BOK FINANCIAL CORP ET AL
Form 10-Q
November 01, 2013

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2013
OR

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

For the transition period from _____________ to ______________

Commission File No. 0-19341

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

Oklahoma (State or other jurisdiction of Incorporation or Organization)	73-1373454 (IRS Employer Identification No.)
Bank of Oklahoma Tower Boston Avenue at Second Street Tulsa, Oklahoma (Address of Principal Executive Offices)	74192 (Zip Code)

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 68,787,584 shares of common stock ($.00006 par value) as of September 30, 2013.

BOK Financial Corporation
Form 10-Q
Quarter Ended September 30, 2013

Index

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

Performance Summary

BOK Financial Corporation ("the Company") reported net income of $75.7 million or $1.10 per diluted share for the third quarter of 2013, compared to $87.4 million or $1.27 per diluted share for the third quarter of 2012 and $79.9 million or $1.16 per diluted share for the second quarter of 2013.

Net income for the nine months ended September 30, 2013 totaled $243.6 million or $3.54 per diluted share compared with $268.6 million or $3.92 per diluted share for the nine months ended September 30, 2012.

Highlights of the third quarter of 2013 included:

- Net interest revenue totaled $166.4 million for the third quarter of 2013, compared to $176.0 million for the third quarter of 2012 and $167.2 million for the second quarter of 2013. Net interest margin was 2.80% for the third quarter of 2013. Net interest margin was 3.12% for the third quarter of 2012 and 2.81% for the second quarter of 2013.
- Fees and commissions revenue totaled $146.8 million for the third quarter of 2013, compared to $166.0 million for the third quarter of 2012 and $160.9 million for the second quarter of 2013. Mortgage banking revenue decreased $26.8 million compared to the third quarter of 2012 and $13.1 million compared to the second quarter of 2013 primarily due to a narrowed gain on sale margin and a change in product mix. Mortgage production volumes also decreased. Nearly all other fee-based revenue sources grew over the prior year and were largely unchanged compared to prior quarter.
- Operating expenses, excluding changes in the fair value of mortgage servicing rights, totaled $210.3 million for the third quarter of 2013, a decrease of $2.5 million compared to the third quarter of 2012 and largely unchanged compared to the previous quarter. Personnel costs increased $3.0 million over the third quarter of 2012 primarily annual merit increases and incentive compensation. Personnel costs decreased $2.3 million compared to the second quarter of 2013 primarily due to a seasonal decrease in payroll taxes. Non-personnel expense decreased $5.5 million compared to the third quarter of 2012. Lower repossessed asset impairment charges and mortgage banking expense, were partially offset by a $2.1 million discretionary contribution to the BOKF Foundation during the third quarter of 2013. Non-personnel expenses increased $1.7 million over the prior quarter primarily due to the discretionary contribution to the BOKF Foundation.
- An $8.5 million negative provision for credit losses was recorded in the third quarter of 2013 compared to no provision for credit losses in both the third quarter of 2012 and the second quarter of 2013. Gross charge-offs were $4.7 million in the third quarter of 2013, $8.9 million in the third quarter of 2012 and $8.6 million in the second quarter of 2013. Recoveries were $4.4 million in the third quarter of 2013, compared to $3.2 million in the third quarter of 2012 and $6.2 million in the second quarter of 2013.
- The combined allowance for credit losses totaled $196 million or 1.59% of outstanding loans at September 30, 2013 compared to $205 million or 1.65% of outstanding loans at June 30, 2013. Nonperforming assets that are not guaranteed by U.S. government agencies totaled $183 million or 1.49% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at September 30, 2013 and $200 million or 1.62% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at June 30, 2013.
- Outstanding loan balances were $12.4 billion at September 30, 2013, a decrease of $91 million compared to June 30, 2013. Commercial loan balances decreased $137 million during the third quarter, partially offset by a $32 million increase in commercial real estate loans. Residential mortgage loans decreased by $5.0 million and consumer loans were up $19 million over June 30, 2013.
- Period end deposits totaled $19.5 billion at September 30, 2013, largely unchanged compared to June 30, 2013. Demand deposit account balances increased $187 million during the third quarter, offset by a $147 million decrease in interest-bearing transaction accounts and a $48 million decrease in time deposits.
- The tangible common equity ratio was 9.73% at September 30, 2013 and 9.38% at June 30, 2013. The tangible common equity ratio is a non-GAAP measure of capital strength used by the Company and investors based on

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

- The Company and its subsidiary bank continue to exceed the regulatory definition of well capitalized. The Company's Tier 1 capital ratios as defined by banking regulations were 13.51% at September 30, 2013 and 13.37% at June 30, 2013.
- The Company paid a regular quarterly cash dividend of $26 million or $0.38 per common share during the third quarter of 2013. On October 29, 2013, the board of directors approved an increase in the quarterly cash dividend to $0.40 per common share payable on or about November 29, 2013 to shareholders of record as of November 16, 2013.

Results of Operations

Net Interest Revenue and Net Interest Margin

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

Net interest revenue totaled $166.4 million for the third quarter of 2013 compared to $176.0 million for the third quarter of 2012 and $167.2 million for the second quarter of 2013. Net interest margin was 2.80% for the third quarter of 2013, 3.12% for the third quarter of 2012 and 2.81% for the second quarter of 2013.

Net interest revenue decreased $9.7 million compared to the third quarter of 2012. Net interest revenue decreased $11.7 million due to lower interest rates. Cash flows from the securities portfolio were reinvested at lower current market rates and loan yields decreased due to renewal of maturing fixed-rate loans at current lower rates and narrowing credit spreads. The decrease in yield on earning assets was partially offset by lower funding costs. Net interest revenue increased $2.1 million primarily due to the growth in average loan and securities balances, partially offset by an increase in the average balance of other borrowings.

Net interest margin also declined compared to the third quarter of 2012. The tax-equivalent yield on earning assets was 3.09% for the third quarter of 2013, down 38 basis points from the third quarter of 2012. The available for sale securities portfolio yield decreased 46 basis points to 1.92%. Cash flows received from payments on residential mortgage-backed securities are currently being reinvested in short-duration securities that yield nearly 1.75%. Loan yields decreased 27 basis points. Credit spreads have narrowed due to market pricing pressure and improved credit quality in our loan portfolio. Funding costs were down 10 basis points from the third quarter of 2012. The cost of interest-bearing deposits decreased 10 basis points and the cost of other borrowed funds decreased 4 basis points. The average rate of interest paid on subordinated debentures decreased 27 basis points compared to the third quarter of 2012. Additionally, the benefit to net interest margin from earning assets funded by non-interest bearing liabilities was 13 basis points in the third quarter of 2013 compared to 17 basis points in the third quarter of 2012.

