over the prior year. Personnel costs increased $10.1 million and non-personnel expenses increased $3.0 million.

- A $14.0 million negative provision for credit losses was recorded in the fourth quarter of 2012 compared to a $15.0 million negative provision for credit losses in the fourth quarter of 2011. Net loans charged off totaled $4.3 million in

17

the fourth quarter of 2012 compared to $9.5 million in the fourth quarter of 2011. Gross charge-offs were $8.0 million compared to $14.8 million in the prior year.

Critical Accounting Policies & Estimates

The Consolidated Financial Statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The Company's accounting policies are more fully described in Note 1 of the Consolidated Financial Statements. Management makes significant assumptions and estimates in the preparation of the Consolidated Financial Statements and accompanying notes in conformity with GAAP that may be highly subjective, complex and subject to variability. Actual results could differ significantly from these assumptions and estimates. The following discussion addresses the most critical areas where these assumptions and estimates could affect the financial condition, results of operations and cash flows of the Company. These critical accounting policies and estimates have been discussed with the appropriate committees of the Board of Directors.

Allowance for Loan Losses and Accrual for Off-Balance Sheet Credit Risk

The allowance for loan losses and accrual for off-balance sheet credit risk are assessed by management based on an ongoing quarterly evaluation of the probable estimated losses inherent in the loan portfolio and probable estimated losses on unused commitments to provide financing. A consistent, well-documented methodology has been developed and is applied by an independent Credit Administration department to assure consistency across the Company. The allowance for loan losses consists of specific allowances attributed to certain impaired loans that have not yet been charged down to amounts we expect to recover, general allowances for unimpaired loans that are based on estimated loss rates by loan class and nonspecific allowances for risks beyond factors specific to a particular portfolio segment or loan class. There have been no material changes in the approach or techniques utilized in developing the allowance for loan losses and accrual for off-balance sheet credit risk during 2012.

Loans are considered impaired when it is probable that we will not collect all amounts due according to the contractual terms of the loan agreements, including loans modified in troubled debt restructurings. Internally risk graded loans are evaluated individually for impairment. Substantially all commercial and commercial real estate loans and certain residential mortgage and consumer loans are risk graded through a quarterly evaluation of the borrower's ability to repay. Certain commercial loans and most residential mortgage and consumer loans which represent small balance, homogeneous pools are not risk graded. Non-risk graded loans are identified as impaired based on performance status. Generally, non-risk graded loans are considered impaired when 90 or more days past due, in bankruptcy or modified in a troubled debt restructuring.

Specific allowances for impaired loans that have not yet been charged down to amounts we expect to recover are measured by an evaluation of estimated future cash flows discounted at the loan's initial effective interest rate or the fair value of collateral for certain collateral dependent loans. Collateral value of real property is generally based on third party appraisals that conform to Uniform Standards of Professional Appraisal Practice, less estimated selling costs. Appraised values are on an "as-is" basis and generally are not adjusted by the Company. Updated appraisals are obtained at least annually or more frequently if market conditions indicate collateral values may have declined. Collateral value of mineral rights is determined by our internal staff of engineers based on projected cash flows under current market conditions. The value of other collateral is generally determined by our special assets staff based on liquidation cash flows under current market conditions. Collateral values and available cash resources that support impaired loans are evaluated quarterly. Historical statistics may be used as a practical way to estimate impairment in limited situations, such as when a collateral dependent loan is identified as impaired near the end of a reporting period until an updated appraisal of collateral value is received or a full assessment of future cash flows is completed. Estimates of future cash flows and collateral values require significant judgments and may be volatile.

General allowances for unimpaired loans are based on estimated loss rates by loan class. The appropriate historical gross loss rate for each loan class is determined by the greater of the current loss rate based on the most recent twelve months or a ten-year average gross loss rate. Recoveries are not directly considered in the estimation of historical loss rates. Recoveries generally do not follow predictable patterns and are not received until well-after the charge-off date as a result of protracted legal proceedings. For risk graded loans, historical loss rates are adjusted for changes in risk rating. For each loan class, the weighted average current risk grade is compared to the weighted average long-term risk grade. This comparison determines whether the risk in each loan class is increasing or decreasing. Historical loss rates are adjusted upward or downward in proportion to changes in weighted average risk grading. General allowances for unimpaired loans also consider inherent risks identified for a given loan class. Inherent risks include consideration of the loss rates that most appropriately represent the current credit cycle and other factors attributable to a specific loan class which have not yet been represented in the historical gross loss rates or risk grading. Examples of these factors include changes in commodity prices or engineering imprecision which may affect the value of reserves that secure our energy loan portfolio, construction risk that may affect commercial real

estate loans, changes in regulations and public policy that may disproportionately impact health care loans and changes in loan product types.

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.

Fair Value Measurement

Certain assets and liabilities are recorded at fair value in the Consolidated Financial Statements. Fair value is defined by applicable accounting guidance as the price to sell an asset or transfer a liability in an orderly transaction between market participants in the principal markets for the given asset or liability at the measurement date based on markets conditions at that date. An orderly transaction assumes exposure to the market for a customary period for marketing activities prior to the measurement date and not a forced liquidation or distressed sale.

A hierarchy for fair value has been established that prioritizes the inputs of valuation techniques used to measure fair value into three broad categories: unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), other observable inputs that can be observed either directly or indirectly (Level 2) and unobservable inputs for assets or liabilities (Level 3). Fair value may be recorded for certain assets and liabilities every reporting period on a recurring basis or under certain circumstances on a non-recurring basis.

The following represents significant fair value measurements included in the Consolidated Financial Statements based on estimates. See Note 18 of the Consolidated Financial Statements for additional discussion of fair value measurement and disclosure included in the Consolidated Financial Statements.

Mortgage Servicing Rights

We have a significant investment in mortgage servicing rights. Mortgage servicing rights may be recognized when mortgage loans are originated pursuant to an existing plan for sale or, if no such plan exists, when the mortgage loans are sold. Our mortgage servicing rights are primarily retained from sales in the secondary market of residential mortgage loans we have originated. Occasionally mortgage servicing rights may be purchased from other lenders. Both originated and purchased mortgage servicing rights are initially recognized at fair value. The Company has elected to carry all mortgage servicing rights at fair value. Changes in fair value are recognized in earnings as they occur.

There is no active market for mortgage servicing rights after origination. The fair value of the mortgage servicing rights are determined by discounting the projected cash flows. Certain significant assumptions and estimates used in valuing mortgage servicing rights are based on current market sources including projected prepayment speeds, assumed servicing costs, earnings on escrow deposits, ancillary income and discount rates. Assumptions used to value our mortgage servicing rights are considered significant unobservable inputs and represent our best estimate of assumptions that market participants would use to value this asset. A separate third party model is used to estimate prepayment speeds based on interest rates, housing turnover rates, estimated loan curtailment, anticipated defaults and other relevant factors. The prepayment model is updated daily for changes in market conditions and adjusted to better correlate with actual performance of our servicing portfolio. The discount rate is based on benchmark rates for mortgage loans plus a market spread expected by investors in servicing rights. Significant assumptions used to determine the fair value of our mortgage servicing rights are presented in Note 7 to the Consolidated Financial Statements. At least annually, we request estimates of fair value from outside sources to corroborate the results of the valuation model.

The assumptions used in this model are primarily based on mortgage interest rates. Evaluation of the effect of a change in one assumption without considering the effect of that change on other assumptions is not meaningful. Considering all related assumptions, we would expect a 50 basis point increase in mortgage interest rates to increase the fair value of our servicing rights by $11 million. We would expect a $13 million decrease in the fair value of our mortgage servicing rights from a 50 basis point decrease in mortgage interest rates.

Valuation of Derivative Instruments

We use interest rate derivative instruments to manage our interest rate risk. We also offer interest rate, commodity, foreign exchange and equity derivative contracts to our customers. All derivative instruments are carried on the

balance sheet at fair value. Fair values for exchange-traded contracts are based on quoted prices in an active market for identical instruments. Fair values for over-the-counter interest rate contracts used to manage our interest rate risk are provided either by third-party dealers in the contracts or by quotes provided by independent pricing services. Information used by these third-party dealers or independent pricing services to determine fair values are considered significant other observable inputs. Fair values for interest rate, commodity, foreign exchange and equity contracts used in our customer hedging programs are based on valuations generated internally by third-party provided pricing models. These models use significant other observable market inputs to estimate fair values. Changes in assumptions used in these pricing models could significantly affect the reported fair values of derivative assets and liabilities, though the net effect of these changes should not significantly affect earnings.

Credit risk is considered in determining the fair value of derivative instruments. Deterioration in the credit rating of customers or dealers reduces the fair value of asset contracts. The reduction in fair value is recognized in earnings during the current period. Fair value adjustments are based on various risk factors including but not limited to counterparty credit rating or equivalent loan grading, derivative contract notional size, price volatility of the underlying commodity, duration of the derivative contracts and expected loss severity. Expected loss severity is based on historical losses for similarly risk-graded commercial loan customers. Deterioration in our credit rating below investment grade would affect the fair value of our derivative liabilities. In the event of a credit down-grade, the fair value of our derivative liabilities would decrease. The reduction in fair value would be recognized in earnings in the current period.

Valuation of Securities

The fair value of our securities portfolio is generally based on a single price for each financial instrument provided to us by a third-party pricing service determined by one or more of the following:

- Quoted prices for similar, but not identical, assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable, such as interest rate and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates;
- Other inputs derived from or corroborated by observable market inputs.

The underlying methods used by the third-party pricing services are considered in determining the primary inputs used to determine fair values. We evaluate the methodologies employed by the third-party pricing services by comparing the price provided by the pricing service with other sources, including brokers' quotes, sales or purchases of similar instruments and discounted cash flows to establish a basis for reliance on the pricing service values. Significant differences between the pricing service provided value and other sources are discussed with the pricing service to understand the basis for their values. Based on all observable inputs, management may adjust prices obtained from third-party pricing services to more appropriately reflect the prices that would be received to sell assets or paid to transfer liabilities in orderly transactions in the current market. No significant adjustments were made to prices provided by third-party pricing services at December 31, 2012 or December 31, 2011.

A portion of our securities portfolio is comprised of debt securities for which third-party services have discontinued providing price information due primarily to a lack of observable inputs and other relevant data. We estimate the fair value of these securities based on significant unobservable inputs, including projected cash flows discounted at rates indicated by comparison to securities with similar credit and liquidity risk. We would expect the fair value to decrease $693 thousand if credit spreads utilized in valuing these securities widened by 100 basis points.

Valuation of Impaired Loans and Real Estate and Other Repossessed Assets

The fair value of collateral for certain impaired loans and real estate and other repossessed assets is measured on a non-recurring basis. Fair values are generally based on unadjusted third-party appraisals derived principally from or corroborated by observable market data. Fair values based on these appraisals are considered to be based on Level 2 inputs. Fair value measurements based on appraisals that are not based on observable inputs or that require significant adjustments by us or fair value measurements that are not based on third-party appraisals are considered to be based on Level 3 inputs. Significant unobservable inputs include listing prices for comparable assets, uncorroborated expert opinions or management's knowledge of the collateral or industry.

Goodwill Impairment

Goodwill for each reporting unit is evaluated for impairment annually as of October 1st or more frequently if conditions indicate that impairment may have occurred. The evaluation of possible goodwill impairment involves significant judgment based upon short-term and long-term projections of future performance.

We identify the geographical market underlying each operating segment as reporting units for the purpose of performing the annual goodwill impairment test. This is consistent with the manner in which management assesses the performance of the Company and allocates resources. See additional discussion of the operating segments in the Assessment of Operations - Lines of Business section following.

We perform a qualitative assessment that evaluates, based on the weight of the evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of our reporting units are less than their carrying amount. This qualitative assessment considers general economic conditions including trends in unemployment rates in our primary geographical areas, our earnings and stock price changes during the year, current and anticipated credit quality performance and the prolonged low interest rate environment and the impact of increased regulation. This qualitative assessment is supplemented by quantitative analysis through which the fair value of each of our reporting units is estimated by the discounted future earnings method. Income growth is projected for each of our reporting units over five years and a terminal value is computed. The projected income stream is converted to current fair value by using a discount rate that reflects a rate of return required by a willing buyer. Assumptions used to value our reporting units are based on growth rates, volatility, discount rate and market risk premium inherent in our current stock price. These assumptions are considered significant unobservable inputs and represent our best estimate of assumptions that market participants would use to determine fair value of the respective reporting units. At December 31, 2012, critical assumptions in our evaluation were a 4% average expected long-term growth rate, a 0.78% volatility factor for BOK Financial common stock, an 11.00% discount rate and an 11.99% market risk premium. The expected long-term growth rate will vary among reporting units and in future years.

The fair value, carrying value and related goodwill of reporting units for which goodwill was attributed as of our annual impairment test performed on October 1, 2012 is as follows in Table 2.

Table 2 – Goodwill Allocation by Reporting Unit
(In thousands)

	Fair Value	Carrying Value[1]	Goodwill
Commercial:			
Oklahoma	$1,154,159	$249,952	$7,520
Texas	870,514	383,890	196,183
New Mexico	161,942	55,378	11,094
Colorado	249,374	94,140	39,458
Arizona	122,788	52,323	14,853
Consumer:			
Oklahoma	542,424	206,418	1,683
Texas	67,432	48,785	27,567
New Mexico	96,729	19,921	2,874
Colorado	26,961	12,346	6,899
Wealth Management:			
Oklahoma	166,186	95,374	1,350

Texas	214,802	46,744	16,372
New Mexico	24,041	4,257	1,305
Colorado	87,680	36,787	30,235
Arizona	12,410	6,688	1,569

[1] Carrying value includes intangible assets attributed to the reporting unit.

Based on the results of the primary discounted future earnings test performed as of October 1, 2012, no goodwill impairment was noted.

The fair value of our reporting units determined by the discounted future earnings method was further corroborated by comparison to the market capitalization of publicly traded banks of similar size and characteristics in our geographical footprint. Considering the results of these two methods, management believes that no goodwill impairment existed as of our annual evaluation date.

As of December 31, 2012, the market value of BOK Financial common stock, a primary input in our goodwill impairment analysis, was approximately 8% below the market value used in our most recent annual evaluation. The market value is influenced by factors affecting the overall economy and the regional banks sector of the market. Goodwill impairment may be indicated at our next annual evaluation date if the market value of our stock declines or sooner if we incur significant unanticipated operating losses or if other factors indicate a significant decline in the value of our reporting units. The effect of a sustained 10% negative change in the market value of our common stock on September 30, 2012 was simulated. No additional impairment was noted by this simulation.

Numerous other factors could affect future impairment analyses including credit losses that exceed projected amounts or failure to meet growth projections. Additionally, fee income may be adversely affected by increasing residential mortgage interest rates and changes in federal regulations.

Other-Than-Temporary Impairment

On a quarterly basis, the Company performs separate evaluations of impaired debt and equity investment and available for sale securities to determine if the unrealized losses are temporary or other-than-temporary.
For impaired debt securities, management determines whether it intends to sell or if it is more-likely-than-not that it will be required to sell the impaired securities. This determination considers current and forecasted liquidity requirements, regulatory and capital requirements and securities portfolio management. All impaired debt securities we intend to sell or we expect to be required to sell are considered other-than-temporarily impaired and the full impairment loss is recognized as a charge against earnings. All impaired debt securities we do not intend or expect to be required to sell are evaluated further.
Impairment of debt securities rated investment grade by all nationally-recognized rating agencies is considered temporary unless specific contrary information is identified. Impairment of securities rated below investment grade by at least one of the nationally-recognized rating agencies is evaluated to determine if we expect to recover the entire amortized cost basis of the security based on the present value of projected cash flows from individual loans underlying each security. Below investment grade securities we own consist primarily of privately issued residential mortgage-backed securities. The primary assumptions used to project cash flows are disclosed in Note 2 to the Consolidated Financial Statements.

