BOK FINANCIAL CORP ET AL
Form 10-K
February 29, 2016

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

FORM 10-K
(Mark One)

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

For the quarterly period ended December 31, 2015

OR

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

For the transition period from _____________ to ______________

Commission File No. 0-19341

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

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

Bank of Oklahoma Tower Boston Avenue at Second Street Tulsa, Oklahoma	74172
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's common stock ("Common Stock") held by non-affiliates is approximately $1.5 billion (based on the June 30, 2015 closing price of Common Stock of $69.58 per share). As of January 31, 2016, there were 66,119,435 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant's Proxy Statement for the 2016 Annual Meeting of Shareholders.

BOK Financial Corporation
Form 10-K
Year Ended December 31, 2015

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PART I

ITEM 1. BUSINESS

General

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

Description of Business

BOK Financial is a financial holding company incorporated in the state of Oklahoma in 1990 whose activities are governed by the Bank Holding Company Act of 1956 ("BHCA"), as amended by the Financial Services Modernization Act or Gramm-Leach-Bliley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). BOK Financial offers full service banking in Oklahoma, Texas, New Mexico, Northwest Arkansas, Colorado, Arizona, and Kansas/Missouri. At December 31, 2015, the Company reported total consolidated assets of $31 billion and ranked as the 53rd largest bank holding company based on asset size.

BOKF, NA ("the Bank") is a wholly owned subsidiary bank of BOK Financial. BOKF, NA operates TransFund, Cavanal Hill Investment Management, BOK Financial Asset Management, Inc. and seven banking divisions: Bank of Albuquerque, Bank of Arizona, Bank of Arkansas, Bank of Kansas City, Bank of Oklahoma, Bank of Texas and Colorado State Bank and Trust. Other wholly owned subsidiaries of BOK Financial include BOSC, Inc., a broker/dealer that engages in retail and institutional securities sales and municipal bond underwriting and The Milestone Group, Inc., an investment adviser to high net worth clients. Other non-bank subsidiary operations do not have a significant effect on the Company's financial statements.

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

Our primary focus is to provide a comprehensive range of nationally competitive financial products and services in a personalized and responsive manner. Products and services include loans and deposits, cash management services, fiduciary services, mortgage banking and brokerage and trading services to middle-market businesses, financial institutions and consumers. Commercial banking represents a significant part of our business. Our credit culture emphasizes building relationships by making high quality loans and providing a full range of financial products and services to our customers. Our energy financing expertise enables us to offer commodity derivatives for customers to use in their risk management. We also offer derivative products for customers to use in managing their interest rate and foreign exchange risk. Our diversified base of revenue sources is designed to generate returns in a range of economic situations. Historically, fees and commissions provide 43% to 49% of our total revenue. Approximately 48% of our revenue came from fees and commissions in 2015.

BOK Financial's corporate headquarters is located at Bank of Oklahoma Tower, Boston Avenue at Second Street, Tulsa, Oklahoma 74172.

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

Operating Segments

BOK Financial operates three principal lines of business: Commercial Banking, Consumer Banking and Wealth Management. Commercial Banking includes lending, treasury and cash management services and customer risk management products for small businesses, middle market and larger commercial customers. Commercial Banking also includes the TransFund electronic funds network. Consumer Banking includes retail lending and deposit services, lending and deposit services to small business customers served through the retail branch network and all mortgage banking activities. Wealth Management provides fiduciary services, private bank services and investment advisory services in all markets. Wealth Management also underwrites state and municipal securities and engages in brokerage and trading activities. Discussion of these principal lines of business appears within the Lines of Business section of “Management's Discussion and Analysis of Financial Condition and Results of Operations” and within Note 17 of the Company’s Notes to Consolidated Financial Statements, both of which appear elsewhere herein.

Competition

BOK Financial and its operating segments face competition from other banks, thrifts, credit unions and other non-bank financial institutions, such as investment banking firms, investment advisory firms, brokerage firms, investment companies, government agencies, mortgage brokers and insurance companies. The Company competes largely on the basis of customer services, interest rates on loans and deposits, lending limits and customer convenience. Some operating segments face competition from institutions that are not as closely regulated as banks, and therefore are not limited by the same capital requirements and other restrictions. All market share information presented below is based upon share of deposits in specified areas according to SNL DataSource as of June 30, 2015.

We are the largest financial institution in the state of Oklahoma with 15% of the state’s total deposits. Bank of Oklahoma has 32% and 13% of the market share in the Tulsa and Oklahoma City areas, respectively. We compete with two banks that have operations nationwide and have greater access to funds at lower costs, higher lending limits, and greater access to technology resources. We also compete with regional and locally-owned banks in both the Tulsa and Oklahoma City areas, as well as in every other community in which we do business throughout the state.

Bank of Texas competes against numerous financial institutions, including some of the largest in the United States, and has a market share of approximately 2% in the Dallas, Fort Worth area and less than 1% in the Houston area. Bank of Albuquerque has a number four market share position with 9% of deposits in the Albuquerque area and competes with four large national banks, some regional banks and several locally-owned smaller community banks. Colorado State Bank and Trust has a market share of approximately 2% in the Denver area. Bank of Arkansas serves Benton and Washington counties in Arkansas with a market share of approximately 4%. Bank of Arizona operates as a community bank with locations in Phoenix, Mesa and Scottsdale with a market share of approximately 1%. Bank of Kansas City serves the Kansas City, Kansas/Missouri market with a market share of approximately 2%. The Company’s ability to expand into additional states remains subject to various federal and state laws.

Employees

As of December 31, 2015, BOK Financial and its subsidiaries employed 4,789 full-time equivalent employees. None of the Company’s employees are represented by collective bargaining agreements. Management considers its employee relations to be good.

Supervision and Regulation

BOK Financial and its subsidiaries are subject to extensive regulations under federal and state laws. These regulations are designed to promote safety and soundness, protect consumers and ensure the stability of the banking system as a

whole. The purpose of these regulations is not necessarily to protect shareholders and creditors. As detailed below, these regulations require the Company and its subsidiaries to maintain certain capital balances and require the Company to provide financial support to its subsidiaries. These regulations may restrict the Company's ability to diversify, to acquire other institutions and to pay dividends on its capital stock. These regulations also include requirements on certain programs and services offered to our customers, including restrictions on fees charged for certain services.

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

General

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

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

A financial holding company, and the companies under its control, are permitted to engage in activities considered “financial in nature” as defined by the BHCA, Gramm-Leach-Bliley Act and Federal Reserve Board interpretations. Activities that are “financial in nature” include securities underwriting and dealing, insurance underwriting, merchant banking, operating a mortgage company, performing certain data processing operations, servicing loans and other extensions of credit, providing investment and financial advice, owning and operating savings and loan associations, and leasing personal property on a full pay-out, non-operating basis. A financial holding company is required to notify the Federal Reserve Board within thirty days of engaging in new activities determined to be “financial in nature.” BOK Financial is engaged in some of these activities and has notified the Federal Reserve Board.

In order for a financial holding company to commence any new activity permitted by the BHCA, each insured depository institution subsidiary of the financial holding company must be "well capitalized" and "well managed" and received a rating of at least "satisfactory" in its most recent examination under the Community Reinvestment Act. A financial holding company and its depository institution subsidiaries are considered to be "well capitalized" if they meet the requirements discussed in the section captioned "Capital Adequacy and Prompt Corrective Action" which follows. A financial holding company and its depository institution subsidiaries are considered to be "well managed" if they receive a composite rating and management rating of at least "satisfactory" in their most recent examinations. If a financial holding company fails to meet these requirements, the Federal Reserve Board may impose limitations or conditions on the conduct of its activities and the company may not commence any new financial activities without prior approval.

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

A financial holding company and its subsidiaries are prohibited under the BHCA from engaging in certain tie-in arrangements in connection with the provision of any credit, property or services. Thus, a subsidiary of a financial holding company may not extend credit, lease or sell property, furnish any services or fix or vary the consideration for these activities on the condition that (1) the customer obtain or provide additional credit, property or services from or

to the financial holding company or any subsidiary thereof, or (2) the customer may not obtain some other credit, property or services from a competitor, except to the extent reasonable conditions are imposed to insure the soundness of credit extended.

The Bank and other non-bank subsidiaries are also subject to other federal and state laws and regulations. For example, BOSC, Inc. is regulated by the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA"), the Federal Reserve Board, and state securities regulators. Such regulations generally include licensing of certain personnel, customer interactions, and trading operations.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Act was signed into law, giving federal banking agencies authority to increase regulatory capital requirements, impose additional rules and regulations over consumer financial products and services and limit the amount of interchange fees that may be charged in an electronic debit transaction. In addition, the Dodd-Frank Act made permanent the $250,000 limit for federal deposit insurance. It also repealed prohibitions on payment of interest on demand deposits, which could impact how interest is paid on business transaction and other accounts. Further, the Dodd-Frank Act prohibits banking entities from engaging in proprietary trading and restricts banking entities sponsorship of or investment in private equity funds and hedge funds. Final rules required to implement the Dodd-Frank Act have largely been issued. Many of these rules have extended phase-in periods and the full impact of this legislation on the banking industry, including the Company, remains unknown.

