

BOK FINANCIAL CORP ET AL
Form 10-Q
November 06, 2012

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 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
(State or other jurisdiction
of Incorporation or Organization)

73-1373454
(IRS Employer
Identification No.)

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

74192
(Zip Code)

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

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

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

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 68,215,354 shares of common stock (\$.00006 par value) as of September 30, 2012.

BOK Financial Corporation
Form 10-Q
Quarter Ended September 30, 2012

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

Performance Summary

BOK Financial Corporation ("the Company") reported net income of \$87.4 million or \$1.27 per diluted share for the third quarter of 2012, compared to \$85.1 million or \$1.24 per diluted share for the third quarter of 2011 and \$97.6 million or \$1.43 per diluted share for the second quarter of 2012. Net income for the second quarter included a \$14 million pretax gain on sale of common stock received in settlement of a defaulted loan and an \$8.0 million negative provision for credit losses.

Net income for the nine months ended September 30, 2012 totaled \$268.6 million or \$3.92 per diluted share compared with net income of \$218.9 million or \$3.19 per diluted share for the nine months ended September 30, 2011.

Highlights of the third quarter of 2012 included:

Net interest revenue totaled \$176.0 million for the third quarter of 2012, compared to \$175.4 million for the third quarter of 2011 and \$181.4 million for the second quarter of 2012. Net interest margin was 3.12% for the third quarter of 2012. Net interest margin was 3.34% for the third quarter of 2011 and 3.30% for the second quarter of 2012. Net interest revenue in the second quarter of 2012 included \$2.9 million from the full recovery of a nonaccruing commercial loan. Excluding this recovery, net interest margin was 3.25%. 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.

Fees and commissions revenue totaled \$166.3 million for the third quarter of 2012, compared to \$146.0 million for the third quarter of 2011 and \$154.5 million for the second quarter of 2012. Mortgage banking revenue increased \$20.8 million over the third quarter of 2011 and \$10.7 million over the second quarter of 2012 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 \$212.8 million, up \$17.1 million over the third quarter of 2011 and up \$1.2 million over the previous quarter. Personnel costs increased \$19.5 million over the third quarter of 2011 due largely to incentive compensation and were flat compared to the second quarter of 2012. Non-personnel expenses decreased \$2.5 million compared to the third quarter of 2011 and increased \$725 thousand over the prior quarter.

No provision for credit losses was recorded in the third quarter of 2012 or the third quarter of 2011. An \$8.0 million negative provision for credit losses was recorded in the second quarter of 2012. Net loans charged off totaled \$5.7 million or 0.19% of average loans on an annualized basis for the third quarter of 2012 compared to \$4.8 million or 0.17% on an annualized basis in the second quarter of 2012 and \$10.2 million or 0.37% of average loans on an annualized basis in the third quarter of 2011.

The combined allowance for credit losses totaled \$236 million or 1.99% of outstanding loans at September 30, 2012 compared to \$241 million or 2.09% of outstanding loans at June 30, 2012. Nonperforming assets totaled \$264 million or 2.21% of outstanding loans and repossessed assets at September 30, 2012 compared to \$279 million or 2.38% of outstanding loans and repossessed assets at June 30, 2012.

Outstanding loan balances were \$11.8 billion at September 30, 2012, up \$256 million over June 30, 2012. Commercial loan balances increased \$221 million or 13% on an annualized basis. Commercial real estate loans increased \$39 million and residential mortgage loans increased \$14 million over June 30, 2012. Consumer loans decreased \$18 million.

The available for sale securities portfolio increased by \$1.1 billion during the third quarter to \$11.5 billion at September 30, 2012. The Company increased its holdings of low duration residential mortgage-backed securities guaranteed by U.S. government agencies during the third quarter.

Period-end deposits totaled \$19.1 billion at September 30, 2012 compared to \$18.4 billion at June 30, 2012. Interest-bearing transaction accounts increased \$451 million and demand deposit accounts increased \$408

million, partially offset by an \$86 million decrease in time deposits.

The tangible common equity ratio was 9.67% at September 30, 2012 and 10.07% at June 30, 2012. The tangible common equity ratio is a non-GAAP measure of capital strength used by the Company and investors based on shareholders' equity

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as defined by generally accepted accounting principles in the United States of America (“GAAP”) minus intangible assets and equity that does not benefit common shareholders.

The Company and its subsidiary bank continue to exceed the regulatory definition of well capitalized. The Company’s Tier 1 capital ratios as defined by banking regulations were 13.21% at September 30, 2012 and 13.62% at June 30, 2012.

The Company paid a cash dividend of \$26 million or \$0.38 per common share during the third quarter of 2012. On October 30, 2012 the board of directors approved a quarterly cash dividend of \$0.38 per common share payable on or about November 30, 2012 to shareholders of record as of November 16, 2012. In addition, on October 30, 2012, the board of directors approved a special cash dividend of \$1.00 per common share payable on or about November 30, 2012 to shareholders of record as of November 16, 2012.

Results of Operations

Net Interest Revenue and Net Interest Margin

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

Net interest revenue totaled \$176.0 million for the third quarter of 2012 compared to \$175.4 million for the third quarter of 2011 and \$181.4 million for the second quarter of 2012. Net interest margin was 3.12% for the third quarter of 2012, 3.30% for the second quarter of 2012 and 3.34% for the third quarter of 2011. Net interest revenue for the second quarter of 2012 included \$2.9 million from a full recovery of a nonaccruing commercial loan. Excluding this recovery, net interest margin was 3.25% for the second quarter of 2012.

Net interest revenue increased \$643 thousand over the third quarter of 2011. Net interest revenue increased \$18.3 million primarily due to the growth in average loan and securities balances. Net interest decreased \$17.4 million 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.

Net interest margin declined compared to the the third quarter of 2011 due primarily to lower yields on our available for sale securities portfolio and loan portfolio, partially offset by lower funding costs. The tax-equivalent yield on earning assets was 3.47% for the third quarter of 2012, down 44 basis points from the third quarter of 2011. The available for sale securities portfolio yield decreased 45 basis points to 2.38%. Cash flows from these securities were reinvested at current lower rates. Loan yields decreased 38 basis points due primarily to a combination of narrowing credit spreads and lower market interest rates. Funding costs were down 24 basis points from the third quarter of 2011. The cost of interest-bearing deposits decreased 15 basis points and the cost of other borrowed funds decreased 18 basis points. The average rate of interest paid on subordinated debentures decreased 281 basis points compared to the third quarter of 2011. 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. The benefit to net interest margin from earning assets funded by non-interest bearing liabilities was 17 basis points in the third quarter of 2012 compared to 19 basis points in the third quarter of 2011.

Average earning assets for the third quarter of 2012 increased \$2.3 billion or 11% over the third quarter of 2011. The average balance of available for sale securities, which consists largely of U.S. government agency issued residential mortgage-backed securities, increased \$1.4 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 \$921 million over the third quarter of 2011 due primarily to growth in average commercial loans.

Average deposits increased \$545 million over the third quarter of 2011, including a \$1.6 billion increase in average demand deposit balances, partially offset by a \$590 million decrease in average interest-bearing transaction accounts and a \$549 million decrease in average time deposits. Average borrowed funds increased \$637 million over the third quarter of 2011.

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Net interest margin decreased 18 basis points compared to the second quarter of 2012. Excluding the impact of the interest recovery in the second quarter, net interest margin decreased 13 basis points. The yield on average earning assets was down 17 basis points. The yield on the available for sale securities portfolio decreased 16 basis points primarily due to reinvestment of the cash flows from the securities portfolio at lower current rates. The loan portfolio yield decreased 15 basis points largely due to renewals of maturing fixed-rate loans at current lower rates and narrowing credit spreads in this prolonged low interest rate environment, and a reduction in fees recognized when loans prepay. The cost of interest-bearing liabilities decreased 4 basis points from the previous quarter, including a 116 basis point decrease in the average rate paid on subordinated debentures due to the change from a fixed to floating rate of interest.

Average earning assets for the third quarter of 2012 increased \$1.2 billion over the second quarter of 2012. The average balance of the available for sale securities portfolio increased \$967 million. Average outstanding loans, net of allowance for loan losses, increased \$136 million largely due to growth in average commercial loan balances. Average deposits increased by \$325 million during the third quarter of 2012, including a \$440 million increase in demand deposits, partially offset by a \$60 million decrease in interest-bearing transaction accounts and a \$63 million decrease in time deposits. The average balance of borrowed funds decreased \$34 million and the average balance of subordinated debentures decreased by \$5.2 million.

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

The effectiveness of these strategies is reflected in the overall change in net interest revenue due to changes in interest rates as shown in Table 1 and in the interest rate sensitivity projections as shown in the Market Risk section of this report. As shown in Table 1, increases in net interest revenue have been based on growth in average earning assets. Net interest margin may continue to decline as our ability to further decrease funding costs are limited. Assuming short and intermediate interest rates stay low, net interest margin could migrate below 3%. Although we have sufficient capital and liquidity, our ability to continue net interest revenue support through asset growth without accepting excessive risk in a rising interest rate environment may be constrained.

Table 1 – Volume / Rate Analysis
(In thousands)

	Three Months Ended Sept. 30, 2012 / 2011			Nine Months Ended Sept. 30, 2012 / 2011		
	Change	Change Due To ¹		Change	Change Due To ¹	
		Volume	Yield / Rate		Volume	Yield /Rate
Tax-equivalent interest revenue:						
Funds sold and resell agreements	\$ (2)	\$ 2	\$ (4)	\$ (3)	\$ 2	\$ (5)
Trading securities	66	272	(206)	(100)	878	(978)
Investment securities:						
Taxable securities	1,365	1,251	114	4,936	5,055	(119)
Tax-exempt securities	(471)	(210)	(261)	(1,775)	(1,524)	(251)
Total investment securities	894	1,041	(147)	3,161	3,531	(370)
Available for sale securities:						
Taxable securities	(6,558)	4,565	(11,123)	(24,311)	13,819	(38,130)
Tax-exempt securities	174	220	(46)	210	425	(215)
Total available for sale securities	(6,384)	4,785	(11,169)	(24,101)	14,244	(38,345)
Fair value option securities	(3,413)	(1,820)	(1,593)	(6,088)	(1,744)	(4,344)
Residential mortgage loans held for sale	694	1,022	(328)	1,402	2,196	(794)
Loans	(1,257)	9,702	(10,959)	9,548	29,765	(20,217)
Total tax-equivalent interest revenue	(9,402)	15,004	(24,406)	(16,181)	48,872	(65,053)
Interest expense:						
Transaction deposits	(2,082)	(294)	(1,788)	(8,398)	(704)	(7,694)
Savings deposits	(56)	35	(91)	(157)	101	(258)
Time deposits	(4,352)	(2,397)	(1,955)	(11,249)	(6,137)	(5,112)
Funds purchased	497	175	322	887	519	368
Repurchase agreements	(214)	(6)	(208)	(1,238)	87	(1,325)
Other borrowings	(962)	(328)	(634)	(1,793)	(2,005)	212
Subordinated debentures	(3,152)	(494)	(2,658)	(5,206)	(1,081)	(4,125)
Total interest expense	(10,321)	(3,309)	(7,012)	(27,154)	(9,220)	(17,934)
Tax-equivalent net interest revenue	919	18,313	(17,394)	10,973	58,092	(47,119)
Change in tax-equivalent adjustment	276			40		
Net interest revenue	\$ 643			\$ 10,933		

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 \$179.9 million for the third quarter of 2012 compared to \$173.6 million for the third quarter of 2011 and \$186.3 million for the second quarter of 2012. Fees and commissions revenue increased \$20.3 million over the third quarter of 2011. Net gains on securities, derivatives and other assets decreased \$24.1 million compared to the third quarter of 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 the third quarter of 2012 were \$10.2 million less than charges recognized in the third quarter of 2011.

Other operating revenue decreased \$6.3 million compared to the second quarter of 2012. Fees and commissions revenue increased \$11.9 million. Net gains on securities, derivatives and other assets decreased \$17.9 million. The second quarter of 2012 included a \$14.2 million gain from the sale of \$26 million of stock received in settlement of a defaulted loan. Other-than-temporary impairment charges recognized in earnings were \$246 thousand more than charges recognized in the second quarter of 2012.

Table 2 – Other Operating Revenue
(In thousands)

	Three Months Ended Sept. 30,				Three Months Ended June 30, 2012			
	2012	2011	Increase(Decrease)	% Increase(Decrease)	2012	Increase(Decrease)	% Increase(Decrease)	Increase(Decrease)
Brokerage and trading revenue	\$31,261	\$29,451	\$ 1,810	6 %	\$32,600	\$ (1,339)	(4)%	
Transaction card revenue	27,788	31,328	(3,540)	(11)%	26,758	1,030	4 %	
Trust fees and commissions	19,654	17,853	1,801	10 %	19,931	(277)	(1)%	
Deposit service charges and fees	25,148	24,614	534	2 %	25,216	(68)	— %	
Mortgage banking revenue	50,266	29,493	20,773	70 %	39,548	10,718	27 %	
Bank-owned life insurance	2,707	2,761	(54)	(2)%	2,838	(131)	(5)%	
Other revenue	9,476	10,535	(1,059)	(10)%	7,559	1,917	25 %	
Total fees and commissions revenue	166,300	146,035	20,265	14 %	154,450	11,850	8 %	
Gain on other assets, net	125	351	(226)	N/A	2,990	(2,865)	N/A	
Gain on derivatives, net	464	4,048	(3,584)	N/A	2,345	(1,881)	N/A	
Gain on fair value option securities, net	6,192	17,788	(11,596)	N/A	6,852	(660)	N/A	
Gain on available for sale securities	7,967	16,694	(8,727)	N/A	20,481	(12,514)	N/A	
Total other-than-temporary impairment	—	(9,467)	9,467	N/A	(135)	135	N/A	

Portion of loss recognized in (reclassified from) other comprehensive income	(1,104)	(1,833)	729	N/A	(723)	(381)	N/A
Net impairment losses recognized in earnings	(1,104)	(11,300)	10,196	N/A	(858)	(246)	N/A
Total other operating revenue	\$179,944	\$173,616	\$ 6,328	4 %	\$186,260	\$ (6,316)	(3)%

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

Fees and commissions revenue

Diversified sources of fees and commissions revenue are a significant part of our business strategy and represented 49% of total revenue for the third quarter of 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 \$1.8 million or 6% over the third quarter of 2011.