We consider the principal and interest cash flows from the underlying loan pool as well as the remaining credit enhancement coverage as part of our assessment of cash flows available to recover the amortized cost of our securities. The credit enhancement coverage is an estimate of currently remaining subordinated tranches available to absorb losses on pools of loans that support the security.

Credit losses, which are defined as the excess of current amortized cost over the present value of projected cash flows, on other-than-temporarily impaired debt securities are recognized as a charge against earnings. Any remaining impairment attributed to factors other than credit losses are recognized in accumulated other comprehensive losses.

Credit losses are based on long-term projections of cash flows which are sensitive to changes in assumptions. Changes in assumptions and differences between assumed and actual results regarding unemployment rates, delinquency rates, default rates, foreclosures costs and home price depreciation can affect estimated and actual credit losses. Deterioration of these factors beyond those described in Note 2 to the Consolidated Financial Statements could result

in the recognition of additional credit losses.

We performed a sensitivity analysis of all privately issued residential mortgage-backed securities. Significant assumptions of this analysis included an increase in the unemployment rate to 11% and an additional 10% home price depreciation over the next twelve months. The results of this analysis indicated an additional $3 million of credit losses are possible. An increase in the unemployment rate to 13% with an additional 20% home price depreciation indicates an additional $10 million of credit losses are possible.

Impaired equity securities, including perpetual preferred stocks, are evaluated based on our ability and intent to hold the securities until fair value recovers over a period not to exceed three years. The assessment of the ability and intent to hold these

securities considers liquidity needs, asset / liability management objectives and securities portfolio objectives. Factors considered when assessing recovery include forecasts of general economic conditions and specific performance of the issuer, analyst ratings, and credit spreads for preferred stocks which have debt-like characteristics.

Income Taxes

Determination of income tax expense and related assets and liabilities is complex and requires estimates and judgments when applying tax laws, rules, regulations and interpretations. It also requires judgments as to future earnings and the timing of future events. Accrued income taxes represent an estimate of net amounts due to or from taxing jurisdictions based upon these estimates, interpretations and judgments.

Management evaluates the Company's current tax expense or benefit based upon estimates of taxable income, tax credits and statutory tax rates. Annually, we file tax returns with each jurisdiction where we conduct business and adjust recognized income tax expense or benefit to filed tax returns.

We recognize deferred tax assets and liabilities based upon the differences between the values of assets and liabilities as recognized in the financial statements and their related tax basis using enacted tax rates in effect for the year in which the differences are expected to be recovered or settled. A valuation allowance is provided when it is more likely than not that some portion of the entire deferred tax asset may not be realized based on taxes previously paid in net loss carry-back periods and other factors.

We also recognize the benefit of uncertain income tax positions when based upon all relevant evidence it is more-likely-than-not that our position would prevail upon examination, including resolution of related appeals or litigation, based upon the technical merits of the position. Unrecognized tax benefits, including estimated interest and penalties, are part of our current accrued income tax liability. Estimated penalties and interest are recognized in income tax expense. Income tax expense in future periods may decrease if an uncertain tax position is favorably resolved, generally upon completion of an examination by the taxing authorities, expiration of a statute of limitations, or changes in facts and circumstances.

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.

Tax-equivalent net interest revenue totaled $713.7 million for 2012 compared to $700.6 million for 2011. Net interest margin was 3.14% for 2012 and 3.34% for 2011. Tax-equivalent net interest revenue increased $13.1 million over the prior year due to a $74.3 million increase due primarily to growth in average loans and securities balances, partially offset by $61.2 million decrease due to 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, partially offset by lower funding costs. Table 3 shows the effects on net interest revenue of changes in average balances and interest rates for the various types of earning assets and interest-bearing liabilities. In addition, see Annual and Quarterly Financial Summary of consolidated daily average balances, yields and rates following the Consolidated Financial Statements.

The tax-equivalent yield on earning assets was 3.52% for 2012 compared to 3.92% in 2011. The available for sale securities portfolio yield decreased 47 basis points to 2.37% and loan yields decreased 26 basis points. The decreased yield on earning assets was partially offset by lower funding costs. Funding costs were down 20 basis points compared to 2011. The cost of interest-bearing deposits decreased 14 basis points and the cost of other borrowed funds decreased 15 basis points. The average rate of interest paid on subordinated debentures decreased 182 basis points. The interest rate on $233 million of these subordinated debentures converted from a fixed rate of interest of 5.75% to a floating interest rate based on LIBOR plus 0.69% as of May 15, 2012. In the present low interest rate environment, our ability to further decrease funding costs is limited.

During 2012, we offset the effect of a declining net interest margin by increasing average earning assets. Average earning assets for 2012 increased $1.9 billion or 9% over 2011. The average balance of available for sale securities, which consists largely of U.S. government agency issued residential mortgage-backed securities, increased $1.0 billion. We purchase these securities to supplement earnings and to manage interest rate risk. Securities were purchased to productively deploy liquidity provided by recent deposit growth and the Company's strong capital position. Growth was primarily in short-duration U.S. government agency residential mortgage-backed securities and U.S. government agency commercial mortgage-backed securities. Average loans, net of allowance for loan losses, increased $900 million due primarily to growth in average commercial loans.

Growth in average assets was funded primarily by a $979 million increase in average deposits. Average demand deposit balances increased $1.7 billion over the prior year. Average interest-bearing transaction accounts were down $309 million and average time deposits were down $474 million. Average borrowed funds increased $461 million primarily due to an increase in funds purchased compared to the prior year. Average subordinated debenture balances were down $35 million.

Net interest margin may continue to decline in 2013. 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 should interest rates start to rise. This interest rate risk policy constraint does not affect our ability to continue loan portfolio growth.

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. As shown in Table 29, approximately 51% 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 3 and in the interest rate sensitivity projections as shown in the Market Risk section of this report.

Fourth Quarter 2012 Net Interest Revenue

Tax-equivalent net interest revenue totaled $175.8 million for the fourth quarter of 2012 compared to $173.7 million for the fourth quarter of 2011. Net interest margin was 2.95% for the fourth quarter of 2012 and 3.20% for the fourth quarter of 2011.

Tax-equivalent net interest revenue increased $2.1 million over the fourth quarter of 2011. Net interest revenue increased $17.4 million primarily due to the growth in average loan and available for sale securities balances. Net interest revenue decreased $15.3 million due to interest rates.

The tax-equivalent yield on earning assets was 3.30% for the fourth quarter of 2012, down 39 basis points from the fourth quarter of 2011. The available for sale securities portfolio yield decreased 29 basis points to 2.10%. Cash flows from these securities were reinvested at current lower rates. Loan yields decreased 32 basis points due primarily to a

combination of narrowing credit spreads and lower market interest rates. Funding costs were down 12 basis points from the fourth quarter of 2011. The cost of interest-bearing deposits decreased 5 basis points and the cost of other borrowed funds decreased 3 basis points. The average rate of interest paid on subordinated debentures decreased 305 basis points compared to the fourth quarter of 2011 due to the conversion of $233 million of these subordinated debentures from a fixed rate of interest to a floating interest rate in 2012. The benefit to net interest margin from earning assets funded by non-interest bearing liabilities increased to 19 basis points in the fourth quarter of 2012 from 17 basis points in the fourth quarter of 2011.

Average earning assets for the fourth quarter of 2012 increased $2.3 billion or 11% over the fourth quarter of 2011. The average balance of available for sale securities increased $1.6 billion. Growth was primarily in short-duration U.S. government agency residential mortgage-backed securities and U.S. government agency commercial mortgage-backed securities. Average loans, net of allowance for loan losses, increased $874 million over the fourth quarter of 2011 due primarily to growth in average commercial loans.

Average deposits increased $1.6 billion over the fourth quarter of 2011, including a $1.9 billion increase in average demand deposit balances and a $67 million increase in average interest-bearing transaction accounts, partially offset by a $475 million decrease in average time deposits. Average borrowed funds increased $84 million over the fourth quarter of 2011.

2011 Net Interest Revenue

Tax-equivalent net interest revenue for 2011 was $700.6 million compared to $718.2 million for 2010. Net interest margin was 3.34% for 2011 compared to 3.52% for 2010. The decrease in net interest margin was due primarily to lower yield on our securities portfolio, partially offset by lower funding costs. The tax-equivalent yield on average earning assets decreased 30 basis points from 2010. The available for sale securities portfolio yield was down 44 basis points due to the effect of prepayment speeds on premium amortization and cash flow reinvestment. Loan yields decreased 12 basis points due to a combination of renewals of fixed rate loans at lower current rates and narrowing credit spreads. The cost of interest-bearing liabilities decreased 9 basis points. The cost of interest-bearing deposits was down 17 basis points and the cost of other borrowed funds was down 33 basis points. Average earning assets increased $580 million primarily due to in an increase in the available for sale securities portfolio. Growth in average assets was funded by a $1.8 billion increase in average deposit balances. Average demand deposit account balances grew by $1.1 billion, average interest-bearing transaction account grew by $777 million and average time deposit balances decreased by $124 million. Average borrowed funds decreased $1.6 billion during 2011 due primarily to reduced borrowings from the Federal Home Loan Banks.

Table 3 – Volume/Rate Analysis
(In thousands)

	Year Ended December 31, 2012 / 2011			Year Ended December 31, 2011 / 2010		
		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	$(3)	$3	$(6)	$(12)	$(12)	$—
Trading securities	(348)	1,207	(1,555)	(296)	487	(783)
Investment securities:						
Taxable securities	4,267	4,411	(144)	5,352	6,541	(1,189)
Tax-exempt securities	(1,961)	(779)	(1,182)	(2,593)	(2,514)	(79)
Total investment securities	2,306	3,632	(1,326)	2,759	4,027	(1,268)
Available for sale securities:						
Taxable securities	(22,636)	22,735	(45,371)	(23,712)	10,203	(33,915)
Tax-exempt securities	150	636	(486)	(98)	93	(191)
Total available for sale securities	(22,486)	23,371	(45,857)	(23,810)	10,296	(34,106)
Fair value option securities	(10,193)	(5,111)	(5,082)	1,246	3,299	(2,053)
Residential mortgage loans held for sale	1,693	2,842	(1,149)	(2,769)	(2,535)	(234)
Loans	9,322	39,038	(29,716)	(16,674)	(3,647)	(13,027)
Total tax-equivalent interest revenue	(19,709)	64,982	(84,691)	(39,556)	11,915	(51,471)
Interest expense:						
Transaction deposits	(9,115)	(632)	(8,483)	(15,471)	2,734	(18,205)
Savings deposits	(179)	134	(313)	—	103	(103)
Time deposits	(12,583)	(8,242)	(4,341)	(1,904)	(2,240)	336
Funds purchased	1,178	528	650	(1,314)	(193)	(1,121)
Repurchase agreements	(1,445)	(38)	(1,407)	(3,575)	(127)	(3,448)
Other borrowings	(2,028)	573	(2,601)	380	(30,162)	30,542
Subordinated debentures	(8,607)	(1,650)	(6,957)	(45)	10	(55)
Total interest expense	(32,779)	(9,327)	(23,452)	(21,929)	(29,875)	7,946
Tax-equivalent net interest revenue	13,070	74,309	(61,239)	(17,627)	41,790	(59,417)
Change in tax-equivalent adjustment	(238)			69		
Net interest revenue	$12,832			$(17,558)		

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

Table 3 – Volume/Rate Analysis (continued)
(In thousands)

	Three Months Ended December 31, 2012 / 2011		
		Change Due To[1]	
	Change	Volume	Yield / Rate
Tax-equivalent interest revenue:			
Funds sold and resell agreements	$—	$2	$(2)
Trading securities	(248)	325	(573)
Investment securities:			
Taxable securities	(669)	(632)	(37)
Tax-exempt securities	(186)	565	(751)
Total investment securities	(855)	(67)	(788)
Available for sale securities:			
Taxable securities	1,675	8,888	(7,213)
Tax-exempt securities	(60)	205	(265)
Total available for sale securities	1,615	9,093	(7,478)
Fair value option securities	(4,105)	(2,613)	(1,492)
Residential mortgage loans held for sale	291	662	(371)
Loans	(226)	9,295	(9,521)
Total tax-equivalent interest revenue	(3,528)	16,697	(20,225)
Interest expense:			
Transaction deposits	(717)	23	(740)
Savings deposits	(22)	32	(54)
Time deposits	(1,334)	(2,109)	775
Funds purchased	291	25	266
Repurchase agreements	(207)	(81)	(126)
Other borrowings	(235)	1,963	(2,198)
Subordinated debentures	(3,401)	(531)	(2,870)
Total interest expense	(5,625)	(678)	(4,947)
Tax-equivalent net interest revenue	2,097	17,375	(15,278)
Change in tax-equivalent adjustment	(198)		
Net interest revenue	$1,899		

[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 $666.1 million for 2012 compared to $570.5 million for 2011. Fees and commissions revenue increased $103.5 million over 2011. Net gains on securities, derivatives and other assets decreased $24.0 million compared to 2011 due primarily to a decrease in gains on sale of fair value option securities which are primarily held as an economic hedge against changes in the fair value of mortgage servicing rights. Other-than-temporary impairment charges recognized in earnings in 2012 were $16.2 million less than charges recognized in 2011.

Table 4 – Other Operating Revenue
(In thousands)

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Brokerage and trading revenue	$126,930	$104,181	$101,471	91,677	42,804 [1]
Transaction card revenue	107,985	116,757	112,302	105,517	100,153
Trust fees and commissions	80,053	73,290	68,976	66,177	78,979
Deposit service charges and fees	98,917	95,872	103,611	115,791	117,527
Mortgage banking revenue	169,302	91,643	87,600	64,980	30,599
Bank-owned life insurance	11,089	11,280	12,066	10,239	10,681
Other revenue	37,827	35,620	30,368	26,131	34,865
Total fees and commissions revenue	632,103	528,643	516,394	480,512	415,608
Gain (loss) on other assets, net	(1,415)	4,156	(4,011)	1,992	(3,138)
Gain (loss) on derivatives, net	(301)	2,686	4,271	(3,365)	1,299
Gain (loss) on fair value option securities, net	9,230	24,413	7,331	(13,198)	10,948
Gain on available for sale securities, net	33,845	34,144	21,882	59,320	9,196
Gain on Mastercard and Visa IPO securities	—	—	—	—	6,799
Total other-than-temporary impairment	(1,144)	(10,578)	(29,960)	(129,154)	(5,306)
Portion of loss recognized in (reclassified from) other comprehensive income	(6,207)	(12,929)	2,151	94,741	—
Net impairment losses recognized in earnings	(7,351)	(23,507)	(27,809)	(34,413)	(5,306)
Total other operating revenue	$666,111	$570,535	$518,058	490,848	435,406

[1] Includes net derivative credit losses with two bankrupt counterparties of $54 million.

Fees and commissions revenue

Diversified sources of fees and commissions revenue are a significant part of our business strategy and represented 47% of total revenue for 2012, 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 are causing net interest revenue compression are also driving strong 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 $22.7 million or 22% over 2011.

Securities trading revenue totaled $68.7 million for 2012, up $8.9 million or 15%. 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. The increase compared to the prior year was due primarily to increased revenue from sale of residential mortgage backed securities to our mortgage banking customers.

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. Customer hedging revenue totaled $13.7 million for 2012, up $8.4 million over 2011. The Company also received a $2.9 million recovery from the Lehman Brothers bankruptcy during 2012 related to derivative contract losses incurred in 2008. Customer hedging revenue for 2011 included $4.4 million of credit losses.