The Durbin Amendment to the Dodd-Frank Act required that interchange fees on electronic debit transactions paid by merchants must be “reasonable and proportional to the cost incurred by the issuer” and prohibited card network rules that have limited price competition among networks. Effective October 1, 2011, the Federal Reserve issued its final ruling to implement the Durbin Amendment. This ruling established a cap on interchange fees banks with more than $10 billion in total assets can charge merchants for certain debit card transactions. The Durbin Amendment also required all banks to comply with the prohibition on network exclusivity and routing requirements. Debit card issuers are required to make at least two unaffiliated networks available to merchants.

The Dodd-Frank Act established the Consumer Financial Protection Bureau ("CFPB") with powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. Established July 21, 2011, the CFPB has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets for certain designated consumer laws and regulations. The CFPB issued mortgage servicing standards and mortgage lending rules, including “qualified mortgage” rules that are designed to protect consumers and ensure the reliability of mortgages. Mortgage lenders are required to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Qualified mortgages that meet this requirement and other specified criteria are given a safe harbor of compliance. Rules affecting mortgage lenders and servicers became effective on January 10, 2014.

Title VI of the Dodd-Frank Act, commonly known as the Volcker Rule, 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 and exclusions. In December 2013, Federal banking agencies approved regulations that implement the Volcker Rule. In December 2014, the Federal Reserve extended the conformance period for key elements of the Rule relating to relationships with funds until July 2017. The Company’s private equity investment activities will be curtailed. The Company’s trading activity were largely unaffected, as most trading activities are exempted or excluded from the Volcker Rule trading prohibitions.

Title VII of the Dodd-Frank Act subjects nearly all derivative transactions to the regulations of the Commodity Futures Trading Commission (“CFTC”) or SEC. This includes registration, recordkeeping, reporting, capital, margin and business conduct requirements on swap dealers and major swap participants. The CFTC and SEC both approved interim final rules on the definition "swap" and “swap dealer" which were effective October 2012. Under these rules, entities transacting in less than $8 billion in notional value of swaps over any 12 month period during the first three years after these rules are effective will be exempt from the definition of "swap dealer." After December 2017, this threshold may be reduced to $3 billion subject to the results of studies the commissions intend to undertake once the derivative rules are effective. The Company currently estimates that the nature and volume of swap activity will not require it to register as a swap dealer any time prior to December 2017. 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.

Capital Adequacy and Prompt Corrective Action

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

Prior to January 1, 2015, the Federal Reserve Board risk-based guidelines defined a three-tier capital framework. Core capital (Tier 1) included common shareholders' equity and qualifying preferred stock, less goodwill, most intangible assets and other adjustments. Supplementary capital (Tier 2) consisted of preferred stock not qualifying as Tier 1 capital, qualifying mandatory convertible debt securities, limited amounts of subordinated debt, other qualifying term debt and allowances for credit losses, subject to limitations. Market risk capital (Tier 3) included qualifying unsecured subordinated debt. Assets and off-balance sheet exposures were assigned to one of four categories of risk-weights, based primarily upon relative credit risk. Risk-based capital ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets.

New capital rules were effective for banks and bank holding companies, including BOK Financial on January 1, 2015 as part of a package of regulatory reforms developed by the Basel Committee on Banking Supervision ("BCBS") to strengthen the regulation, supervision and risk management of the banking sector, commonly referred to as the Basel III framework. Components of these rules will phase in through January 1, 2019. The new capital rules reduced instruments that qualify as regulatory capital and generally increased risk weighted assets. The new capital rules established a 7% threshold for common equity Tier 1 ratio consisting of a minimum level plus a capital conservation buffer. The rules also changed both the Tier 1 risk based capital requirements and the total risk based requirements to a minimum of 6% and 8%, respectively, plus a capital conservation buffer of 2.5% totaling 8.5% and 10.5%, respectively. The Company elected to exclude unrealized gains and losses from available for sale securities from its calculation of Tier 1 capital, consistent with the treatment under previous capital rules.

As of December 31, 2015, BOK Financial's common equity Tier 1 ratio was 12.13%. BOK Financial's Tier 1 and total capital were 12.13% and 13.30%, respectively.

The leverage ratio is determined by dividing Tier 1 capital by adjusted average total assets. Banking organizations are required to maintain a ratio of at least 4%. A bank which falls below these levels, including the capital conservation buffer, would be subject to regulatory restrictions on capital distributions (including but not limited to dividends and share repurchases) and executive bonus payments. BOK Financial's leverage ratio at December 31, 2015 was 9.25%.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (the “FDICIA”), among other things, identifies five capital categories for insured depository institutions from well capitalized to critically undercapitalized and requires the respective federal regulatory agencies to implement systems for prompt corrective action for institutions failing to meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive covenants on operations, management and capital distributions, depending upon the category in which an institution is classified. The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, Tier 1 risk-based capital and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under these guidelines, the Bank was considered well capitalized as of December 31, 2015.

Liquidity Requirements

The Basel III framework also requires bank holding companies and banks to measure their liquidity against specific liquidity tests. One test, referred to as the liquidity coverage ratio, is designed to ensure that the banking entity maintains a prescribed minimum level of unencumbered high-quality liquid assets equal to expected net cash outflows as defined. The other test, referred to as the net stable funding ratio, is designed to promote greater reliance on medium and long term funding sources.

On September 3, 2014, U.S. federal banking agencies published the final rule covering Liquidity Risk Management Standards that would standardize minimum liquidity requirements for internationally active banking organizations as defined (generally those with total consolidated assets in excess of $250 billion) as well as modified liquidity requirements for other banking organizations with total consolidated assets in excess of $50 billion that are not internationally active. Although the final rule does not apply to banking organizations with total assets less than $50 billion, including the Company, if growth in the balance sheet of the Company were to approach the $50 billion threshold, the costs of such liquidity regulations would begin to be realized.

Stress Testing

As required by the Dodd-Frank Act, the Federal Reserve published regulations that require bank holding companies with $10 billion to $50 billion in assets to perform annual capital stress tests. The requirements for annual capital stress test became effective for the Company in the fourth quarter of 2013. The Dodd-Frank Act Stress Test ("DFAST") is a forward-looking exercise under which the Company and its banking subsidiary estimate the impact of a hypothetical severely adverse macroeconomic scenario provided by the Federal Reserve and the Office of the Comptroller of the Currency on its financial condition and regulatory capital ratios over a nine-quarter time horizon. Under the scenario provided by the regulatory agencies for the Company's most recently completed stress test, all capital ratio measures remain comfortably above the minimum regulatory thresholds. Additional information concerning the annual stress test may be found on the Company's Investor Relations page at www.bokf.com under the "Presentations" tab. The results of future capital stress tests may place constraints on capital distributions or increases in required regulatory capital under certain circumstances.

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

Executive and Incentive Compensation

Guidelines adopted by federal banking agencies prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. The Federal Reserve Board has issued comprehensive guidance on incentive compensation intended to ensure that the incentive compensation policies do not undermine safety and soundness by encouraging excessive risk taking. This guidance covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, based on key principles that (i) incentives do not encourage risk-taking beyond the organization's ability to identify and manage risk, (ii) compensation arrangements are compatible with effective internal controls and risk management, and (iii) compensation arrangements are supported by strong corporate governance, including active and effective board oversight. Deficiencies in compensation practices may affect supervisory ratings and enforcement actions may be taken if incentive compensation arrangements pose a risk to safety and soundness.

Deposit Insurance

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

reserve ratio on depository institutions with total assets of less than $10 billion. The Dodd-Frank Act provided the FDIC flexibility in implementation of the increase in the designated reserve ratio, but it will ultimately result in increased deposit insurance costs to the Company. The Dodd-Frank Act also required that the FDIC redefine the assessment base to average consolidated assets minus average tangible equity.

Dividends

A key source of liquidity for BOK Financial is dividends from the Bank, which is limited by various banking regulations to net profits, as defined, for the year plus retained profits for the preceding two years. Dividends are further restricted by minimum capital requirements and the Company's internal capital policy. The Bank's dividend limitations are discussed under the heading “Liquidity and Capital” within “Management's Discussion and Analysis of Financial Condition and Results of Operations”.