Securities trading revenue totaled \$18.9 million for the third quarter of 2012, up \$3.2 million over the third quarter of 2011. Securities trading revenue represents net realized and unrealized gains primarily related to sales of U.S. government securities, residential mortgage-backed securities guaranteed by U.S. government agencies and municipal securities to institutional customers. We believe these activities will be permitted under the Volcker Rule of the Dodd-Frank Act.

Customer hedging revenue is based primarily on realized and unrealized changes in the fair value of derivative contracts held for customer risk management programs. As more fully discussed under Customer Derivative Programs in Note 3 of the Consolidated Financial Statements, we offer commodity, interest rate, foreign exchange and equity derivatives to our customers. Customer hedging revenue totaled \$2.0 million for the third quarter of 2012 compared to \$3.3 million for the third quarter of 2011.

Revenue earned from retail brokerage transactions decreased \$697 thousand or 9% compared to the third quarter of 2011 to \$6.7 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 \$3.6 million for the third quarter of 2012, a \$641 thousand or 21% increase over the third quarter of 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.

Brokerage and trading revenue decreased \$1.3 million compared to the second quarter of 2012. Securities trading revenue increased \$2.9 million over the second quarter of 2012. Excluding the impact of a \$2.9 million recovery from the Lehman Brothers bankruptcy in the second quarter of 2012 related to derivative contract losses incurred in 2008, customer hedging revenue increased \$673 thousand. Revenue from energy derivative contracts were up \$2.2 million as a result of growth in contract volumes, partially offset by a \$1.5 million decrease in revenue related to interest rate derivative contracts. Net gains from securities and derivative contracts sold to our mortgage banking customers were up \$703 thousand over the second quarter of 2012. Retail brokerage fees were down \$1.4 million and investment banking fees were down \$577 thousand.

We continue to monitor the on-going development of rules to implement the 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 are all 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. Final regulations will likely impose additional operating and compliance costs as presently proposed.

Title VII of the Dodd-Frank Act subjects nearly all derivative transactions to Commodity Futures Trading Commission (“CFTC”) or Securities and Exchange Commission (“SEC”) regulations. Title VII, among other things, imposes registration, recordkeeping, reporting, capital and margin, as well as business conduction requirements on major swap dealers and major swap participants. The CFTC and SEC delayed the effective dates of a large portion of the proposed regulations under Title VII until December 31, 2012. On April 18, 2012, the CFTC and SEC both approved interim final rules on the definition of swaps dealers. Under these rules, entities transacting, as a dealer, less than \$8 billion in notional value of swaps over any 12 month period during the first three years after the rules are effective will be exempt from the definition of swaps dealer; after that three year period, the \$8 billion amount may become \$3 billion, subject to the results of studies the commissions intend to undertake once the derivatives rules are effective. For purposes of the foregoing test, certain derivatives transactions entered into by a customer in connection with a loan from the Company are not considered dealing activity. The “swap dealer” definitional rules are scheduled to go into effect in October 2012. The Company currently estimates that its volume of swap activities (excluding transactions entered into in connection with a loan from the Company to its customers) are unlikely to require it to register as a “swap dealer”, at least at any time prior to October 2015 (the minimum period for which the \$8 billion notional value threshold will be in effect). 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.

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Transaction card revenue depends largely on the volume and amount of transactions processed, the number of TransFund automated teller machine ("ATM") locations and the number of merchants served. Transaction card revenue for the third quarter of 2012 decreased \$3.5 million or 11% compared to the third quarter of 2011. Revenues from the processing of transactions on behalf of the members of our TransFund electronic funds transfer ("EFT") network totaled \$14.5 million, up \$1.6 million or 12% over the third quarter of 2011, due primarily to increased transaction volumes. 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 \$8.9 million, down \$255 thousand or 3% compared to the prior year. Revenue from interchange fees paid by merchants for transactions processed from debit cards issued by the Company totaled \$4.4 million for the third quarter of 2012 compared to \$9.3 million for the third quarter of 2011.

Transaction card revenue increased \$1.0 million over the second quarter of 2012 due primarily to increased revenue from processing transactions on behalf of members of our TransFund EFT network. Merchant services fees for account management and electronic processing of card transactions and revenue from interchange fees paid by merchant banks for transactions processed from debit cards issued by the Company were largely unchanged compared to the previous quarter.

Trust fees and commissions increased \$1.8 million or 10% over the third quarter of 2011 primarily due to the growth in the fair value of assets administered by the Company. The fair value of trust assets administered by the Company totaled \$37.7 billion at September 30, 2012, \$32.0 billion at September 30, 2011 and \$35.7 billion at June 30, 2012. Trust fees and commissions decreased \$277 thousand compared to the second quarter of 2012. We continue to voluntarily waive administration fees on the Cavanal Hill money market funds in order to maintain positive yields on these funds in the current low short-term interest rate environment. Waived fees totaled \$1.9 million for the third quarter of 2012 compared to \$2.1 million for the third quarter of 2011 and \$2.2 million for the second quarter of 2012.

Deposit service charges and fees increased \$534 thousand or 2% over the third quarter of 2011. Overdraft fees totaled \$14.3 million for the third quarter of 2012, down \$950 thousand or 6% compared to the third quarter of 2011. Commercial account service charge revenue totaled \$8.7 million, up \$780 thousand or 10% 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 \$2.1 million, up \$701 thousand or 49% over the third quarter of 2011. Deposit service charges and fees were largely unchanged compared to the prior quarter.

Mortgage banking revenue increased \$20.8 million over the third quarter of 2011. Continued low interest rates have resulted in a record level of mortgage originations. The current high demand for mortgage origination industry-wide has resulted in improved pricing on sales of mortgage loans in the secondary market. Revenue from originating and marketing mortgage loans totaled \$40.4 million, up \$20.7 million or 105% over the third quarter of 2011. Mortgage loans funded for sale totaled \$1.0 billion in the third quarter of 2012 and \$637 million in the third quarter of 2011. In addition to growth in loans funded, outstanding commitments to originate mortgage loans were up \$139 million or 44% over September 30, 2011. Mortgage servicing revenue increased \$118 thousand or 1% over the third quarter of 2011. The outstanding principal balance of mortgage loans serviced for others totaled \$11.8 billion, up \$507 million over September 30, 2011.

Mortgage banking revenue increased \$10.7 million over the second quarter of 2012 primarily due to an increase in revenue from originating and marketing residential mortgage loans. Residential mortgage loans funded for sale increased \$205 million over the previous quarter. Outstanding commitments to originate mortgage loans were up \$60

million or 15% over June 30, 2012. Mortgage servicing revenue was largely unchanged compared to the prior quarter. The outstanding balance of mortgage loans serviced for others was up \$192 million over June 30, 2012.

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government intervention. Changes in assumptions and the spread between the primary and secondary rates can cause significant quarterly earnings volatility.

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

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

	Three Months Ended			
	September 30, 2012	June 30, 2012	September 30, 2011	
Gain (loss) on mortgage hedge derivative contracts, net	\$645	\$2,623	\$4,048	
Gain (loss) on fair value option securities, net	5,455	6,908	17,788	
Gain (loss) on economic hedge of mortgage servicing rights	6,100	9,531	21,836	
Gain (loss) on change in fair value of mortgage servicing rights	(9,576)	(11,450)	(24,822)	
Gain (loss) on changes in fair value of mortgage servicing rights, net of economic hedges	\$(3,476)	\$(1,919)	\$(2,986)	
Net interest revenue on fair value option securities	\$1,750	\$2,148	\$5,036	
Average primary residential mortgage interest rate	3.55	% 3.79	% 4.29	%
Average secondary residential mortgage interest rate	2.28	% 2.74	% 3.44	%

Primary rates disclosed in Table 4 above represent rates generally available to borrowers on 30 year conforming mortgage loans and affect the value of our mortgage servicing rights. Secondary rates represents rates generally paid on 30 year residential mortgage-backed securities guaranteed by U.S. government agencies and affect the value of securities and derivative contracts used as an economic hedge of our mortgage servicing rights. The difference between average primary and secondary rates for the third quarter of 2012 was 127 basis points compared to 105 basis points for the second quarter of 2012 and 85 basis points for the third quarter of 2011.

As more fully discussed in Note 2 to the Consolidated Financial Statements, we recognized other-than-temporary impairment losses on certain private-label residential mortgage-backed securities of \$1.1 million in earnings during the third quarter of 2012. These losses primarily related to additional declines in projected cash flows of private-label mortgage-backed securities as a result of increased home price depreciation on privately issued residential mortgage-backed securities that we do not intend to sell. We recognized other-than-temporary impairment losses in earnings of \$11.3 million in the third quarter of 2011 and \$858 thousand in the second quarter of 2012.

Other Operating Expense

Other operating expense for the third quarter of 2012 totaled \$222.3 million, up \$1.8 million or 1% over the third quarter of 2011. Changes in the fair value of mortgage servicing rights increased operating expense \$9.6 million in the third quarter of 2012 and \$24.8 million in the third quarter of 2011. Excluding changes in the fair value of mortgage servicing rights, operating expenses were up \$17.1 million or 9% over the third quarter of 2011. Personnel expenses increased \$19.5 million or 19%. Non-personnel expenses decreased \$2.5 million or 3%.

Excluding changes in the fair value of mortgage servicing rights, operating expenses were up \$1.2 million over the previous quarter. Personnel expenses increased \$478 thousand and non-personnel expenses increased \$725 thousand.

Table 5 – Other Operating Expense
(In thousands)

	Three Months Ended		Increase	% Increase		Three Months Ended		Increase	% Increase
	Sept. 30,					June 30,			
	2012	2011	(Decrease)	(Decrease)		2012	(Decrease)	(Decrease)	
Regular compensation	\$66,708	\$62,002	\$4,706	8	%	\$65,218	\$1,490	2	%
Incentive compensation:									
Cash-based	30,756	26,257	4,499	17	%	27,950	2,806	10	%
Stock-based	7,214	(595)	7,809	(1,312)	)%	11,349	(4,135)	(36))%
Total incentive compensation	37,970	25,662	12,308	48	%	39,299	(1,329)	(3))%
Employee benefits	18,097	15,596	2,501	16	%	17,780	317	2	%
Total personnel expense	122,775	103,260	19,515	19	%	122,297	478	—	%
Business promotion	6,054	5,280	774	15	%	6,746	(692)	(10))%
Charitable contribution to BOKF Foundation	—	4,000	(4,000)	(100))%	—	—	—	%
Professional fees and services	7,991	7,418	573	8	%	8,343	(352)	(4))%
Net occupancy and equipment	16,914	16,627	287	2	%	16,906	8	—	%
Insurance	3,690	2,206	1,484	67	%	4,011	(321)	(8))%
Data processing & communications	26,486	24,446	2,040	8	%	25,264	1,222	5	%
Printing, postage and supplies	3,611	3,780	(169)	(4)	)%	3,903	(292)	(7))%
Net losses & operating expenses of repossessed assets	5,706	5,939	(233)	(4)	)%	5,912	(206)	(3))%
Amortization of intangible assets	742	896	(154)	(17)	)%	545	197	36	%
Mortgage banking costs	11,566	9,349	2,217	24	%	11,173	393	4	%
Change in fair value of mortgage servicing rights	9,576	24,822	(15,246)	(61)	)%	11,450	(1,874)	(16))%
Other expense	7,229	12,512	(5,283)	(42)	)%	6,461	768	12	%
Total other operating expense	\$222,340	\$220,535	\$1,805	1	%	\$223,011	\$(671)	—	%
Number of employees (full-time equivalent)	4,627	4,454	173	4	%	4,585	42	1	%

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

Personnel expense

Regular compensation, which consists of salaries and wages, overtime pay and temporary personnel costs increased \$4.7 million or 8% over the third quarter of 2011 primarily due to increases in headcount 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 \$12.3 million or 48% over the third quarter of 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 \$4.5 million or 17% over the third quarter of 2011. Cash-based incentive compensation related to brokerage and trading revenue was up \$975 thousand over the third quarter of 2011 and all other cash-based incentive compensation was up \$3.5 million over 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 \$694 thousand compared to the third quarter of 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. Compensation expense related to liability awards increased \$8.5 million over the third quarter of 2011. Expense

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based on changes in the fair value of BOK Financial common stock and other investments increased \$4.0 million over the prior year. In addition, \$4.5 million was accrued in third quarter of 2012 related to the BOK Financial Corp. 2011 True-Up Plan. Approved by shareholders on April 26, 2011, the True-Up Plan is designed to adjust annual and long-term performance-based incentive compensation for certain senior executives either upward or downward based on the earnings per share performance and compensation of comparable senior executives at peer banks.

Employee benefit expense was up \$2.5 million or 16% over the third quarter of 2011 primarily due to increased employee medical insurance costs. The Company self-insures a portion of its employee health care coverage and these costs may be volatile.

Personnel expenses were unchanged compared to the second quarter of 2012. Regular compensation expense increased \$1.5 million over the second quarter of 2012 due primarily to headcount increases. Incentive compensation decreased \$1.3 million compared to the second quarter of 2012. Stock-based compensation decreased \$4.1 million due to the timing of accruals and cash-based incentive compensation increased \$2.8 million. Employee benefit expenses increased \$317 thousand over the second quarter of 2012 due to higher employee medical costs partially offset by a seasonal decrease in payroll tax expense.

Non-personnel operating expenses

Non-personnel operating expenses, excluding changes in the fair value of mortgage servicing rights, decreased \$2.5 million compared to the third quarter of 2011. During the third quarter of 2011, the company accrued \$5.0 million for exposure to overdraft litigation which was ultimately settled in the second quarter of 2012 and made a \$4.0 million discretionary contribution to the BOKF Charitable Foundation. The BOKF Charitable Foundation partners with charitable organizations supporting needs within our communities. Mortgage banking costs increased \$2.2 million due primarily to an increase in the provision for potential losses on loans sold to government sponsored entities under standard representation and warranties. While the number of actual repurchases has remained low, the loss severity has continued to trend higher. The accrual for potential losses totaled \$4.8 million at September 30, 2012. Data processing and communication expense increased \$2.0 million primarily due to the impairment of two discontinued software projects during the third quarter. Insurance expense increased \$1.5 million due to the increase in asset balances. Net losses and operating expenses of repossessed assets were down \$233 thousand compared to the third quarter of 2011. Losses on sales of write-downs primarily due to the timing of regularly scheduled appraisal updates were offset by decreased operating expenses of repossessed assets.