Revenue earned from retail brokerage transactions increased $1.6 million or 6% over 2011 to $29.8 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, totaled $14.8 million for 2012, a $3.8 million or 35% increase over 2011 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.

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 totaled $108.0 million for 2012 compared to $116.8 million for 2011. Revenues from the processing of transactions on behalf of the members of our TransFund electronic funds transfer ("EFT") network totaled $56.4 million, up $5.3 million or 10% over 2011, due primarily to increased transaction volumes. The number of TransFund ATM locations totaled 1,970 at December 31, 2012 compared to 1,912 at December 31, 2011. Merchant services fees paid by customers for account management and electronic processing of card transactions and revenue from interchange fees from debit cards issued by the Company were both down primarily due to the impact of interchange fee regulations, commonly referred to as the Durbin Amendment, which became effective on October 1, 2011. Merchant services fees totaled $34.0 million, largely unchanged compared to the prior year. The impact of the Durbin Amendment was largely offset by increased transaction processing primarily as a result of cross-selling opportunities throughout our geographical footprint. Revenue from interchange fees paid by merchants for transactions processed from debit cards issued by the Company totaled $17.6 million for 2012 compared to $31.4 million for 2011.

Trust fees and commissions increased $6.8 million or 9% over 2011. The acquisition of The Milestone Group by BOK Financial in the third quarter of 2012 added $1.4 billion of fiduciary assets as of December 31, 2012 and resulted in a $3.5 million increase in trust fees and commissions for 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 $25.8 billion at December 31, 2012 and $22.8 billion at December 31, 2011.

In addition to trust fees and commissions where we served as a fiduciary, we also earn fees as administrator to and investment advisor for the Cavanal Hill Funds, a diversified, open-ended investment company established as a business trust under the Investment Company Act of 1940 (the "1940 Act"). The Bank is custodian and BOSC, Inc. is distributor for the Funds. The Funds’ products 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 $8.4 million for 2012 compared to $7.3 million for 2011.

Deposit service charges and fees increased $3.0 million or 3% over 2011. Overdraft fees totaled $55.7 million for 2012, down $2.7 million or 5% compared to last year. Commercial account service charge revenue totaled $35.0 million, up $3.4 million or 11% over the prior year. The average earnings credit, a non-cash method for commercial customers to avoid incurring charges for deposit services based on account balances, decreased 23 basis points compared to the prior year to better align with market interest rates. Service charges on deposit accounts with a standard monthly fee were $5.9 million, up $2.3 million or 39% over 2011, reflecting the success of shifting our sales

focus from free checking products to full-service checking services and other packaged products.

Mortgage banking revenue increased $77.7 million or 85% over the prior year. During 2012, we expanded our mortgage banking activities, adding 40 full-time equivalent mortgage lending officers and expanding further into our regional markets. In addition to mortgage lending offices in our traditional banking centers, we also opened mortgage lending offices in the Austin, San Antonio and El Paso areas in Texas, Sante Fe, New Mexico; Wichita and Salina, Kansas and Springfield, Missouri. We have also begun to grow our correspondent origination channel, which contributed 11% of mortgage loans originated for sale during 2012. At December 31, 2012 we have 53 approved correspondent lenders primarily composed of smaller regulated financial institutions that have been subject to a credit review process. None of our correspondent lenders are unregulated mortgage brokers. This growth positioned us to benefit from a record level of mortgage originations during 2012 primarily due to low interest rates resulting from government initiatives to stimulate mortgage lending activity. The high demand for

mortgage origination industry-wide during 2012 resulted in improved pricing on sales of mortgage loans in the secondary market.

Revenue from originating and marketing mortgage loans totaled $129.1 million, up $77.1 million or 148% over 2011. Mortgage loans funded for sale totaled $3.7 billion in 2012 compared to $2.3 billion in 2011. Outstanding commitments to originate mortgage loans increased $167 million or 88% over December 31, 2011 to $357 million at December 31, 2012. Mortgage servicing revenue of $40.2 million was largely unchanged compared to the prior year. The outstanding principal balance of mortgage loans serviced for others totaled $12.0 billion, an increase of $681 million over December 31, 2011.

Table 5 – Mortgage Banking Revenue
(In thousands)

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Originating and marketing revenue	$129,117	$51,982	$49,439	$44,962	$13,021
Servicing revenue	40,185	39,660	38,162	20,018	17,578
Total mortgage revenue	$169,302	$91,642	$87,601	$64,980	$30,599
Mortgage loans funded for sale	$3,708,350	$2,293,834	$2,501,860	$2,811,076	$1,018,246
Mortgage loan refinances to total funded	60 %	53 %	57 %	63 %	31 %

	December 31,				
	2012	2011	2010	2009	2008
Outstanding principal balance of mortgage loans serviced for others	$11,981,624	$11,300,986	$11,194,582	$6,603,132	$5,157,000

Net gains on securities, derivatives and other assets

We recognized a $33.8 million net gain from sales of $1.7 billion of available for sale securities in 2012, including 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. We recognized $34.1 million of net gains on sales of $2.7 billion of available for sale securities in 2011. Securities were sold either because they had reached their expected maximum potential or to mitigate exposure to prepayment risk.

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 7 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 earnings volatility.

Table 6 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 6 – Gain (Loss) on Mortgage Servicing Rights, Net of Economic Hedge
(In thousands)

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Gain (loss) on mortgage hedge derivative contracts, net	$116	$2,974	$4,425	$—	$—
Gain (loss) on fair value option securities, net	7,793	24,413	7,331	(13,198)	10,948
Gain (loss) on economic hedge of mortgage servicing rights	7,909	27,387	11,756	(13,198)	10,948
Gain (loss) on change in fair value of mortgage servicing rights	(9,210)	(40,447)	(8,171) [1]	12,124	(34,515)
Gain (loss) on changes in fair value of mortgage servicing rights, net of economic hedges	$(1,301)	$(13,060)	$3,585	$(1,074)	$(23,567)
Net interest revenue on fair value option securities[2]	$7,811	$17,650	$19,043	$13,366	$4,569
Average primary residential mortgage interest rate	3.66 %	4.45 %	4.69 %	5.03 %	6.04 %
Average secondary residential mortgage interest rate	2.52 %	3.71 %	3.96 %	4.28 %	5.44 %

[1] Excludes $11.8 million day-one pretax gain on the purchase of mortgage servicing rights in the first quarter of 2010.
[2] Actual interest earned on fair value option securities less transfer-priced cost of funds.

Primary rates disclosed in Table 6 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 was 114 basis points for 2012 compared to 74 basis points for 2011. The difference between average primary and secondary rates widened during 2012, growing as large as 163 basis points during the third quarter.

As more fully discussed in Note 2 to the Consolidated Financial Statements, we recognized other-than-temporary impairment losses of $7.4 million during 2012. Other-than-temporary impairments recognized in earnings on certain residential mortgage-backed securities privately issued by publicly traded financial institutions that we do not intend to sell totaled $5.9 million. These losses primarily related to additional declines in projected cash flows on these securities as a result of increased home price depreciation. Other-than-temporary losses on certain below investment grade municipal securities recognized in earnings were $1.0 million and other-than-temporary impairment losses on other equity securities totaled $457 thousand. Other-than-temporary impairment losses related to privately issued residential mortgage backed securities and municipal securities in 2011 were $23.5 million.

Fourth Quarter 2012 Other Operating Revenue

Other operating revenue was $162.6 million for the fourth quarter of 2012 compared to $137.8 million for the fourth quarter of 2011. Fees and commissions revenue increased $34.0 million. Net gains on securities, derivatives and other assets decreased $10.3 million. Other-than-temporary impairment charges recognized in earnings in the fourth quarter of 2012 were $1.1 million less than charges recognized in the fourth quarter of 2011.

Brokerage and trading revenue increased $6.3 million or 25% over the fourth quarter of 2011. Securities trading revenue totaled $17.7 million for the fourth quarter of 2012, up $1.6 million over the fourth quarter of 2011 primarily due to increased gain from securities sold to our mortgage banking customers. Customer hedging revenue totaled $2.8

million, up $3.1 million over the prior year. The fourth quarter of 2011 included a $1.7 million accrual for estimated credit loss on unsettled contracts related to the MF Global bankruptcy. Revenue earned from retail brokerage transactions increased $1.1 million or 18% over the fourth quarter of 2011 to $7.4 million. Investment banking revenue totaled $4.0 million, a $456 thousand or 13% increase over the fourth quarter of 2011 related to the timing and volume of completed transactions.

Transaction card revenue for the fourth quarter of 2012 increased $2.0 million or 8% over the fourth quarter of 2011. Revenues from the processing of transactions on behalf of the members of our TransFund electronic funds transfer ("EFT") network totaled $15.1 million, up $1.3 million or 10% over the fourth quarter of 2011, due primarily to increased transaction volumes. Merchant services fees totaled $8.4 million, up $372 thousand or 5%. Revenue from interchange fees paid by merchants for transactions processed from debit cards issued by the Company totaled $4.5 million, up $328 thousand or 8% over the fourth quarter of 2011. Both of these quarters included the impact of the Durbin Amendment on interchange fees.

Trust fees and commissions increased $4.2 million or 23% over the fourth quarter of 2011 to $22.0 million primarily due to the acquisition of The Milestone Group in 2012. Waived administration fees on the Cavanal Hill money market funds totaled $1.7 million for the fourth quarter of 2012 compared to $2.4 million for the fourth quarter of 2011.

Deposit service charges and fees were $24.2 million for the fourth quarter of 2012 compared to $24.9 million for the fourth quarter of 2011. Overdraft fees decreased $1.8 million to $13.6 million. Commercial account service charge revenue totaled $8.3 million, up $487 thousand or 6% over the prior year. Service charges on deposit accounts with a standard monthly fee were $2.2 million, up $587 thousand or 36% over the fourth quarter of 2011.

Mortgage banking revenue grew $21.0 million over the fourth quarter of 2011 to $46.4 million. Mortgage loans funded for sale totaled $1.1 billion in the fourth quarter of 2012 and $753 million in the fourth quarter of 2011. Outstanding mortgage loan commitments increased $167 million and the unpaid principal balance of mortgage loans held for sale was up $92 million over the prior year. The difference between average primary and secondary rates for the fourth quarter of 2012 was 117 basis points compared to 90 basis points for the fourth quarter of 2011.

During fourth quarter of 2012, we recognized an $1.1 million gain from sales of $84 million of available for sale securities. We recognized $7.1 million of gains on sales of $667 million of available for sale securities in the fourth quarter of 2011.

For the fourth quarter of 2012, changes in the fair value of mortgage servicing rights increased pre-tax net income by $4.7 million, partially offset by a net loss of $2.9 million on fair value option securities and derivative contracts held as an economic hedge. For the fourth quarter of 2011, changes in the fair value of mortgage servicing rights decreased pre-tax net income by $5.3 million, partially offset by a $343 thousand net gain on fair value option securities and derivative contracts held as an economic hedge.

2011 Other Operating Revenue

Other operating revenue totaled $570.5 million for 2011, up $52.5 million over 2010. Fees and commissions revenue increased $12.2 million and net gains on securities, derivative and other assets increased $35.9 million. Other-than-temporary impairment charges recognized in earnings were $4.3 million less than charges recognized in 2010. Brokerage and trading revenue increased $2.7 million over 2010. Securities trading revenue was up $3.5 million primarily due to increased gains on municipal securities. Customer hedging revenue decreased $6.4 million due primarily to $4.4 million of credit losses. Retail brokerage revenue was $4.7 million due to increased market volatility which drove increased customer transaction activity. Investment banking revenue increased $950 thousand. Transaction card revenue increased $4.5 million over 2010. Increased revenue from the processing of transactions for TransFund network members and growth in merchant services fees were partially offset by a decrease in interchange fees paid by merchant banks due to the Durbin Amendment which became effective on October 1, 2011. The lower fees were partially offset by an increase in transaction volume. Trust fees and commissions increased $4.3 million due to growth in the fair value of fiduciary assets. Deposit service charges and fees decreased $7.7 million primarily due to overdraft fee regulations which were effective July 1, 2010. Mortgage banking revenue grew $4.0 million primarily due to an increase in gain on sales of mortgage in the secondary market.

Net gains on sales of available for sale securities were $34.1 million for 2011 compared to $21.9 million for 2010. Net gains on securities and derivative assets held as an economic hedge of the change in fair value of mortgage servicing rights were $24.4 million for 2011 compared to $7.3 million for 2010.

Other Operating Expense

Other operating expense for 2012 totaled $849.6 million, up $29.8 million or 4% over 2011. Changes in the fair value of mortgage servicing rights increased operating expense $9.2 million in 2012 and $40.4 million in 2011. Excluding changes in the fair value of mortgage servicing rights, operating expenses were up $61.1 million or 8% over 2011. Personnel expenses increased $61.0 million or 14%. Non-personnel expenses were largely unchanged compared to the prior year.

Table 7 – Other Operating Expense
(In thousands)

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Regular compensation	$262,736	$247,945	$238,690	$231,897	$219,629
Incentive compensation:					
Cash-based	116,718	97,222	91,219	80,569	79,280
Stock-based	37,170	20,558	12,764	10,585	3,897
Total incentive compensation	153,888	117,780	103,983	91,154	83,177
Employee benefits	74,409	64,261	59,191	57,466	50,141
Total personnel expense	491,033	429,986	401,864	380,517	352,947
Business promotion	23,338	20,549	17,726	19,582	23,536
Charitable contributions to BOKF Foundation	2,062	4,000	—	—	—
Professional fees and services	34,015	28,798	30,217	30,243	27,045
Net occupancy and equipment	66,726	64,611	63,969	65,715	60,632
Insurance	15,356	16,799	24,320	24,040	11,988
FDIC special assessment	—	—	—	11,773	—
Data processing & communications	98,904	97,976	87,752	81,292	78,047
Printing, postage and supplies	14,228	14,085	13,665	15,960	16,433
Net losses & operating expenses of repossessed assets	20,528	23,715	34,483	11,400	1,019
Amortization of intangible assets	2,927	3,583	5,336	6,970	7,661
Mortgage banking costs	44,334	37,621	43,172	37,248	22,976
Change in fair value of mortgage servicing rights	9,210	40,447	(3,661)	(12,124)	34,515
Visa retrospective responsibility obligation	—	—			(2,767)
Other expense	26,912	37,574	31,477	21,976	27,376
Total other operating expense	$849,573	$819,744	$750,320	$694,592	$661,408
Average number of employees (full-time equivalent)	4,614	4,474	4,394	4,403	4,140

Personnel expense

Regular compensation expense, which consists of salaries and wages, overtime pay and temporary personnel costs, increased $14.8 million or 6% over 2011 primarily due to increases in headcount as a result of growth in mortgage, wealth management and commercial lending and standard annual merit increases which were fully effective in the second quarter of 2012. The Company generally awards annual merit increases during the first quarter for a majority of its staff.

Incentive compensation increased $36.1 million or 31% over 2011. 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 $19.5 million or 20% over 2011. Cash-based incentive compensation related to brokerage and trading revenue was up $10.4 million over 2011 and all other cash-based incentive compensation increased $9.1 million compared to the prior year.

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 $327 thousand compared to 2011. 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 deferred compensation expense also included deferred compensation that will ultimately be settled in cash indexed to

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. The year-end closing market price per share of BOK Financial common stock decreased $0.47 during 2012 and increased $1.53 during 2011. Expense based on changes in the fair value of BOK Financial common stock and other investments increased $1.4 million over the prior year.