Source of Strength Doctrine

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

Transactions with Affiliates

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

Covered transactions with affiliates are also subject to collateralization requirements and must be conducted on arm’s length terms. Covered transactions include (a) a loan or extension of credit by the banking subsidiary, including derivative contracts, (b) a purchase of securities issued to a banking subsidiary, (c) a purchase of assets by the banking subsidiary unless otherwise exempted by the Federal Reserve, (d) acceptance of securities issued by an affiliate to the banking subsidiary as collateral for a loan, and (e) the issuance of a guarantee, acceptance or letter of credit by the banking subsidiary on behalf of an affiliate.

Bank Secrecy Act and USA PATRIOT Act

The Bank Secrecy Act (“BSA”) and the The USA PATRIOT Act of 2001 (“PATRIOT Act”) imposes many requirements on financial institutions in the interest of national security and law enforcement. BSA requires banks to maintain records and file suspicious activity reports that are of use to law enforcement and regulators in combating money laundering and other financial crimes. The PATRIOT Act is intended to deny terrorists and criminals the ability to access the U.S. financial services system and places significantly greater requirements on financial institutions. Financial institutions, such as the Company and its subsidiaries, must have a designated BSA Officer, internal controls, independent testing and training programs commensurate with their size and risk profile. As part of its internal control program, a financial institution is expected to have effective customer due diligence and enhanced due diligence requirements for high-risk customers, as well as processes to prohibit transaction with entities subject to Office of Foreign Asset Control sanctions. Documentation and recordkeeping requirements, as well as system requirements, aimed at identifying and reporting suspicious activity reporting, must increase with the institution's size and complexity. Failure to implement or maintain adequate programs and controls to combat terrorist financing and money laundering may have serious legal, financial, and reputational consequences.

Governmental Policies and Economic Factors

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

In response to the significant recession in business activity which began in 2007, the Federal Reserve took aggressive actions to reduce interest rates and provide liquidity. While many of the crisis-related programs have expired or been closed, government legislation and policies continue to be accommodative, including increases in government spending, reduction of certain taxes and promotion of home affordability programs.

The Federal Reserve completed its bond purchase program designed to reduce longer-term rates in October of 2014, although it continues to maintain an accommodative policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and to rollover maturing Treasury securities. The Federal Reserve has indicated that it will likely foster a low-interest rate environment for a considerable time, dependent on inflation and employment levels the progress. The short-term effectiveness and long-term impact of these programs on the economy in general and on BOK Financial Corporation in particular are uncertain.

Foreign Operations

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

ITEM 1A. RISK FACTORS

BOK Financial Corporation and its subsidiaries could be adversely affected by risks and uncertainties that could have a material impact on its financial condition and results of operations, as well as on its common stock and other financial instruments. Risk factors which are significant to the Company include, but are not limited to:

General and Regulatory Risk Factors

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

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

- deterioration of BOK Financial's asset quality;
- deterioration in general economic conditions, especially in BOK Financial's core markets;
- inability to control BOK Financial's non-interest expenses;
- inability to increase non-interest income;
- inability to access capital;
- decreases in net interest margins;
- increases in competition;
- adverse regulatory developments.

Substantial competition could adversely affect BOK Financial.

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

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

Government regulations could adversely affect BOK Financial.

BOKF and BOKF, NA are subject to banking laws and regulations that limit the type of acquisitions and investments that we may make. In addition, certain permitted acquisitions and investments are subject to prior review and approval by banking regulators, including the Federal Reserve, OCC and FDIC. Banking regulators have broad discretion on whether to approve proposed acquisitions and investments. In deciding whether to approve a proposed acquisition, federal banking regulators will consider, among other things, the effect of the acquisition on competition; the convenience and needs of the communities to be served, including our record of compliance under the Community

Reinvestment Act; and our effectiveness in combating money laundering. They will also consider our financial condition and our future prospects, including projected capital ratios and levels; the competence, experience, and integrity of our management; and our record of compliance with laws and regulations.

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

Regulatory authorities may change their interpretation of these statutes and regulations and are likely to increase their supervisory activities, including the OCC, our primary regulator, and the CFPB, our new regulator for certain designated consumer laws and regulations. Violations of laws and regulations could limit the growth potential of BOK Financial's businesses. We have made extensive investments in human and technological resources to address enhanced regulatory expectations, including investments in the areas of risk management, compliance, and capital planning.

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

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

Credit Risk Factors

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

At December 31, 2015, loans to businesses and individuals with collateral primarily located in Texas represented approximately 33% of the total loan portfolio and loans to businesses and individuals with collateral primarily located in Oklahoma represented approximately 24% of our total loan portfolio. These geographic concentrations subject the loan portfolio to the general economic conditions within these areas. Poor economic conditions in Oklahoma, Texas or other markets in the southwest region may cause BOK Financial to incur losses associated with higher default rates and decreased collateral values in BOK Financial's loan portfolio. A regional economic downturn could also adversely affect revenue from brokerage and trading activities, mortgage loan originations and other sources of fee-based revenue.

Extended oil and gas commodity price downturns could negatively effect BOK Financial customers

At December 31, 2015, 19% of BOK Financial's total loan portfolio is comprised of loans to borrowers in the energy industry. The energy industry is historically cyclical and prolonged periods of low oil and gas commodity prices could negatively impact borrowers' ability to pay. In addition, the Company does business in several major oil and natural gas producing states including Oklahoma, Texas and Colorado. The economies of these states could be negatively impacted by prolonged periods of low oil and gas commodity prices resulting in increased credit migration to classified and nonaccruing categories, higher loan loss provisions and risk of credit losses from both energy borrowers and businesses and individuals in those regional economies.

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

Certain industry-specific economic factors also affect BOK Financial. For example, BOK Financial's loan portfolio includes commercial real estate loans. A downturn in the real estate industry in general or in certain segments of the commercial real estate industry in the southwest region could also have an adverse effect on BOK Financial's operations.

Adverse global economic factors could have a negative effect on BOK Financial customers and counter-parties.

Economic conditions globally, including those of the European Union and China, could impact BOK Financial's customers and counter-parties with which we do business. We have no direct exposure to European sovereign debt and our aggregate gross exposure to European financial institutions totaled $8.8 million at December 31, 2015. Our exposure to Chinese financial institution is limited. In addition, we have an aggregate gross exposure to internationally active domestic financial institutions of approximately $200 million at December 31, 2015 composed of $182 million of cash and securities positions and $19 million of gross derivative positions. The financial condition of these institutions is monitored on an on-going basis. We have not identified any significant customer exposures to European sovereign debt, European financial institutions or Chinese financial institutions.

Liquidity and Interest Rate Risk Factors

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

BOK Financial's business is highly sensitive to:

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

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

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

Our available for sale residential mortgage-backed security portfolio represents investment interests in pools of residential mortgages, composing $6.0 billion or 19% of total assets of the Company at December 31, 2015. Residential mortgage-backed securities are highly sensitive to changes in interest rates. BOK Financial mitigates this risk somewhat by investing principally in shorter duration mortgage products, which are less sensitive to changes in interest rates. A significant decrease in interest rates has led mortgage holders to refinance the mortgages constituting the pool backing the securities, subjecting BOK Financial to a risk of prepayment and decreased return on investment due to subsequent reinvestment at lower interest rates. A significant decrease in interest rates has also accelerated premium amortization. Conversely, a significant increase in interest rates could cause mortgage holders to extend the term over which they repay their loans, which delays the Company’s opportunity to reinvest funds at higher rates.

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

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

BOK Financial derives a substantial amount of revenue from mortgage banking activities, including $78 million from the production and sale of mortgage loans, $56 million from the servicing of mortgage loans and $34 million from sales of financial instruments to other mortgage lenders in 2015. These activities, as well our substantial holdings of residential mortgage backed securities and mortgage servicing rights may be adversely affected by changes in government policies and programs.

In addition, as part of BOK Financial's mortgage banking business, BOK Financial has substantial holdings of mortgage servicing rights, totaling $219 million or 0.69% of total assets at December 31, 2015. The value of these rights is also very sensitive to changes in interest rates. Falling interest rates tend to increase loan prepayments, which may lead to cancellation of the related servicing rights. BOK Financial attempts to manage this risk by maintaining an active hedging program for its mortgage servicing rights. The Company's hedging program focuses on partially hedging the risk of changes in fair value, primarily related to changes mortgage interest rates. Other factors, such as short-term interest rates, also impact the value of mortgage servicing rights, may not be hedged. The value of mortgage servicing rights may also decrease due to rising delinquency or default of the loans serviced which are not hedged. This risk is mitigated somewhat by adherence to underwriting standards on loans originated for sale.

Market disruptions could impact BOK Financial’s funding sources.

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

Operating Risk Factors

Dependence on technology increases cybersecurity risk.

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

We depend on third parties for critical components of our infrastructure.