Excluding changes in the fair value of mortgage servicing rights, non-personnel operating expenses increased \$725 thousand over the second quarter of 2012. Data processing and communication expense increased \$1.2 million primarily due to the impairment of two discontinued software projects during the third quarter. Net losses and operating expenses on repossessed properties were down \$206 thousand compared to the second quarter of 2012. Increased losses due to write-downs of repossessed assets due to the timing of regularly scheduled appraisal updates were offset by decreased losses on sales of repossessed assets and decreased operating expenses of repossessed assets.

Income Taxes

Income tax expense was \$45.8 million or 34% of book taxable income for the third quarter of 2012 compared to \$43.0 million or 33% of book taxable income for the third quarter of 2011 and \$53.1 million or 35% of book taxable income for the second quarter of 2012. The statute of limitations expired on uncertain income tax positions and the Company adjusted its current income tax liability to amounts on filed tax returns for 2011 during the third quarter of 2012. These adjustments reduced income tax expense by \$1.0 million in the third quarter of 2012 and \$1.8 million in the third quarter of 2011. Excluding these adjustments, income tax expense would have been 35% of book taxable income for the third quarters of 2012 and 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. The reserve for uncertain tax positions was \$12 million at September 30, 2012, \$13 million at June 30, 2012 and \$12 million at September 30, 2011.

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Lines of Business

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

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

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

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

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

As shown in Table 6, net income attributable to our lines of business increased \$7.9 million over the third quarter of 2011. The increase in net income attributed to our lines of business was due primarily to growth in mortgage banking revenue and decreased net loans charged off, partially offset by increased personnel expense.

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

Three Months Ended		Nine Months Ended	
September 30,		September 30,	
2012	2011	2012	2011

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Commercial Banking	\$33,505	\$33,136	\$110,149	\$93,314
Consumer Banking	21,226	14,707	55,421	28,322
Wealth Management	5,132	4,080	15,427	12,273
Subtotal	59,863	51,923	180,997	133,909
Funds Management and other	27,519	33,178	87,629	84,973
Total	\$87,382	\$85,101	\$268,626	\$218,882

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Commercial Banking

Commercial Banking contributed \$33.5 million to consolidated net income in the third quarter of 2012, up \$369 thousand or 1% over the third quarter of 2011.

Table 7 – Commercial Banking

(Dollars in thousands)

	Three Months Ended			Nine Months Ended			
	September 30, 2012	2011	Increase (Decrease)	September 30, 2012	2011	Increase (Decrease)	
Net interest revenue from external sources	\$91,378	\$85,560	\$5,818	\$274,411	\$254,143	\$20,268	
Net interest expense from internal sources	(10,747)	(6,702)	(4,045)	(33,667)	(23,420)	(10,247)	
Total net interest revenue	80,631	78,858	1,773	240,744	230,723	10,021	
Net loans charged off	3,253	5,041	(1,788)	10,393	16,646	(6,253)	
Net interest revenue after net loans charged off	77,378	73,817	3,561	230,351	214,077	16,274	
Fees and commissions revenue	40,091	37,924	2,167	116,635	109,345	7,290	
Gain on financial instruments and other assets, net	—	—	—	14,407	9	14,398	
Other operating revenue	40,091	37,924	2,167	131,042	109,354	21,688	
Personnel expense	25,655	23,701	1,954	76,003	70,796	5,207	
Net losses and expenses of repossessed assets	4,908	3,081	1,827	10,577	12,271	(1,694)	
Other non-personnel expense	19,571	19,633	(62)	56,131	55,738	393	
Corporate allocations	12,499	11,094	1,405	38,406	31,903	6,503	
Total other operating expense	62,633	57,509	5,124	181,117	170,708	10,409	
Income before taxes	54,836	54,232	604	180,276	152,723	27,553	
Federal and state income tax	21,331	21,096	235	70,127	59,409	10,718	
Net income	\$33,505	\$33,136	\$369	\$110,149	\$93,314	\$16,835	
Average assets	\$10,134,288	\$9,526,993	\$607,295	\$10,050,873	\$9,222,883	\$827,990	
Average loans	9,117,046	8,338,344	778,702	9,001,100	8,195,347	805,753	
Average deposits	8,446,680	7,834,992	611,688	8,338,034	7,640,843	697,191	
Average invested capital	865,157	886,538	(21,381)	866,346	874,259	(7,913)	
Return on average assets	1.32	% 1.38	% (6)	bp 1.46	% 1.35	% 11	bp
	15.41	% 14.83	% 58	bp 16.98	% 14.27	% 271	bp

Return on invested capital

Efficiency ratio	51.88	% 49.24	% 264	bp 50.68	% 50.20	% 48	bp
Net charge-offs (annualized) to average loans	0.14	% 0.24	% (10	)bp 0.15	% 0.27	% (12	)bp

Net interest revenue increased \$1.8 million or 2% over the third quarter of 2011. Growth in net interest revenue was due to a \$779 million increase in average loan balances and a \$612 million increase in average deposits over the third quarter of 2011 balances was partially offset by low yields on deposits sold to our Funds Management unit.

Fees and commissions revenue increased \$2.2 million or 6% over the third quarter of 2011. Transaction card revenue increased \$1.0 million due to increased customer transactions and commercial deposit service charges and fees increased \$828 thousand. The average earnings credit, a non-cash method for commercial customers to avoid incurring charges for deposit services based

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on account balances, decreased 23 basis points compared to the prior year to better align with market interest rates.

Operating expenses increased \$5.1 million or 9% over the third quarter of 2011. Personnel costs increased \$2.0 million or 8% primarily due to increased headcount, standard annual merit increases and increased incentive compensation. Net losses and operating expenses on repossessed assets increased \$1.8 million over the third quarter of 2011, primarily due to the write-down of a single commercial real estate project in the Arizona market as the result of a regularly scheduled appraisal update. Other non-personnel expenses were flat compared to the third quarter of 2011. Corporate expense allocations increased \$1.4 million primarily due to increased customer loan and deposit activity.

The average outstanding balance of loans attributed to Commercial Banking increased \$779 million to \$9.1 billion for the third quarter of 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 decreased \$1.8 million compared to the third quarter of 2011 to \$3.3 million or 0.14% of average loans attributed to this line of business on an annualized basis. Net charge-offs for the third quarter included the return of a \$7.1 million loan settlement received in 2008 as discussed in greater detail 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 \$8.4 billion for the third quarter of 2012, up \$612 million or 8% over the third quarter of 2011. Average balances attributed to our commercial & industrial loan customers increased \$584 million or 21% and average balances attributed to our energy customers increased \$310 million or 33%. Average balances held by treasury services customers were down \$339 million compared to the third quarter of 2011. 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 contributed \$21.2 million to consolidated net income for the third quarter of 2012, up \$6.5 million primarily due to growth in mortgage banking revenue. Revenue from mortgage loan production was up \$20.6 million over the third quarter of 2011. Changes in fair value of our mortgage servicing rights, net of economic hedge, decreased net income attributed to consumer banking by \$2.1 million in the third quarter of 2012 and \$1.8 million in the third quarter of 2011.

Table 8 – Consumer Banking

(Dollars in thousands)

	Three Months Ended		Increase (Decrease)	Nine Months Ended		Increase (Decrease)
	September 30, 2012	2011		September 30, 2012	2011	
Net interest revenue from external sources	\$22,195	\$24,553	\$(2,358)	\$69,154	\$64,574	\$4,580
Net interest revenue from internal sources	6,457	8,108	(1,651)	18,462	25,188	(6,726)
Total net interest revenue	28,652	32,661	(4,009)	87,616	89,762	(2,146)
Net loans charged off	485	3,837	(3,352)	6,137	9,568	(3,431)
Net interest revenue after net loans charged off	28,167	28,824	(657)	81,479	80,194	1,285
Fees and commissions revenue	75,942	58,601	17,341	196,163	148,318	47,845
Gain on financial instruments and other assets, net	4,698	21,165	(16,467)	9,237	25,923	(16,686)
Other operating revenue	80,640	79,766	874	205,400	174,241	31,159
Personnel expense	23,270	22,166	1,104	67,481	64,101	3,380
Net losses and expenses of repossessed assets	379	519	(140)	775	2,177	(1,402)
Change in fair value of mortgage servicing rights	9,576	24,822	(15,246)	13,899	35,186	(21,287)
Other non-personnel expense	29,604	24,324	5,280	81,378	68,291	13,087
Corporate allocations	11,238	12,689	(1,451)	32,641	38,327	(5,686)
Total other operating expense	74,067	84,520	(10,453)	196,174	208,082	(11,908)

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Income before taxes	34,740	24,070	10,670	90,705	46,353	44,352		
Federal and state income tax	13,514	9,363	4,151	35,284	18,031	17,253		
Net income	\$21,226	\$14,707	\$6,519	\$55,421	\$28,322	\$27,099		
Average assets	\$5,705,781	\$5,914,337	\$(208,556)	\$5,739,833	\$5,965,955	\$(226,122))	
Average loans	2,129,179	2,086,135	43,044	2,129,965	2,040,375	89,590		
Average deposits	5,586,485	5,706,676	(120,191)	5,592,910	5,761,204	(168,294))	
Average invested capital	292,281	273,143	19,138	289,337	272,167	17,170		
Return on average assets	1.48	%	0.99	% 49	bp 1.29	% 0.63	% 66	bp
Return on invested capital	28.89	%	21.36	% 753	bp 25.61	% 13.91	% 1,170	bp
Efficiency ratio	61.66	%	65.41	% (375))bp 64.23	% 72.62	% (839))bp
Net charge-offs (annualized) to average loans	0.09	%	0.73	% (64))bp 0.38	% 0.63	% (25))bp
Residential mortgage loans funded for sale	\$1,046,608	483,808,000	\$637,127	\$409,481	\$2,634,808	\$1,540,619	\$1,094,189	

	September 30, 2012	September 30, 2011	Increase (Decrease)
Banking locations	214	209	5
Residential mortgage loans servicing portfolio ¹	\$12,853,987	\$12,281,346	\$572,641

¹ Includes outstanding principal for loans serviced for affiliates

Net interest revenue from consumer banking activities decreased \$4.0 million compared to the third quarter of 2011. Net interest earned on residential mortgage-backed securities held as an economic hedge of mortgage servicing rights declined by \$3.8 million due to a \$323 million reduction in the average balance of this portfolio. The yield on loans was lower compared to the third quarter of 2011, partially offset by an increase in average loan balances of \$43 million or 2% over the third quarter of 2011. 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 \$1.4 million primarily due to lower yields on funds invested.

Net loans charged off by the Consumer Banking unit decreased \$3.4 million compared to the third quarter of 2011. Net consumer banking charge-offs also includes indirect automobile loans, overdrawn deposit accounts and other direct consumer loans.

Fees and commissions revenue increased \$17.3 million or 30% over the third quarter of 2011. Mortgage banking revenue was up \$21.2 million or 72% over the prior year primarily due to increased residential mortgage loan originations and commitments and improved pricing of loans sold. Transaction card revenues were down \$4.6 million or 45% 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 \$4.8 million over the third quarter of 2011. Personnel expenses were up \$1.1 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 \$5.3 million or 22%. Mortgage banking expenses were up \$2.2 million due to increased costs of servicing residential mortgage loans sold to U.S. government agencies and decreases in our mortgage servicing rights due to refinancing activity as a result of the low interest rate environment. Corporate expense allocations were down \$1.5 million compared to the third quarter of 2011. Net losses and operating expenses of repossessed assets were down \$140 thousand compared to the prior year.

Average consumer deposits decreased \$120 million or 2% compared to the third quarter of 2011. Average interest-bearing transaction accounts increased \$117 million or 4% and average demand deposits increased \$70 million or 11%. Average time deposit balances were down \$354 million or 16% compared to the prior year.

Our Consumer Banking division originates, markets and services conventional and government-sponsored residential mortgage loans for all of our geographical markets. We funded \$1.1 billion of residential mortgage loans in the third quarter of 2012 and \$533 million in the third quarter of 2011. Mortgage loan fundings included \$1.0 billion of mortgage loans funded for sale in the secondary market and \$64 million funded for retention within the consolidated group. Approximately 33% of our mortgage loans funded were in the Oklahoma market, 14% in the New Mexico market, 13% in the Texas market and 13% in the Colorado market. In addition, 8% 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 September 30, 2012, the Consumer Banking division serviced \$11.8 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 \$135 million or 1.15% of loans serviced for others at September 30, 2012 compared to \$109 million or 0.94% of loans serviced for others at June 30, 2012. Mortgage servicing revenue, including revenue on loans serviced for the consolidated group, increased \$568 thousand or 6% over the third quarter of 2011 to \$10.4 million.

Wealth Management

Wealth Management contributed \$5.1 million to consolidated net income in third quarter of 2012, up \$1.1 million or 26% over the third quarter of 2011.