Average earning assets for the third quarter of 2013 increased $219 million or 1% over the third quarter of 2012. Average loans, net of allowance for loan losses, increased $692 million over the third quarter of 2012 due primarily to growth in average commercial loans. The average balance of available for sale securities decreased $499 million over the prior year. Available for sale securities consists largely of U.S. government agency issued residential mortgage-backed securities and U.S. agency commercial mortgage-backed securities that are purchased to supplement earnings and to manage interest rate risk. Growth was primarily in U.S. government agency commercial mortgage-backed securities, partially offset by a decrease in U.S. agency mortgage-backed securities. The average balance of investment securities was up over the prior year, partially offset by a decrease in the average balance of fair value option securities primarily held as an economic hedge of our mortgage servicing rights.

Average deposits increased $673 million over the third quarter of 2012, including a $392 million increase in average demand deposit balances and a $556 million increase in average interest-bearing transaction accounts, partially offset by a $326 million decrease in average time deposits. Average borrowed funds increased $863 million over the third quarter of 2012 due primarily to increased borrowing from the Federal Home Loan Banks.

Net interest margin decreased 1 basis point from the second quarter of 2013. The yield on average earning assets decreased 2 basis points. The yield on the available for sale securities portfolio decreased 1 basis point to 1.92%. The loan portfolio yield decreased to 4.06% from 4.12% in the previous quarter primarily due to market pricing pressure. Funding costs decreased 1 basis point to 0.42%. Rates paid on time deposits and savings accounts each decreased 2 basis points. Rates paid on interest-bearing transaction accounts decreased a basis point. The cost of other borrowed funds and the benefit to net interest margin from earning assets funded by non-interest bearing liabilities was unchanged compared to the second quarter.

Average earning assets decreased $500 million during the third quarter of 2013. The available for sale securities portfolio decreased $502 million compared to the second quarter of 2013. Average outstanding loans increased $125 million. Average commercial loan balances were largely unchanged. Average commercial real estate loan balances increased $72 million, residential mortgage loan balances increased $30 million and consumer balances increased $26 million. Growth in average loan balances was offset by a $57 million decrease in trading securities, a $47 million decrease in fair value option securities and a $36 million decrease in the average balance of residential mortgage loans held for sale.

Average deposits decreased $80 million compared to the previous quarter. Demand deposit balances increased $221 million. Interest-bearing transaction account balances decreased $228 million and time deposit account balances decreased $76 million. The average balance of borrowed funds decreased $30 million over the second quarter of 2013.

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

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

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

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

	Three Months Ended Sept. 30, 2013 / 2012			Nine Months Ended Sept. 30, 2013 / 2012		
		Change Due To[1]			Change Due To[1]	
	Change	Volume	Yield / Rate	Change	Volume	Yield /Rate
Tax-equivalent interest revenue:						
Funds sold and resell agreements	$3	$4	$(1)	$3	$9	$(6)
Trading securities	(15)	(39)	24	527	451	76
Investment securities:						
Taxable securities	(690)	(635)	(55)	(2,004)	(1,967)	(37)
Tax-exempt securities	289	1,856	(1,567)	330	5,199	(4,869)
Total investment securities	(401)	1,221	(1,622)	(1,674)	3,232	(4,906)
Available for sale securities:						
Taxable securities	(9,303)	2,303	(11,606)	(24,152)	13,623	(37,775)
Tax-exempt securities	(216)	66	(282)	(132)	8,024	(8,156)
Total available for sale securities	(9,519)	2,369	(11,888)	(24,284)	21,647	(45,931)
Fair value option securities	(1,084)	(823)	(261)	(4,704)	(3,266)	(1,438)
Residential mortgage loans held for sale	(142)	(348)	206	392	597	(205)
Loans	(967)	7,126	(8,093)	(8,688)	22,474	(31,162)
Total tax-equivalent interest revenue	(12,125)	9,510	(21,635)	(38,428)	45,144	(83,572)
Interest expense:						
Transaction deposits	(725)	299	(1,024)	(2,215)	625	(2,840)
Savings deposits	(20)	22	(42)	(69)	74	(143)
Time deposits	(1,646)	(1,252)	(394)	(5,205)	(3,919)	(1,286)
Funds purchased	(498)	(250)	(248)	(915)	(611)	(304)
Repurchase agreements	(158)	(62)	(96)	(413)	(179)	(234)
Other borrowings	808	8,678	(7,870)	1,429	27,097	(25,668)
Subordinated debentures	(266)	(30)	(236)	(4,971)	(542)	(4,429)
Total interest expense	(2,505)	7,405	(9,910)	(12,359)	22,545	(34,904)
Tax-equivalent net interest revenue	(9,620)	2,105	(11,725)	(26,069)	22,599	(48,668)
Change in tax-equivalent adjustment	56			976		
Net interest revenue	$(9,676)			$(27,045)		

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

Other Operating Revenue

Other operating revenue was $145.3 million for the third quarter of 2013 compared to $179.9 million for the third quarter of 2012 and $150.8 million for the second quarter of 2013. Fees and commissions revenue decreased $19.2 million compared to the third quarter of 2012. Net gains (losses) on securities, derivatives and other assets decreased $15.0 million compared to the third quarter of 2012. Other-than temporary impairment charges were $405 thousand less than the prior year.

Other operating revenue decreased $5.4 million compared to the second quarter of 2013. Fees and commissions revenue decreased $14.1 million. Net gains on securities, derivatives and other assets increased $9.6 million. Other-than-temporary impairment charges were $957 thousand less than the previous quarter.

Table 2 – Other Operating Revenue
(In thousands)

	Three Months Ended Sept. 30, 2013	Three Months Ended Sept. 30, 2012	Increase(Decrease)	% Increase(Decrease)	Three Months Ended June 30, 2013	Increase(Decrease)	% Increase(Decrease)
Brokerage and trading revenue	$32,338	$31,261	$ 1,077	3 %	$32,874	$ (536)	(2)%
Transaction card revenue	30,055	27,788	2,267	8 %	29,942	113	— %
Trust fees and commissions	23,892	19,654	4,238	22 %	24,803	(911)	(4)%
Deposit service charges and fees	24,742	25,148	(406)	(2)%	23,962	780	3 %
Mortgage banking revenue	23,486	50,266	(26,780)	(53)%	36,596	(13,110)	(36)%
Bank-owned life insurance	2,408	2,707	(299)	(11)%	2,236	172	8 %
Other revenue	9,852	9,149	703	8 %	10,496	(644)	(6)%
Total fees and commissions revenue	146,773	165,973	(19,200)	(12)%	160,909	(14,136)	(9)%
Gain (loss) on other assets, net	(377)	452	(829)	N/A	(1,666)	1,289	N/A
Gain (loss) on derivatives, net	31	464	(433)	N/A	(2,527)	2,558	N/A
Gain (loss) on fair value option securities, net	(80)	6,192	(6,272)	N/A	(9,156)	9,076	N/A
Gain on available for sale securities	478	7,967	(7,489)	N/A	3,753	(3,275)	N/A
Total other-than-temporary impairment	(1,436)	—	(1,436)	N/A	(1,138)	(298)	N/A
Portion of loss recognized in (reclassified from) other comprehensive income	(73)	(1,104)	1,031	N/A	586	(659)	N/A

Net impairment losses recognized in earnings	(1,509)	(1,104)	(405)	N/A	(552)	(957)	N/A
Total other operating revenue	$145,316	$179,944	$(34,628)	(19)%	$150,761	$(5,445)	(4)%

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

Fees and commissions revenue

Diversified sources of fees and commissions revenue are a significant part of our business strategy and represented 47% of total revenue for the third quarter of 2013, excluding provision for credit losses and gains and losses on asset sales, securities and derivatives. We believe that a variety of fee revenue sources provide an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile. As an example of this strength, many of the economic factors that cause net interest revenue compression also may drive growth in our mortgage banking revenue. We expect continued growth in other operating revenue through offering new products and services and by further development of our presence in markets outside of Oklahoma. However, current and future economic conditions, regulatory constraints, increased competition and saturation in our existing markets could affect the rate of future increases.