We outsource a significant portion of our information systems, communications, data management and transaction processing to third parties. These third parties are sources of risk associated with operational errors, system interruptions or breaches, unauthorized disclosure of confidential information and misuse of intellectual property. If the service providers encounter any of these issues, we could be exposed to disruption of service, reputation damages, and litigation risk that could be material to our business.

Risks Related to an Investment in Our Stock

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

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

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

Mr. George B. Kaiser owns approximately 61% of the outstanding shares of BOK Financial's common stock at December 31, 2015. Mr. Kaiser is able to elect all of BOK Financial's directors and effectively control the vote on all matters submitted to a vote of BOK Financial's common shareholders. Mr. Kaiser's ability to prevent an unsolicited bid for BOK Financial or any other change in control could have an adverse effect on the market price for BOK Financial's common stock. A substantial majority of BOK Financial's directors are not officers or employees of BOK Financial or any of its affiliates. However, because of Mr. Kaiser's control over the election of BOK Financial's directors, he could change the composition of BOK Financial's Board of Directors so that it would not have a majority of outside directors.

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

Mr. Kaiser has the right to sell shares of BOK Financial's common stock in compliance with the federal securities laws at any time, or from time to time. The federal securities laws will be the only restrictions on Mr. Kaiser's ability to sell. Because of his current control of BOK Financial, Mr. Kaiser could sell large amounts of his shares of BOK Financial's common stock by causing BOK Financial to file a registration statement that would allow him to sell shares more easily. In addition, Mr. Kaiser could sell his shares of BOK Financial's common stock without registration under Rule 144 of the Securities Act. Although BOK Financial can make no predictions as to the effect, if any, that such sales would have on the market price of BOK Financial's common stock, sales of substantial amounts of BOK Financial's common stock, or the perception that such sales could occur, could adversely affect market prices. If Mr. Kaiser sells or transfers his shares of BOK Financial's common stock as a block, another person or entity could become BOK Financial's controlling shareholder.

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

A substantial portion of BOK Financial's cash flow typically comes from dividends paid by the Bank. Statutory provisions and regulations restrict the amount of dividends the Bank may pay to BOK Financial without regulatory approval. Management also developed, and the BOK Financial board of directors approved, an internal capital policy that is more restrictive than the regulatory capital standards. In the event of liquidation, creditors of the Bank and other non-bank subsidiaries of BOK Financial are entitled to receive distributions from the assets of that subsidiary before BOK Financial, as holder of an equity interest in the subsidiaries, is entitled to receive any distributions.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

BOK Financial and its subsidiaries own and lease improved real estate that is carried at $178 million, net of depreciation and amortization. The Company’s principal offices are located in leased premises in the Bank of Oklahoma Tower in Tulsa, Oklahoma. Banking offices are primarily located in Tulsa and Oklahoma City, Oklahoma; Dallas, Fort Worth and Houston, Texas; Albuquerque, New Mexico; Denver, Colorado; Phoenix, Arizona; and Kansas City, Kansas/Missouri. Primary operations facilities are located in Tulsa and Oklahoma City, Oklahoma; Dallas, Texas and Albuquerque, New Mexico. The Company’s facilities are suitable for their respective uses and present needs.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

BOK Financial’s $0.00006 par value common stock is traded on the NASDAQ Stock Market under the symbol BOKF. As of January 31, 2016, common shareholders of record numbered 798 with 66,119,435 shares outstanding.

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

	First	Second	Third	Fourth
2015:				
Low	$53.37	$60.18	$57.09	$58.92
High	61.67	70.72	70.15	72.44
Cash dividends declared	0.42	0.42	0.42	0.43
2014:				
Low	$62.34	$62.18	$63.47	$57.87
High	69.69	70.18	68.71	62.28
Cash dividends declared	0.40	0.40	0.40	0.42

Shareholder Return Performance Graph

Set forth below is a line graph comparing the change in cumulative shareholder return of the NASDAQ Index, the NASDAQ Bank Index, and the KBW 50 Bank Index for the period commencing December 31, 2010 and ending December 31, 2015.*

	Period Ending December 31,					
Index	2010	2011	2012	2013	2014	2015
BOK Financial Corporation	100.00	105.19	109.01	136.04	126.24	129.04
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
NASDAQ Bank Index	100.00	89.50	106.23	150.55	157.95	171.92
KBW 50	100.00	76.82	102.19	140.78	153.96	154.73

* Graph assumes value of an investment in the Company's Common Stock for each index was $100 on December 31, 2010. The KBW 50 Bank index is the Keefe, Bruyette & Woods, Inc. index, which is available only for calendar quarter end periods. Cash dividends on Common Stock are assumed to have been reinvested in BOK Financial Common Stock.

The following table provides information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of the Company's common stock during the three months ended December 31, 2015.

Period	Total Number of Shares Purchased [2]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	Maximum Number of Shares that May Yet Be Purchased Under the Plans
October 1, 2015 to October 31, 2015	47,720	$67.36	40,000	4,960,000
November 1, 2015 to November 30, 2015	424,340	$68.90	423,000	4,537,000
December 1, 2015 to December 31, 2015	1,416,069	$62.88	1,411,074	3,125,926
Total	1,888,129		1,874,074	

[1] On October 1, 2015, the Company's board of directors authorized the Company to repurchase up to five million shares of the Company's common stock. As of December 31, 2015, the Company had repurchased 1,874,074 shares under this plan. Future repurchases of the Company's common stock will vary based on market conditions, regulatory limitations and other factors.

[2] The Company routinely repurchases shares from employees to cover the exercise price and taxes in connection with employee shared-based compensation.

ITEM 6. SELECTED FINANCIAL DATA

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

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

	December 31, 2015	2014	2013	2012	2011
Selected Financial Data					
For the year:					
Interest revenue	$766,828	$732,239	$745,371	$794,871	$813,146
Interest expense	63,474	67,045	70,894	87,322	120,101
Net interest revenue	703,354	665,194	674,477	707,549	693,045
Provision for for credit losses	34,000	—	(27,900)	(22,000)	(6,050)
Fees and commissions revenue	659,019	621,319	603,844	628,880	527,093
Net income attributable to BOK Financial Corporation shareholders	288,565	292,435	316,609	351,191	285,875
Period-end:					
Loans	15,941,154	14,208,037	12,792,264	12,311,456	11,269,743
Assets	31,476,128	29,089,698	27,015,432	28,148,631	25,493,946
Deposits	21,088,158	21,140,859	20,269,327	21,179,060	18,762,580
Subordinated debentures	226,350	347,983	347,802	347,633	398,881
Shareholders' equity	3,230,556	3,302,179	3,020,049	2,957,860	2,750,468
Nonperforming assets[1]	251,908	256,617	247,743	276,716	356,932
Profitability Statistics					
Earnings per share (based on average equivalent shares):					
Basic	$4.22	$4.23	$4.61	$5.15	$4.18
Diluted	4.21	4.22	4.59	5.13	4.17
Percentages (based on daily averages):					
Return on average assets	0.94 %	1.04 %	1.16 %	1.34 %	1.17 %
Return on average total equity	8.66	9.20	10.59	12.19	10.81
Average total equity to average assets	11.03	11.47	11.00	11.05	10.95
Common Stock Performance					
Per Share:					
Book value per common share	$49.03	$47.78	$43.88	$43.29	$40.36
Market price: December 31 close	59.79	60.04	66.32	54.46	54.93
Market range – High close bid price	72.44	70.18	69.36	59.77	56.30
Market range – Low close bid price	53.37	57.87	55.05	52.56	44.00
Cash dividends declared	1.69	1.62	1.54	2.47 [4]	1.13
Dividend payout ratio	40.03 %	38.35 %	33.43 %	48.01 %[4]	27.01 %

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

	December 31, 2015	2014	2013	2012	2011
Selected Balance Sheet Statistics					
Period-end:					
Common equity Tier 1 ratio[2]	12.13 %	N/A	N/A	N/A	N/A
Tier 1 capital ratio[2]	12.13 %	13.33 %	13.77 %	12.78 %	13.27 %
Total capital ratio[2]	13.30	14.66	15.56	15.13	16.49
Leverage ratio[2]	9.25	9.96	10.05	9.01	9.15
Allowance for loan losses to nonaccruing loans[5]	180.09	245.34	184.71	160.92	125.93
Allowance for loan losses to loans	1.41	1.33	1.45	1.75	2.25
Combined allowances for credit losses to loans [3]	1.43	1.34	1.47	1.77	2.33
Miscellaneous (at December 31)					
Number of employees (full-time equivalent)	4,789	4,743	4,632	4,704	4,511
Number of banking locations	152	182	206	217	212
Number of TransFund locations	1,972	2,080	1,998	1,970	1,912
Fiduciary assets	$38,333,638	$35,997,877	$30,137,092	$25,829,038	$22,821,813
Mortgage loans serviced for others	19,678,226	16,162,887	13,718,942	11,981,624	11,300,986

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

[2] Risk-based capital ratios for 2015 calculated under revised regulatory capital rules issued July 2013 and effective for the Company on January 1, 2015. Previous risk-based ratios presented are calculated in accordance with then current regulatory capital rules.