In addition, stock-based incentive compensation expense increased $15.5 million during 2012 as $25 million was accrued in 2012 and $9.5 million was accrued in 2011 related to the BOK Financial Corp. 2011 True-Up Plan. Approved by shareholders on April 26, 2011, the True-Up Plan was intended to address inequality in the Executive Incentive Plan ("EIP"), which had been approved by shareholders in 2003 as a result of certain peer banks that performed poorly during the most recent economic cycle. Performance goals for the EIP are based on the Company's earnings per share growth compared to peers and business unit performance. As the economy improves and credit losses normalize, peer banks were expected to experience significant comparative earnings per share percentile increases. This "bounce-back" effect would have resulted in the unanticipated result of no annual bonuses in the years 2011, 2012 and 2013 and the forfeiture of long-term incentive awards for 2010 and 2011 in their entirety, despite BOK Financial's strong annual earnings growth through the economic cycle while many peers experienced negative or declining earnings. The True-Up Plan was 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. Compensation expense is determined by ranking BOK Financial's earnings per share to peer banks and then aligning compensation with the peer bank that most closely relates to BOK Financial earnings per share performance. The final amount due under the 2011 True-Up Plan will be determined as of December 31, 2013 and distributed in 2014. Based on currently available information, incremental amounts estimated to be payable under the 2011 True-Up Plan are approximately $64 million. Performance measurement through 2013 may be volatile and could result in future upward or downward adjustments to compensation expense.

Employee benefit expense increased $10.1 million or 16% over 2011. Employee medical costs totaled $27.0 million, an increase of $7.2 million or 36% over the prior year. The Company self-insures a portion of its employee health care coverage and these costs may be volatile. Payroll tax expense increased $1.9 million over 2011 to $25.0 million. Employee retirement plan costs totaled $16.8 million, up $1.4 million and pension expense was $3.4 million, down $553 thousand compared to the prior year.

Non-personnel operating expenses

Non-personnel operating expenses, excluding changes in the fair value of mortgage servicing rights, were largely unchanged compared to the prior year. Net losses and operating expense related to repossessed assets were down $3.2 million compared to the prior year. Discretionary contributions to the BOKF Foundation totaled $2.1 million in 2012 and $4.0 million in 2011. BOKF Foundation partners with charitable organizations supporting needs within our communities. Mortgage banking costs increased $6.7 million due primarily to increased amortization expense of our mortgage servicing rights. Other expenses were down $10.7 million compared to the prior year as 2011 included accruals for overdraft fee litigation settled in 2012. Professional fees and services costs were up $5.2 million primarily due to increased expense related to product consulting fees and business growth. All other non-personnel operating expenses were up $3.9 million.

Fourth Quarter 2012 Operating Expenses

Other operating expense for the fourth quarter of 2012 totaled $222.1 million, up $3.1 million or 1% over the fourth quarter of 2011. Changes in the fair value of mortgage servicing rights decreased operating expense by $4.7 million in

the fourth quarter of 2012 and increased operating expense by $5.3 million in the fourth quarter of 2011. Excluding changes in the fair value of mortgage servicing rights, operating expenses were up $13.1 million or 6% over the fourth quarter of 2011.

Personnel expenses increased $10.1 million or 8%. Regular compensation expense increased $3.9 million or 6% over the fourth quarter of 2011 primarily due to increases in headcount. Incentive compensation increased $1.3 million or 3% over the fourth quarter of 2011. Employee benefit expense increased $4.9 million or 33% over the fourth quarter of 2011 primarily due to an increased level of large dollar employee medical insurance claims.

Non-personnel expenses increased $3.0 million or 3% over the fourth quarter of 2011 due primarily to the discretionary contribution to the BOKF Foundation during fourth quarter of 2012. No contribution was made in the fourth quarter of 2011. Increased professional fees and services expense was offset by decreased data processing and communication expense and lower mortgage banking costs.

2011 Operating Expenses

Other operating expense totaled $819.7 million for 2011, up $69.4 million over 2010. Changes in fair value of mortgage servicing rights increased other operating expenses by $40.4 million in 2011 and decreased operating expenses by $3.7 million in 2010. Excluding changes in fair value of mortgage servicing rights, operating expenses totaled $779.3 million, up $25.3 million over 2010.

Personnel expense increased $28.1 million. Regular compensation expense totaled $247.9 million, up $9.3 million primarily due to a modest increase in staffing levels in 2011. Incentive compensation expense increased $13.8 million to $117.8 million. Cash-based incentive compensation increased $6.0 million, compensation expense for equity awards increased $1.7 million and for liability awards increased $6.1 million. Employee benefit expense increased $5.1 million.

Non-personnel expense, excluding changes in fair value of mortgage servicing rights decreased $2.8 million. Net losses and operating expenses of repossessed assets decreased $10.8 million due primarily to a decrease in net losses from sales and write-downs of repossessed property based on our quarterly review of carrying values. FDIC insurance expense decreased $7.7 million due primarily to the change to a risk-sensitive assessment based on assets. Mortgage banking costs were down $5.6 million due to amortization of mortgage servicing rights. Data processing and communications expense increased $10.2 million primarily due to higher bank card transaction volume and increased software amortization expense. Other expense increased $6.1 million primarily due to accruals for overdraft fee litigation settled in 2012. The Company made a $4.0 million discretionary contribution to BOKF Foundation in 2011.

Income Taxes

Income tax expense was $188.7 million or 35% of book taxable income for 2012, $158.5 million or 35% of book taxable income for 2011 and $123.4 million or 33% of book taxable income for 2010. Tax expense currently payable totaled $179 million in 2012, $154 million in 2011 and $150 million in 2010.

The statute of limitations expired on an uncertain tax position and the Company adjusted its current income tax liability to amounts on filed tax returns for 2011 in 2012, 2010 in 2011 and 2009 in 2010. Excluding these adjustments income tax expense would have been $190 million or 35% of book taxable income for 2012, $160 million or 35% of book taxable income for 2011 and $126 million or 34% of book taxable income for 2010.

Net deferred tax assets totaled $3 million at December 31, 2012 and $38 million at December 31, 2011. The decrease was due primarily to the tax effect of unrealized gains on available for sale securities and reduction in allowance for credit losses. We have evaluated the recoverability of our deferred tax assets based on taxes previously paid in net loss carry-back periods and other factors and determined that no valuation allowance was required.

The allowance for uncertain tax positions totaled $12 million at December 31, 2012 and December 31, 2011. 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.

Income tax expense was $44.3 million or 35% of book taxable income for the fourth quarter of 2012 compared to $37.4 million or 36% of book taxable income for the fourth quarter of 2011.

Table 8 – Selected Quarterly Financial Data
(In thousands, except per share data)

	2012			
	First	Second	Third	Fourth
Interest revenue	$198,208	$203,055	$196,071	$194,314
Interest expense	24,639	21,694	20,044	20,945
Net interest revenue	173,569	181,361	176,027	173,369
Provision for (reduction of) allowance for credit losses	—	(8,000)	—	(14,000)
Net interest revenue after provision for (reduction of) allowance for credit losses	173,569	189,361	176,027	187,369
Fees and commissions revenue	144,571	155,751	165,973	165,808
Gain (loss) on financial instruments and other assets, net	(7,290)	30,509	13,971	(3,182)
Other operating revenue	137,281	186,260	179,944	162,626
Personnel expense	114,769	122,297	122,775	131,192
Net losses and expenses of repossessed assets	2,245	5,912	5,706	6,665
Change in fair value of mortgage servicing rights	(7,127)	11,450	9,576	(4,689)
Other non-personnel expense	72,250	83,352	84,283	88,917
Total other operating expense	182,137	223,011	222,340	222,085
Income before taxes	128,713	152,610	133,631	127,910
Federal and state income tax	45,520	53,149	45,778	44,293
Net income	83,193	99,461	87,853	83,617
Net income (loss) attributable to non-controlling interest	(422)	1,833	471	1,051
Net income attributable to shareholders of BOK Financial Corp.	$83,615	$97,628	$87,382	$82,566
Earnings per share:				
Basic	$1.22	$1.43	$1.28	$1.21
Diluted	$1.22	$1.43	$1.27	$1.21
Average shares:				
Basic	67,665	67,473	67,967	67,623
Diluted	67,942	67,745	68,335	67,915

36

Table 8 – Selected Quarterly Financial Data (continued)
(In thousands, except per share data)

	2011			
	First	Second	Third	Fourth
Interest revenue	$202,089	$205,717	$205,749	$198,040
Interest expense	31,450	31,716	30,365	26,570
Net interest revenue	170,639	174,001	175,384	171,470
Provision for (reduction of) allowance for credit losses	6,250	2,700	—	(15,000)
Net interest revenue after provision for (reduction of) allowance for credit losses	164,389	171,301	175,384	186,470
Fees and commissions revenue	123,274	127,826	146,035	131,786
Gain (loss) on financial instruments and other assets, net	(5,696)	13,703	27,581	6,026
Other operating revenue	117,578	141,529	173,616	137,812
Personnel expense	99,994	105,603	103,260	121,129
Net losses and expenses of repossessed assets	6,015	5,859	5,939	6,180
Change in fair value of mortgage servicing rights	(3,129)	13,493	24,822	5,261
Other non-personnel expense	75,569	76,823	86,514	86,412
Total other operating expense	178,449	201,778	220,535	218,982
Income before taxes	103,518	111,052	128,465	105,300
Federal and state income tax	38,752	39,357	43,006	37,396
Net income	$64,766	$71,695	$85,459	$67,904
Net income (loss) attributable to non-controlling interest	(8)	2,688	358	911
Net income attributable to shareholders of BOK Financial Corp.	$64,774	$69,007	85,101	66,993
Earnings per share:				
Basic	$0.95	$1.01	$1.24	$0.98
Diluted	$0.94	$1.00	$1.24	$0.98
Average shares:				
Basic	67,902	67,898	67,828	67,526
Diluted	68,177	68,169	68,037	67,775

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 9, net income attributable to our lines of business increased $60.9 million or 34% over the prior year. The increase in net income attributed to our lines of business was due primarily to a $79.2 million increase in mortgage banking revenue, a $19.7 million increase in brokerage and trading revenue and a $14.7 million decrease in net loans charged off, partially offset by a $30.8 million increase in personnel expense.

Table 9 – Net Income by Line of Business
(In thousands)

	Year Ended December 31,		
	2012	2011	2010

Commercial Banking	$143,212	$127,388	$80,323
Consumer Banking	74,306	33,504	50,226
Wealth Management	19,872	15,617	14,316
Subtotal	237,390	176,509	144,865
Funds Management and other	113,801	109,366	101,889
Total	$351,191	$285,875	$246,754

Commercial Banking

Commercial Banking contributed $143.2 million to consolidated net income in 2012, up $15.8 million or 12% over the prior year. Net interest revenue grew by $8.8 million as the balance of average commercial loans increased $799 million or 10%. Net loans charged off were down $9.9 million compared to 2011. Other operating revenue was up $23.6 million including 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 and a $10.0 million increase in fees and commissions revenue. Other operating expense increased $16.4 million or 7% over 2011. Corporate expense allocations were up $8.1 million over the prior year due to increased lending activity and personnel expenses increased $6.9 million.

During the second quarter of 2011, banking services for small business customers were transferred from the Consumer Banking segment to the Commercial Banking segment. As a result of this transfer, net interest revenue increased $14.0 million, other operating revenue increased $7.2 million and operating expenses increased $8.3 million in 2011. In addition, average deposits increased $593 million and average loans increased $18 million over 2010 primarily due to the transfer of these balances from the Consumer Banking segment.

Table 10 – Commercial Banking
(Dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
Net interest revenue from external sources	$367,412	$342,833	338,391
Net interest expense from internal sources	(46,414)	(30,676)	(45,317)
Total net interest revenue	320,998	312,157	293,074
Net loans charged off	10,852	20,760	70,489
Net interest revenue after net loans charged off	310,146	291,397	222,585
Fees and commissions revenue	156,724	146,771	141,630
Gain (loss) on financial instruments and other assets, net	14,407	774	(2,638)
Other operating revenue	171,131	147,545	138,992
Personnel expense	102,715	95,801	93,236
Net losses and expenses of repossessed assets	15,898	16,692	26,811
Other non-personnel expense	76,848	74,610	74,254
Corporate allocations	51,427	43,348	35,815
Total other operating expense	246,888	230,451	230,116
Income before taxes	234,389	208,491	131,461
Federal and state income tax	91,177	81,103	51,138
Net income	$143,212	$127,388	$80,323
Average assets	$9,949,735	$9,383,528	$8,893,868
Average loans	9,087,745	8,289,001	8,139,851
Average deposits	8,553,014	7,757,808	5,999,381
Average invested capital	882,288	884,169	899,005
Return on average assets	1.44%	1.36%	0.90%
Return on invested capital	16.23%	14.41%	8.93%
Efficiency ratio	51.68%	50.22%	52.94%
Net charge-offs to average loans	0.12%	0.25%	0.87%

Net interest revenue increased $8.8 million or 3% over 2011. Growth in net interest revenue was due to a $799 million increase in average loan balances, partially offset by decreased loan yields. Lower yields on deposits sold to our Funds Management unit was partially offset by a $795 million increase in average deposit balances.

Fees and commissions revenue increased $10.0 million or 7% over 2011. Commercial deposit service charges and fees increased $4.6 million or 13% over the prior year. The average earnings credit, a non-cash method for commercial customers to avoid incurring charges for deposit services based on account balances, decreased 21 basis points compared to the prior year to better align with market interest rates. Transaction card revenue increased $4.0 million or 5% due to increased customer transaction volume.

Operating expenses increased $16.4 million or 7% over 2011. Personnel costs increased $6.9 million or 7% primarily due to increased incentive compensation. Regular compensation expense and employee benefits expense also increased over the prior year. Net losses and operating expenses on repossessed assets decreased $794 thousand compared to the prior year. Other non-personnel expenses increased $2.2 million primarily due to higher data processing expenses related to increased transaction card activity. Corporate expense allocations increased $8.1 million primarily due to increased customer loan and deposit activity.

The average outstanding balance of loans attributed to Commercial Banking increased $799 million to $9.1 billion for 2012. 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. Net Commercial Banking loans charged off were down $9.9 million compared to 2011 to $10.9 million or 0.12% of average loans attributed to this line of business. Net charge-offs for 2012 included the return of a $7.1 million loan settlement received in 2008 as discussed in greater detail in in Management's Discussion & Analysis of Financial Condition – Summary of Loan Loss Experience following. Excluding the impact of this item, the decrease in net loans charged off was primarily due to a decrease in losses on commercial real estate loans.

Average deposits attributed to Commercial Banking were $8.6 billion for 2012, an increase of $795 million or 10% over the 2011 primarily related to an increase in average demand deposits, partially offset by a decrease in interest-bearing transaction account balances and time deposits. Average balances attributed to our commercial & industrial loan customers increased $474 million or 17% and average balances attributed to our energy customers increased $400 million or 44%. Small business banking customer average balances increased $157 million or 9%. Average balances held by treasury services customers were down $286 million compared to the prior year. 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 $74.3 million to consolidated net income for 2012, up $40.8 million primarily due to growth in mortgage banking revenue. Revenue from mortgage loan production was up $77.1 million over the prior year. Changes in fair value of our mortgage servicing rights, net of economic hedge, decreased net income attributed to consumer banking by $795 thousand in 2012 and decreased net income attributed to consumer banking by $8.0 million in 2011.