Brokerage and trading revenue, which includes revenues from securities trading, retail brokerage, customer hedging and investment banking increased $1.1 million or 3% over the third quarter of 2012.

Securities trading revenue totaled $17.3 million for the third quarter of 2013, down $1.6 million or 8% compared to the third quarter of 2012. Securities trading revenue represents net realized and unrealized gains primarily related to sales of U.S. government securities, residential mortgage-backed securities guaranteed by U.S. government agencies and municipal securities to institutional customers. We believe these activities will be permitted under the Volcker Rule of the Dodd-Frank Act.

Customer hedging revenue is based primarily on realized and unrealized changes in the fair value of derivative contracts held for customer risk management programs. As more fully discussed under Customer Derivative Programs in Note 3 of the Consolidated Financial Statements, we offer commodity, interest rate, foreign exchange and equity derivatives to our customers. Customer hedging revenue decreased $1.5 million compared to the prior year to $545 thousand for the third quarter of 2013 primarily due to decreased activity by our mortgage banking customers.

Revenue earned from retail brokerage transactions increased $3.1 million or 46% over the third quarter of 2012 to $9.8 million. Retail brokerage revenue is primarily based on fees and commissions earned on sales of fixed income securities, annuities and mutual funds to retail customers. Revenue is primarily based on the volume of customer transactions during the quarter. The number of transactions typically increases with market volatility and decreases with market stability.

Investment banking, which includes fees earned upon completion of underwriting and financial advisory services and loan syndication fees, totaled $4.7 million for the third quarter of 2013, a $1.0 million or 29% increase over the third quarter of 2012 related to the timing and volume of completed transactions. The increased volume of transactions is primarily the result of the Company's expansion of its municipal financial advisory service capacity, particularly in the Texas market.

Brokerage and trading revenue decreased $536 thousand compared to the second quarter of 2013. Customer hedging revenue decreased $4.6 million primarily from decreased activity by our mortgage banking customers. Securities trading revenue increased $3.1 million primarily due to municipal securities and U.S. government agency securities. Retail brokerage fees were up $674 thousand and investment banking fees were up $273 thousand.

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

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

Transaction card revenue depends largely on the volume and amount of transactions processed, the number of TransFund automated teller machine (“ATM”) locations and the number of merchants served. Transaction card revenue for the third quarter of 2013 increased $2.3 million or 8% over the third quarter of 2012. Revenues from the processing of transactions on behalf of the members of our TransFund electronic funds transfer ("EFT") network totaled $15.3 million, up $800 thousand or 6%, due to increased transaction volumes and increased dollar amount per transaction. Merchant services fees totaled $10.0 million, up $1.1 million or 12% on increased transaction activity. Revenue from interchange fees paid by merchants for transactions processed from debit cards issued by the Company totaled $4.8 million, up $364 thousand or 8% over the third quarter of 2012.

Transaction card revenue was largely unchanged compared to the second quarter of 2013.

Effective October 1, 2011, the Federal Reserve issued its final rule that established a cap on interchange fees banks with more than $10 billion can charge merchants for certain debit card transaction, commonly known as the Durbin Amendment. The final rule has been successfully challenged by retail merchants and merchant trade groups and is currently on appeal. The ultimate resolution of this legal challenge is uncertain.

Trust fees and commissions grew by $4.2 million or 22% over the third quarter of 2012. The acquisition of the Milestone Group by BOK Financial in the third quarter of 2012 added $1.6 billion of fiduciary assets as of September 30, 2013. Trust fees and commissions generated by the Milestone Group were up $1.6 million over the third quarter of 2012. The remaining increase was primarily due to the growth in the fair value of fiduciary assets administered by the Company. Fiduciary assets are assets for which the Company possesses investment discretion on behalf of another or any other similar capacity. The fair value of fiduciary assets administered by the Company totaled $29.6 billion at September 30, 2013, $25.2 billion at September 30, 2012 and $28.3 billion at June 30, 2013. Trust fees and commissions were down $911 thousand compared to the second quarter of 2013 primarily due to the seasonal timing of tax service fees.

In addition to trust fees and commissions where we served as a fiduciary, we also earn fees as administrator to and investment adviser for the Cavanal Hill Funds, a diversified, open-ended investment company established as a business trust under the Investment Company Act of 1940. The Bank is custodian and BOSC, Inc. is distributor for the Cavanal Hill Funds. Products of the Cavanal Hill Funds are offered to customers, employee benefit plans, trusts and the general public in the ordinary course of business. We have voluntarily waived administration fees on the Cavanal Hill money market funds in order to maintain positive yields on these funds in the current low short-term interest rate environment. Waived fees totaled $2.3 million for the third quarter of 2013 compared to $1.9 million for the third quarter of 2012 and $1.9 million for the second quarter of 2013.

Deposit service charges and fees decreased $406 thousand or 2% compared to the third quarter of 2012. Overdraft fees totaled $13.2 million for the third quarter of 2013, a decrease of $1.1 million or 8% compared to the third quarter of 2012. Consumers are generally maintaining higher average balances and better managing their accounts to reduce overdraft fees. Commercial account service charge revenue totaled $9.5 million, up $740 thousand or 8% over the prior year. Service charges on deposit accounts with a standard monthly fee were $2.1 million, down $63 thousand or 3% compared to the third quarter of 2012. Deposit service charges and fees increased $780 thousand over the prior quarter on increased overdraft fee volumes.

Mortgage banking revenue decreased $26.8 million compared to the third quarter of 2012. Revenue from originating and marketing mortgage loans totaled $12.5 million, down $27.8 million or 69% compared to the third quarter of 2012. Mortgage loans funded for sale totaled $1.1 billion in the third quarter of 2013, up $34 million over the third quarter of 2012. Outstanding commitments to originate mortgage loans were down $101 million or 22% compared to September 30, 2012. The decrease in mortgage banking revenue compared to third quarter of 2012 was primarily due to an overall narrowing of gain on sale margins and a shift in product mix toward loans with narrower margins. Approximately 39% of loans originated in the third quarter of 2013 were through correspondent channels, up from 9% for the third quarter of 2012. Refinanced mortgage loans decreased to 30% of loans originated in third quarter of 2013 compared to 61% of loans originated in third quarter of 2012.