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

[4] Includes $1.00 per share special dividend.

[5] Excludes residential mortgage loans guaranteed by agencies of the U.S. government.

Management's Assessment of Operations and Financial Condition

Overview

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

Economic activity expanded at a solid pace and unemployment continued to improve during 2015. National unemployment rates were 5.0% in December of 2015 compared to 5.6% in December of 2014. Inflationary pressure have remained subdued and the U.S. government has continued to provide accommodative economic policy to support growth in the economy and further reduction in the unemployment rate. According to the minutes of the Federal Open Market Committee ("FOMC") of the Federal Reserve for December, household spending and business investment has expanded at a moderate rate toward the end of 2015 and the housing sector has improved, but net exports have been

soft and inventory investment has slowed. Investment returns for 2015 were flat for large cap U.S. equities, bonds, and developed international markets. Total return was negative for small cap U.S. stocks and down double digits for emerging market equities. And although the S&P 500 was flat, there was considerable volatility during the year.

The FOMC voted to raise the target range for the federal funds rate by ¼ percentage point, bringing it to ¼ to ½ percent, ending an extraordinary seven-year period during which the federal funds rate was held near zero to support the recovery of the economy from the worst financial crisis and recession since the Great Depression. The long end of the yield curve remains under pressure due to weakness in Europe and Japan and the curve will likely continue to flatten in 2016. The continued low interest rate environment has continued to present challenges for all financial institutions as cash flows from loan and securities portfolios are reinvested at current rates and competition for high-quality borrowers has been significant.
Increases in the global supply of oil and other factors caused energy prices to continue to decline in 2015. West Texas Intermediate crude oil fell from a high just below $108/bbl in June 2014 to a low of $27/bbl in January 2016. The longer the

prices remain in a sustained downturn, energy borrowers and the local economies in our geographical footprint will be more significantly impacted.

Performance Summary

Net income for the year ended December 31, 2015 totaled $288.6 million or $4.21 per diluted share compared with net income of $292.4 million or $4.22 per diluted share for the year ended December 31, 2014.

Highlights of 2015 included:

- Net interest revenue totaled $703.4 million for 2015, up from $665.2 million for 2014. Growth in average earning assets primarily related to growth in average loans was partially offset by the impact of lower average rates. Net interest margin was 2.60% for 2015 compared to 2.68% for 2014.
- Fees and commissions revenue increased $37.7 million or 6% over 2014 to $659.0 million for 2015. Mortgage banking revenue increased $25.3 million primarily due to a record level of mortgage loan originations during the year. Fiduciary and asset management revenue grew by $10.5 million due to acquisitions and organic growth.
- Operating expenses totaled $904.6 million, an increase of $57.0 million or 7% over the prior year. Personnel costs increased $46.6 million. Deferred compensation expense for 2014 included a $12.6 million net reduction in the accrual for amounts payable to certain executive officers of the Company under the 2011 True-Up Plan. In addition, cash-based incentive compensation and regular salaries also increased over the prior year. Non-personnel expenses increased $10.5 million or 3% over the prior year due to increased mortgage banking and data processing and communications expense.
- After evaluating all credit factors, the Company determined that a $34.0 million provision for credit losses was necessary in 2015, primarily due to credit migration in the energy portfolio and overall loan portfolio growth. No provision for credit losses was necessary in 2014. The Company had a net recovery of $2.9 million or (0.02)% of average loans for 2015 compared to a net recovery of $2.8 million or (0.02)% of average loans for 2014. Gross charge-offs decreased to $15.2 million in 2015 from $16.2 million in 2014.
- The combined allowance for credit losses totaled $227 million or 1.43% of outstanding loans at December 31, 2015 compared to $190 million or 1.34% of outstanding loans at December 31, 2014.
- Nonperforming assets not guaranteed by U.S. government agencies totaled $156 million or 0.99% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at December 31, 2015 and $129 million or 0.92% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at December 31, 2014. Excluding assets guaranteed by U.S. government agencies, nonaccruing loans increased $48 million and repossessed assets decreased $21 million during 2015.
- Period-end outstanding loan balances were $15.9 billion at December 31, 2015, an increase of $1.7 billion over the prior year. Commercial loan balances grew by $1.2 billion or 13% and commercial real estate loans increased $531 million or 19%. Residential mortgage loans decreased $73 million. Personal loans increased $118 million.
- Period-end deposits totaled $21.1 billion at December 31, 2015, largely unchanged compared to December 31, 2014. Demand deposit accounts increased by $231 million, offset by a $115 million decrease in interest-bearing transaction deposits and a $203 million decrease in time deposit balances.
- New regulatory capital rules were effective for BOK Financial on January 1, 2015 and established a 7% threshold for the common equity Tier 1 ratio. The Company's common equity Tier 1 capital ratio was 12.13% at December 31, 2015. In addition, the Company's Tier 1 capital ratio was 12.13%, total capital ratio was 13.30% and leverage ratio was 9.25% at December 31, 2015. At December 31, 2014, the Company's Tier 1 capital ratio was 13.33% at December 31, 2014, the total capital ratio was 14.66% and the leverage ratio was 9.96%. The decrease in capital ratios was primarily due to share repurchases. The Company repurchased 3,634,578 shares at an average price of $63.15 per share.
- The Company paid cash dividends of $1.69 per common share during 2015 and $1.62 per common share in 2014.

Net income for the fourth quarter of 2015 totaled $59.6 million or $0.89 per diluted share compared to $64.3 million or $0.93 per diluted share for the fourth quarter of 2014.

Highlights of the fourth quarter of 2015 included:

- Net interest revenue totaled $181.3 million for the fourth quarter of 2015, up $11.6 million over the fourth quarter of 2014. Net interest margin was 2.64% for the fourth quarter of 2015 compared to 2.61% for the fourth quarter of 2014. Net interest revenue increased primarily due to the growth in average loan balances, partially offset by a decrease in available for sale securities and interest-bearing cash and cash equivalent balances. An increase in the yield on the available for sale securities portfolio and lower funding costs was partially offset by a decrease in loan yields.
- Fees and commissions revenue was $155.8 million for the fourth quarter of 2015 compared to $157.9 million for the fourth quarter of 2014. Mortgage banking revenue was $5.1 million lower than in the fourth quarter of 2014, partially offset by growth in all other fee categories.
- Operating expenses totaled $232.6 million, an increase of $6.7 million over the prior year, primarily due to increased personnel expense compared to the fourth quarter of 2014. Incentive compensation expense, employee healthcare costs and regular salaries expense all increased over the prior year. The fourth quarter of 2014 included $4.9 million of branch closure costs and a $1.8 million contribution of developed commercial real estate to the BOKF Foundation.
- A $22.5 million provision for credit losses was recorded in the fourth quarter of 2015 due to credit migration and increased impairment in the energy loan portfolio. No provision for credit losses was recorded in the fourth quarter of 2014. Net charge-offs totaled $3.0 million in the fourth quarter of 2015 compared to $2.2 million in the fourth quarter of 2014. Gross charge-offs were $4.9 million compared to $7.2 million in the prior year.

Critical Accounting Policies & Estimates

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

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

The appropriateness of the allowance for loan losses and accrual for off-balance sheet credit risk is assessed quarterly by management based on an ongoing evaluation of the probable estimated losses inherent in the loan portfolio and probable estimated losses on unused commitments to provide financing. A consistent, well-documented methodology has been developed and is applied by an independent Credit Administration department to assure consistency across the Company. The allowance for loan losses consists of specific allowances attributed to certain impaired loans that have not yet been charged down to amounts we expect to recover, general allowances for unimpaired loans that are based on estimated loss rates by loan class and nonspecific allowances for risks beyond factors specific to a particular portfolio segment or loan class. There have been no material changes in the approach or techniques utilized in developing the allowance for loan losses and accrual for off-balance sheet credit risk during 2015.

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

performance status. Generally, non-risk graded loans are considered impaired when 90 or more days past due, in bankruptcy or modified in a troubled debt restructuring.

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

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

Nonspecific allowances are maintained for risks beyond factors specific to a particular portfolio segment or loan class. These factors include trends in the economy in our primary lending areas, concentrations in loans with large balances and other relevant factors.

Fair Value Measurement

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

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

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

measurement and disclosure included in the Consolidated Financial Statements.