Table 9 – Wealth Management
(Dollars in thousands)

	Three Months Ended			Nine Months Ended		
	September 30, 2012	2011	Increase (Decrease)	September 30, 2012	2011	Increase (Decrease)
Net interest revenue from external sources	\$7,064	\$7,113	\$(49)	\$21,340	\$23,263	\$(1,923)
Net interest revenue from internal sources	5,554	4,682	872	15,834	11,348	4,486
Total net interest revenue	12,618	11,795	823	37,174	34,611	2,563
Net loans charged off	509	1,247	(738)	1,680	2,308	(628)
Net interest revenue after net loans charged off	12,109	10,548	1,561	35,494	32,303	3,191
Fees and commissions revenue	49,979	46,002	3,977	147,653	128,193	19,460
Gain on financial instruments and other assets, net	178	110	68	452	675	(223)
Other operating revenue	50,157	46,112	4,045	148,105	128,868	19,237
Personnel expense	37,053	34,020	3,033	108,986	94,295	14,691
Net losses (gains) and expenses of repossessed assets	—	—	19	39	(4)	43
Other non-personnel expense	7,833	7,107	726	22,159	21,194	965
Corporate allocations	8,962	8,855	107	27,167	25,599	1,568
Other operating expense	53,867	49,982	3,885	158,351	141,084	17,267
Income before taxes	8,399	6,678	1,721	25,248	20,087	5,161
Federal and state income tax	3,267	2,598	669	9,821	7,814	2,007
Net income	\$5,132	\$4,080	\$1,052	\$15,427	\$12,273	\$3,154
Average assets	\$4,301,283	\$4,254,954	\$46,329	\$4,230,874	\$3,995,054	\$235,820
Average loans	926,197	1,008,318	(82,121)	927,016	1,026,176	(99,160)
Average deposits	4,193,744	4,153,548	40,196	4,129,188	3,894,598	234,590
	188,638	175,478	13,160	180,234	175,478	4,756

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Average invested capital							
Return on average assets	0.47	% 0.38	% 9	bp 0.49	% 0.41	% 8	bp
Return on invested capital	10.82	% 9.22	% 160	bp 11.43	% 9.35	% 208	bp
Efficiency ratio	86.05	% 86.48	% (43)bp 85.68	% 86.66	% (98)bp
Net charge-offs (annualized) to average loans	0.22	% 0.49	% (27)bp 0.24	% 0.30	% (6)bp

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	September 30, 2012	September 30, 2011	Increase (Decrease)
Trust assets in custody for which BOKF has sole or joint discretionary authority	\$ 10,946,350	\$ 9,167,946	\$ 1,778,404
Trust assets not in custody for which BOKF has sole or joint discretionary authority	1,588,625	216,458	1,372,167
Non-managed trust assets in custody	12,673,301	11,757,170	916,131
Trusts assets held in safekeeping	12,513,504	10,825,520	1,687,984
Trust assets	37,721,780	31,967,094	5,754,686
Other assets held in safekeeping	8,376,674	7,055,305	1,321,369
Brokerage accounts under BOKF administration	4,329,872	3,284,154	1,045,718
Assets under management or in custody	\$ 50,428,326	\$ 42,306,553	\$ 8,121,773

Net interest revenue for the third quarter of 2012 was up \$823 thousand or 7% over the third quarter of 2011. Growth in average assets was largely due to funds sold to the Funds Management unit. Average deposit balances were up \$40 million or 1% over the prior year. Average time deposit balances decreased \$98 million and average interest-bearing transaction account balances decreased \$92 million. These higher costing deposits were replaced by growth of \$228 million in non-interest bearing demand deposits resulting in an increase in the yield on deposits sold to the Funds Management unit. Average loan balances were down \$82 million. The decrease is primarily due to 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. Net loans charged off decreased \$738 thousand from the third quarter of 2011 to \$509 thousand or 0.22% of average loans on an annualized basis.

Fees and commissions revenue was up \$4.0 million or 9% over the third quarter of 2011, primarily due to a \$2.3 million or 9% increase in brokerage and trading revenues and a \$1.8 million or 10% increase in trust fees primarily due to timing of fees.

Other operating revenue includes fees earned from state and municipal bond underwriting and financial advisory services, primarily in the Oklahoma and Texas markets. In the third quarter of 2012, the Wealth Management division participated in 132 underwritings that totaled \$1.8 billion. As a participant, the Wealth Management division was responsible for facilitating the sale of approximately \$542 million of these underwritings. In the third quarter of 2011, the Wealth Management division participated in 97 underwritings that totaled approximately \$1.1 billion. Our interest in these underwritings totaled approximately \$448 million.

Operating expenses increased \$3.9 million or 8% over the third quarter of 2011. Personnel expenses increased \$3.0 million. Regular compensation costs increased \$1.7 million primarily due to increased headcount and annual merit increases. Incentive compensation increased \$898 thousand over the prior year. Non-personnel expenses increased \$726 thousand or 10% 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.

Table 10 – Net Income by Geographic Region
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Bank of Oklahoma	\$26,941	\$32,435	\$96,968	\$85,299
Bank of Texas	12,842	10,630	37,768	30,961
Bank of Albuquerque	6,697	3,519	15,182	9,285
Bank of Arkansas	2,014	2,643	9,636	3,494
Colorado State Bank & Trust	6,441	2,549	13,480	6,417
Bank of Arizona	(40	) (2,109	) (2,735	) (6,078
Bank of Kansas City	2,723	1,467	7,216	3,394
Subtotal	57,618	51,134	177,515	132,772
Funds Management and other	29,763	33,967	91,111	86,110
Total	\$87,381	\$85,101	\$268,626	\$218,882

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 31% of our consolidated net income in the third quarter of 2012. In addition, all of our mortgage servicing activity, TransFund EFT network and 66% of our trust assets are attributed to the Oklahoma market.

Table 11 – Bank of Oklahoma
(Dollars in thousands)

	Three Months Ended			Nine Months Ended		
	September 30, 2012	2011	Increase (Decrease)	September 30, 2012	2011	Increase (Decrease)
Net interest revenue	\$58,395	\$62,658	\$(4,263)	\$174,569	\$176,961	\$(2,392)
Net loans charged off	6,486	6,446	40	11,566	14,691	(3,125)
Net interest revenue after net loans charged off	51,909	56,212	(4,303)	163,003	162,270	733
Fees and commissions revenue	85,818	85,701	117	246,500	234,087	12,413
Gain on financial instruments and other assets, net	4,876	21,274	(16,398)	26,297	27,178	(881)
Other operating revenue	90,694	106,975	(16,281)	272,797	261,265	11,532
Personnel expense	37,465	37,765	(300)	112,704	108,964	3,740
Net losses and expenses of repossessed assets	257	48	209	2,251	2,966	(715)
Change in fair value of mortgage servicing rights	9,577	24,821	(15,244)	13,899	35,186	(21,287)
Other non-personnel expense	43,455	37,723	5,732	122,758	107,055	15,703
Corporate allocations	7,755	9,745	(1,990)	25,484	29,759	(4,275)
Total other operating expense	98,509	110,102	(11,593)	277,096	283,930	(6,834)
Income before taxes	44,094	53,085	(8,991)	158,704	139,605	19,099
Federal and state income tax	17,153	20,650	(3,497)	61,736	54,306	7,430
Net income	\$26,941	\$32,435	\$(5,494)	\$96,968	\$85,299	\$11,669
Average assets	\$11,349,724	\$11,236,934	\$112,790	\$11,426,032	\$10,793,211	\$632,821

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Average loans	5,472,371	5,261,183	211,188	5,465,454	5,202,248	263,206	
Average deposits	10,241,369	10,078,755	162,614	10,256,872	9,710,938	545,934	
Average invested capital	548,058	543,632	4,426	545,831	537,512	8,319	
Return on average assets	0.94	% 1.15	% (21	)bp 1.13	% 1.06	% 7	bp
Return on invested capital	19.56	% 23.67	% (411	)bp 23.73	% 21.22	% 251	bp
Efficiency ratio	61.67	% 57.48	% 419	bp 62.51	% 60.51	% 200	bp
Net charge-offs (annualized) to average loans	0.47	% 0.49	% (2	)bp 0.28	% 0.38	% (10	)bp
Residential mortgage loans funded for sale	\$459,368	\$310,004	\$149,364	\$1,189,223	\$751,089	\$438,134	

Net income generated by the Bank of Oklahoma in the third quarter of 2012 decreased \$5.5 million or 17% compared to the third quarter of 2011. Net interest revenue decreased and operating expenses, excluding changes in the fair value of mortgage servicing rights were up.

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Net interest revenue decreased \$4.3 million or 7% compared to the third quarter of 2011. Lower funding costs were offset by decreased yield on residential mortgage-backed securities held as an economic hedge of mortgage servicing rights. The average balance of these securities decreased \$286 million compared to the third quarter of 2011. Average loan balances were up \$211 million and loan yields were down. The favorable net interest impact of the \$163 million increase in average deposit balances was offset by lower yield on funds sold to the Funds Management unit.

Fees and commission revenue was largely unchanged compared to the third quarter of 2011. Mortgage banking revenue was up \$1.5 million over the third quarter of 2011 primarily due to increased mortgage loan origination and commitment volumes and increased gains on sales of residential mortgage loans in the secondary market. Brokerage and trading revenue was up \$508 thousand primarily due to increased customer hedging revenue and securities trading revenue. Retail brokerage fees were also up, mostly offset by decreased investment banking revenue. Deposit service charges and fees increased \$352 thousand over the third quarter of 2011. Deposits accounts with a standard monthly fee and commercial account service charges were up over the prior year, partially offset by decreased overdraft charges. Transaction card revenue was down \$2.0 million primarily due to changes in interchange fee regulations which were effective October 1, 2011.

Change in the fair value of the mortgage servicing rights, net of economic hedge, decreased net income by \$2.1 million for the third quarter of 2012 and decreased net income by \$1.8 million in the third quarter of 2011.

Excluding the change in the fair value of mortgage servicing rights, other operating expenses increased \$3.7 million or 4% over the prior year. Personnel expenses were down \$300 thousand or 1% compared to the prior year primarily due to decreased incentive compensation, partially offset by increased regular compensation expense due to annual merit increases. Non-personnel expenses were up \$5.7 million or 15% due primarily to increased mortgage banking costs and impairment charges on two discontinued software projects. Corporate expense allocations were down \$2.0 million compared to the prior year. Net losses and operating expenses of repossessed assets were up \$209 thousand over the third quarter of 2011 primarily due to write-downs related to regularly scheduled appraisal updates.

Net loans charged off totaled \$6.5 million or 0.47% of average loans on an annualized basis for third quarter of 2012, largely unchanged from the prior year. Net charge-offs for the third quarter 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 8 to the Consolidated Financial Statements. Excluding this item, Bank of Oklahoma had a net recovery of \$614 thousand for the third quarter of 2012. Net charge-offs totaled \$6.4 million or 0.49% of average loans on an annualized basis for the third quarter of 2011.

Average deposits attributed to the Bank of Oklahoma for the third quarter of 2012 increased \$163 million over the third quarter of 2011. Commercial Banking deposit balances increased \$207 million or 4% 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 \$108 million over the third quarter of 2011. Wealth Management deposits decreased \$153 million compared to the third quarter of 2011 primarily due to decreased trust deposits.

Bank of Texas

Our Texas offices are located primarily in the Dallas, Fort Worth and Houston metropolitan areas. Texas is our second largest market with 33% of our average loans, 24% of our average deposits and 15% of our consolidated net income in the third quarter of 2012.

Table 12 – Bank of Texas
(Dollars in thousands)

	Three Months Ended			Nine Months Ended			
	September 30, 2012	2011	Increase (Decrease)	September 30, 2012	2011	Increase (Decrease)	
Net interest revenue	\$35,717	\$34,633	\$1,084	\$107,042	\$101,573	\$5,469	
Net loans charged off	1,780	1,195	585	4,911	2,838	2,073	
Net interest revenue after net loans charged off	33,937	33,438	499	102,131	98,735	3,396	
Fees and commissions revenue	23,033	17,389	5,644	64,303	49,880	14,423	
Gain (loss) on financial instruments and other assets, net	—	—	—	188	(70)	258)
Other operating revenue	23,033	17,389	5,644	64,491	49,810	14,681	
Personnel expense	20,003	17,749	2,254	59,068	52,002	7,066	
Net losses and expenses of repossessed assets	1,124	602	522	1,542	1,877	(335))
Other non-personnel expense	6,024	6,217	(193)	17,983	17,727	256)
Corporate allocations	9,753	9,649	104	29,017	28,563	454	
Total other operating expense	36,904	34,217	2,687	107,610	100,169	7,441	
Income before taxes	20,066	16,610	3,456	59,012	48,376	10,636	
Federal and state income tax	7,224	5,980	1,244	21,244	17,415	3,829	
Net income	\$12,842	\$10,630	\$2,212	\$37,768	\$30,961	\$6,807	
Average assets	\$5,102,452	\$4,924,959	\$177,493	\$5,058,204	\$4,870,261	\$187,943	
Average loans	3,827,175	3,466,036	361,139	3,786,717	3,372,419	414,298	
Average deposits	4,538,400	4,349,738	188,662	4,500,972	4,305,556	195,416	
Average invested capital	476,027	472,392	3,635	477,502	468,800	8,702	
Return on average assets	1.00	% 0.86	% 14	bp 1.00	% 0.85	% 15	bp
Return on invested capital	10.73	% 8.93	% 180	bp 10.57	% 8.83	% 174	bp
Efficiency ratio	62.82	% 65.77	% (295)	bp 62.80	% 66.14	% (334)	)bp
Net charge-offs (annualized) to average loans	0.19	% 0.14	% 5	bp 0.17	% 0.11	% 6	bp

Residential mortgage loans funded for sale	\$145,638	\$57,671	\$87,967	\$358,144	\$143,852	\$214,292
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Net income for the Bank of Texas increased \$2.2 million or 21% over the third quarter of 2011 primarily due to increased mortgage banking revenue partially offset by increased personnel expenses.

Net interest revenue increased \$1.1 million or 3% over the third quarter of 2011 primarily due to decreased deposit costs and growth of the loan portfolio. Average outstanding loans grew by \$361 million or 10% over the third quarter of 2011 and average deposits increased by \$189 million or 4%.

Fees and commissions revenue increased \$5.6 million or 32% over the third quarter of 2011 primarily due to increased mortgage banking revenue. Transaction card revenue was down compared to the prior year primarily due to debit card

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interchange fee regulations which became effective in the third quarter of 2011, mostly offset by increased trust fees and commissions. Brokerage and trading revenue and deposit service charges and fees were largely unchanged compared to the prior year.

Operating expenses increased \$2.7 million or 8% over the third quarter of 2011. Personnel costs were up \$2.3 million or 13% 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 \$522 thousand over the third quarter of 2011 due primarily to write-downs related to regularly scheduled appraisal updates. Decreased non-personnel expenses were offset by increased corporate expense allocations.

Net loans charged off totaled \$1.8 million or 0.19% of average loans for the third quarter of 2012 on an annualized basis, compared to \$1.2 million or 0.14% of average loans for the third quarter of 2011 on an annualized basis.