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

Mortgage servicing revenue increased $1.0 million or 10% over the third quarter of 2012. The outstanding principal balance of mortgage loans serviced for others totaled $13.3 billion, an increase of $1.5 billion over September 30, 2012.

Mortgage banking revenue decreased $13.1 million compared to the second quarter of 2013. Residential mortgage loans funded for sale decreased $116 million over the previous quarter. Outstanding commitments to originate mortgage loans decreased $196 million or 36% compared to June 30, 2013.

Mortgage servicing revenue increased $698 thousand over the prior quarter. The outstanding balance of mortgage loans serviced for others increased $557 million over June 30, 2013.

Table 3 – Mortgage Banking Revenue
(In thousands)

	Three Months Ended Sept. 30, 2013	2012	Increase (Decrease)	% Increase (Decrease)	Three Months Ended June 30, 2013	Increase (Decrease)	% Increase (Decrease)
Originating and marketing revenue:							
Residential mortgages loan held for sale	$31,047	$40,463	$(9,416)	(23)%	$17,763	$13,284	75%
Residential mortgage loan commitments	12,668	6,512	6,156	95%	(15,052)	27,720	(184)%
Forward sales contracts	(31,167)	(6,618)	(24,549)	371%	23,645	(54,812)	(232)%
Total originating and marketing revenue	12,548	40,357	(27,809)	(69)%	26,356	(13,808)	(52)%
Servicing revenue	10,938	9,909	1,029	10%	10,240	698	7%
Total mortgage revenue	$23,486	$50,266	$(26,780)	(53)%	$36,596	$(13,110)	(36)%
Mortgage loans funded for sale	$1,080,167	$1,046,608	$33,559	3%	$1,196,038	$(115,871)	(10)%
Mortgage loan refinances to total funded	30%	61%			48%		

	September 30, 2013	2012	Increase (Decrease)	% Increase (Decrease)	June 30, 2013	Increase (Decrease)	% Increase (Decrease)
Period end outstanding mortgage commitments	$351,196	$452,129	$(100,933)	(22)%	$547,508	$(196,312)	(36)%
Outstanding principal balance of mortgage loans serviced for others	$13,298,479	$11,756,350	$1,542,129	13%	$12,741,651	$556,828	4%

Net gains on securities, derivatives and other assets

In the third quarter of 2013, we recognized a $478 thousand gain from sales of $356 million of available for sale securities. Securities were sold either because they had reached their expected maximum potential return or sold to reinvest those proceeds into shorter average life securities. In the third quarter of 2012, we recognized an $8.0 million gain from sales of $209 million of available for sale securities and a $3.8 million gain on sales of $1.1 billion of available for sale securities in the second quarter of 2013.

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

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

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

	Three Months Ended		
	September 30, 2013	June 30, 2013	September 30, 2012
Gain (loss) on mortgage hedge derivative contracts, net	$31	$(2,526)	$645
Gain (loss) on fair value option securities, net	(89)	(9,102)	5,455
Gain (loss) on economic hedge of mortgage servicing rights	(58)	(11,628)	6,100
Gain (loss) on change in fair value of mortgage servicing rights	(346)	14,315	(9,576)
Gain (loss) on changes in fair value of mortgage servicing rights, net of economic hedges	$(404)	$2,687	$(3,476)
Net interest revenue on fair value option securities	$741	$910	$1,750
Average primary residential mortgage interest rate	4.44%	3.67%	3.55%
Average secondary residential mortgage interest rate	3.51%	2.72%	2.28%

Primary rates disclosed in Table 4 above represent rates generally available to borrowers on 30 year conforming mortgage loans and affect the value of our mortgage servicing rights. Secondary rates represent rates generally paid on 30 year residential mortgage-backed securities guaranteed by U.S. government agencies and affect the value of securities and derivative contracts used as an economic hedge of our mortgage servicing rights. The difference between average primary and secondary rates for the third quarter of 2013 was 93 basis points compared to 95 basis points for the second quarter of 2013 and 127 basis points for the third quarter of 2012.

As more fully discussed in Note 2 to the Consolidated Financial Statements, we recognized $1.5 million of other-than-temporary impairment losses in earnings during the third quarter of 2013 including a $1.4 million impairment on certain municipal securities and a $140 thousand impairment on certain private-label residential mortgage-backed securities we do not intend to sell. We recognized other-than-temporary impairment losses in earnings of $1.1 million in the third quarter of 2012 and $552 thousand in the second quarter of 2013.

Other Operating Expense

Other operating expense for the third quarter of 2013 totaled $210.6 million, down $11.7 million or 5% compared to the third quarter of 2012. Changes in the fair value of mortgage servicing rights increased operating expense $346 thousand in the third quarter of 2013 and increased operating expense $9.6 million in the third quarter of 2012. Excluding changes in the fair value of mortgage servicing rights, operating expenses decreased $2.5 million or 1% compared to the third quarter of 2012. Personnel expenses increased $3.0 million or 2%. Non-personnel expenses decreased $5.5 million or 6%.

Excluding changes in the fair value of mortgage servicing rights, operating expenses were down $623 thousand compared to the previous quarter. Personnel expenses decreased $2.3 million and non-personnel expenses increased $1.7 million.

Table 5 -- Other Operating Expense
(In thousands)

	Three Months Ended Sept. 30, 2013	Three Months Ended Sept. 30, 2012	Increase (Decrease)	% Increase (Decrease)	Three Months Ended June 30, 2013	Increase (Decrease)	% Increase (Decrease)
Regular compensation	$68,483	$66,708	$1,775	3 %	$68,319	$164	— %
Incentive compensation:							
Cash-based	28,276	30,756	(2,480)	(8)%	31,081	(2,805)	(9)%
Stock-based	11,461	7,214	4,247	59 %	9,500	1,961	21 %
Total incentive compensation	39,737	37,970	1,767	5 %	40,581	(844)	(2)%
Employee benefits	17,579	18,097	(518)	(3)%	19,210	(1,631)	(8)%
Total personnel expense	125,799	122,775	3,024	2 %	128,110	(2,311)	(2)%
Business promotion	5,355	6,054	(699)	(12)%	5,770	(415)	(7)%
Charitable contribution to BOKF Foundation	2,062	—	2,062	— %	—	2,062	— %
Professional fees and services	7,183	7,991	(808)	(10)%	8,381	(1,198)	(14)%
Net occupancy and equipment	17,280	16,914	366	2 %	16,909	371	2 %
Insurance	3,939	3,690	249	7 %	4,044	(105)	(3)%
Data processing and communications	25,695	26,486	(791)	(3)%	26,734	(1,039)	(4)%
Printing, postage and supplies	3,505	3,611	(106)	(3)%	3,580	(75)	(2)%
Net losses and operating expenses of repossessed assets	2,014	5,706	(3,692)	(65)%	282	1,732	614 %
Amortization of intangible assets	835	742	93	13 %	875	(40)	(5)%
Mortgage banking costs	8,753	13,036	(4,283)	(33)%	7,910	843	11 %
Change in fair value of mortgage servicing rights	346	9,576	(9,230)	(96)%	(14,315)	14,661	(102)%
Other expense	7,878	5,759	2,119	37 %	8,326	(448)	(5)%

Total other operating expense	$210,644	$222,340	$(11,696)	(5)%	$196,606	$14,038	7 %
Number of employees (full-time equivalent)	4,626	4,627	(1)	— %	4,712	(86)	(2)%

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

Personnel expense

The increase in personnel expense was primarily due to standard annual merit increases in regular compensation which were effective for the majority of our staff March 1 and increased incentive compensation. Regular compensation, which consists of salaries and wages, overtime pay and temporary personnel costs increased $1.8 million or 3% over the third quarter of 2012.