Mortgage Servicing Rights

We have a significant investment in mortgage servicing rights. Our mortgage servicing rights are primarily retained from sales in the secondary market of residential mortgage loans we have originated or purchased from correspondent lenders. Occasionally mortgage servicing rights may be purchased from other lenders. Both originated and purchased mortgage servicing rights are initially recognized at fair value. We carry all mortgage servicing rights at fair value. Changes in fair value are recognized in earnings as they occur.

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

The assumptions used in this model are primarily based on mortgage interest rates. Evaluation of the effect of a change in one assumption without considering the effect of that change on other assumptions is not meaningful. Considering all related assumptions, we expect a 50 basis point increase in primary mortgage interest rates to increase the fair value of our servicing rights by $17 million. We expect a $19 million decrease in the fair value of our mortgage servicing rights from a 50 basis point decrease in primary mortgage interest rates.

Valuation of Derivative Instruments

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

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

Valuation of Securities

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

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

The underlying methods used by the third-party pricing services are considered in determining the primary inputs used to determine fair values. We evaluate the methodologies employed by the third-party pricing services by comparing the price provided by the pricing service with other sources, including brokers' quotes, sales or purchases of similar instruments and discounted cash flows to establish a basis for reliance on the pricing service values. Significant differences between the pricing service provided value and other sources are discussed with the pricing service to understand the basis for their values. Based on all observable inputs, management may adjust prices obtained from third-party pricing services to more appropriately reflect the prices that would be received to sell assets or paid to transfer liabilities in orderly transactions in the current market. No significant adjustments were made to prices provided by third-party pricing services at December 31, 2015 or December 31, 2014.

Valuation of Impaired Loans and Real Estate and Other Repossessed Assets

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

The fair value of mineral rights is generally determined by our internal staff of engineers based on projected cash flows from proven oil and gas reserves under existing economic and operating conditions. Proven oil and gas reserves are estimated quantities that geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs using existing prices and costs. Projected cash flows incorporate assumptions related to a number of factors including production, sales prices, operating expenses, severance, ad valorem taxes, capital costs and appropriate discount rate. Fair values determined through this process are considered to be based on Level 3 inputs.

Goodwill Impairment

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

We perform a qualitative assessment that evaluates, based on the weight of the evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of our reporting units are less than their carrying amounts, including goodwill. This qualitative assessment considers general economic conditions including trends in unemployment rates in our primary geographical areas, our earnings and stock price changes during the year, current and anticipated credit quality performance and the prolonged low interest rate environment and the impact of increased regulation. The qualitative assessment is supplemented by quantitative analysis that compares the Company's overall performance and each individual reporting unit's performance against prior period actual results and management's plans, and the excess of each reporting unit's most recently measured fair value over its carrying value, including goodwill attributed to the reporting unit.

If we conclude that it is not more likely than not that the fair value of each reporting unit is less than its carrying amount, including goodwill through the qualitative assessment, we perform a quantitative assessment. The quantitative assessment considers goodwill to be impaired if the estimated fair value of the reporting unit is less than its carrying value, including goodwill. Impairment is measured through additional assessment of the estimated fair values for each asset and liability assigned to the reporting unit when necessary.

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

Other-Than-Temporary Impairment

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

We consider the principal and interest cash flows from the underlying loan pool as well as the remaining credit enhancement coverage as part of our assessment of cash flows available to recover the amortized cost of our securities. The credit enhancement coverage is an estimate of currently remaining subordinated tranches available to absorb losses on pools of loans that support the security. Credit losses, which are defined as the excess of current amortized cost over the present value of projected cash flows, on other-than-temporarily impaired debt securities are recognized as a charge against earnings. Any remaining impairment attributed to factors other than credit losses are recognized in accumulated other comprehensive losses.

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

We performed a sensitivity analysis of all privately issued residential mortgage-backed securities. Significant assumptions of this analysis included an increase in the unemployment rate to 10% with an additional 25.4% home price depreciation indicates an additional $300 thousand of credit losses are possible.

Impaired equity securities, including perpetual preferred stocks, are evaluated based on our ability and intent to hold the securities until fair value recovers over a period not to exceed three years. The assessment of the ability and intent to hold these securities considers liquidity needs, asset / liability management objectives and securities portfolio objectives. Factors considered when assessing recovery include forecasts of general economic conditions and specific performance of the issuer, analyst ratings, and credit spreads for preferred stocks which have debt-like characteristics.

Income Taxes

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

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

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

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

Results of Operations

Net Interest Revenue and Net Interest Margin

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

Tax-equivalent net interest revenue totaled $715.8 million for 2015, up from $676.1 million for 2014. Net interest margin was 2.60% for 2015 and 2.68% for 2014. Tax-equivalent net interest revenue increased $39.7 million over the prior year. Net interest revenue increased $60.1 million from growth in earning assets, partially offset by a $20.4 million decrease due to rates. Loan yields narrowed, partially offset by lower funding costs and increased yield on the available for sale securities portfolio. Table 2 shows the effects on net interest revenue of changes in average balances and interest rates for the various types of earning assets and interest-bearing liabilities. In addition, see the Annual and Quarterly Financial Summary of consolidated daily average balances, yields and rates following the Consolidated Financial Statements.

The tax-equivalent yield on earning assets was 2.84% for 2015 compared to 2.95% in 2014. The decrease was primarily due to the change in the mix of earning asset during 2015. Loan yields decreased 23 basis points compared to the prior year primarily due to market pricing pressure and lower interest rates during the majority of 2015. The available for sale securities portfolio yield increased 4 basis points to 1.99%. Yields on restricted equity securities, fair value option securities and interest-bearing cash and cash equivalents all improved over the prior year. Funding costs were down 6 basis points compared to 2014. The cost of interest-bearing deposits decreased 6 basis points, while the cost of other borrowed funds increased 5 basis points largely due to the mix of funding sources. The cost of subordinated debentures decreased 66 basis points as $122 million of fixed-rate subordinated debt matured on June 1, 2015. The cost of this subordinated debt was 5.56%. The benefit to net interest margin from earning assets funded by non-interest bearing liabilities was 11 basis points for 2015, compared to 14 basis points for 2014.

Average earning assets for 2015 increased $2.4 billion or 9% over 2014. Average loans, net of allowance for loan losses, increased $1.6 billion due primarily to growth in average commercial and commercial real estate loans. The average balance of interest-bearing cash and cash equivalents was up $904 million over the prior year, as borrowings from the Federal Home Loan Bank were deposited in the Federal Reserve to earn a spread. The average balance of available for sale securities, which consists largely of residential and commercial mortgage-backed securities guaranteed by U.S. government agencies, decreased $620 million. We purchase securities to supplement earnings and to manage interest rate risk. We reduced the size of our bond portfolio during 2014 and 2015 through normal monthly runoff to better position the balance sheet for an environment of rising longer-term rates. Our outlook for earning assets is for continued growth in loan balances, partially offset by a reduction in the securities portfolio balance. We expect mid to high single digit annualized loan growth for 2016 and a decrease in the size of the bond portfolio as we migrate toward interest rate neutral. We expect stable to rising net interest margin and increasing net interest revenue.

Growth in average assets was funded by a $518 million increase in average deposits. Average demand deposit balances increased $361 million over the prior year. Average interest-bearing transaction accounts were up $182 million, partially offset by a $57 million decrease in average time deposits. Average borrowed funds increased $1.7 billion over the prior year. Borrowings from the Federal Home Loan Banks increased $3.0 billion, partially offset by decreased funds purchased, repurchase agreements and subordinated debenture balances compared to the prior year.

Our overall objective is to manage the Company's balance sheet to be relatively neutral to changes in interest rates as is further described in the Market Risk section of this report. As shown in Table 20, approximately 82% of our commercial and commercial real estate loan portfolios are either variable rate loans or fixed rate loans 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 2 and in the interest rate sensitivity projections as shown in the Market Risk section of this report.

Fourth Quarter 2015 Net Interest Revenue

Tax-equivalent net interest revenue totaled $184.5 million for the fourth quarter of 2015, up from $172.5 million for the fourth quarter of 2014. Net interest margin was 2.64% for the fourth quarter of 2015 and 2.61% for the fourth quarter of 2014.

Tax-equivalent net interest revenue increased $12.0 million over the fourth quarter of 2014. Net interest revenue increased $15.4 million primarily due to the growth in average loan balances, partially offset by a decrease in available for sale securities and interest-bearing cash and cash equivalent balances. Net interest revenue decreased $3.4 million due primarily to lower loan yields, partially offset by lower funding costs and increased yield on the available for sale securities portfolio.

The tax-equivalent yield on earning assets was 2.86% for the fourth quarter of 2015, unchanged compared to the fourth quarter of 2014. Loan yields decreased 18 basis points due primarily to continued market pricing pressure and lower interest rates compared to the fourth quarter of 2014. The available for sale securities portfolio yield increased 5 basis points to 2.04%. The yield on interest-bearing cash and cash equivalents increased 1 basis point to 0.29%. Funding costs were down 5 basis points from the fourth quarter of 2014. The cost of interest-bearing deposits decreased 6 basis points and the cost of other borrowed funds increased 9 basis points. The benefit to net interest margin from earning assets funded by non-interest bearing liabilities was 12 basis points in the fourth quarter of 2015 and 14 basis points in the fourth quarter of 2014.