Table 11 – Consumer Banking
(Dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
Net interest revenue from external sources	$90,036	$89,745	$86,292
Net interest revenue from internal sources	25,120	33,109	47,624
Total net interest revenue	115,156	122,854	133,916
Net loans charged off	9,345	13,451	24,705
Net interest revenue after net loans charged off	105,811	109,403	109,211
Fees and commissions revenue	266,566	197,271	204,149
Gain on financial instruments and other assets, net	5,552	26,051	10,908
Other operating revenue	272,118	223,322	215,057
Personnel expense	93,409	88,993	80,660
Net losses and expenses of repossessed assets	1,405	3,044	3,583
Change in fair value of mortgage servicing rights	9,210	40,447	(3,661)
Other non-personnel expense	108,661	94,395	101,503
Corporate allocations	43,630	51,012	59,980
Total other operating expense	256,315	277,891	242,065
Income before taxes	121,614	54,834	82,203
Federal and state income tax	47,308	21,330	31,977
Net income	$74,306	$33,504	$50,226
Average assets	$5,727,267	$5,937,585	$6,243,746
Average loans	2,130,293	2,067,548	2,109,520
Average deposits	5,598,063	5,741,719	6,130,383
Average invested capital	287,972	273,906	277,837
Return on average assets	1.30 %	0.56 %	0.80 %
Return on invested capital	25.73 %	12.23 %	18.08 %
Efficiency ratio	64.73 %	74.17 %	72.69 %
Net charge-offs to average loans	0.44 %	0.65 %	1.17 %
Residential mortgage loans funded for sale	$3,708,350	$2,293,834	$2,501,860

	December 31, 2012	December 31, 2011	December 31, 2010
Banking locations	217	212	207
Residential mortgage loans servicing portfolio[1]	$13,091,482	$12,356,917	$12,059,241

[1] Includes outstanding principal for loans serviced for affiliates

Net interest revenue from consumer banking activities decreased $7.7 million compared to 2011. Net interest earned on residential mortgage-backed securities held as an economic hedge of mortgage servicing rights decreased by $11.3 million due to a $185 million decrease in the average balance of this portfolio and lower average yields. Net interest revenue related to the consumer loan portfolio increased compared to the prior year as the average loan balance increased $63 million or 3% over the prior year. The average balance of residential mortgage loans increased over the prior year. Other consumer loans also increased, offset by decreased balances of indirect automobile loans due to pay-downs. The Company previously disclosed its decision to exit the indirect automobile loan business in the first

quarter of 2009. Net interest earned on deposits sold to our Funds Management unit decreased $6.7 million primarily due to lower yields on funds invested.

Net loans charged off by the Consumer Banking unit decreased $4.1 million compared to 2011 to $9.3 million or 0.44% of average loans. Net consumer banking charge-offs also includes indirect automobile loans, overdrawn deposit accounts and other direct consumer loans.

Fees and commissions revenue increased $69.3 million or 35% over the prior year. Mortgage banking revenue was up $79.0 million or 86% over the prior year primarily due to increased residential mortgage loan originations and commitments and improved pricing of loans sold. Transaction card revenues decreased $12.7 million or 36% from the prior year primarily due to the impact of interchange fee regulations which became effective on October 1, 2011.

Excluding the change in the fair value of mortgage servicing rights, operating expenses increased $9.7 million or 4% over 2011. Personnel expenses were up $4.4 million or 5% primarily due to expansion of our mortgage banking division, which positioned us to benefit from increased demand as the result of continued low mortgage interest rates. Non-personnel expense increased $14.3 million or 15% primarily due to increased mortgage banking activity including decreases in our mortgage servicing rights due to refinancing activity as a result of the low interest rate environment, increased data processing, professional fees and occupancy costs. Corporate expense allocations decreased $7.4 million compared to the prior year primarily due to decreased occupancy cost allocations for branch banking. Net losses and operating expenses of repossessed assets were down $1.6 million compared to the prior year.

Average consumer deposit balances decreased $144 million or 3%, primarily due to a $317 million or 15% decrease in higher costing time deposit balances. Average interest-bearing transaction accounts increased $109 million or 4%, average savings account balances were up $44 million or 23% and average demand deposit balances increased $20 million or 3%.

Our Consumer Banking division originates, markets and services conventional and government-sponsored residential mortgage loans for all of our geographical markets. We funded $4.0 billion of residential mortgage loans in 2012 compared to $2.6 billion in 2011. Mortgage loan fundings included $3.7 billion of mortgage loans funded for sale in the secondary market and $256 million funded for retention within the consolidated group. Approximately 33% of our mortgage loans funded were in the Oklahoma market, 15% in the Texas market, 14% in the New Mexico market and 14% in the Colorado market. In addition, 10% of our mortgage loan fundings came from correspondent lenders. Expansion of our mortgage banking division in the Texas, Colorado and Kansas/Missouri markets positioned us to benefit from increased demand as the result of continued low mortgage interest rates.

At December 31, 2012, the Consumer Banking division serviced $12.0 billion of mortgage loans for others and $1.1 billion of loans retained within the consolidated group. Approximately 97% 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 $84 million or 0.70% of loans serviced for others at December 31, 2012 compared to $136 million or 1.20% of loans serviced for others at December 31, 2011. Mortgage servicing revenue, including revenue on loans serviced for the consolidated group, increased $1.9 million or 5% over the prior year to $41.8 million.

Wealth Management

Wealth Management contributed $19.9 million to consolidated net income in 2012, up $4.3 million or 27% over the prior year. Net interest revenue increased $1.8 million or 4% over the prior year. Fees and commissions revenue grew by $28.1 million or 16% over 2011. Brokerage and trading revenue was up on increased customer activity and trust fees and commissions grew primarily due to the acquisition of The Milestone Group in the third quarter of 2012. Other operating expense increased $23.7 million or 12% primarily due to increased incentive compensation and personnel expenses due to expansion of the Wealth Management division during the year.

Table 12 – Wealth Management
(Dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
Net interest revenue from external sources	$27,754	$30,813	$36,012
Net interest revenue from internal sources	21,432	16,540	12,546
Total net interest revenue	49,186	47,353	48,558
Net loans charged off	2,284	2,960	10,831
Net interest revenue after net loans charged off	46,902	44,393	37,727
Fees and commissions revenue	199,406	171,323	164,785
Gain on financial instruments and other assets, net	601	550	743
Other operating revenue	200,007	171,873	165,528
Personnel expense	146,407	126,909	120,944
Net losses and expenses of repossessed assets	55	33	44
Other non-personnel expense	31,049	28,762	26,259
Corporate allocations	36,874	35,002	32,578
Other operating expense	214,385	190,706	179,825
Income before taxes	32,524	25,560	23,430
Federal and state income tax	12,652	9,943	9,114
Net income	$19,872	$15,617	$14,316
Average assets	$4,357,523	$4,073,623	$3,686,133
Average loans	929,319	1,011,319	1,146,153
Average deposits	4,281,423	3,976,183	3,586,435
Average invested capital	184,622	174,877	169,775
Return on average assets	0.46 %	0.38 %	0.39 %
Return on invested capital	10.76 %	8.93 %	8.43 %
Efficiency ratio	86.24 %	87.21 %	84.29 %
Net charge-offs to average loans	0.25 %	0.29 %	0.94 %

Our Wealth Management division serves as custodian to or manages assets of customers. Fees are earned commensurate with the level of service provided. We may have sole or joint investment discretion over the assets of the customer or may be fiduciary for the assets, but investment selection authority remains with the customer or a manager outside of the Company. The Wealth Management division also provides safekeeping services for personal and institutional customers including holding of the customer's assets, processing of income and redemptions and other customer recordkeeping and reporting services. We also provide brokerage services for customers whom

maintain or delegate investment authority and for which BOK Financial does not have custody of the assets.

A summary of assets under management or in custody follows in Table 13.

43

Table 13 – Assets Under Management or in Custody
(Dollars in thousands)

	December 31, 2012	December 31, 2011	December 31, 2010
Fiduciary assets in custody for which BOKF has sole or joint discretionary authority	$10,981,353	$9,916,322	$9,351,345
Fiduciary assets not in custody for which BOKF has sole or joint discretionary authority	1,659,822	221,465	171,205
Non-managed fiduciary assets in custody	13,187,863	12,684,026	13,392,187
Total fiduciary assets	25,829,038	22,821,813	22,914,737
Assets held in safekeeping	20,994,011	18,948,739	16,345,623
Brokerage accounts under BOKF administration	4,402,992	3,635,300	3,117,159
Assets under management or in custody	$51,226,041	$45,405,852	$42,377,519

Net interest revenue increased $1.8 million or 4% over the prior year. Growth in average assets was largely due to funds sold to the Funds Management unit. Average deposit balances increased $305 million or 8%. Non-interest bearing demand deposits grew by $282 million or 51% during the year and average interest-bearing transaction balances were up $90 million or 3%. Higher costing time deposit average balances decreased $69 million. Average loan balances decreased $82 million. The decrease is primarily due to residential mortgage loans previously originated by our Private Bank and retained by the Wealth Management segment being refinanced, including refinancings performed by the mortgage division of our Consumer Banking segment.

Fees and commissions revenue grew by $28.1 million or 16% over 2011. Brokerage and trading revenue increased $20.7 million or 22%, primarily due to securities and derivative contracts sold to our mortgage banking customers. Retail brokerage fees and investment banking fees also grew compared to the prior year. Trust fees and commissions increased $6.8 million or 9%. The Company acquired The Milestone Group, a Denver based investment adviser to high net worth clients, in the third quarter of this year adding $3.5 million in revenue and $1.4 billion of fiduciary assets as of December 31, 2012. The remaining increase was due to the increase in fair value of fiduciary assets during 2012.

Other operating revenue includes fees earned from state and municipal bond underwriting and financial advisory services, primarily in the Oklahoma and Texas markets. In 2012, the Wealth Management division participated in 445 underwritings that totaled $6.8 billion. As a participant, the Wealth Management division was responsible for facilitating the sale of approximately $2.4 billion of these underwritings. In 2011, the Wealth Management division participated in 278 underwritings that totaled approximately $4.7 billion. Our interest in these underwritings totaled approximately $1.5 billion.

Operating expenses increased $23.7 million or 12% over the prior year. Personnel expenses increased $19.5 million or 15%. Regular compensation costs increased $6.2 million primarily due to increased headcount and annual merit increases. Incentive compensation increased $11.7 million over the prior year. Non-personnel expenses increased $2.3 million or 8%. Corporate expense allocations were up $1.9 million or 5% due primarily to additional expenses incurred related to expansion of the Wealth Management business line and increased customer transaction activity.

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 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 Oklahoma.

Table 14 – Net Income (Loss) by Geographic Region
(In thousands)

	Year Ended December 31,		
	2012	2011	2010
Bank of Oklahoma	$122,849	$104,848	$114,599
Bank of Texas	49,671	42,524	29,822
Bank of Albuquerque	22,748	14,168	8,299
Bank of Arkansas	12,725	5,976	3,955
Colorado State Bank & Trust	18,306	10,223	2,959
Bank of Arizona	(1,115)	(8,341)	(22,756)
Bank of Kansas City	9,833	5,344	4,548
Subtotal	235,017	174,742	141,426
Funds Management and other	116,174	111,133	105,328
Total	$351,191	$285,875	$246,754

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 47% of our average loans, 55% of our average deposits and 35% of our consolidated net income for 2012. In addition, all of our mortgage servicing activity, TransFund EFT network and 69% of our fiduciary assets are attributed to the Oklahoma market.

Net income generated by the Bank of Oklahoma in 2012 increased $18.0 million or 17% over 2011. Net interest revenue decreased $6.9 million or 3%. Net charge-offs were down $4.3 million compared to the prior year to $15.5 million or 0.28% of average loans. Fees and commissions revenue was up $21.4 million or 7% primarily due to increased mortgage banking revenue. Other operating expenses, excluding changes in the fair value of mortgage servicing rights, were up $16.6 million or 5%. Changes in fair value of our mortgage servicing rights, net of economic hedge, decreased net income by $795 thousand in 2012 and decreased net income by $8.0 million in 2011.

Table 15 – Bank of Oklahoma
(Dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
Net interest revenue	$233,682	$240,616	$244,455
Net loans charged off	15,451	19,796	41,804
Net interest revenue after net loans charged off	218,231	220,820	202,651
Fees and commissions revenue	326,009	304,605	322,179
Gain on financial instruments and other assets, net	23,836	27,858	10,085
Other operating revenue	349,845	332,463	332,264
Personnel expense	153,358	148,935	152,134
Net losses and expenses of repossessed assets	5,695	4,657	4,252
Change in fair value of mortgage servicing rights	9,210	40,447	(1,326)
Other non-personnel expense	165,489	147,797	149,943
Corporate allocations	33,261	39,846	42,352
Total other operating expense	367,013	381,682	347,355
Income before taxes	201,063	171,601	187,560
Federal and state income tax	78,214	66,753	72,961
Net income	$122,849	$104,848	$114,599
Average assets	$11,544,276	$10,930,742	$9,775,984
Average loans	5,460,429	5,247,656	5,438,436
Average deposits	10,394,644	9,821,782	8,782,196
Average invested capital	548,302	541,152	548,537
Return on average assets	1.06%	0.96%	1.17%
Return on invested capital	22.41%	19.37%	20.89%
Efficiency ratio	63.93%	62.59%	61.54%
Net charge-offs to average loans	0.28%	0.38%	0.77%
Residential mortgage loans funded for sale	$1,671,776	$1,105,800	$1,246,511

Net interest revenue decreased $6.9 million or 3% compared to the prior year. Decreased yield on residential mortgage-backed securities held as an economic hedge of mortgage servicing rights was partially offset by lower funding costs. The average balance of these securities decreased $185 million compared to 2011. Average loan balances were up $213 million or 4% over

last year and loan yields were down. The favorable net interest impact of the $573 million increase in average deposit balances was offset by lower yield on funds sold to the Funds Management unit.

Fees and commission revenue grew by $21.4 million or 7% over 2011. Mortgage banking revenue was up $22.5 million over last year primarily due to increased mortgage loan origination and commitment volumes and increased gains on sales of residential mortgage loans in the secondary market. Transaction card revenue was down $4.9 million primarily due to changes in interchange fee regulations which were effective October 1, 2011. Deposit service charges and brokerage and trading revenue also increased over the prior year.

Excluding the change in the fair value of mortgage servicing rights, other operating expenses were up $16.6 million or 5% over the prior year. Personnel expenses were up $4.4 million or 3% over 2011 primarily due to increased regular compensation expense due to a modest increase in headcount and annual merit increases. Increased employee benefit expense was offset by lower incentive compensation expense compared to the prior year. Non-personnel expenses were up $17.7 million or 12%. Data processing and communications expense was up $4.1 million due to increased customer transaction activity and impairment charges on two discontinued software projects. Mortgage banking and professional fees and services expense were both up $4.0 million over the prior year. Corporate expense allocations were down $6.6 million compared to the prior year. Increased loan and deposit activity outside of Oklahoma increased the corporate expense allocation to these other geographies. Net losses and operating expenses of repossessed assets were up $1.0 million over 2011 primarily due to write-downs related to regularly scheduled appraisal updates.

Net loans charged off totaled $15.5 million or 0.28% of average loans for 2012 compared to $19.8 million or 0.38% of average loans for 2011. Net charge-offs for 2012 included the return of $7.1 million received from the City of Tulsa in 2008 to settle claims related to a defaulted loan. The settlement agreement between BOK Financial and the City of Tulsa was invalidated by the Oklahoma Supreme Court in 2011 as discussed further in Note 14 to the Consolidated Financial Statements. Excluding this item, net charge-offs were $8.4 million or 0.15% of average loans for 2012.

Average deposits attributed to the Bank of Oklahoma increased $572.9 million or 6% over 2011. Commercial Banking deposit balances increased $378 million or 8% over the prior year. Deposits related to commercial and industrial customers and energy customers increased over the prior year, partially offset by decreased average balances related to treasury services customers. Consumer deposits also increased $71 million or 2%. Wealth Management deposits increased $124 million or 5%, primarily due to an increase in average trust deposit balances.

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 33% of our average loans, 24% of our average deposits and 14% of our consolidated net income for 2012.