Incentive compensation increased $1.8 million or 5% over the third quarter of 2012. Cash-based incentive compensation plans are either intended to provide current rewards to employees who generate long-term business opportunities for the Company based on growth in loans, deposits, customer relationships and other measurable metrics or intended to compensate employees with commissions on completed transactions. Total cash-based incentive compensation decreased $2.5 million or 8% over the third quarter of 2012.

The Company also provides stock-based incentive compensation plans. Stock-based compensation plans include both equity and liability awards. Compensation expense for equity awards increased $1.7 million over the third quarter of 2012. Expense for equity awards is based on the grant-date fair value of the awards and is unaffected by subsequent changes in fair value. Stock-based compensation expense also includes deferred compensation that will ultimately be settled in cash indexed to the investment performance or changes in earnings per share. Certain executive officers are permitted to defer recognition of taxable income from their stock-based compensation. Deferred compensation may also be diversified into investments other than BOK Financial common stock. Compensation expense reflects changes in the market value of BOK Financial common stock and other investments. Expense based on changes in the fair value of BOK Financial common stock and other investments decreased $304 thousand compared to the the third quarter of 2012. In addition, $7.4 million was accrued in third quarter of 2013 and $4.5 million was accrued in the third quarter of 2012 for the BOK Financial Corp. 2011 True-Up Plan. Approved by shareholders on April 26, 2011, the True-Up Plan is designed to adjust annual and long-term performance-based incentive compensation for certain senior executives either upward or downward based on the earnings per share performance and compensation of comparable senior executives at peer banks for 2006 through 2013. The accrual for the 2011 True-Up Plan totaled $64 million at September 30, 2013. Based on currently available information, amounts estimated to be payable under the 2011 True-Up Plans are approximately $72 million. The final amount due under the 2011 True-Up Plan will be determined as of December 31, 2013 and distributed in 2014. Performance measurement through 2013 may result in future upward or downward adjustments to compensation expense.

Employee benefit expense decreased $518 thousand or 3% compared to the third quarter of 2012 primarily due to decreased employee retirement plan and other benefit costs.
Personnel costs decreased $2.3 million over the second quarter of 2013 primarily due to a seasonal decrease in payroll taxes. Regular compensation expensed was unchanged compared to the prior quarter. Incentive compensation expense decreased $844 thousand. Cash-based incentive compensation, which rewards employees as they generate business opportunities for the Company by growing loans, deposits, customer relationships or other measurable metrics, decreased $2.8 million. Stock-based incentive compensation expense increased $2.0 million. Employee benefits expense decreased $1.6 million primarily due to a $2.1 million seasonal decrease in payroll taxes. Increased employee medical costs were partially offset by a decrease in employee retirement plan costs. The Company self-insures a portion of its employee health care coverage and these costs may be volatile.

Non-personnel operating expenses

Non-personnel operating expenses, excluding changes in the fair value of mortgage servicing rights, decreased $5.5 million compared to the third quarter of 2012. Mortgage banking costs were down $4.3 million primarily due to a lower provision for potential losses on loans sold to U.S. government agencies under standard representations and warranties. Net losses and operating expenses of repossessed assets were down $3.7 million primarily due to decreased impairment charges based on regularly scheduled appraisal updates. During the third quarter of 2013, the Company made a $2.1 million discretionary contribution to the BOKF Foundation. The BOKF Foundation partners with various charitable organizations to support needs within our communities. All other expenses were up $423 thousand over the third quarter of 2012.

Excluding changes in the fair value of mortgage servicing rights, non-personnel operating expenses increased $1.7 million over the second quarter of 2013 primarily due to the discretionary contribution to the BOKF Foundation during the third quarter. Net losses and operating expenses of repossessed assets increased $1.7 million due to increased impairment charges as a result of regularly scheduled appraisal updates. Professional fees and services were down $1.2 million. Data processing and communications expense decreased $1.0 million compared to the prior quarter due to the benefit from service contract repricings. All other non-personnel expenses increased $171 thousand.

Income Taxes

Income tax expense was $33.5 million or 31% of book taxable income for the third quarter of 2013 compared to $45.8 million or 34% of book taxable income for the third quarter of 2012 and $41.4 million or 34% of book taxable income for the second quarter of 2013. The statute of limitations expired on uncertain income tax positions and the Company adjusted its current income tax liability to amounts on filed tax returns for 2012 during the third quarter of 2013. These adjustments reduced income tax expense by $1.4 million in the third quarter of 2013 and $1.0 million in the third quarter of 2012. The Company also made a charitable contribution to the BOKF Foundation and purchased state transferable tax credits in the third quarter of 2013, which reduced income tax expense by $1.1 million and $860 thousand, respectively. Excluding these items, income tax expense would have been 34% of book taxable income for the third quarter of 2013 and 35% of book taxable income for the third quarter of 2012.

BOK Financial operates in numerous jurisdictions, which requires judgment regarding the allocation of income, expense and earnings under various laws and regulations of each of these taxing jurisdictions. Each jurisdiction may audit our tax returns and may take different positions with respect to these allocations. The reserve for uncertain tax positions was $13 million at September 30, 2013, $13 million at June 30, 2013 and $12 million at September 30, 2012.

Lines of Business

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

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

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

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

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

As shown in Table 6, net income attributable to our lines of business decreased $4.9 million or 8% compared to the third quarter of 2012. The decrease was primarily due to lower mortgage banking revenue, partially offset by growth in other fee-based revenue and lower credit losses.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Commercial Banking	$39,716	$33,351	$117,775	$109,651
Consumer Banking	11,830	22,050	52,575	57,603
Wealth Management	3,965	5,038	10,724	15,130
Subtotal	55,511	60,439	181,074	182,384
Funds Management and other	20,227	26,943	62,559	86,242
Total	$75,738	$87,382	$243,633	$268,626

Commercial Banking

Commercial Banking contributed $39.7 million to consolidated net income in the third quarter of 2013, up $6.4 million or 19% over the third quarter of 2012. Growth in commercial banking net income was largely due to a decrease in net loans charged off and lower repossessed asset costs.