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Bank of Albuquerque

Net income attributable to the Bank of Albuquerque totaled \$6.7 million or 8% of consolidated net income, a \$3.2 million or 90% increase over the third quarter of 2011. Net interest income was up \$503 thousand over the third quarter of 2011. Average loan balances were unchanged compared to the prior year. Average deposit balances were up \$59 million or 5% over the prior year. Net loans charged off totaled \$232 thousand or 0.13% of average loans on annualized basis in the third quarter of 2012 compared to net loans charged off of \$707 thousand or 0.39% of average loans on an annualized basis in the third quarter of 2011.

Fees and commission revenue increased \$4.9 million or 55% over the prior year primarily due to a \$5.5 million increase in mortgage banking revenue, partially offset by decreased transaction card revenue due to debit card interchange fee regulations. Other operating expense increased \$646 thousand or 6%. Personnel expenses were up \$700 thousand primarily due to increased incentive compensation. Increased corporate allocation expenses were offset by lower non-personnel expenses.

Table 13 – Bank of Albuquerque
(Dollars in thousands)

	Three Months Ended			Nine Months Ended			
	September 30, 2012	2011	Increase (Decrease)	September 30, 2012	2011	Increase (Decrease)	
Net interest revenue	\$8,928	\$8,425	\$503	\$25,917	\$25,081	\$836	
Net loans charged off	232	707	(475)	2,529	1,707	822	
Net interest revenue after net loans charged off	8,696	7,718	978	23,388	23,374	14	
Other operating revenue – fees and commission	13,685	8,816	4,869	34,793	24,225	10,568	
Personnel expense	5,207	4,507	700	14,883	12,909	1,974	
Net losses (gains) and expenses of repossessed assets	22	61	(39)	(112)	1,424	(1,536)	
Other non-personnel expense	1,985	2,120	(135)	6,055	6,577	(522)	
Corporate allocations	4,206	4,086	120	12,507	11,492	1,015	
Total other operating expense	11,420	10,774	646	33,333	32,402	931	
Income before taxes	10,961	5,760	5,201	24,848	15,197	9,651	
Federal and state income tax	4,264	2,241	2,023	9,666	5,912	3,754	
Net income	\$6,697	\$3,519	\$3,178	\$15,182	\$9,285	\$5,897	
Average assets	\$1,431,251	\$1,401,640	\$29,611	\$1,392,713	\$1,386,561	\$6,152	
Average loans	708,760	711,735	(2,975)	707,809	706,764	1,045	
Average deposits	1,295,201	1,236,172	59,029	1,251,766	1,243,415	8,351	
Average invested capital	78,457	82,159	(3,702)	78,887	81,967	(3,080)	
Return on average assets	1.86	% 1.00	% 86	bp 1.46	% 0.90	% 56	bp

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Return on invested capital	33.96	% 16.99	% 1,697	bp 25.71	% 15.15	% 1,056	bp
Efficiency ratio	50.50	% 62.49	% (1,199)bp 54.91	% 65.72	% (1,081)bp
Net charge-offs to average loans (annualized)	0.13	% 0.39	% (26	)bp 0.48	% 0.32	% 16	bp
Residential mortgage loans funded for sale	\$153,460	\$95,624	\$57,836	\$394,701	\$236,469	\$158,232	

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Bank of Arkansas

Net income attributable to the Bank of Arkansas decreased \$629 thousand compared to the third quarter of 2011. Net interest revenue decreased \$209 thousand as loans in the Arkansas market continued to decrease primarily due to the run-off of indirect automobile loans. Average deposits attributed to the Bank of Arkansas were down \$6.1 million or 3% compared to the third quarter of 2011. Higher costing time deposits decreased \$19 million compared to the prior year, partially offset by a \$9.3 million increase in interest-bearing transaction deposits and a \$2.8 million increase in demand deposit balances. Net loans charged off totaled \$934 thousand or 1.82% of average loans on an annualized basis in the third quarter of 2012 compared to \$159 thousand or 0.24% of average loans on an annualized basis in the third quarter of 2011.

Fees and commissions revenue was up \$1.4 million over the prior year primarily due to increased mortgage banking revenue and increased securities trading revenue at our Little Rock office. Other operating expenses were up \$1.4 million primarily due to increased incentive compensation costs related to trading activity.

Table 14 – Bank of Arkansas
(Dollars in thousands)

	Three Months Ended			Nine Months Ended		
	September 30,		Increase	September 30,		Increase
	2012	2011	(Decrease)	2012	2011	(Decrease)
Net interest revenue	\$1,758	\$1,967	\$(209)	\$8,267	\$6,191	\$2,076
Net loans charged off (recovered)	934	159	775	(1,168)	2,648	(3,816)
Net interest revenue after net loans charged off (recovered)	824	1,808	(984)	9,435	3,543	5,892
Other operating revenue – fees and commissions	12,681	11,308	1,373	36,432	28,269	8,163
Personnel expense	6,100	4,819	1,281	17,731	14,119	3,612
Net losses and expenses of repossessed assets	86	(16)	102	162	478	(316)
Other non-personnel expense	1,125	1,234	(109)	3,709	3,446	263
Corporate allocations	2,898	2,753	145	8,494	8,051	443
Total other operating expense	10,209	8,790	1,419	30,096	26,094	4,002
Income before taxes	3,296	4,326	(1,030)	15,771	5,718	10,053
Federal and state income tax	1,282	1,683	(401)	6,135	2,224	3,911
Net income	\$2,014	\$2,643	\$(629)	\$9,636	\$3,494	\$6,142
Average assets	\$226,875	\$286,337	\$(59,462)	\$249,103	\$292,164	\$(43,061)
Average loans	204,278	265,536	(61,258)	229,222	274,645	(45,423)
Average deposits	208,229	214,330	(6,101)	210,193	208,190	2,003
	18,306	24,374	(6,068)	19,678	23,473	(3,795)

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Average invested capital							
Return on average assets	3.53	% 3.66	% (13) bp 5.17	% 1.60	% 357	bp
Return on invested capital	43.77	% 43.02	% 75	bp 65.41	% 19.90	% 4,551	bp
Efficiency ratio	70.70	% 66.21	% 449	bp 67.33	% 75.72	% (839	) bp
Net charge-offs (recoveries) to average loans (annualized)	1.82	% 0.24	% 158	bp (0.68	)% 1.29	% (197	) bp
Residential mortgage loans funded for sale	\$28,789	\$18,645	\$10,144	\$79,542	\$49,573	\$29,969	

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Colorado State Bank & Trust

Net income attributed to Colorado State Bank & Trust increased \$3.9 million over the third quarter of 2011 to \$6.4 million. Colorado State Bank & Trust experienced a net recovery of \$2.4 million compared to net loans charged off of \$372 thousand or 0.19% of average loans on an annualized basis in third quarter of 2011. Net interest revenue increased \$942 thousand due primarily to a \$172 million or 22% increase in average loans outstanding and lower deposit costs, partially offset by decreased yield on funds sold to the Funds Management unit. Average deposits attributable to Colorado State Bank & Trust were largely unchanged compared to the third quarter of 2011. Demand deposits grew by \$77 million during the second quarter due primarily to increased commercial account balances, offset by a \$75 million decrease in time deposits and a \$3.7 million decrease in interest-bearing transaction deposit account balances.

Fees and commissions revenue was up \$5.9 million over the third quarter of 2011 primarily related to a \$4.5 million increase in mortgage banking revenue and a \$1.2 million increase in trust fees and commissions due to the acquisition of the Milestone Group during the third quarter of 2012. The Milestone Group is a Denver-based registered investment adviser which provides wealth management services to high net worth clients in Colorado and Nebraska. Operating expenses were up \$3.2 million over the prior year primarily due to the Milestone Group acquisition. Personnel expenses were up \$1.2 million, corporate expense allocations increased \$921 thousand and non-personnel expenses were up \$448 thousand. Net losses and operating expenses of repossessed assets totaled \$144 thousand during the third quarter of 2012 compared to a net gain of \$448 thousand in the third quarter of 2011.

Table 15 – Colorado State Bank & Trust

(Dollars in thousands)

	Three Months Ended			Nine Months Ended			
	September 30,		Increase	September 30,		Increase	
	2012	2011	(Decrease)	2012	2011	(Decrease)	
Net interest revenue	\$9,382	\$8,440	\$942	\$27,335	\$24,839	\$2,496	
Net loans charged off (recovered)	(2,367)	372	(2,739)	(1,711)	2,026	(3,737)	
Net interest revenue after net loans charged off (recovered)	11,749	8,068	3,681	29,046	22,813	6,233	
Other operating revenue – fees and commissions revenue	12,277	6,380	5,897	28,846	18,053	10,793	
Personnel expense	7,085	5,838	1,247	19,123	16,186	2,937	
Net losses (gains) and expenses of repossessed assets	144	(448)	592	216	(170)	386	
Other non-personnel expense	2,046	1,598	448	4,823	4,572	251	
Corporate allocations	4,209	3,288	921	11,667	9,775	1,892	
Total other operating expense	13,484	10,276	3,208	35,829	30,363	5,466	
Income before taxes	10,542	4,172	6,370	22,063	10,503	11,560	
Federal and state income tax	4,101	1,623	2,478	8,583	4,086	4,497	
Net income	\$6,441	\$2,549	\$3,892	\$13,480	\$6,417	\$7,063	
Average assets	\$1,350,521	\$1,346,750	\$3,771	\$1,356,250	\$1,332,971	\$23,279	
Average loans	958,842	786,846	171,996	890,021	775,110	114,911	
Average deposits	1,276,068	1,274,667	1,401	1,288,010	1,264,000	24,010	
Average invested capital	130,633	118,486	12,147	121,362	117,865	3,497	
Return on average assets	1.90	% 0.75	% 115	bp 1.33	% 0.64	% 69	bp
Return on invested capital	19.62	% 8.54	% 1,108	bp 14.84	% 7.28	% 756	bp
Efficiency ratio	62.26	% 69.34	% (708)	bp 63.77	% 70.79	% (702)	bp
Net charge-offs (recoveries) to average loans (annualized)	(0.98)	% 0.19	% (117)	bp (0.26)	% 0.35	% (61)	bp
Residential mortgage loans funded for sale	\$145,306	\$91,009	\$54,297	\$338,121	\$199,226	\$138,895	

Bank of Arizona

Bank of Arizona had a net loss of \$40 thousand for the third quarter of 2012 compared to a net loss of \$2.1 million for the third quarter of 2011. Bank of Arizona experienced a net recovery of \$1.4 million for the third quarter of 2012 compared to net loans charged off of \$1.2 million or 0.83% of average loans on an annualized basis for the third quarter of 2011. Net losses and operating expenses on repossessed assets remain elevated totaling \$3.6 million in the third quarter of 2012 compared to \$3.4 million in the third quarter of 2011. Write-downs of repossessed assets increased compared to the prior year primarily due to regularly scheduled appraisal updates.

Net interest revenue increased \$35 thousand or 1% over the third quarter of 2011. Average loan balances were down \$23 million or 4% compared to the third quarter of 2011. Average deposits were up \$95 million or 37% over the third quarter of 2011. Interest-bearing transaction account balances increased \$77 million and demand deposit balances increased \$27 million both primarily due to growth in commercial deposits. Higher costing time deposits balances were down \$10 million compared to the prior year.

Fees and commissions revenue was up \$1.1 million primarily due to increased mortgage banking revenue. Other operating expense increased \$348 thousand or 4% over the third quarter of 2011.

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 16 – Bank of Arizona
(Dollars in thousands)

	Three Months Ended			Increase (Decrease)	Nine Months Ended		
	September 30,		September 30,		September 30,		Increase (Decrease)
	2012	2011		2012	2011	2012		2011
Net interest revenue	\$4,330	\$4,295	\$35	\$12,691	\$12,003	\$688	
Net loans charged off (recovered)	(1,391)	1,229	(2,620)	3,029	4,613	(1,584)	
Net interest revenue after net loans charged off (recovered)	5,721	3,066	2,655	9,662	7,390	2,272	
Other operating revenue – fees and commissions	2,596	1,518	1,078	6,949	5,039	1,910	
Personnel expense	2,639	2,617	22	7,634	8,207	(573)	
Net losses and expenses of repossessed assets	3,617	3,354	263	7,284	7,736	(452)	
Other non-personnel expense	860	805	55	2,484	2,805	(321)	
Corporate allocations	1,267	1,259	8	3,686	3,628	58	
Total other operating expense	8,383	8,035	348	21,088	22,376	(1,288)	
Loss before taxes	(66)	(3,451)	3,385	(4,477)	(9,947)	5,470	
Federal and state income tax	(26)	(1,342)	1,316	(1,742)	(3,869)	2,127	
Net loss	\$(40)	\$(2,109)	\$2,069	\$(2,735)	\$(6,078)	\$3,343	
Average assets	\$625,593	\$656,604	\$(31,011)	\$609,922	\$642,239	\$(32,317)	
Average loans	567,198	590,615	(23,417)	553,260	574,902	(21,642)	
Average deposits	354,865	259,613	95,252	288,533	256,444	32,089	
Average invested capital	60,261	65,628	(5,367)	59,417	65,158	(5,741)	
Return on average assets	(0.03)%	(1.27)%	124 bp	(0.60)%	(1.27)%	67 bp	
Return on invested capital	(0.26)%	(12.75)%	1,249 bp	(6.15)%	(12.47)%	632 bp	
Efficiency ratio	121.04 %	138.22 %	(1,718)bp	107.37 %	131.30 %	(2,393)bp	
Net charge-offs (recoveries) to average loans (annualized)	(0.98)%	0.83 %	(181)bp	0.73 %	1.07 %	(34)bp	
Residential mortgage loans funded for sale	\$29,340	\$23,307	\$6,033	\$70,260	\$69,377	\$883	

Bank of Kansas City

Net income attributed to the Bank of Kansas City increased by \$1.3 million or 86% over the third quarter of 2011. Net interest revenue increased \$498 thousand or 17%. Average loan balances increased \$83 million or 24% and average deposits balances were up \$31 million or 11%. Demand deposit balances grew \$121 million due primarily to commercial account balances. Interest-bearing transaction account balances were down \$79 million and higher costing time deposit balances decreased by \$12 million. Net charge-offs remained low, totaling \$43 thousand or 0.04% of average loans on an annualized basis for the third quarter of 2012 compared to \$6 thousand or 0.01% on an annualized basis for the third quarter of 2011.