Net income for the Bank of Texas increased $7.1 million or 17% over the prior year primarily due to increased mortgage banking revenue partially offset by increased personnel expenses. Net interest revenue increased $5.2 million or 4% due primarily to a $415 million or 12% growth in loans and lower funding costs. Fees and commission revenue grew by $19.8 million or 29% primarily due to increased mortgage banking revenue. Other operating expense increased $12.4 million or 9% due primarily to increased incentive compensation and growth in the Texas market.

Table 16 – Bank of Texas
(Dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
Net interest revenue	$142,906	$137,696	$134,323
Net loans charged off	5,496	4,170	15,340
Net interest revenue after net loans charged off	137,410	133,526	118,983
Fees and commissions revenue	87,252	67,417	60,722
Gain (loss) on financial instruments and other assets, net	188	342	(7)
Other operating revenue	87,440	67,759	60,715
Personnel expense	79,350	70,855	65,311
Net losses and expenses of repossessed assets	3,240	1,569	6,708
Other non-personnel expense	24,965	23,403	23,201
Corporate allocations	39,684	39,015	37,881
Total other operating expense	147,239	134,842	133,101
Income before taxes	77,611	66,443	46,597
Federal and state income tax	27,940	23,919	16,775
Net income	$49,671	$42,524	$29,822
Average assets	$5,110,336	$4,933,463	$4,479,689
Average loans	3,832,395	3,417,235	3,320,173
Average deposits	4,602,272	4,368,967	3,901,364
Average invested capital	482,612	473,926	479,391
Return on average assets	0.97%	0.86%	0.67%
Return on invested capital	10.29%	8.97%	6.22%
Efficiency ratio	63.97%	65.74%	68.24%
Net charge-offs to average loans	0.14%	0.12%	0.46%
Residential mortgage loans funded for sale	$500,769	$220,022	$252,364

Net interest revenue increased $5.2 million or 4% over 2011 primarily due to decreased deposit costs and growth of the loan portfolio. Average outstanding loans increased by $415 million or 12% over the prior year. The benefit of a $233 million or 5% increase in deposits was offset by lower yield on funds invested by the Funds Management unit.

Fees and commissions revenue grew $19.8 million or 29% over 2011 primarily due to increased mortgage banking revenue. Brokerage and trading revenue and trust fees and commissions also increased over the prior year. Transaction card revenue was down compared to the prior year primarily due to debit card interchange fee regulations which became effective in the third quarter of 2011. Deposit service charges and fees were largely unchanged compared to the prior year.

Operating expenses increased $12.4 million or 9% over 2011. Personnel costs were up $8.5 million or 12% primarily due to incentive compensation expense and increased head count related to higher residential mortgage loan origination activity. Net losses and operating expense of repossessed assets increased $1.7 million over last year due primarily to write-downs related to regularly scheduled appraisal updates. Non-personnel expenses increased $1.6 million or 7%. Corporate expense allocations increased $669 thousand or 2%.

Net loans charged off totaled $5.5 million or 0.14% of average loans for 2012, compared to $4.2 million or 0.12% of average loans for 2011.

Bank of Albuquerque

Net income attributable to the Bank of Albuquerque totaled $22.7 million or 6% of consolidated net income, an $8.6 million or 61% increase over 2011 due primarily to the growth in mortgage banking revenue.

Net interest revenue increased $847 thousand or 2% over the prior year. Average loan balances were largely unchanged compared to the prior year. Average deposit balances were up $25 million or 2% over the prior year. Decreased deposit costs were offset by a decrease in the yield on funds invested with the Funds Management unit. Net loans charged off improved to $1.1 million or 0.16% of average loans for 2012 compared to net loans charged off of $2.1 million or 0.30% of average loans for 2011.

Fees and commissions revenue increased $13.5 million or 38% over the prior year primarily due to a $14.6 million increase in mortgage banking revenue, partially offset by decreased transaction card revenue due to debit card interchange fee regulations. Other operating expense increased $1.3 million or 3%. Personnel expenses were up $2.5 million or 14% primarily due to increased incentive compensation primarily related to increased mortgage activity. Net losses and expenses of repossessed assets decreased $1.9 million to $165 thousand for 2012. Increased corporate allocation expenses were offset by lower non-personnel expenses.

Table 17 – Bank of Albuquerque
(Dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
Net interest revenue	$34,806	$33,959	$32,649
Net loans charged off	1,136	2,103	7,219
Net interest revenue after net loans charged off	33,670	31,856	25,430
Other operating revenue – fees and commission	48,815	35,327	27,994
Personnel expense	20,388	17,865	13,135
Net losses and expenses of repossessed assets	165	2,018	2,891
Other non-personnel expense	8,239	8,779	9,884
Corporate allocations	16,463	15,333	13,931
Total other operating expense	45,255	43,995	39,841
Income before taxes	37,230	23,188	13,583
Federal and state income tax	14,482	9,020	5,284
Net income	$22,748	$14,168	$8,299
Average assets	$1,391,606	$1,390,700	$1,329,578
Average loans	715,095	707,723	719,160
Average deposits	1,267,487	1,242,964	1,231,643
Average invested capital	79,722	82,313	83,188
Return on average assets	1.63 %	1.02 %	0.62 %
Return on invested capital	28.53 %	17.21 %	9.98 %
Efficiency ratio	54.12 %	63.50 %	65.70 %
Net charge-offs to average loans	0.16 %	0.30 %	1.00 %
Residential mortgage loans funded for sale	$549,249	$354,964	$345,797

Bank of Arkansas

Net income attributable to the Bank of Arkansas grew $6.7 million or 113% over the prior year primarily due to growth in mortgage related securities trading revenue in our Little Rock office and mortgage banking revenue.

Net interest revenue increased $1.7 million or 20% over 2011 due primarily to the recognition of $2.9 million of foregone interest and fees collected on a nonaccruing wholesale/retail sector loans. Loans attributed to the Bank of Arkansas decreased $51 million compared to 2011 primarily due to the continued run-off of indirect automobile loans. Average deposits attributed to the Bank of Arkansas were largely unchanged compared to the prior year. Higher costing time deposits decreased $21 million or 39% compared to the prior year, partially offset by a $12 million or 9% increase in interest-bearing transaction deposits and a $7.0 million or 48% increase in demand deposit balances. The Bank of Arkansas experienced a net recovery of $1.4 million for 2012. In addition to foregone interest and fees, $2.0 million charged off in the second quarter of 2011 was recovered related to the nonaccruing wholesale/retail loan. Net loans charged off totaled $2.8 million or 1.02% of average loans for 2011.

Fees and commissions revenue was up $11.3 million or 30% over the prior year primarily due to increased mortgage banking revenue and increased mortgage related securities trading revenue at our Little Rock office. Other operating expenses were up $6.2 million or 18% primarily due to increased incentive compensation costs related to trading activity.

Table 18 – Bank of Arkansas
(Dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
Net interest revenue	$9,892	$8,213	$10,221
Net loans charged off (recovered)	(1,443)	2,797	6,725
Net interest revenue after net loans charged off (recovered)	11,335	5,416	3,496
Other operating revenue – fees and commissions	49,691	38,347	41,258
Personnel expense	23,963	18,368	21,601
Net losses and expenses of repossessed assets	255	548	1,108
Other non-personnel expense	4,806	4,565	4,309
Corporate allocations	11,176	10,501	11,263
Total other operating expense	40,200	33,982	38,281
Income before taxes	20,826	9,781	6,473
Federal and state income tax	8,101	3,805	2,518
Net income	$12,725	$5,976	$3,955
Average assets	$233,226	$291,560	$357,178
Average loans	221,906	273,382	330,136
Average deposits	208,096	210,083	196,372
Average invested capital	19,720	23,563	23,232
Return on average assets	5.46%	2.05%	1.11%
Return on invested capital	64.53%	25.36%	17.02%
Efficiency ratio	67.47%	72.99%	74.36%
Net charge-offs (recoveries) to average loans	(0.65)%	1.02%	2.04%

Residential mortgage loans funded for sale	$111,049	$72,293	$72,148

Colorado State Bank & Trust

Net income attributed to Colorado State Bank & Trust increased $8.1 million or 79% over 2011 to $18.3 million. Net interest revenue increased $2.7 million or 8% primarily due to increased average loan and deposit balances, partially offset by a decrease in yield on funds sold to the Funds Management unit. Average loans increased $142 million or 18%. Average deposits attributable to Colorado State Bank & Trust increased $56 million or 4%. Demand deposits grew by $88 million during 2012 primarily to increased commercial account balances. Interest-bearing transaction deposit account balances increased $18 million or 4%. Higher costing time deposits decreased $53 million. Net loans charged off totaled $166 thousand or 0.02% of average loans for 2012 compared to net loans charged off of $2.2 million or 0.29% of average loans for 2011.

Fees and commissions revenue was up $17.1 million over 2011 primarily related to a $13.0 million increase in mortgage banking revenue and a $4.4 million increase in trust fees and commissions primarily due to the acquisition of the Milestone Group. The Milestone Group is a Denver-based registered investment adviser which provides wealth management services to high net worth clients in Colorado and Nebraska. Operating expenses were up $8.6 million or 21% over the prior year primarily due to mortgage banking activity and the Milestone Group acquisition. Personnel expenses were up $4.4 million, corporate expense allocations increased $2.8 million and non-personnel expenses were increased $1.3 million.

Table 19 – Colorado State Bank & Trust
(Dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
Net interest revenue	$36,708	$34,018	$32,706
Net loans charged off	166	2,235	10,897
Net interest revenue after net loans charged off	36,542	31,783	21,809
Fees and commissions revenue	43,776	26,685	21,703
Gain (loss) on financial instruments and other assets, net	8	—	(6)
Other operating revenue	43,784	26,685	21,697
Personnel expense	26,895	22,485	17,050
Net losses and expenses of repossessed assets	510	401	1,429
Other non-personnel expense	7,163	5,815	6,330
Corporate allocations	15,798	13,035	13,854
Total other operating expense	50,366	41,736	38,663
Income before taxes	29,960	16,732	4,843
Federal and state income tax	11,654	6,509	1,884
Net income	$18,306	$10,223	$2,959
Average assets	$1,345,619	$1,343,816	$1,219,195
Average loans	924,700	782,583	767,983
Average deposits	1,330,179	1,273,794	1,145,887
Average invested capital	129,154	118,712	123,910
Return on average assets	1.36 %	0.76 %	0.24 %
Return on invested capital	14.17 %	8.61 %	2.39 %
Efficiency ratio	62.58 %	68.75 %	71.06 %

Net charge-offs to average loans	0.02 %	0.29 %	1.42 %
Residential mortgage loans funded for sale	$497,543	$298,630	$338,309

51

Bank of Arizona

Bank of Arizona had a net loss of $1.1 million for 2012 compared to a net loss of $8.3 million for 2011. The improvement was due primarily to growth in fee revenue, along with decreased net loans charged off and lower net losses and operating expenses of repossessed assets.

Net interest revenue increased $933 thousand or 6% over 2011. Average loan balances were down $18 million or 3% compared to the prior year. The decrease was primarily due to jumbo residential mortgage loans previously originated and retained by our wealth management segment in Arizona that were refinanced. Net loans charged off decreased to $2.4 million or 0.43% of average loans for 2012, compared to $7.2 million or 1.25% for 2011. Average deposits were up $88 million or 34% over last year. Interest-bearing transaction account balances grew by $72 million or 68% and demand deposit balances were up $27 million or 25% both primarily due to growth in commercial deposits. Higher costing time deposits balances decreased $11 million compared to the prior year.

Fees and commissions revenue was up $3.4 million primarily due to increased mortgage banking revenue and revenue from the operation of repossessed commercial real estate properties. Other operating expense decreased $3.1 million or 10% compared to 2011. Personnel expense decreased $158 thousand or 1% compared to the prior year. Net losses and operating expenses of repossessed assets remain elevated, but decreased $3.0 million to $7.4 million for 2012. Non-personnel expenses decreased $177 thousand or 5% compared to the prior year. Corporate overhead expense allocations were up $210 thousand or 4%.

We continue to focus on growth in commercial and small business lending in the Arizona market and have significantly scaled back commercial real estate lending activities which were not contemplated in our initial expansion into this market. Loan and repossessed asset losses have been largely due to commercial real estate lending. Growth is primarily related to commercial loans and deposits. Assets attributable to the Bank of Arizona included $16 million of goodwill that may be impaired in future periods if our commercial and small business lending growth plans are unsuccessful.

Table 20 – Bank of Arizona
(Dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
Net interest revenue	$17,170	$16,237	$11,792
Net loans charged off	2,420	7,168	22,324
Net interest revenue after net loans charged off	14,750	9,069	(10,532)
Fees and commissions revenue	10,150	6,780	5,071
Gain on financial instruments and other assets, net	—	349	—
Other operating revenue	10,150	7,129	5,071
Personnel expense	10,711	10,869	9,944
Net losses and expenses of repossessed assets	7,402	10,402	14,117
Other non-personnel expense	3,628	3,805	3,643
Corporate allocations	4,984	4,774	4,079
Total other operating expense	26,725	29,850	31,783
Loss before taxes	(1,825)	(13,652)	(37,244)
Federal and state income tax	(710)	(5,311)	(14,488)
Net loss	$(1,115)	$(8,341)	$(22,756)
Average assets	$612,682	$641,340	$609,694
Average loans	556,689	574,770	522,035
Average deposits	343,289	255,487	218,865
Average invested capital	60,916	65,025	65,242
Return on average assets	(0.18)%	(1.30)%	(3.73)%
Return on invested capital	(1.83)%	(12.83)%	(34.88)%
Efficiency ratio	97.82%	129.69%	188.48%
Net charge-offs to average loans	0.43%	1.25%	4.28%
Residential mortgage loans funded for sale	$96,026	$97,699	$141,379

Bank of Kansas City

Net income attributed to the Bank of Kansas City increased by $4.5 million or 84% over 2011 primarily due to growth in mortgage banking revenue.

Net interest revenue increased $1.5 million or 13%. Average loan balances grew by $72 million or 20%. Net charge-offs remained low, totaling $94 thousand or 0.02% of average loans for 2012 compared to $181 thousand or 0.05% of average loans for 2011. Average deposit balances were down $16 million or 5% due primarily to a $16 million decrease in higher costing time deposit balances. Demand deposit balances grew $95 million or 197% due primarily to commercial account balances, offset by a $95 million decrease in interest-bearing transaction account balances.

Fees and commissions revenue increased $13.6 million or 54% over the prior year primarily due to an $8.7 million increase in mortgage banking revenue and a $3.9 million increase in brokerage and trading revenue. Other operating expense increased $7.9 million or 28%. Personnel costs were up $3.5 million or 21% primarily due to increased incentive compensation. Corporate expense allocations increased by $3.9 million on higher customer transaction volume and non-personnel expense increased $606 thousand.

Table 21 – Bank of Kansas City
(Dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
Net interest revenue	$13,207	$11,675	$9,428
Net loans charged off	94	181	71
Net interest revenue after net loans charged off	13,113	11,494	9,357
Other operating revenue – fees and commission	38,596	25,006	19,386
Personnel expense	20,091	16,603	12,975
Net losses (gains) and expenses of repossessed assets	91	176	(66)
Other non-personnel expense	4,609	4,003	3,090
Corporate allocations	10,824	6,971	5,301
Total other operating expense	35,615	27,753	21,300
Income before taxes	16,094	8,747	7,443
Federal and state income tax	6,261	3,403	2,895
Net income	$9,833	$5,344	$4,548
Average assets	$458,565	$376,652	$309,230
Average loans	436,143	364,517	297,604
Average deposits	286,531	302,632	239,759
Average invested capital	33,684	27,752	22,744
Return on average assets	2.14 %	1.42 %	1.47 %
Return on invested capital	29.19 %	19.26 %	20.00 %
Efficiency ratio	68.75 %	75.66 %	73.92 %
Net charge-offs to average loans	0.02 %	0.05 %	0.02 %
Residential mortgage loans funded for sale	$281,938	$144,426	$105,352

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 December 31, 2012, December 31, 2011 and December 31, 2010.