Table 7 -- Commercial Banking
(Dollars in thousands)

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2013	2012		2013	2012	
Net interest revenue from external sources	$91,540	$91,381	$159	$272,889	$274,423	$(1,534)
Net interest expense from internal sources	(9,405)	(11,002)	1,597	(27,907)	(34,491)	6,584
Total net interest revenue	82,135	80,379	1,756	244,982	239,932	5,050
Net loans charged off (recovered)	(1,326)	3,253	(4,579)	(219)	10,393	(10,612)
Net interest revenue after net loans charged off (recovered)	83,461	77,126	6,335	245,201	229,539	15,662
Fees and commissions revenue	42,507	40,091	2,416	127,269	116,635	10,634
Gain on financial instruments and other assets, net	2	—	2	83	14,407	(14,324)
Other operating revenue	42,509	40,091	2,418	127,352	131,042	(3,690)
Personnel expense	27,011	25,655	1,356	79,214	76,003	3,211
Net losses and expenses of repossessed assets	2,157	4,908	(2,751)	3,111	10,577	(7,466)
Other non-personnel expense	19,084	19,571	(487)	59,858	56,131	3,727
Corporate allocations	12,717	12,499	218	37,612	38,408	(796)
Total other operating expense	60,969	62,633	(1,664)	179,795	181,119	(1,324)
Income before taxes	65,001	54,584	10,417	192,758	179,462	13,296
Federal and state income tax	25,285	21,233	4,052	74,983	69,811	5,172
Net income	$39,716	$33,351	$6,365	$117,775	$109,651	$8,124
Average assets	$10,460,986	$10,065,208	$395,778	$10,470,800	$9,981,793	$489,007

Average loans	9,722,064	9,117,263	604,801	9,640,823	9,001,334	639,489
Average deposits	9,150,841	8,446,680	704,161	9,141,123	8,338,034	803,089
Average invested capital	911,229	865,157	46,072	900,789	880,777	20,012
Return on average assets	1.51 %	1.32 %	19 bp	1.50 %	1.47 %	3 bp
Return on invested capital	17.29 %	15.34 %	195 bp	17.48 %	16.63 %	85 bp
Efficiency ratio	48.92 %	51.99 %	(307) bp	48.30 %	50.80 %	(250) bp
Net charge-offs (annualized) to average loans	(0.05)%	0.14 %	(19) bp	— %	0.15 %	(15) bp

Net interest revenue increased $1.8 million or 2% over the prior year. Growth in net interest revenue was primarily due to a $605 million increase in average loan balances and a $704 million increase in average deposits over the third quarter of 2012, partially offset by reduced yields on loans and deposits sold to our Funds Management unit.

Fees and commissions revenue increased $2.4 million or 6% over the third quarter of 2012 primarily due to a $1.8 million increase in transaction card revenues. Commercial deposit service charges and fees increased $613 thousand over the prior year.

Operating expenses decreased $1.7 million or 3% compared to the third quarter of 2012. Personnel costs increased $1.4 million or 5% primarily due to standard annual merit increases and headcount. Net losses and operating expenses on repossessed assets decreased $2.8 million compared to the third quarter of 2012, primarily due to a decrease in impairment charges based on regularly scheduled appraisal updates. Other non-personnel expenses and corporate expense allocations were largely unchanged.

The average outstanding balance of loans attributed to Commercial Banking increased $605 million to $9.7 billion for the third quarter of 2013. See the Loans section of Management’s Discussion and Analysis of Financial Condition following for additional discussion of changes in commercial and commercial real estate loans which are primarily attributed to the Commercial Banking segment.

Average deposits attributed to Commercial Banking were $9.2 billion for the third quarter of 2013, up $704 million or 8% over the third quarter of 2012. Average balances attributed to our commercial & industrial loan customers increased $248 million or 9%, treasury services customers were up $175 million or 12%, energy customers increased $135 million or 11% and small business customers grew by $117 million or 6% over the third quarter of 2012. Commercial customers continue to maintain high account balances due to continued economic uncertainty and persistently low yields available on high quality investments.

Consumer Banking

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

Consumer Banking contributed $11.8 million to consolidated net income for the third quarter of 2013, down $10.2 million compared to the third quarter of 2012 primarily due to a decrease in mortgage banking revenue, partially offset by lower mortgage banking costs. Excluding the impact of mortgage banking, net interest revenue was up. Non-personnel expenses and corporate expense allocations were also lower compared to the prior year. Changes in fair value of our mortgage servicing rights, net of economic hedge, increased net income attributed to consumer banking by $247 thousand in the third quarter of 2013, compared to decreasing net income attributed to Consumer Banking by $2.1 million in the third quarter of 2012.

Table 8 -- Consumer Banking
(Dollars in thousands)

	Three Months Ended September 30, 2013	2012	Increase (Decrease)	Nine Months Ended September 30, 2013	2012	Increase (Decrease)
Net interest revenue from external sources	$25,131	$24,862	$269	$74,056	$77,173	$(3,117)
Net interest revenue from internal sources	5,060	5,410	(350)	15,711	15,093	618
Total net interest revenue	30,191	30,272	(81)	89,767	92,266	(2,499)
Net loans charged off	1,331	338	993	3,663	5,991	(2,328)
Net interest revenue after net loans charged off	28,860	29,934	(1,074)	86,104	86,275	(171)
Fees and commissions revenue	48,220	75,942	(27,722)	172,761	196,163	(23,402)
Gain (loss) on financial instruments and other assets, net	(1,288)	4,698	(5,986)	(20,695)	9,237	(29,932)
Other operating revenue	46,932	80,640	(33,708)	152,066	205,400	(53,334)
Personnel expense	22,357	23,270	(913)	68,445	67,481	964
Net losses (gains) and expenses of repossessed assets	(437)	379	(816)	(480)	774	(1,254)
Change in fair value of mortgage servicing rights	346	9,576	(9,230)	(16,627)	13,899	(30,526)
Other non-personnel expense	23,956	29,608	(5,652)	70,070	81,378	(11,308)
Corporate allocations	10,209	11,653	(1,444)	30,714	33,867	(3,153)
Total other operating expense	56,431	74,486	(18,055)	152,122	197,399	(45,277)
Income before taxes	19,361	36,088	(16,727)	86,048	94,276	(8,228)
Federal and state income tax	7,531	14,038	(6,507)	33,473	36,673	(3,200)
Net income	$11,830	$22,050	$(10,220)	$52,575	$57,603	$(5,028)
Average assets	$5,655,914	$5,671,356	$(15,442)	$5,691,406	$5,705,411	$(14,005)
Average loans	2,343,673	2,381,416	(37,743)	2,353,721	2,390,019	(36,298)
Average deposits	5,607,710	5,586,485	21,225	5,631,838	5,592,910	38,928
Average invested capital	293,716	292,280	1,436	295,394	287,888	7,506
Return on average assets	0.83 %	1.55 %	(72) bp	1.24 %	1.35 %	(11) bp
Return on invested capital	15.98 %	30.01 %	(1,403) bp	23.80 %	26.73 %	(293) bp
Efficiency ratio	71.53 %	61.11 %	1,042 bp	64.28 %	63.62 %	66 bp
Net charge-offs (annualized) to average loans	0.23 %	0.06 %	17 bp	0.21 %	0.33 %	(12) bp

Residential mortgage loans funded for sale	$1,080,167	$1,046,608	$33,559	$3,232,520	$2,634,809	$597,711

	September 30, 2013	September 30, 2012	Increase (Decrease)
Banking locations	220	213	7
Residential mortgage loans servicing portfolio[1]	$14,395,227	$12,853,987	$1,541,240

[1] Includes outstanding principal for loans serviced for affiliates

- 16 -

Net interest revenue from Consumer Banking activities was essentially unchanged compared to the third quarter of 2012. Average loan balances were largely unchanged compared to the third quarter of 2012. Decreased balances of indirect automobile loans were offset by growth in other consumer loans. Net loans charged off by the Consumer Banking unit increased $1.0 million over the third quarter of 2012.