Fees and commissions revenue increased \$3.0 million or 39% over the prior year primarily due to increased mortgage banking revenue. Trust fees and commissions and deposit service charges and fees were also up over the prior year, partially offset by a decrease in brokerage and trading revenue. Personnel costs were up \$394 thousand primarily due to increased headcount and incentive compensation. Corporate expense allocations increased by \$823 thousand on higher customer transaction volume and non-personnel expense increased \$110 thousand.

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

	Three Months Ended			Nine Months Ended		
	September 30, 2012	2011	Increase (Decrease)	September 30, 2012	2011	Increase (Decrease)
Net interest revenue	\$3,401	\$2,903	\$498	\$9,751	\$8,483	\$1,268
Net loans charged off	43	6	37	(113)	237	(350)
Net interest revenue after net loans charged off	3,358	2,897	461	9,864	8,246	1,618
Other operating revenue – fees and commission	10,679	7,700	2,979	28,418	17,817	10,601
Personnel expense	5,462	5,068	394	15,018	12,387	2,631
Net losses and expenses of repossessed assets	58	1	57	49	132	(83)
Other non-personnel expense	1,202	1,092	110	3,286	2,919	367
Corporate allocations	2,858	2,035	823	8,119	5,070	3,049
Total other operating expense	9,580	8,196	1,384	26,472	20,508	5,964
Income before taxes	4,457	2,401	2,056	11,810	5,555	6,255
Federal and state income tax	1,734	934	800	4,594	2,161	2,433
Net income	\$2,723	\$1,467	\$1,256	\$7,216	\$3,394	\$3,822
Average assets	\$460,744	\$363,633	\$97,111	\$446,770	\$366,310	\$80,460
Average loans	433,798	350,847	82,951	425,597	355,806	69,791
Average deposits	312,775	281,939	30,836	263,785	308,102	(44,317)
Average invested capital	33,460	27,892	5,568	32,467	26,607	5,860

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Return on average assets	2.35	% 1.60	% 75	bp 2.16	% 1.24	% 92	bp
Return on invested capital	32.38	% 20.87	% 1,151	bp 29.69	% 17.05	% 1,264	bp
Efficiency ratio	68.04	% 77.30	% (926	)bp 69.35	% 77.98	% (863	)bp
Net charge-offs (annualized) to average loans	0.04	% 0.01	% 3	bp (0.04	)% 0.09	% (13	)bp
Residential mortgage loans funded for sale	\$84,707	\$40,867	\$43,840	\$204,817	\$91,033	\$113,784	

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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 September 30, 2012, December 31, 2011 and September 30, 2011.

At September 30, 2012, the carrying value of investment (held-to-maturity) securities was \$432 million and the fair value was \$460 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 \$11.2 billion at September 30, 2012, an increase of \$1.1 billion over June 30, 2012. 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 September 30, 2012, residential mortgage-backed securities represented 95% of total available for sale securities.

A primary risk of holding residential mortgage-backed securities comes from extension during periods of rising interest rates or prepayment during periods of falling interest rates. We evaluate this risk through extensive modeling of risk both before making an investment and throughout the life of the security. 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 September 30, 2012 is 1.9 years. Management estimates the duration extends to 3.6 years assuming an immediate 200 basis point upward shock. The estimated duration contracts to 1.4 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 September 30, 2012, approximately \$10.4 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 \$10.7 billion at September 30, 2012.

We also hold amortized cost of \$337 million in residential mortgage-backed securities privately issued by publicly-owned financial institutions, a decrease of \$17 million from June 30, 2012. The decline was primarily due to \$16 million of cash received and \$1.1 million of other-than-temporary impairment losses charged against earnings during the third quarter of 2012. The fair value of our portfolio of privately issued residential mortgage-backed securities totaled \$332 million at September 30, 2012.

The amortized cost of our portfolio of privately issued residential mortgage-backed securities included \$209 million of Jumbo-A residential mortgage loans and \$128 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 currently stands at 0.4%. The Jumbo-A residential mortgage-backed securities had original credit enhancement of 9.4% and the current level is 5.4%. 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.

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The aggregate gross amount of unrealized losses on available for sale securities totaled \$13 million at September 30, 2012, down \$39 million from June 30, 2012. 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 \$1.1 million were recognized in earnings in the third quarter of 2012 related to certain privately issued residential mortgage-backed securities that we do not intend to sell.

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

Bank-Owned Life Insurance

We have approximately \$272 million of bank-owned life insurance at September 30, 2012. This investment is expected to provide a long-term source of earnings to support existing employee benefit programs. Approximately \$241 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 September 30, 2012, the cash surrender value represented by the underlying fair value of investments held in separate accounts was approximately \$265 million. As the underlying fair value of the investments held in a separate account at September 30, 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 \$11.8 billion at September 30, 2012, up \$256 million over June 30, 2012.

Table 18 – Loans
(In thousands)

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Commercial:					
Energy	\$2,433,473	\$2,278,336	\$2,166,406	\$2,005,041	\$1,749,203
Services	1,891,728	1,931,520	1,912,537	1,761,538	1,872,947
Wholesale/retail	1,079,267	960,184	1,027,170	967,426	1,021,070
Manufacturing	363,092	362,877	352,297	336,733	373,074
Healthcare	1,037,288	1,009,128	1,000,854	978,160	914,346
Integrated food services	213,832	216,978	211,288	204,311	192,200
Other commercial and industrial	254,537	293,521	288,540	301,861	298,762
Total commercial	7,273,217	7,052,544	6,959,092	6,555,070	6,421,602
Commercial real estate:					
Construction and land development	289,544	287,059	318,539	342,054	370,465
Retail	525,051	492,377	466,444	509,402	457,176
Office	406,007	384,392	369,179	405,923	422,284
Multifamily	398,513	362,165	435,946	369,028	388,304
Industrial	187,166	231,033	288,650	278,186	224,222
Other real estate	359,245	369,188	354,925	386,710	410,382
Total commercial real estate	2,165,526	2,126,214	2,233,683	2,291,303	2,272,833
Residential mortgage:					
Permanent mortgage	1,134,519	1,141,371	1,134,934	1,153,644	1,180,310
Permanent mortgages guaranteed by U.S. government agencies	169,393	168,059	186,119	188,462	173,540
Home equity	715,068	695,667	647,319	632,421	596,051
Total residential mortgage	2,018,980	2,005,097	1,968,372	1,974,527	1,949,901
Consumer:					
Indirect automobile	47,281	62,924	81,792	105,149	130,296
Other consumer	327,363	329,652	334,505	343,694	349,937
Total consumer	374,644	392,576	416,297	448,843	480,233
Total	\$11,832,367	\$11,576,431	\$11,577,444	\$11,269,743	\$11,124,569

Outstanding commercial loan balances increased \$221 million over June 30, 2012 or 13% on an annualized basis, growing in all of our geographical markets. Commercial loan growth in our Oklahoma and Texas markets was particularly strong. Commercial real estate loans also increased by \$39 million during the third quarter of 2012 primarily in our Texas market. Residential mortgage loans were up \$14 million over June 30, 2012. Consumer loans decreased \$18 million from June 30, 2012 primarily related to the continued runoff of indirect automobile loans related to the previously announced decision to curtail that business.

A breakdown by geographical market follows on Table 19 with discussion of changes in the balance by portfolio and geography. This breakdown may not always represent the location of the borrower or the collateral. The previous periods have been reclassified to conform to the current period loan classification and market attribution.

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Table 19 – Loans by Principal Market
(In thousands)

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Bank of Oklahoma:					
Commercial	\$3,141,217	\$3,098,651	\$3,107,726	\$2,826,649	\$2,865,740
Commercial real estate	639,156	644,761	631,891	607,030	615,848
Residential mortgage	1,477,583	1,460,173	1,426,827	1,411,560	1,378,519
Consumer	200,217	205,436	215,693	235,909	250,048
Total Bank of Oklahoma	5,458,173	5,409,021	5,382,137	5,081,148	5,110,155
Bank of Texas:					
Commercial	2,529,473	2,414,824	2,354,593	2,249,888	2,116,377
Commercial real estate	712,895	678,745	802,979	830,642	759,574
Residential mortgage	266,791	268,639	262,556	268,053	276,721
Consumer	108,854	115,602	124,692	126,570	133,454
Total Bank of Texas	3,618,013	3,477,810	3,544,820	3,475,153	3,286,126
Bank of Albuquerque:					
Commercial	267,469	262,144	273,284	258,668	279,319
Commercial real estate	294,731	285,871	282,834	303,500	302,980
Residential mortgage	117,783	113,987	106,754	104,695	99,191
Consumer	15,883	15,828	18,378	19,369	19,393
Total Bank of Albuquerque	695,866	677,830	681,250	686,232	700,883
Bank of Arkansas:					
Commercial	48,097	49,305	64,595	76,199	80,304
Commercial real estate	119,305	119,895	139,670	136,170	134,028
Residential mortgage	12,408	12,513	14,557	15,772	15,793
Consumer	19,720	24,270	28,783	35,911	44,445
Total Bank of Arkansas	199,530	205,983	247,605	264,052	274,570
Colorado State Bank & Trust:					
Commercial	616,321	610,384	541,280	544,020	495,429
Commercial real estate	145,077	149,541	144,757	156,013	189,948
Residential mortgage	57,637	60,893	61,329	64,627	66,491
Consumer	19,028	20,612	19,790	21,598	22,183
Total Colorado State Bank & Trust	838,063	841,430	767,156	786,258	774,051
Bank of Arizona:					
Commercial	300,557	278,119	269,099	271,914	269,381
Commercial real estate	186,553	181,513	180,830	198,160	227,085
Residential mortgage	65,234	67,822	76,699	89,315	92,293
Consumer	6,150	6,227	5,381	5,633	6,670
Total Bank of Arizona	558,494	533,681	532,009	565,022	595,429
Bank of Kansas City:					
Commercial	370,083	339,117	348,515	327,732	315,052
Commercial real estate	67,809	65,888	50,722	59,788	43,370

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Residential mortgage	21,544	21,070	19,650	20,505	20,893
Consumer	4,792	4,601	3,580	3,853	4,040
Total Bank of Kansas City	464,228	430,676	422,467	411,878	383,355
Total BOK Financial loans	\$ 11,832,367	\$ 11,576,431	\$ 11,577,444	\$ 11,269,743	\$ 11,124,569

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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 \$221 million during the third quarter of 2012. Energy sector loans increased \$155 million over June 30, 2012, growing primarily in the Texas and Colorado markets. Wholesale/retail sector loans were up \$119 million primarily due to growth in the Oklahoma and Texas markets. Healthcare sector loans were up \$28 million over June 30, 2012 growing in primarily in the Kansas City and Oklahoma markets, partially offset by a decrease in the Colorado market. Service sector loans decreased \$40 million. Service sector loans in the Texas market grew by \$31 million offset by a \$36 million decrease in service sector loans in the Oklahoma market and a \$24 million decrease in service sector loans in the Colorado market. Other commercial and industrial loans were down \$39 million primarily in the Texas market. Growth in manufacturing sector loans in the Arizona market were offset by a decrease in manufacturing sector loans in the Oklahoma market.

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

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/Missouri	Total
Energy	\$1,068,773	\$964,697	\$4,783	\$229	\$394,546	\$—	\$445	\$2,433,473
Services	652,855	718,188	172,924	10,411	138,444	143,230	55,676	1,891,728
Wholesale/retail	490,247	390,143	48,682	31,760	17,105	65,349	35,981	1,079,267
Healthcare	632,661	256,567	25,447	4,345	52,146	43,374	22,748	1,037,288
Manufacturing	171,201	110,673	5,824	1,166	8,363	47,246	18,619	363,092
Integrated food services	3,574	6,735	—	—	2,865	—	200,658	213,832
Other commercial and industrial	121,906	82,470	9,809	186	2,852	1,358	35,956	254,537
Total commercial loans	\$3,141,217	\$2,529,473	\$267,469	\$48,097	\$616,321	\$300,557	\$370,083	\$7,273,217

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 \$2.4 billion or 21% of total loans at September 30, 2012. Outstanding energy loans increased \$155 million during the third quarter of 2012. Unfunded energy loan commitments increased by \$76 million to \$2.2 billion at September 30, 2012. Approximately \$2.2 billion of energy loans were to oil and gas producers, up \$170 million over June 30, 2012. 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 engaged in wholesale or retail energy sales increased \$2.8 million to \$140 million. Loans to borrowers that provide services to the energy industry increased \$10 million during the third quarter of 2012 to \$76 million and loans to borrowers that manufacture

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equipment primarily for the energy industry increased \$1.0 million during the third quarter of 2012 to \$35 million.

The services sector of the loan portfolio totaled \$1.9 billion or 16% of total loans and consists of a large number of loans to a variety of businesses, including community foundations, gaming, public finance, insurance and heavy equipment dealers. Service sector loans decreased \$40 million over June 30, 2012. Approximately \$1.1 billion of the services category is made up of loans with individual balances of less than \$10 million. Service sector loans are generally secured by the assets of the borrower with repayment coming from the cash flows of ongoing operations of the customer's business. Loans in this sector may also be secured by personal guarantees of the owners or related parties.

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 September 30, 2012, the outstanding principal balance of these loans totaled \$2.5 billion. Substantially all of these loans are to borrowers with local market relationships. We serve as the agent lender in approximately 19% 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 September 30, 2012. The outstanding balance of commercial real estate loans increased \$39 million over the second quarter of 2012 primarily due to growth in multifamily residential properties in the Texas market. The commercial real estate loan balance as a percentage of our total loan portfolio is currently below its historical range of 20% to 23% over the past five years. The commercial real estate sector of our loan portfolio is distributed as follows in Table 21.