Table 22 – Securities
(In thousands)

	December 31,					
	2012		2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Trading:						
U.S. Government agency obligations	$16,602	$16,545	$22,140	$22,203	$3,890	$3,873
U.S. agency residential mortgage-backed securities	85,914	86,361	12,320	12,379	26,979	27,271
Municipal and other tax-exempt securities	90,552	90,326	38,693	39,345	23,610	23,396
Other trading securities	20,883	20,870	2,864	2,873	929	927
Total trading securities	213,951	214,102	76,017	76,800	55,408	55,467
Investment:						
Municipal and other tax-exempt	232,700	235,940	128,697	133,670	184,898	188,577
U.S. agency residential mortgage-backed securities – Other[1]	82,767 [1]	85,943	121,704 [1]	120,536	—	—
Other debt securities	184,067	206,575	188,835	208,451	154,655	157,528
Total investment securities	499,534	528,458	439,236	462,657	339,553	346,105
Available for sale:						
U.S. Treasury	1,000	1,002	1,001	1,006	—	—
Municipal and other tax-exempt	84,892	87,142	66,435	68,837	72,190	72,942
Residential mortgage-backed securities:						
U.S. agencies	9,650,650	9,889,821	9,297,389	9,588,177	8,193,705	8,446,909
Privately issue	322,902	325,163	503,068	419,166	714,430	644,209
Total residential mortgage-backed securities	9,973,552	10,214,984	9,800,457	10,007,343	8,908,135	9,091,118
Commercial mortgage-backed securities guaranteed by U.S. government agencies	890,746	895,075	—	—	—	—
Other debt securities	35,680	36,389	36,298	36,495	6,401	6,401
Perpetual preferred stocks	22,171	25,072	19,171	18,446	19,511	22,114
Equity securities and mutual funds	24,593	27,557	33,843	47,238	29,181	43,046
Total available for sale securities	11,032,634	11,287,221	9,957,205	10,179,365	9,035,418	9,235,621
Fair value option securities:						

U.S. agency residential mortgage-backed securities	253,726	257,040	606,876	626,109	433,662	428,021
Corporate debt securities	25,077	26,486	25,099	25,117	—	—
Other securities	723	770	—	—	—	—
Total fair value option securities	$279,526	$284,296	$631,975	$651,226	$433,662	$428,021

[1] Includes $5.0 million at December 31, 2012 and $12 million at December 31, 2011 of remaining net unrealized gain which remains in Accumulated Other Comprehensive Income in the Consolidated Balance Sheets related to securities transferred from the available for sale securities portfolio to the investment portfolio in 2011. See Note 2 to the Consolidated Financial Statements for additional discussion.

At December 31, 2012, the carrying value of investment (held-to-maturity) securities was $500 million and the fair value was $528 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 $89 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 $11.0 billion at December 31, 2012, an increase of $1.1 billion over December 31, 2011. The increase was primarily in short-duration U.S. government agency residential mortgage-backed securities and U.S. government agency backed commercial mortgage-backed securities. At December 31, 2012, residential mortgage-backed securities represented 91% of total available for sale securities. We also added $895 million of commercial mortgage-backed securities fully backed by U.S. government agencies during 2012. The securities have prepayment penalties similar to commercial loans.

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. Current interest rates are historically low and prices for residential mortgage-backed securities are historically high resulting in low effective durations. Our best estimate of the duration of the residential mortgage-backed securities portfolio at December 31, 2012 is 2.2 years. Management estimates the duration extends to 3.7 years assuming an immediate 200 basis point upward shock. The estimated duration contracts to 1.7 years assuming a 50 basis point decline in the current low 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 December 31, 2012, approximately $9.7 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 $9.9 billion at December 31, 2012.

We also hold amortized cost of $323 million in residential mortgage-backed securities privately issued by publicly-owned financial institutions. The amortized cost of these securities decreased $180 million from December 31, 2011. The fair value of these securities increased nearly 10% between December 31, 2011 and February 29, 2012. In response to this significant increase in fair value, management evaluated the expected performance of our privately-issued residential mortgage-backed securities portfolio. We sold $107 million of these securities we believe had reached their maximum expected potential in March 2012 at a $7.4 million loss. We do not intend to sell the remaining portfolio of privately-issued residential mortgage backed securities. The additional decline was primarily due to $67 million of cash received and $5.9 million of other-than-temporary impairment losses charged against earnings during 2012. The fair value of our portfolio of privately issued residential mortgage-backed securities totaled $325 million at December 31, 2012.

The amortized cost of our portfolio of privately issued residential mortgage-backed securities included $199 million of Jumbo-A residential mortgage loans and $124 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 December 31, 2012. The Jumbo-A residential mortgage-backed securities had original credit enhancement of 9.4% and the current level is 4.6%. Approximately 79% 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 24% 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 $6.6 million at December 31, 2012, down $80 million from December 31, 2011. 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 $7.4 million were recognized in earnings in 2012, including $5.9

million related to certain privately issued residential mortgage-backed securities that we do not intend to sell and $1.0 million related to certain municipal securities that we do not intend to sell. In addition, impairment charges of $457 thousand were recognized on certain equity securities during 2012.

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 $275 million of bank-owned life insurance at December 31, 2012. This investment is expected to provide a long-term source of earnings to support existing employee benefit programs. Approximately $244 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 December 31, 2012, the fair value of investments held in separate accounts was approximately $267 million. As the underlying fair value of the investments held in a separate account at December 31, 2012 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 $31 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 $12.3 billion at December 31, 2012, up $1.0 billion or 9% over December 31, 2011. Commercial loans grew by $1.1 billion or 17% due largely to growth in energy and services sector loans. Commercial real estate loans decreased $62 million or 3%. Growth in multi-family residential property loans was offset by a decrease in construction and land development loans. Residential mortgage loans were up $71 million or 4% primarily due to an increase in home equity loans, partially offset by a decrease in permanent residential mortgage loans. Consumer loans decreased $53 million due primarily to the continued runoff of the indirect automobile loan portfolio resulting from the Company's previously disclosed decision to exit this business in the first quarter of 2009.

Table 23 – Loans
(In thousands)

			December 31,		
	2012	2011	2010	2009	2008
Commercial:					
Energy	$2,460,659	$2,005,041	$1,706,366	$1,911,392	$2,333,755
Services	2,164,186	1,761,538	1,574,680	1,768,966	2,045,121
Wholesale/retail	1,106,439	967,426	981,047	919,998	1,171,331
Manufacturing	348,484	336,733	319,353	384,327	509,868
Healthcare	1,081,406	978,160	843,826	776,457	803,939
Integrated food services	191,106	204,311	203,741	160,148	199,314
Other commercial and industrial	289,632	301,861	312,383	240,210	244,247
Total commercial	7,641,912	6,555,070	5,941,396	6,161,498	7,307,575
Commercial real estate:					
Construction and land development	253,093	342,054	451,720	655,116	920,662
Retail	522,786	509,402	420,038	423,155	435,334
Office	427,872	405,923	462,758	444,091	485,471
Multifamily	402,896	369,028	364,172	357,496	318,818
Industrial	245,994	278,186	178,032	126,006	143,532
Other real estate	376,358	386,710	394,141	493,927	400,840
Total commercial real estate	2,228,999	2,291,303	2,270,861	2,499,791	2,704,657
Residential mortgage:					
Permanent mortgage	1,123,965	1,157,133	1,206,297	1,314,592	1,346,105
Permanent mortgages guaranteed by U.S. government agencies	160,444	184,973	72,385	28,633	19,316
Home equity	760,631	632,421	556,593	490,285	482,643
Total residential mortgage	2,045,040	1,974,527	1,835,275	1,833,510	1,848,064
Consumer:					
Indirect automobile	34,735	105,149	239,188	454,508	692,616
Other consumer	360,770	343,694	356,316	330,391	323,094
Total consumer	395,505	448,843	595,504	784,899	1,015,710
Total	$12,311,456	$11,269,743	$10,643,036	$11,279,698	$12,876,006

Loans grew in almost all of our geographical markets. Commercial loan growth in our Bank of Oklahoma, Bank of Texas and Colorado State Bank & Trust markets was particularly strong. A breakdown by geographical market follows on Table 24 followed by a discussion of changes in the balance by portfolio and geography. This breakdown may not always represent the location of the borrower or the collateral. The previous periods have been reclassified to conform to the current period loan classification and market attribution.

Table 24 – Loans by Principal Market
(In thousands)

			December 31,		
	2012	2011	2010	2009	2008
Bank of Oklahoma:					
Commercial	$3,089,686	$2,826,649	$2,693,232	$2,728,763	$3,341,176
Commercial real estate	580,694	607,030	703,041	822,586	853,344
Residential mortgage	1,488,486	1,411,560	1,227,184	1,383,642	1,295,882
Consumer	220,096	235,909	327,599	449,371	584,145
Total Bank of Oklahoma	5,378,962	5,081,148	4,951,056	5,384,362	6,074,547
Bank of Texas:					
Commercial	2,726,925	2,249,888	1,943,666	2,022,324	2,396,428
Commercial real estate	771,796	830,642	701,993	734,072	806,713
Residential mortgage	275,408	268,053	300,916	271,910	315,505
Consumer	116,252	126,570	145,699	169,396	213,230
Total Bank of Texas	3,890,381	3,475,153	3,092,274	3,197,702	3,731,876
Bank of Albuquerque:					
Commercial	265,830	258,668	284,394	342,689	406,092
Commercial real estate	326,135	303,500	308,605	304,903	300,955
Residential mortgage	130,337	104,695	94,010	74,703	92,179
Consumer	15,456	19,369	19,620	17,799	17,885
Total Bank of Albuquerque	737,758	686,232	706,629	740,094	817,111
Bank of Arkansas:					
Commercial	62,049	76,199	83,297	103,061	105,838
Commercial real estate	90,821	136,170	118,662	132,828	131,934
Residential mortgage	13,046	15,772	15,614	9,503	18,922
Consumer	15,421	35,911	72,869	124,118	176,734
Total Bank of Arkansas	181,337	264,052	290,442	369,510	433,428
Colorado State Bank & Trust:					
Commercial	776,610	544,020	436,094	510,019	600,820
Commercial real estate	173,327	156,013	196,728	241,699	260,842
Residential mortgage	59,363	64,627	75,266	27,980	52,497
Consumer	19,333	21,598	21,276	17,566	16,235
Total Colorado State Bank & Trust	1,028,633	786,258	729,364	797,264	930,394
Bank of Arizona:					
Commercial	313,296	271,914	215,973	202,599	211,279
Commercial real estate	201,760	198,160	206,948	234,039	322,525
Residential mortgage	57,803	89,315	97,576	48,708	61,614
Consumer	4,686	5,633	5,604	4,657	6,082
Total Bank of Arizona	577,545	565,022	526,101	490,003	601,500
Bank of Kansas City:					

Commercial	407,516	327,732	284,740	252,043	245,942
Commercial real estate	84,466	59,788	34,884	29,664	28,344
Residential mortgage	20,597	20,505	24,709	17,064	11,465
Consumer	4,261	3,853	2,837	1,992	1,399
Total Bank of Kansas City	516,840	411,878	347,170	300,763	287,150
Total BOK Financial loans	$12,311,456	$11,269,743	$10,643,036	$11,279,698	$12,876,006

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 by $1.1 billion or 17% during 2012. Energy sector loans increased $456 million or 23% over December 31, 2011. Energy loans attributed to the Colorado market grew by $189 million, energy loans attributed to the Oklahoma market grew by $148 million and energy loans in the Texas market grew by $115 million. Service sector loans increased $403 million or 23%, growing in all our geographical markets. Service sector loans grew by $225 million in the Texas market, $66 million in the Oklahoma market, $48 million in the Arizona market and $39 million in the Colorado market. Wholesale/retail sector loans were up $139 million or 14%, primarily in the Texas and Kansas City markets. Healthcare sector loans were up $103 million or 11% over December 31, 2011. Increased loan balances attributed to the Texas, New Mexico, Kansas City and Oklahoma markets were partially offset by decreased loan balances attributed to the Arizona market.

The commercial sector of our loan portfolio is distributed as follows in Table 25.

Table 25 – 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	$1,113,239	$900,254	$5,060	$220	$441,675	$—	$211	$2,460,659
Services	653,056	850,626	168,789	16,576	226,156	164,511	84,472	2,164,186
Wholesale/retail	407,471	452,889	43,584	38,515	17,981	74,099	71,900	1,106,439
Healthcare	612,611	306,931	32,624	4,115	71,385	31,309	22,431	1,081,406
Manufacturing	153,953	118,769	5,664	2,450	9,942	42,100	15,606	348,484
Integrated food services	3,960	6,309	—	—	4,140	—	176,697	191,106
Other commercial and industrial	145,396	91,147	10,109	173	5,331	1,277	36,199	289,632
Total commercial loans	$3,089,686	$2,726,925	$265,830	$62,049	$776,610	$313,296	$407,516	$7,641,912

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.

Energy loans totaled $2.5 billion or 20% of total loans at December 31, 2012. Outstanding energy loans increased $456 million during 2012. Unfunded energy loan commitments increased by $387 million to $2.4 billion at December 31, 2012. Approximately $2.2 billion of energy loans were to oil and gas producers, up $495 million over December 31, 2011. Approximately 55% of the committed production loans are secured by properties primarily producing oil and 45% of the committed production loans are secured by properties primarily producing natural gas. Loans to borrowers that manufacture equipment primarily for the energy industry increased $24 million during 2012 to $49 million. Loans to borrowers engaged in wholesale or retail energy sales decreased $41 million to $129 million. Loans to borrowers that provide services to the energy industry decreased $24 million during 2012 to $69 million.

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 gaming, insurance, public finance, educational and community foundations. Service sector loans increased $403 million over December 31, 2011. Approximately $1.2 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 December 31, 2012, 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 16% 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 $2.2 billion or 18% of the loan portfolio at December 31, 2012. The outstanding balance of commercial real estate loans decreased $62 million compared to 2011. Construction and land development loans, industrial and other commercial real estate loans decreased, partially offset by increased multifamily residential properties, office building loans and loans secured by retail facilities. The commercial real estate loan balance as a percentage of our total loan portfolio is currently below its historical range of 20% to 22% over the past five years. The commercial real estate sector of our loan portfolio is distributed as follows in Table 26.

Table 26 – 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	$79,557	$48,802	$50,551	$15,876	$41,037	$9,643	$7,627	$253,093
Retail	138,092	182,875	72,176	11,590	15,647	82,730	19,676	522,786
Office	73,480	208,517	89,753	9,503	21,078	24,004	1,537	427,872
Multifamily	133,192	122,558	24,837	23,180	28,632	34,701	35,796	402,896
Industrial	46,293	126,505	37,431	473	6,574	17,872	10,846	245,994
Other real estate	110,080	82,539	51,387	30,199	60,359	32,810	8,984	376,358

Total commercial real estate loans	$580,694	$771,796	$326,135	$90,821	$173,327	$201,760	$84,466	$2,228,999

Construction and land development loans, which consist primarily of residential construction properties and developed building lots, decreased $89 million or 26% from December 31, 2011 to $253 million at December 31, 2012 primarily due to $70 million of net paydowns. Charge-offs of construction and land development loans totaled $7.0 million for 2012 and $12 million were transferred to other real estate owned.