Fees and commissions revenue decreased $27.7 million or 37% compared to the third quarter of 2012 primarily due to a $26.8 million decrease in mortgage banking revenue as a result of narrowed gains on sale margins. Deposit service charges and fees also decreased $1.0 million compared to the prior year primarily due to lower overdraft fees.

Excluding the change in the fair value of mortgage servicing rights, operating expenses decreased $8.8 million compared to the third quarter of 2012. Personnel expenses were down $913 thousand or 4%. Net losses and operating expenses of repossessed assets were down $816 thousand compared to the prior year. Non-personnel expense decreased $5.7 million or 19% primarily due to decreased mortgage banking expenses. Accruals for potential credit losses on loans sold to U.S. government agencies under standard representations and warranties were higher in the prior year. Corporate expense allocations were down $1.4 million compared to the third quarter of 2012.

Average consumer deposits were unchanged compared to the third quarter of 2012. Average demand deposits balances were unchanged. Average interest-bearing transaction accounts increased $161 million or 6%. Average time deposit balances were down $182 million or 10% compared to the prior year.

Our Consumer Banking division originates, markets and services conventional and government-sponsored residential mortgage loans for all of our geographical markets. We funded $1.1 billion of residential mortgage loans in the third quarter of 2013 and $1.1 billion in the third quarter of 2012. Mortgage loan fundings included $1.1 billion of mortgage loans funded for sale in the secondary market and $38 million funded for retention within the consolidated group. Approximately 21% of our mortgage loans funded were in the Oklahoma market, 13% in the Texas market and 11% in the Colorado market. In addition, 37% of our mortgage loan fundings came from correspondent lenders compared to 8% in the third quarter of 2012.

At September 30, 2013, the Consumer Banking division serviced $13.3 billion of mortgage loans for others and $1.1 billion of loans retained within the consolidated group. Approximately 95% of the mortgage loans serviced by the Consumer Banking division were to borrowers in our primary geographical market areas. Loans past due 90 days or more totaled $76 million or 0.57% of loans serviced for others at September 30, 2013 compared to $68 million or 0.54% of loans serviced for others at June 30, 2013. Mortgage servicing revenue, including revenue on loans serviced for the consolidated group, totaled $11.4 million, up $789 thousand or 7% over the third quarter of 2012.

Wealth Management

Wealth Management contributed $4.0 million to consolidated net income in third quarter of 2013, down $1.1 million or 21% compared to the third quarter of 2012.

Table 9 -- Wealth Management
(Dollars in thousands)

	Three Months Ended September 30, 2013	2012	Increase (Decrease)	Nine Months Ended September 30, 2013	2012	Increase (Decrease)
Net interest revenue from external sources	$6,300	$7,064	$(764)	$19,373	$21,340	$(1,967)
Net interest revenue from internal sources	4,837	5,452	(615)	15,209	15,503	(294)
Total net interest revenue	11,137	12,516	(1,379)	34,582	36,843	(2,261)
Net loans charged off	255	509	(254)	1,704	1,680	24
Net interest revenue after net loans charged off	10,882	12,007	(1,125)	32,878	35,163	(2,285)
Fees and commissions revenue	55,530	49,979	5,551	162,720	147,653	15,067
Gain on financial instruments and other assets, net	71	177	(106)	648	452	196
Other operating revenue	55,601	50,156	5,445	163,368	148,105	15,263
Personnel expense	40,891	36,967	3,924	121,483	108,734	12,749
Net losses and expenses of repossessed assets	38	19	19	87	39	48
Other non-personnel expense	9,126	7,789	1,337	27,118	22,041	5,077
Corporate allocations	9,938	9,142	796	30,006	27,691	2,315
Other operating expense	59,993	53,917	6,076	178,694	158,505	20,189
Income before taxes	6,490	8,246	(1,756)	17,552	24,763	(7,211)
Federal and state income tax	2,525	3,208	(683)	6,828	9,633	(2,805)
Net income	$3,965	$5,038	$(1,073)	$10,724	$15,130	$(4,406)
Average assets	$4,385,941	$4,273,386	$112,555	$4,537,922	$4,202,977	$334,945
Average loans	931,894	926,197	5,697	934,338	927,016	7,322
Average deposits	4,176,390	4,193,744	(17,354)	4,373,562	4,129,188	244,374
	206,872	188,755	18,117	204,592	179,772	24,820

Average invested capital						
Return on average assets	0.36 %	0.47 %	(11) bp	0.32 %	0.48 %	(16) bp
Return on invested capital	7.62 %	10.59 %	(297) bp	7.00 %	11.25 %	(425) bp
Efficiency ratio	89.99 %	86.27 %	372 bp	90.57 %	85.91 %	466 bp
Net charge-offs (annualized) to average loans	0.11 %	0.22 %	(11) bp	0.24 %	0.24 %	— bp

	September 30, 2013	September 30, 2012	Increase (Decrease)
Fiduciary assets in custody for which BOKF has sole or joint discretionary authority	$12,144,305	$10,946,350	$1,197,955
Fiduciary assets not in custody for which BOKF has sole or joint discretionary authority	2,039,644	1,588,625	451,019
Non-managed trust assets in custody	15,409,191	12,673,301	2,735,890
Total fiduciary assets	29,593,140	25,208,276	4,384,864
Assets held in safekeeping	21,974,293	20,890,178	1,084,115
Brokerage accounts under BOKF administration	4,782,980	4,329,872	453,108
Assets under management or in custody	$56,350,413	$50,428,326	$5,922,087

Net interest revenue for the third quarter of 2013 was down $1.4 million or 11% compared to the third quarter of 2012. Growth in average assets was largely due to funds sold to the Funds Management unit and was offset by lower yields. Average deposit balances were unchanged compared to the prior year. Interest-bearing transaction account balances grew by $23 million and non-interest bearing demand deposits were up $7 million. Higher-costing time deposit balances decreased $51 million. Average loan balances were largely unchanged compared to the prior year. Residential mortgage loans previously originated by our Wealth Management division decreased, offset by growth in lower yielding consumer loan balances. Net loans charged off decreased $254 thousand over the third quarter of 2012 to $255 thousand or 0.11% of average loans on an annualized basis.