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Construction and land development	\$94,549	\$58,038	\$56,813	\$17,695	\$43,173	\$11,782	\$7,494	\$289,544
Retail	162,397	191,352	60,902	12,203	16,893	63,017	18,287	525,051
Office	105,053	177,782	70,878	11,632	12,581	28,023	58	406,007
Multifamily	128,890	127,441	22,174	45,117	25,175	28,021	21,695	398,513
Industrial	46,248	67,692	35,140	1,674	6,613	19,037	10,762	187,166
Other real estate	102,019	90,590	48,824	30,984	40,642	36,673	9,513	359,245

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Total commercial real estate loans	\$639,156	\$712,895	\$294,731	\$119,305	\$145,077	\$186,553	\$67,809	\$2,165,526
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Construction and land development loans, which consist primarily of residential construction properties and developed building lots, increased \$2.5 million over June 30, 2012 to \$290 million at September 30, 2012. Charge-offs of construction and land development loans totaled \$1.4 million for the third quarter of 2012 and \$3.9 million were transferred to other real estate owned.

Loans secured by multifamily residential properties increased \$36 million primarily in the Texas market, partially offset by a decrease in the Oklahoma market. Loans secured by retail facilities grew by \$33 million primarily in the Oklahoma market.

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Loans secured by offices increased \$22 million during the third quarter of 2012, primarily in the Oklahoma and Texas markets.

Loans secured by and loans secured by industrial properties decreased \$44 million from June 30, 2012, primarily in the Texas and Oklahoma market.

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 \$14 million over June 30, 2012. 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 \$74 million or 7% 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 June 30, 2012. 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 September 30, 2012, \$169 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 \$20 million of residential mortgage loans previously sold into GNMA mortgage pools. The Company may repurchase these loans when certain defined delinquency criteria are met. Because of this repurchase right, the Company is deemed to have regained effective control over these loans and must include them on the Consolidated Balance Sheet. The remaining amount represents loans that the Company has repurchased from GNMA mortgage pools. Permanent residential mortgage loans guaranteed by U.S. government agencies increased \$1.3 million over June 30, 2012.

Home equity loans totaled \$715 million at September 30, 2012, a \$19 million increase over June 30, 2012. 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. A summary of our home equity loan portfolio at September 30, 2012 by lien position and amortizing status follows in Table 23.

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Table 22 – Home Equity Loans
(In thousands)

	Revolving	Amortizing	Total
First lien	\$35,696	\$433,171	\$468,867
Junior lien	53,940	192,261	246,201
Total home equity	\$89,636	\$625,432	\$715,068

Indirect automobile loans decreased \$16 million from June 30, 2012, primarily due to the previously-disclosed decision by the Company to exit the business in the first quarter of 2009. Approximately \$47 million of indirect automobile loans remain outstanding at September 30, 2012. Other consumer loans decreased \$2.3 million during the third quarter of 2012.

The composition of residential mortgage and consumer loans at September 30, 2012 is as follows in Table 23. All permanent residential mortgage loans originated and serviced by our mortgage banking unit are attributed to the Oklahoma market. Other permanent residential mortgage loans originated by the Bank are attributed to their respective principal market.

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Residential mortgage:								
Permanent mortgage	\$875,726	\$144,273	\$10,529	\$6,674	\$31,359	\$52,592	\$13,366	\$1,134,519
Permanent mortgages guaranteed by U.S. government agencies	169,393	—	—	—	—	—	—	169,393
Home equity	432,464	122,518	107,254	5,734	26,278	12,642	8,178	715,068
Total residential mortgage	\$1,477,583	\$266,791	\$117,783	\$12,408	\$57,637	\$65,234	\$21,544	\$2,018,980
Consumer:								
Indirect automobile	\$23,972	\$8,879	\$—	\$14,430	\$—	\$—	\$—	\$47,281
Other consumer	176,245	99,975	15,883	5,290	19,028	6,150	4,792	327,363
Total consumer	\$200,217	\$108,854	\$15,883	\$19,720	\$19,028	\$6,150	\$4,792	\$374,644
Loan Commitments								

We enter into certain off-balance sheet arrangements in the normal course of business. These arrangements included unfunded loan commitments which totaled \$6.4 billion and standby letters of credit which totaled \$448 million at September 30, 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 \$739 thousand of the outstanding standby letters of credit were issued on behalf of customers whose loans are nonperforming at September 30, 2012.

As more fully described in Note 6 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 September 30, 2012, the principal balance of residential mortgage loans sold subject to recourse obligations totaled \$238 million, down from \$241 million at June 30, 2012. Substantially all of these loans are to borrowers in our primary markets including \$167 million to borrowers in Oklahoma, \$24 million to borrowers in Arkansas, \$15 million to borrowers in New Mexico, \$13 million to borrowers in the Kansas/Missouri area and \$11 million to borrowers in Texas.

Under certain conditions, we also have an off-balance sheet obligation to repurchase residential mortgage loans sold to

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government sponsored entities through our mortgage banking activities due to standard representations and warranties made under contractual agreements. At September 30, 2012, we have unresolved deficiency requests from the agencies on 344 loans with an aggregate outstanding balance of \$42 million. At June 30, 2012, we had unresolved deficiency requests from the agencies on 303 loans with an aggregate outstanding balance of \$40 million. For all of 2012, 2011 and 2010 combined, approximately 12% of repurchase requests have currently resulted in actual repurchases or indemnification by the Company. We repurchased 11 loans from the agencies during the third quarter of 2012 with an unpaid principal balance of \$1.4 million at September 30, 2012 and recognized losses of \$166 thousand. Our accrual for credit losses related to potential loan repurchases under representations and warranties totaled \$4.8 million at September 30, 2012 and \$5.0 million at June 30, 2012.

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 margin collateral to further limit our credit risk.

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

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

Derivative contracts are carried at fair value. At September 30, 2012, the net fair values of derivative contracts reported as assets under these programs totaled \$427 million, compared to \$409 million at June 30, 2012. Derivative contracts carried as assets included to-be-announced residential mortgage-backed securities sold to our mortgage banking customers considered interest rate derivative contracts with fair values of \$155 million, interest rate swaps sold to loan customers with fair values of \$79 million, energy contracts with fair values of \$39 million and foreign exchange contracts with fair values of \$150 million. The aggregate net fair values of derivative contracts held under these programs reported as liabilities totaled \$254 million.

At September 30, 2012, total derivative assets were reduced by \$11 million of cash collateral received from counterparties and total derivative liabilities were reduced by \$185 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 September 30, 2012 follows in Table 24.

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Table 24 – Fair Value of Derivative Contracts

(In thousands)

Customers	\$265,548
Banks and other financial institutions	148,272
Exchanges	45,432
Energy companies	5,254
Fair value of customer hedge asset derivative contracts, net	\$464,506

The largest exposure to a single counterparty was to a loan customer for an interest rate swap which totaled \$13 million at September 30, 2012 used to convert their variable rate loan to a fixed rate.

Our aggregate gross exposure to all European banks totaled \$7.8 million at September 30, 2012. In addition, MF Global filed for bankruptcy protection on October 31, 2011. After partial distributions from the bankruptcy trustee, \$8.5 million was owed to us by MF Global. This remaining amount due was written down in the fourth quarter of 2011 to \$6.8 million based on our evaluation of the amount we expect to recover. During the third quarter of 2012, we received a \$2.0 million partial payment on our claim.

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 \$25.74 per barrel of oil would increase the fair value of derivative assets by \$39 million. An increase in prices equivalent to \$160.08 per barrel of oil would increase the fair value of derivative assets by \$375 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 September 30, 2012, changes in interest rate would not materially impact regulatory capital or liquidity needed to support this portion of our customer derivative program.

Summary of Loan Loss Experience

We maintain an allowance for loan losses and an accrual for off-balance sheet credit risk. The combined allowance for loan losses and off-balance sheet credit losses totaled \$236 million or 1.99% of outstanding loans and 179% of nonaccruing loans at September 30, 2012. The allowance for loans losses was \$234 million and the accrual for off-balance sheet credit losses was \$1.9 million. At June 30, 2012, the combined allowance for credit losses was \$241 million or 2.09% of outstanding loans and 167% of nonaccruing loans at June 30, 2012. The allowance for loan losses was \$232 million and the accrual for off-balance sheet credit losses was \$9.7 million. The accruals for off-balance sheet credit losses decreased \$7.8 million during the third quarter of 2012 primarily due to \$7.1 million refunded to the City of Tulsa in the third quarter of 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 and 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 the third quarter.

The provision for credit losses is the amount necessary to maintain the allowance for loan losses and an accrual for off-balance sheet credit risk at an amount determined by management to be appropriate based on its evaluation. The provision includes the combined charge to expense for both the allowance for loan losses and the accrual for off-balance sheet credit risk. All losses incurred from lending activities will ultimately be reflected in charge-offs against the allowance for loan losses following funds advanced against outstanding commitments and after exhaustion

of collection efforts. No provision for credit losses was recorded in the third quarter of 2012 based on a continued trend of declining charge-offs, reduced nonaccruing loans and improvements in other credit quality factors. An \$8.0 million negative provision for credit losses was recorded in the second quarter of 2012 and no provision for credit losses was recorded in the third quarter of 2011. The previously noted recovery refund was expected and had been fully accrued in prior periods. Net recoveries recorded during the third quarter quarter offset an increase in required reserves due to loan portfolio growth. Credit quality indicators and most economic factors are stable or improving in our primary markets.

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

	Three Months Ended					
	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	
Allowance for loan losses:						
Beginning balance	\$231,669	\$244,209	\$253,481	\$271,456	\$286,611	
Loans charged off:						
Commercial	(812)	(4,094)	(2,934)	(4,099)	(5,083)	
Commercial real estate	(2,607)	(1,216)	(6,725)	(3,365)	(2,335)	
Residential mortgage	(1,600)	(4,061)	(1,786)	(4,375)	(3,403)	
Consumer	(3,902)	(2,172)	(2,229)	(2,932)	(3,202)	
Total	(8,921)	(11,543)	(13,674)	(14,771)	(14,023)	
Recoveries of loans previously charged off:						
Commercial	(890)	¹ 4,125	1,946	2,316	1,404	
Commercial real estate	2,684	544	1,312	1,220	911	
Residential mortgage	298	750	411	715	283	
Consumer	1,112	1,283	1,520	1,060	1,271	
Total	3,204	6,702	5,189	5,311	3,869	
Net loans charged off	(5,717)	(4,841)	(8,485)	(9,460)	(10,154)	
Provision for loan losses	7,804	(7,699)	(787)	(8,515)	(5,001)	
Ending balance	\$233,756	\$231,669	\$244,209	\$253,481	\$271,456	
Accrual for off-balance sheet credit losses:						
Beginning balance	\$9,747	\$10,048	\$9,261	\$15,746	\$10,745	
Provision for off-balance sheet credit losses	(7,804)	(301)	787	(6,485)	5,001	
Ending balance	\$1,943	\$9,747	\$10,048	\$9,261	\$15,746	
Total combined provision for credit losses	\$—	\$(8,000)	\$—	\$(15,000)	\$—	
Allowance for loan losses to loans outstanding at period-end	1.98 %	2.00 %	2.11 %	2.25 %	2.44 %	
Net charge-offs (annualized) to average loans	0.19 % ¹	0.17 %	0.30 %	0.34 %	0.37 %	
Total provision for credit losses (annualized) to average loans	— %	(0.28) %	— %	(0.54) %	— %	
Recoveries to gross charge-offs	35.92 %	58.06 %	37.95 %	35.96 %	27.59 %	
Accrual for off-balance sheet credit losses to off-balance sheet credit commitments	0.03 %	0.15 %	0.15 %	0.14 %	0.25 %	
Combined allowance for credit losses to loans outstanding at period-end	1.99 %	2.09 %	2.20 %	2.33 %	2.58 %	

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

Allowance for Loan Losses

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

At September 30, 2012, risk graded impaired loans totaled \$110 million, including \$9.1 million with specific allowances of \$3.7 million and \$101 million with no specific allowances because the loans balances represent the amounts we expect to recover. At June 30, 2012, risk graded impaired loans totaled \$126 million, including \$6.2 million of impaired loans with specific allowances of \$1.8 million and \$120 million with no specific allowances. The increase in specific allowances over June 30, 2012 is due primarily to a single industrial sector commercial real estate loan customer attributed to the Bank of Texas.

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

The aggregate amount of general allowances for all unimpaired loans totaled \$189 million at September 30, 2012, largely unchanged from June 30, 2012. Net charge-offs continue to decrease, resulting in decreased estimated loss rates. The general allowance for the commercial segment decreased by \$1.6 million primarily due to lower estimated loss rates and improved risk grading, partially offset by growth in the portfolio balance. The general allowance for commercial real estate loans increased \$3.1 million over June 30, 2012 primarily due to an increase in the balance of the multifamily loan class and an increase in estimated loss rates for the construction and land development. The general allowance for residential mortgage decreased \$1.7 million from June 30, 2012 primarily due to lower estimated loss rates.

Nonspecific allowances are maintained for risks beyond factors specific to a particular loan 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 \$41 million at September 30, 2012, largely unchanged from June 30, 2012 as these risks were largely unchanged compared to the prior quarter. The nonspecific allowance at both September 30, 2012 and June 30, 2012 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 is included in Note 4 to the Consolidated Financial Statements.

Our loan monitoring process also identified loans that possess more than the normal amount of risk due to deterioration in the financial condition of the borrower or the value of the collateral. Because the borrowers are still performing in accordance with the original terms of the loans agreements, and no loss of principal or interest is anticipated, these loans were not included in nonperforming assets. Known information does, however, cause management concern as to the borrowers' ability to comply with current repayment terms. The potential problem loans totaled \$150 million at September 30, 2012. The current composition of potential problem loans by primary industry included services - \$34 million, construction and land development - \$26 million, other commercial real estate - \$13 million, commercial real estate secured by office buildings - \$13 million, residential mortgage - \$12 million, manufacturing - \$10 million and energy - \$10 million. Potential problem loans totaled \$159 million at June 30, 2012.

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. Commercial and commercial real estate loans are evaluated quarterly and charge-offs are taken in the quarter in which the loss is identified. Residential mortgage and consumer loans are generally charged off when payments are between 90 days and 180 days past due, depending on loan class. In addition, residential mortgage loans are generally charged-down to collateral value within 60 days of being notified of a borrower's bankruptcy filing.