Average earning assets for the fourth quarter of 2015 increased $1.6 billion over the fourth quarter of 2014. Average loans, net of allowance for loan losses, increased $1.7 billion over the fourth quarter of 2014 due primarily to growth in average commercial and commercial real estate loans. The average balance of interest-bearing cash and cash equivalents and available for sale securities decreased compared to the fourth quarter of 2014, partially offset by an increase in the average balance of fair value option securities held as an economic hedge of mortgage servicing rights and restricted equity securities.

Average deposits increased $7.4 million over the fourth quarter of 2014. Average demand deposit balances increased $339 million. Average interest-bearing transaction accounts decreased $203 million and average time deposits decreased $164 million. Average borrowed funds increased $1.6 billion over the fourth quarter of 2014 primarily due to increased Federal Home Loan Bank borrowings.

2014 Net Interest Revenue

Tax-equivalent net interest revenue for 2014 was $676.1 million compared to $684.8 million for 2013. Net interest margin was 2.68% for 2014 compared to 2.80% for 2013. The decrease in net interest margin was due primarily to narrowing loan yields during the year, partially offset by growth in earning assets.

The tax-equivalent yield on average earning assets decreased 14 basis points from 2013. Loan yields decreased 29 basis points. Spreads narrowed primarily due to market pricing pressure. The available for sale securities portfolio yield was down 2 basis points due to cash flow reinvestment at lower rates. The cost of interest-bearing liabilities decreased 2 basis points. The cost of interest-bearing deposits was down 4 basis points and the cost of other borrowed funds increased 3 basis points largely due to the mix of funding sources.

Average earning assets increased $537 million during 2014. Average loans, net of allowance for loan losses, increased $1.1 billion and the average balance of the available for sale securities portfolio decreased $1.2 billion. We began to proactively shrink the size of our securities portfolio beginning in the fourth quarter of 2013 to better position the balance sheet for an environment of rising longer-term rates. The average balance of interest-bearing cash and cash equivalents grew by $624 million over 2013. Growth in average assets was funded by a $692 million increase in average deposit balances and a $20 million decrease in average borrowed funds balances. Average demand deposit account balances grew by $597 million and average interest-bearing transaction account balances grew by $214 million, partially offset by a $151 million decrease in average time deposit balances. At the end of August 2014, we increased our borrowings from the Federal Home Loan Banks by approximately $1.5 billion, earning a small spread by depositing the proceeds in the Federal Reserve. Increased borrowings from the Federal Home Loan Banks and increased repurchase agreement balances were offset by a decrease in average funds purchased compared to 2013.

Table 2 – Volume/Rate Analysis
(In thousands)

	Year Ended December 31, 2015 / 2014			Year Ended December 31, 2014 / 2013		
		Change Due To[1]			Change Due To[1]	
	Change	Volume	Yield / Rate	Change	Volume	Yield /Rate
Tax-equivalent interest revenue:						
Interest-bearing cash and cash equivalents	$2,831	$2,331	$500	$1,674	$1,417	$257
Trading securities	535	625	(90)	(176)	(813)	637
Investment securities:						
Taxable securities	(251)	172	(423)	(1,077)	(670)	(407)
Tax-exempt securities	(814)	(579)	(235)	461	1,281	(820)
Total investment securities	(1,065)	(407)	(658)	(616)	611	(1,227)
Available for sale securities:						
Taxable securities	(10,341)	(13,401)	3,060	(21,907)	(19,705)	(2,202)
Tax-exempt securities	20	(417)	437	(177)	(778)	601
Total available for sale securities	(10,321)	(13,818)	3,497	(22,084)	(20,483)	(1,601)
Fair value option securities	5,653	5,025	628	(296)	(446)	150
Restricted equity securities	6,492	5,659	833	1,969	(505)	2,474
Residential mortgage loans held for sale	3,459	4,540	(1,081)	1,638	206	1,432
Loans	28,510	61,236	(32,726)	5,413	42,410	(36,997)
Total tax-equivalent interest revenue	36,094	65,191	(29,097)	(12,478)	22,397	(34,875)
Interest expense:						
Transaction deposits	(936)	110	(1,046)	(1,398)	382	(1,780)
Savings deposits	(18)	45	(63)	(41)	33	(74)
Time deposits	(5,559)	(839)	(4,720)	(3,442)	(2,346)	(1,096)
Funds purchased	(276)	(336)	60	(507)	(310)	(197)
Repurchase agreements	(301)	(106)	(195)	80	75	5
Other borrowings	7,109	7,744	(635)	1,510	780	730
Subordinated debentures	(3,590)	(1,537)	(2,053)	(51)	(6)	(45)
Total interest expense	(3,571)	5,081	(8,652)	(3,849)	(1,392)	(2,457)
Tax-equivalent net interest revenue	39,665	60,110	(20,445)	(8,629)	23,789	(32,418)
Change in tax-equivalent adjustment	1,505			654		
Net interest revenue	$38,160			$(9,283)		

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

Table 2 – Volume/Rate Analysis (continued)
(In thousands)

	Three Months Ended December 31, 2015 / 2014		
		Change Due To[1]	
	Change	Volume	Yield / Rate
Tax-equivalent interest revenue:			
Interest-bearing cash and cash equivalents	$(34)	$(77)	$43
Trading securities	(61)	(187)	126
Investment securities:			
Taxable securities	(324)	(164)	(160)
Tax-exempt securities	(173)	(146)	(27)
Total investment securities	(497)	(310)	(187)
Available for sale securities:			
Taxable securities	(304)	(1,507)	1,203
Tax-exempt securities	(118)	(116)	(2)
Total available for sale securities	(422)	(1,623)	1,201
Fair value option securities	1,408	1,306	102
Restricted equity securities	1,270	1,142	128
Residential mortgage loans held for sale	(133)	(120)	(13)
Loans	8,994	15,661	(6,667)
Total tax-equivalent interest revenue	10,525	15,792	(5,267)
Interest expense:			
Transaction deposits	(230)	(138)	(92)
Savings deposits	(7)	10	(17)
Time deposits	(1,896)	(552)	(1,344)
Funds purchased	7	1	6
Repurchase agreements	(41)	(39)	(2)
Other borrowings	2,277	1,691	586
Subordinated debentures	(1,545)	(555)	(990)
Total interest expense	(1,435)	418	(1,853)
Tax-equivalent net interest revenue	11,960	15,374	(3,414)
Change in tax-equivalent adjustment	363		
Net interest revenue	$11,597		

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

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Other Operating Revenue

Other operating revenue was $666.9 million for 2015, up $44.9 million or 7% over 2014. Fees and commissions revenue increased $37.7 million or 6% over 2014. The change in the fair value of mortgage servicing rights, net of economic hedges, decreased other operating revenue by $7.9 million in 2015 and decreased other operating revenue by $3.7 million in 2014. Net gains on available for sale securities were $10.5 million more than net gains recognized in 2014. Other-than-temporary impairment charges recognized in earnings in 2015 were $1.4 million more than charges recognized in 2014.

Table 3 – Other Operating Revenue
(In thousands)

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Brokerage and trading revenue	$129,556	$134,437	$125,478	$126,930	$104,181
Transaction card revenue	128,621	123,689	116,823	107,985	116,757
Fiduciary and asset management revenue	126,153	115,652	96,082	80,053	73,290
Deposit service charges and fees	90,431	90,911	95,110	98,917	95,872
Mortgage banking revenue	134,375	109,093	121,934	169,302	91,643
Bank-owned life insurance	9,304	9,086	10,155	11,089	11,280
Other revenue	40,579	38,451	38,262	34,604	34,070
Total fees and commissions revenue	659,019	621,319	603,844	628,880	527,093
Gain on other assets, net	5,702	2,953	4,875	2,397	8,666
Gain (loss) on derivatives, net	430	2,776	(4,367)	(301)	2,686
Gain (loss) on fair value option securities, net	(3,684)	10,189	(15,212)	9,230	24,413
Change in fair value of mortgage servicing rights	(4,853)	(16,445)	22,720	(9,210)	(40,447)
Gain on available for sale securities, net	12,058	1,539	10,720	33,845	34,144
Total other-than-temporary impairment	(2,443)	(373)	(2,574)	(1,144)	(10,578)
Portion of loss recognized in (reclassified from) other comprehensive income	624	—	266	(6,207)	(12,929)
Net impairment losses recognized in earnings	(1,819)	(373)	(2,308)	(7,351)	(23,507)
Total other operating revenue	$666,853	$621,958	$620,272	$657,490	$533,048

Fees and commissions revenue

Diversified sources of fees and commissions revenue are a significant part of our business strategy and represented 48% of total revenue for 2015, excluding provision for credit losses and gains and losses on asset sales, securities and derivatives and the change in the fair value of mortgage servicing rights. We believe that a variety of fee revenue sources provide an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile. As an example of this strength, many of the economic factors that cause net interest revenue compression such as falling interest rates may also drive growth in our mortgage banking revenue. We expect growth in other operating revenue to come through offering new products and services and by further development of our presence in other markets. 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 decreased $4.9 million compared to the prior year.