Loans secured by multifamily residential properties increased $34 million or 9%. Growth in the Kansas City, Colorado and Arizona markets was partially offset by a decrease in the Arkansas market. Loans secured by office buildings increased $22 million during 2012, primarily attributed to growth in the Texas market. Retail sector loans grew by $13 million. Loan growth

attributed to the Oklahoma and New Mexico markets was partially offset by a decrease in loan balances attributed to the Texas market. Loans secured by industrial properties decreased $32 million from December 31, 2011, primarily in the Texas and Oklahoma market, partially offset by growth in the New Mexico and Colorado markets.Other commercial and industrial loans grew in the Colorado market, offset by decreased loan balances attributed to the New Mexico, Arizona and Texas markets.

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, up $71 million or 4% over December 31, 2011. 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 $984 million. 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 $70 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 $78 million at December 31, 2011. 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 December 31, 2012, $160 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 $19 million of residential mortgage loans previously sold into GNMA mortgage pools that are eligible to be repurchased. We may repurchase these loans when certain defined delinquency criteria are met. Because of this repurchase right, we effectively have regained control over these loans and must include them in the Consolidated Balance Sheets. The remaining amount represents loans that the Company has repurchased from GNMA mortgage pools. Permanent residential mortgage loans guaranteed by U.S. government agencies decreased $25 million or 13% from December 31, 2011.

Home equity loans totaled $761 million at December 31, 2012, a $128 million or 20% increase over December 31, 2011. Growth was primarily in 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 repayments. 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 December 31, 2012 by lien position and amortizing status follows in Table 27.

Table 27 – Home Equity Loans
(In thousands)

	Revolving	Amortizing	Total
First lien	$36,471	$482,298	$518,769
Junior lien	54,370	187,492	241,862
Total home equity	$90,841	$669,790	$760,631

Indirect automobile loans decreased $70 million compared to December 31, 2011, primarily due to the previously-disclosed decision by the Company to exit the business in the first quarter of 2009. Approximately $35 million of indirect automobile loans remain outstanding at December 31, 2012. Other consumer loans increased $17 million or 5% during 2012.

The composition of residential mortgage and consumer loans at December 31, 2012 is as follows in Table 28. All permanent residential mortgage loans serviced by our mortgage banking unit held for investment are attributed to the Oklahoma market. Other permanent residential mortgage loans originated by the Bank are attributed to their respective principal market.

Table 28 – 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	$873,605	$141,755	$10,735	$7,561	$32,191	$45,828	$12,290	$1,123,965
Permanent mortgages guaranteed by U.S. government agencies	160,444	—	—	—	—	—	—	160,444
Home equity	454,437	133,653	119,602	5,485	27,172	11,975	8,307	760,631
Total residential mortgage	$1,488,486	$275,408	$130,337	$13,046	$59,363	$57,803	$20,597	$2,045,040
Consumer:								
Indirect automobile	$17,253	$6,700	$—	$10,782	$—	$—	$—	$34,735
Other consumer	202,843	109,552	15,456	4,639	19,333	4,686	4,261	360,770
Total consumer	$220,096	$116,252	$15,456	$15,421	$19,333	$4,686	$4,261	$395,505

Table 29 – Loan Maturity and Interest Rate Sensitivity at December 31, 2012
(In thousands)

		Remaining Maturities of Selected Loans		
	Total	Within 1 Year	1-5 Years	After 5 Years
Loan maturity:				
Commercial	$7,641,912	$906,560	$4,429,972	$2,305,380
Commercial real estate	2,228,999	156,700	1,371,206	701,093
Total	$9,870,911	$1,063,260	$5,801,178	$3,006,473
Interest rate sensitivity for selected loans with:				

Predetermined interest rates	$5,024,275	$112,827	$3,169,276	$1,742,172
Floating or adjustable interest rates	4,846,636	950,433	2,631,902	1,264,301
Total	$9,870,911	$1,063,260	$5,801,178	$3,006,473

Loan Commitments

We enter into certain off-balance sheet arrangements in the normal course of business. These arrangements included unfunded loan commitments which totaled $6.6 billion and standby letters of credit which totaled $466 million at December 31, 2012. 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 December 31, 2012.

Table 30 – Off-Balance Sheet Credit Commitments
(In thousands)

	As of December 31,				
	2012	2011	2010	2009	2008
Loan commitments	$6,636,587	$6,050,208	$5,193,545	$5,001,338	$5,015,660
Standby letters of credit	466,477	613,457	534,565	588,091	598,618
Mortgage loans sold with recourse	226,922	253,834	289,021	330,963	391,188

As more fully described in Note 7 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 December 31, 2012, the principal balance of residential mortgage loans sold subject to recourse obligations totaled $227 million, down from $259 million at December 31, 2011. Substantially all of these loans are to borrowers in our primary markets including $159 million to borrowers in Oklahoma, $23 million to borrowers in Arkansas, $15 million to borrowers in New Mexico, $12 million to borrowers in the Kansas/Missouri area and $10 million to borrowers in Texas. At December 31, 2012, approximately 5% of these loans are nonperforming and 5% were past due 30 to 89 days. A separate accrual for credit risk of $11 million is available to absorb losses on these loans.

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 7 to the Consolidated Financial Statements. For all of 2012, 2011 and 2010 combined, approximately 11% of repurchase requests have currently resulted in actual repurchases or indemnification by the Company. While the level of repurchases under representations and warranties has been modest, average losses per loan trended higher during 2012. Accordingly, we increased the accrual for estimated credit losses from repurchase of these loans during 2012. The accrual for credit losses related to potential loan repurchases under representations and warranties totaled $5.3 million at December 31, 2012 compared to $2.2 million at December 31, 2011.

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 the risk to us of 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.

On October 31, 2011, MF Global filed for bankruptcy protection. After partial distributions from the bankruptcy trustee during 2011, the remaining amount due totaled $8.5 million at December 31, 2011. This amount was written down to $6.8 million based on our evaluation of amounts we expected to recover at that time. During 2012, we received an additional $2.0 million distribution from the bankruptcy trustee, further reducing the amount to $4.7 million at December 31, 2012. We also recognized a $2.9 million recovery from the Lehman Brothers bankruptcy in brokerage and trading revenue in 2012 related to derivative contract losses incurred in 2008.

Derivative contracts are carried at fair value. Before consideration of cash collateral received from counterparties, the aggregate net fair values of derivative contracts reported as assets under these programs totaled $334 million at December 31, 2012, compared to $287 million at December 31, 2011. Derivative contracts carried as assets include to-be-announced residential mortgage-backed securities sold to our mortgage banking customers with fair values of $30 million, interest rate swaps sold to loan customers with fair values of $72 million, energy contracts with fair values of $38 million and foreign exchange contracts with fair values of $180 million. Before consideration of cash margin paid to counterparties, the aggregate net fair values of derivative contracts held under these programs reported as liabilities totaled $332 million.

At December 31, 2012, total derivative assets were reduced by $3.5 million of cash collateral received from counterparties and total derivative liabilities were reduced by $49 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 December 31, 2012 follows in Table 31.

Table 31 – Fair Value of Derivative Contracts
(In thousands)

Customers	$199,356
Banks and other financial institutions	107,119
Exchanges	19,691
Energy companies	4,277
Fair value of customer hedge asset derivative contracts, net	$330,443

The largest exposure to a single counterparty was to a loan customer for an interest rate swap which totaled $13 million at December 31, 2012 used to convert their variable rate loan to a fixed rate.

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 $24.88 per barrel of oil would increase the fair value of derivative assets by $30 million. An increase in prices equivalent to $159.22 per barrel of oil would increase the fair value of derivative assets by $349 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 $35 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 December 31, 2012, changes in interest rates 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 accrual for off-balance sheet risk totaled $217 million or 1.77% of outstanding loans and 162% of nonaccruing loans at December 31, 2012. The allowance for loans losses was $216 million and the accrual for off-balance sheet credit risk was $1.9 million. At December 31, 2011, the combined allowance for credit losses was $263 million or 2.33% of outstanding loans and 131% of nonaccruing loans. The allowance for loan losses was $253 million and the accrual for off-balance sheet credit risk was $9.3 million. The accrual for off-balance sheet credit risk at December 31, 2011 included $7.1 million refunded to the City of Tulsa during 2012 that was received in 2008 to settle claims related to a defaulted loan. The settlement agreement was invalidated by the Oklahoma Supreme Court in 2011. The expected payment was accrued in 2011 in the accrual for off-balance sheet credit risk as the related loan had been charged off. The refund was reflected in net charge-offs in 2012.

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 or credit 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 and after exhaustion of collection efforts. A $22 million negative provision for credit losses was recorded during 2012 compared to a negative provision for credit losses of $6.1 million in 2011. Improving charge-off trends and risk ratings resulted in lower estimated loss rates for many loan classes. Other credit quality indicators and most economic factors were stable or improving in our primary markets.

Table 32 – Summary of Loan Loss Experience
(In thousands)

	Year Ended December 31, 2012	2011	2010	2009	2008
Allowance for loan losses:					
Beginning balance	$253,481	$292,971	$292,095	$233,236	$126,677
Loans charged off:					
Commercial	(9,341)	(14,836)	(27,640)	(49,725)	(74,976)
Commercial real estate	(11,642)	(15,973)	(59,962)	(57,313)	(19,141)
Residential mortgage	(10,047)	(14,107)	(20,056)	(16,672)	(7,223)
Consumer	(11,108)	(11,884)	(16,330)	(24,789)	(20,871)
Total	(42,138)	(56,800)	(123,988)	(148,499)	(122,211)
Recoveries of loans previously charged off:					
Commercial	6,128 [1]	7,478	9,263	2,546	13,379
Commercial real estate	5,706	2,780	3,179	461	332
Residential mortgage	1,928	2,334	901	929	366
Consumer	5,056	5,758	6,265	6,744	6,413
Total	18,818	18,350	19,608	10,680	20,490
Net loans charged off	(23,320)	(38,450)	(104,380)	(137,819)	(101,721)
Provision for loan losses	(14,654)	(1,040)	105,256	196,678	208,280
Ending balance	$215,507	$253,481	$292,971	$292,095	$233,236
Accrual for off-balance sheet credit risk:					
Beginning balance	$9,261	$14,271	$14,388	$15,166	$20,853
Provision for off-balance sheet credit risk	(7,346)	(5,010)	(117)	(778)	(5,687)
Ending balance	$1,915	$9,261	$14,271	$14,388	$15,166
Total combined provision for credit losses	$(22,000)	$(6,050)	$105,139	$195,900	$202,593
Allowance for loan losses to loans outstanding at period-end	1.75%	2.25%	2.75%	2.59%	1.81%
Net charge-offs to average loans	0.20% [1]	0.35%	0.96%	1.14%	0.81%
Total provision for credit losses to average loans	(0.19)%	(0.06)%	0.96%	1.61%	1.62%
Recoveries to gross charge-offs	44.66% [1]	32.31%	15.81%	7.19%	16.77%
Allowance for loan losses as a multiple of net charge-offs	9.24x [1]	6.59x	2.81x	2.12x	2.29x
Accrual for off-balance sheet credit risk to off-balance sheet credit commitments	0.03%	0.14%	0.25%	0.26%	0.27%
Combined allowance for credit losses to loans outstanding at period-end	1.77%	2.33%	2.89%	2.72%	1.93%

[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 net charge-offs to average loans was 0.14%, recoveries to gross charge-offs were 61.51% and the allowance for loan losses as a multiple of net charge-offs was 13.29x for 2012.

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 agreements. This includes all nonaccruing loans, all loans modified in trouble debt restructurings and all government guaranteed loans repurchased from GNMA pools. At December 31, 2012, impaired loans totaled $294 million, including $11 million with specific allowances of $4.2 million and $283 million with no specific allowances because the loan

balances represent the amounts we expect to recover. At December 31, 2011, impaired loans totaled $386 million, including $22 million of impaired loans with specific allowances of $5.8 million and $364 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 risks 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 $167 million at December 31, 2012, compared to $201 million at December 31, 2011. Estimated loss rates continued to decline due to lower charge-offs and improved risk ratings. The general allowance for the commercial loan portfolio segment decreased by $17 million primarily due to lower estimated loss rates , partially offset by growth in the portfolio balance. The general allowance for the commercial real estate loan portfolio segment decreased $11 million compared to December 31, 2011 primarily due a $58 million decrease in commercial real estate loans and a general improvement in loss rates. The general allowance for residential mortgage loans decreased $5.2 million and the general allowance for consumer loans decreased $850 thousand, primarily due to lower estimated loss rates.

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 $44 million at December 31, 2012 and $46 million at December 31, 2011. The nonspecific allowance at both December 31, 2012 and 2011 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. As demonstrated by continued domestic and European accommodative monetary policies, these factors remain a continued significant risk.

An allocation of the allowance for loan losses by loan category follows in Table 33.

Table 33 – Allowance for Loan Losses Allocation
(Dollars in thousands)

	2012		2011		2010		2009		2008	
	Allowance	% of Loans[1]	Allowance	% of Loans[1]	Allowance	% of Loans[1]	Allowance	% of Loans[1]	Allowance	% of Loans[1]
Loan category:										
Commercial	$65,280	62.07 %	$83,443	58.17 %	$104,631	55.82 %	$121,320	54.63 %	$100,743	56.75 %
Commercial real estate	54,884	18.11 %	67,034	20.33 %	98,709	21.34 %	104,208	22.16 %	75,555	21.01 %
Residential mortgage	41,703	16.61 %	46,476	17.52 %	50,281	17.24 %	27,863	16.25 %	14,017	14.35 %
Consumer	9,453	3.21 %	10,178	3.98 %	12,614	5.60 %	20,452	6.96 %	19,819	7.89 %
Nonspecific allowance	44,187		46,350		26,736		18,252		23,102	
Total	$215,507	100.00 %	$253,481	100.00 %	$292,971	100.00 %	$292,095	100.00 %	$233,236	100.00 %

[1] Represents ratio of loan category balance to total loans.

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' continued ability to comply with current repayment terms. The potential problem loans totaled $141 million at December 31, 2012. The current composition of potential problem loans by primary industry included services - $32 million, construction and land development - $23 million, commercial real estate secured by office buildings - $15 million, other commercial real estate - $12 million, residential mortgage - $10 million, wholesale/retail - $9.9 million, manufacturing - $9.3 million and energy - $9.2 million. Potential problem loans totaled $161 million at December 31, 2011.

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 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 totaled $23.3 million or 0.20% of average outstanding loans in 2012, including the return of $7.1 million received from the City of Tulsa to settle claims related to a defaulted loan that was recorded as a recovery in 2008. The settlement agreement between BOK Financial and the City of Tulsa was invalidated by the Oklahoma Supreme Court in 2011. The return of this settlement was recorded as a negative recovery in 2012 when the funds were returned to the City of Tulsa. Net loans charged off totaled $38.5 million or 0.35% of average loans in 2011.

Net loans charged off (recovered) by category and principal market area follow in Table 34.

Table 34 – Net Loans Charged Off (Recovered)
(In thousands)

	Year Ended December 31, 2012							
	Oklahoma	Texas	Colorado	Arkansas	New Mexico	Arizona	Kansas/ Missouri	Total
Commercial	$5,754	$2,767	$(3,104)	$(2,118)	$(178)	$217	$(125)	$3,213
Commercial real estate	452	(71)	3,316	680	454	1,105	—	5,936
Residential mortgage	6,703	7	(45)	24	245	1,024	161	8,119
Consumer	2,542	2,793	(1)	(29)	615	74	58	6,052
Total net loans charged off (recovered)	$15,451	$5,496	$166	$(1,443)	$1,136	$2,420	$94	$23,320

	Year Ended December 31, 2011							
	Oklahoma	Texas	Colorado	Arkansas	New Mexico	Arizona	Kansas/ Missouri	Total
Commercial	$1,302	$2,506	$(48)	$2,135	$(128)	$1,455	$136	$7,358
Commercial real estate	6,235	(168)	2,040	49	753	4,284	—	13,193
Residential mortgage	8,952	205	176	95				