Net loans charged off during the third quarter of 2012 totaled \$5.7 million, 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 the third quarter of 2012 when the funds were returned to the City of Tulsa. Excluding this item, BOK Financial had a net recovery of \$1.4 million for the third quarter of 2012. Net charge-offs totaled \$4.8 million in the previous quarter and \$10.2 million in the third quarter of 2011. Excluding the impact of the return of the invalidated settlement, the ratio of net loans charged off (recovered) to average outstanding loans on an annualized basis was (0.05%) for the third quarter of 2012 compared with 0.17% for the second quarter of 2012 and 0.37% for the third quarter of 2011. Excluding the impact of the invalidated settlement, net loans charged off in the third quarter of 2012 decreased \$6.2 million compared to the previous quarter.

Net loans charged off (recovered) by category and principal market area during the third quarter of 2012 follow in Table 26.

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

	Oklahoma	Texas	Colorado	Arkansas	New Mexico	Arizona	Kansas/ Missouri	Total
Commercial	\$4,824	\$113	\$(3,168)	\$(8)	\$(23)	\$(35)	\$(1)	\$1,702
Commercial real estate	253	—	859	858	(1)	(2,046)	—	(77)
Residential mortgage	687	(82)	(78)	10	54	685	26	1,302
Consumer	722	1,749	20	74	202	5	18	2,790
Total net loans charged off (recovered)	\$6,486	\$1,780	\$(2,367)	\$934	\$232	\$(1,391)	\$43	\$5,717

Excluding the impact of the return of the invalidated settlement attributed to the Oklahoma market, net commercial loans charged off during the third quarter of 2012 decreased \$5.4 million compared to the prior quarter and were comprised primarily of a \$3.2 million recovery from a single service sector customer in the Colorado market and a \$1.8 million recovery from a single manufacturing sector customer in the Oklahoma market.

Net charge-offs of commercial real estate loans decreased \$749 thousand from the second quarter of 2012 and were primarily comprised of net charge-offs of land and residential construction sector loans in the Colorado and Arkansas markets. The Arizona market had a net recovery for the third quarter of 2012 due primarily due to a recovery from a single land and residential construction sector customer.

Residential mortgage net charge-offs were down \$2.0 million over the previous quarter and consumer loan net charge-offs, which include indirect auto loan and deposit account overdraft losses, increased \$1.9 million over the previous quarter. All residential mortgage net charge-offs related to loans serviced by our mortgage company across our geographical footprint are attributed to the Oklahoma market.

During the third quarter of 2012, the Office of the Comptroller of the Currency issued interpretive guidance regarding accounting for and classification of retail loans to borrowers who have filed for Chapter 7 bankruptcy. This guidance states that these loans should be charged-down to collateral value and classified as nonaccruing and troubled debt restructurings, regardless of current payment status. Generally, we have been complying with this guidance by charging down such loans to collateral value within 60 days of being notified of the borrower's bankruptcy filing. Based on available information we do not expect implementation to significantly affect charge-offs or provision for credit losses. We estimate that nonaccruing loans and troubled debt restructuring may increase by \$10 million to \$15 million. At September 30, 2012, payments on approximately 89% of loans that may be classified as nonaccruing are current. We expect to implement this guidance in the fourth quarter.

Nonperforming Assets

Table 27 – Nonperforming Assets
(In thousands)

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Nonaccruing loans:					
Commercial	\$21,762	\$34,529	\$61,750	\$68,811	\$83,736
Commercial real estate	75,761	80,214	86,475	99,193	110,048
Residential mortgage	29,267	22,727	27,462	29,767	31,731
Consumer	5,109	7,012	7,672	3,515	3,960
Total nonaccruing loans	131,899	144,482	183,359	201,286	229,475
Renegotiated loans ²	27,992	28,415	36,764	32,893	30,477
Total nonperforming loans	159,891	172,897	220,123	234,179	259,952
Real estate and other repossessed assets	104,128	105,708	115,790	122,753	127,943
Total nonperforming assets	\$264,019	\$278,605	\$335,913	\$356,932	\$387,895
Nonaccruing loans by principal market:					
Bank of Oklahoma	\$41,599	\$49,931	\$64,097	\$65,261	\$73,794
Bank of Texas	28,046	24,553	29,745	28,083	29,783
Bank of Albuquerque	13,233	13,535	15,029	15,297	17,242
Bank of Arkansas	5,958	6,865	18,066	23,450	26,831
Colorado State Bank & Trust	22,878	28,239	28,990	33,522	36,854
Bank of Arizona	20,145	21,326	27,397	35,673	44,929
Bank of Kansas City	40	33	35	—	42
Total nonaccruing loans	\$131,899	\$144,482	\$183,359	\$201,286	\$229,475
Nonaccruing loans by loan portfolio sector:					
Commercial:					
Energy	\$3,063	\$3,087	\$336	\$336	\$3,900
Manufacturing	2,283	12,230	23,402	23,051	27,691
Wholesale / retail	2,007	4,175	15,388	21,180	27,088
Integrated food services	—	—	—	—	—
Services	10,099	10,123	12,890	16,968	18,181
Healthcare	3,305	3,310	7,946	5,486	5,715
Other	1,005	1,604	1,788	1,790	1,161
Total commercial	21,762	34,529	61,750	68,811	83,736
Commercial real estate:					
Land development and construction	38,143	46,050	52,416	61,874	72,207
Retail	6,692	7,908	6,193	6,863	6,492
Office	9,833	10,589	10,733	11,457	11,967
Multifamily	3,145	3,219	3,414	3,513	4,036
Industrial	4,064	—	—	—	—
Other commercial real estate	13,884	12,448	13,719	15,486	15,346
Total commercial real estate	75,761	80,214	86,475	99,193	110,048

Table 27 – Nonperforming Assets
(In thousands)

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Residential mortgage:					
Permanent mortgage	23,717	18,136	22,822	25,366	27,486
Home equity	5,550	4,591	4,640	4,401	4,245
Total residential mortgage	29,267	22,727	27,462	29,767	31,731
Consumer	5,109	7,012	7,672	3,515	3,960
Total nonaccrual loans	\$131,899	\$144,482	\$183,359	\$201,286	\$229,475

Ratios:

Allowance for loan losses to nonaccruing loans	177.22	% 160.34	% 133.19	% 125.93	% 118.29	%
Nonaccruing loans to period-end loans	1.11	% 1.25	% 1.58	% 1.79	% 2.06	%
Accruing loans 90 days or more past due ¹	\$1,181	\$691	\$6,140	\$2,496	\$1,401	

¹Excludes residential mortgages guaranteed by agencies of the U.S. Government.

²Includes residential mortgages guaranteed by agencies of the U.S. Government. These loans have been modified to extend payment terms and/or reduce interest rates.

	\$24,590	\$24,760	\$32,770	\$28,974	\$26,670
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Nonperforming assets decreased \$15 million during the third quarter of 2012 to \$264 million or 2.21% of outstanding loans and repossessed assets at September 30, 2012. Nonaccruing loans totaled \$132 million, accruing renegotiated residential mortgage loans totaled \$28 million (composed primarily of \$25 million of residential mortgage loans guaranteed by U.S. government agencies) and real estate and other repossessed assets totaled \$104 million. The Company generally retains nonperforming assets to maximize potential recovery which may cause future nonperforming assets to decrease more slowly.

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

We generally do not voluntarily modify consumer loans to troubled borrowers.

Renegotiated loans consist primarily of accruing residential mortgage loans modified in troubled debt restructurings. See Note 4 to the Consolidated Financial Statement for additional discussion of troubled debt restructurings. Generally, we modify residential mortgage loans primarily by reducing interest rates and extending the

number of payments in accordance with U.S. government agency guidelines. No unpaid principal or interest is forgiven. Interest continues to accrue based on the modified terms of the loan. If it becomes probable that we will not be able to collect all amounts due according to the modified loan terms, the loan is placed on nonaccrual status and included in nonaccrual loans. Modified loans guaranteed by U.S. government agencies under residential mortgage loan programs may be sold once they become eligible according to U.S. agency guidelines.

A rollforward of nonperforming assets for the third quarter of 2012 follows in Table 28.

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Table 28 – Rollforward of Nonperforming Assets
(In thousands)

	Three Months Ended September 30, 2012			Total Nonperforming Assets
	Nonaccruing Loans	Renegotiated Loans	Real Estate and Other Reposessed Assets	
Balance, June 30, 2012	\$144,482	\$28,415	\$105,708	\$278,605
Additions	19,699	3,560	—	23,259
Payments	(18,356)	(91)	—	(18,447)
Charge-offs	(8,921)	—	—	(8,921)
Net write-downs and losses	—	—	(3,572)	(3,572)
Foreclosure of nonperforming loans	(6,959)	(1,851)	8,810	—
Foreclosure of loans guaranteed by U.S. government agencies	—	—	32,511	32,511
Proceeds from sales	—	(1,864)	(8,441)	(10,305)
Conveyance to U.S. government agencies	—	—	(31,097)	(31,097)
Net transfers to nonaccruing loans	222	(222)	—	—
Return to accrual status	(1,105)	—	—	(1,105)
Other, net	2,837	45	209	3,091
Balance, September 30, 2012	\$131,899	\$27,992	\$104,128	\$264,019
	Nine Months Ended September 30, 2012			
	Nonaccruing Loans	Renegotiated Loans	Real Estate and Other Reposessed Assets	Total Nonperforming Assets
Balance, December 31, 2011	\$201,286	\$32,893	\$122,753	\$356,932
Additions	58,959	12,662	—	71,621
Payments	(75,902)	(577)	—	(76,479)
Charge-offs	(34,138)	—	—	(34,138)
Net writedowns and losses	—	—	(7,334)	(7,334)
Foreclosure of nonperforming loans	(20,115)	(5,816)	25,931	—
Foreclosure of loans guaranteed by U.S. government agencies	—	—	71,211	71,211
Proceeds from sales	—	(8,184)	(44,341)	(52,525)
Conveyance to U.S. government agencies	—	—	(65,344)	(65,344)
Net transfers to nonaccruing loans	454	(454)	—	—
Return to accrual status	(2,055)	—	—	(2,055)
Other, net	3,410	(2,532)	1,252	2,130
Balance, September 30, 2012	\$131,899	\$27,992	\$104,128	\$264,019

We foreclose on loans guaranteed by U.S. government agencies in accordance with agency guidelines. Generally these loans are not eligible for modification programs or have failed to comply with modified loan terms. Principal is guaranteed by agencies of the U.S. government, subject to limitations and credit risk is minimal. These properties will be conveyed to the agencies once applicable criteria have been met. During the third quarter of 2012, \$33 million of properties guaranteed by U.S. government agencies were foreclosed on and \$31 million of properties were conveyed

to the applicable U.S. government agencies during the third quarter of 2012. For the nine months ended September 30, 2012, \$71 million of properties guaranteed by U.S. government agencies were foreclosed and \$65 million of properties conveyed.

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Nonaccruing loans totaled \$132 million or 1.11% of outstanding loans at September 30, 2012 and \$144 million or 1.25% of outstanding loans at June 30, 2012. Nonaccruing loans decreased \$13 million from June 30, 2012 due primarily to \$18 million of payments, \$8.9 million of charge-offs and \$7.0 million of foreclosures. Newly identified nonaccruing loans totaled \$20 million for the third quarter of 2012.

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

Table 29 – Nonaccruing Loans by Principal Market

(Dollars In thousands)

	September 30, 2012		June 30, 2012		Change	
	Amount	% of outstanding loans	Amount	% of outstanding loans	Amount	% of outstanding loans
Bank of Oklahoma	\$41,599	0.76	% \$49,931	0.92	% \$(8,332)	(16) bp
Bank of Texas	28,046	0.78	% 24,553	0.71	% 3,493	7
Bank of Albuquerque	13,233	1.90	% 13,535	2.00	% (302)	(10)
Bank of Arkansas	5,958	2.99	% 6,865	3.33	% (907)	(34)
Colorado State Bank & Trust	22,878	2.73	% 28,239	3.36	% (5,361)	(63)
Bank of Arizona	20,145	3.61	% 21,326	4.00	% (1,181)	(39)
Bank of Kansas City	40	0.01	% 33	0.01	% 7	—
Total	\$131,899	1.11	% \$144,482	1.25	% \$(12,583)	(14) bp

Nonaccruing loans attributed to the Bank of Oklahoma are primarily composed of \$20 million of residential mortgage loans and \$14 million of commercial real estate loans. All residential mortgage loans retained by the Company that were originated across our geographical footprint and serviced by our mortgage company are attributed to the Bank of Oklahoma. Nonaccruing loans attributed to the Bank of Texas included \$12.4 million of commercial real estate loans, \$7.0 million of commercial loans and \$6.3 million of residential mortgage loans. Nonaccruing loans attributed to Colorado State Bank & Trust consisted primarily of commercial real estate loans. Nonaccruing loans attributed to the Bank of Arizona consisted of \$13 million of commercial real estate loans and \$5.8 million of commercial loans.

Commercial

Nonaccruing commercial loans totaled \$22 million or 0.30% of total commercial loans at September 30, 2012, down from \$35 million or 0.49% of total commercial loans at June 30, 2012. Nonaccruing commercial loans at September 30, 2012 were primarily composed of \$10 million or 0.53% of total services sector loans primarily attributed to the Bank of Arizona. Nonaccruing manufacturing sector loans decreased \$11 million from June 30, 2012. Nonaccruing manufacturing loans were primarily composed of a single customer attributed to the Bank of Oklahoma totaling \$9.5 million at June 30, 2012 that was paid off during the third quarter in addition to a \$1.8 million partial recovery of amounts previously charged off.

Nonaccruing commercial loans decreased \$13 million in the third quarter of 2012 primarily due to \$12 million in payments. Newly identified nonaccruing commercial loans of \$1.5 million were partially offset by \$812 thousand of charge-offs during the third quarter.

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

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

	September 30, 2012		June 30, 2012		Change	
	Amount	% of outstanding loans	Amount	% of outstanding loans	Amount	% of outstanding loans
Bank of Oklahoma	\$6,445	0.21	% \$17,320	0.56	% \$(10,875)	(35) bp
Bank of Texas	7,035	0.28	% 7,682	0.32	% (647)	(4)
Bank of Albuquerque	1,148	0.43	% 2,137	0.82	% (989)	(39)