Securities trading revenue totaled $44.7 million for 2015, an increase of $4.0 million or 10% over the prior year. 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.

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 $40.9 million for 2015, an increase of $3.1 million or 8% compared to 2014. The volume of derivative contracts sold to our mortgage banking customers used to hedge their pipelines of mortgage loan originations increased as average mortgage rates trended down during 2015. This increase was partially offset by a decrease in revenue from derivative contracts sold to energy customers primarily due to the decrease in energy prices during 2015. The Company also received recoveries from the Lehman Brothers and MF Global bankruptcies related to derivative contract losses incurred in 2008 of $669 thousand during 2015 and $2.2 million during 2014.

Revenue earned from retail brokerage transactions totaled $24.5 million for 2015, a decrease of $9.5 million or 28% compared to the prior year. 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 and applicable commission rate for each type of product. During 2015, activity shifted from sales of products that pay us at a higher commission rate to sales of products that pay us at a lower commission rate. The decrease in revenue from changes in product mix was partially offset by growth in transaction volume. In addition, volume shifted from sales of products that pay us a one-time transaction fee to accounts that pay us an ongoing management fee.

Investment banking, which includes fees earned upon completion of underwriting, financial advisory services and loan syndication fees totaled $19.4 million for 2015, a decrease of $2.5 million or 11% compared to 2014 related to the timing and volume of completed transactions.

Transaction card revenue depends largely on the volume and amount of transactions processed, the number of TransFund automated teller machine (“ATM”) locations and the number of merchants served. Transaction card revenue totaled $128.6 million for 2015, a $4.9 million or 4% increase over 2014. Revenues from the processing of transactions on behalf of the members of our TransFund electronic funds transfer ("EFT") network totaled $65.2 million, up $1.5 million or 2% over 2014, due primarily to increased transaction volumes. The number of TransFund ATM locations totaled 1,972 at December 31, 2015 compared to 2,080 at December 31, 2014. Merchant services fees paid by customers for account management and electronic processing of card transactions totaled $44.3 million, an increase of $3.1 million or 7% over the prior year. The increase was primarily due to higher transaction processing volume throughout our geographical footprint. Revenue from interchange fees paid by merchants for transactions processed from debit cards issued by the Company totaled $19.0 million, an increase of $292 thousand or 2% over 2014 due to increased transaction volume.

Fiduciary and asset management revenue grew $10.5 million or 9% over 2014. A full year of revenue in 2015 from the acquisitions of Topeka, Kansas-based GTRUST Financial Corporation in the first quarter of 2014 and Houston, Texas-based MBM Advisors in the second quarter of 2014 added $4.0 million in revenue in 2015. The remaining increase was primarily due to the growth in the fair value of fiduciary assets administered by the Company. Fiduciary assets are assets for which the Company possesses investment discretion on behalf of another, or any other similar capacity. The fair value of fiduciary assets administered by the Company totaled $38.3 billion at December 31, 2015 and $36.0 billion at December 31, 2014.

We also earn fees as administrator to and investment adviser for the Cavanal Hill Funds, a diversified, open-ended investment company established as a business trust under the Investment Company Act of 1940 (the "1940 Act"). The Bank is custodian and BOSC, Inc. is distributor for the Funds. The Funds’ products are offered to customers, employee benefit plans, trusts and the general public in the ordinary course of business. We have voluntarily waived administration fees on the Cavanal Hill money market funds in order to maintain positive yields on these funds in the

current low short-term interest rate environment. Waived fees totaled $12.5 million for 2015 compared to $10.1 million for 2014.

Deposit service charges and fees decreased $480 thousand or 1% compared to 2014. Overdraft fees totaled $41.2 million for 2015, a decrease of $3.4 million or 8% compared to last year. Commercial account service charge revenue totaled $42.1 million, an increase $3.4 million or 9% over the prior year. Service charges on deposit accounts with a standard monthly fee were $7.0 million, a decrease of $405 thousand or 5% compared to the prior year.

Mortgage banking revenue totaled $134.4 million for 2015, a $25.3 million or 23% increase over 2014. Mortgage production revenue totaled $78.0 million, an increase of $16.9 million over the prior year. A record $6.4 billion of mortgage loans were funded for sale during 2015, an increase of $1.9 billion or 42% over 2014. The record volume of originations was due primarily to the expansion of our correspondent and Home Direct online lending channels and a decrease in average primary mortgage interest rates during 2015. Approximately 46% of loans originated in 2015 were through correspondent channels and 15% were through our Home Direct online channel. The correspondent and Home Direct online lending channels have lower margins than the retail lending channel. Loan refinances, which have higher margins than loans to finance home purchases, were 42% of loans originated in 2015, compared to 30% in 2014.

The unpaid principal balance of mortgage loans closed but not yet sold was $294 million at December 31, 2015, $2.1 million or 1% higher than the prior year. Outstanding commitments to originate mortgage loans decreased $26 million or 4% compared to December 31, 2014 to $601 million at December 31, 2015. The cumulative change in the valuation of mortgage loans held for sale and mortgage commitments, net of forward sales contracts, was a $2.2 million gain for 2015, compared to a $4.4 million gain for 2014.

Mortgage servicing revenue was $56.4 million, an increase of $8.4 million or 17% over the prior year. The outstanding principal balance of mortgage loans serviced for others totaled $19.7 billion, a $3.5 billion increase over December 31, 2014.

Table 4 – Mortgage Banking Revenue
(In thousands)

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Net realized gains on mortgage loans sold	$75,780	$56,696	$95,309	$115,879	$50,812
Change in net unrealized gains on mortgage loans held for sale	2,180	4,365	(15,764)	13,238	1,170
Total mortgage production revenue	77,960	61,061	79,545	129,117	51,982
Servicing revenue	56,415	48,032	42,389	40,185	39,661
Total mortgage revenue	$134,375	$109,093	$121,934	$169,302	$91,643
Mortgage loans funded for sale	$6,372,956	$4,484,394	$4,081,390	$3,708,350	$2,293,834
Mortgage loan refinances to total funded	42%	30%	43%	60%	53%
Mortgage loans sold	$6,446,659	$4,441,819	$4,254,151	$3,731,830	$2,369,895
Primary residential mortgage interest rate – average	3.89%	4.17%	3.99%	3.66%	4.45%
Secondary residential mortgage interest rate – average	2.91%	3.22%	3.05%	2.52%	3.71%

Primary rates disclosed in Table 4 above represent rates generally available to borrowers on 30 year conforming mortgage loans. Secondary rates represent rates generally paid on 30 year residential mortgage-backed securities guaranteed by U.S. government agencies.

	Dec. 31,				
	2015	2014	2013	2012	2011
Outstanding principal balance of mortgage loans serviced for others	$19,678,226	$16,162,887	$13,718,942	$11,981,624	$11,300,986

Outstanding mortgage loan commitments	601,147	627,505	258,873	356,634	189,770

Net gains on securities, derivatives and other assets

We recognized $12.1 million of net gains from sales of $1.6 billion of available for sale securities in 2015. We recognized $1.5 million of net gains from sales of $2.7 billion of available for sale securities in 2014. Securities were sold either because they had reached their expected maximum potential or to move into securities that are expected to perform better in a rising rate environment.

We also maintain a portfolio of residential mortgage-backed securities issued by U.S. government agencies and interest rate derivative contracts that are held as an economic hedge of the changes in the fair value of our mortgage servicing rights. The fair value of our mortgage servicing rights fluctuates due to changes in prepayment speeds and other assumptions as more fully described in Note 7 to the Consolidated Financial Statements. As primary mortgage rates increase, prepayment speeds slow and the value of our mortgage servicing rights increases. As primary mortgage rates fall, prepayment speeds increase and the value of our mortgage servicing rights decreases.

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

Table 5 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 held as an economic hedge. The decrease in the fair value of mortgage servicing rights for 2015 included factors that we do not hedge, such as an increase in the servicing cost assumption.

Table 5 – Gain (Loss) on Mortgage Servicing Rights, Net of Economic Hedge
(In thousands)

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Gain (loss) on mortgage hedge derivative contracts, net	$634				