Fees and commissions revenue was up $5.6 million or 11% over the third quarter of 2012. Trust fees and commissions were up $4.2 million or 22%. The acquisition of The Milestone Group, a Denver based investment adviser to high net worth clients in the third quarter of 2012 added $1.6 million of revenue in the third quarter of 2013 compared to $1.1 million in the third quarter of 2012. The remaining increase was primarily due to the growth in the fair value of fiduciary assets administered by the Company. Brokerage and trading revenue increased $1.5 million or 5%. Growth in retail brokerage revenue and investment banking was partially offset by the effect of decreased hedging activity by mortgage banking customers.

Other operating revenue includes fees earned from state and municipal bond underwriting and financial advisory services, primarily in the Oklahoma and Texas markets. In the third quarter of 2013, the Wealth Management division participated in 129 underwritings that totaled $2.0 billion. As a participant, the Wealth Management division was responsible for facilitating the sale of approximately $718 million of these underwritings. In the third quarter of 2012, the Wealth Management division participated in 132 underwritings that totaled approximately $1.8 billion. Our interest in these underwritings totaled approximately $542 million.

Operating expenses increased $6.1 million or 11% over the third quarter of 2012. Operating expenses were up $1.5 million related to The Milestone Group acquisition, including a $971 thousand increase in personnel expenses and a $553 thousand increase in non-personnel expenses. Excluding the impact of the Milestone acquisition, personnel expenses increased $3.0 million including a $1.8 million increase in regular compensation and $678 thousand increase in incentive compensation. Non-personnel expenses increased $801 thousand, including amortization of identifiable intangible assets, and corporate expense allocations increased $796 thousand.

Geographical Market Distribution

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Bank of Oklahoma	$28,689	$27,662	$88,180	$99,053
Bank of Texas	13,668	12,596	39,917	36,948
Bank of Albuquerque	4,133	6,623	14,366	15,987
Bank of Arkansas	979	2,012	6,092	9,635
Colorado State Bank & Trust	4,506	6,317	16,559	12,076
Bank of Arizona	1,080	(76)	4,239	(2,854)
Bank of Kansas City	1,446	2,782	5,733	7,363
Subtotal	54,501	57,916	175,086	178,208
Funds Management and other	21,238	29,468	68,547	90,418
Total	$75,739	$87,384	$243,633	$268,626

Bank of Oklahoma

Our Oklahoma offices are located primarily in the Tulsa and Oklahoma City metropolitan areas. Oklahoma is a significant market to the Company, representing 44% of our average loans, 53% of our average deposits and 38% of our consolidated net income in the third quarter of 2013. In addition, all of our mortgage servicing activity, TransFund EFT network and 63% of our fiduciary assets are attributed to the Oklahoma market.

Net income generated by the Bank of Oklahoma in the third quarter of 2013 increased $1.0 million or 4% over the third quarter of 2012. Changes in the fair value of our mortgage servicing rights, net of economic hedge, decreased net income attributed to the Bank of Oklahoma by $247 thousand in the third quarter of 2013 compared to decreasing net income attributed to the Bank of Oklahoma by $2.1 million in the third quarter of 2012.

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

	Three Months Ended September 30, 2013	2012	Increase (Decrease)	Nine Months Ended September 30, 2013	2012	Increase (Decrease)
Net interest revenue	$55,939	$60,135	$(4,196)	$168,868	$179,600	$(10,732)
Net loans charged off (recovered)	(120)	6,486	(6,606)	(246)	11,566	(11,812)
Net interest revenue after net loans charged off (recovered)	56,059	53,649	2,410	169,114	168,034	1,080
Fees and commissions revenue	77,127	85,699	(8,572)	230,430	246,188	(15,758)
Gain (loss) on financial instruments and other assets, net	(1,215)	4,876	(6,091)	(20,354)	25,446	(45,800)
Other operating revenue	75,912	90,575	(14,663)	210,076	271,634	(61,558)
Personnel expense	40,423	37,378	3,045	117,695	112,452	5,243
Net losses (gains) and expenses of repossessed assets	(10)	257	(267)	146	2,252	(2,106)
Change in fair value of mortgage servicing rights	346	9,577	(9,231)	(16,627)	13,900	(30,527)
Other non-personnel expense	37,798	43,410	(5,612)	115,707	121,785	(6,078)
Corporate allocations	6,460	8,329	(1,869)	17,948	27,162	(9,214)
Total other operating expense	85,017	98,951	(13,934)	234,869	277,551	(42,682)
Income before taxes	46,954	45,273	1,681	144,321	162,117	(17,796)
Federal and state income tax	18,265	17,611	654	56,141	63,064	(6,923)
Net income	$28,689	$27,662	$1,027	$88,180	$99,053	$(10,873)
Average assets	$11,024,084	$11,347,373	$(323,289)	$11,339,495	$11,423,645	$(84,150)
Average loans	5,516,005	5,724,825	(208,820)	5,569,385	5,725,743	(156,358)
Average deposits	10,267,229	10,241,120	26,109	10,509,664	10,256,584	253,080
Average invested capital	553,274	548,057	5,217	552,590	549,533	3,057

Return on average assets	1.03 %	0.97 %	6 bp	1.04 %	1.16 %	(12) bp
Return on invested capital	20.57 %	20.08 %	49 bp	21.34 %	24.08 %	(274) bp
Efficiency ratio	63.63 %	61.28 %	235 bp	62.98 %	61.92 %	106 bp
Net charge-offs (annualized) to average loans	(0.01)%	0.45 %	(46) bp	(0.01)%	0.27 %	(28) bp
Residential mortgage loans funded for sale	$ 639,328	$ 459,368	$ 179,960	$ 1,697,095	$ 1,189,222	$ 507,873

Net interest revenue decreased $4.2 million or 7% compared to the third quarter of 2012. Average loan balances were down $209 million and loan yields decreased. Net interest earned on residential mortgage-backed securities held as an economic hedge of mortgage servicing rights declined by $881 thousand due to a $106 million reduction in the average balance of this portfolio. The favorable net interest impact of the $26 million increase in average deposit balances was offset by lower yields on funds sold to the Funds Management unit.

Fees and commission revenue was down $8.6 million compared to the third quarter of 2012 largely due to a decrease in mortgage banking revenue. Revenue growth from increased loan production was offset by an overall narrowing of gain on sale margins and a shift in product mix. Transaction card revenue was up $1.5 million on increased transaction volumes. Brokerage and trading revenue was up $1.4 million primarily due to growth in retail brokerage revenue.

Excluding the change in the fair value of mortgage servicing rights, other operating expenses were down $4.7 million compared to the prior year. Personnel expenses were up $3.0 million or 8% primarily due to increased incentive compensation expense and annual merit increases. Non-personnel expenses were down $5.6 million or 13% due primarily to decreased mortgage banking costs and data processing expenses. Accruals for potential losses on loans sold to U.S. government agencies under standard representations and warranties were higher in the prior year. Net losses and operating expenses of repossessed assets were down $267 thousand compared to the third quarter of 2012. Corporate expense allocations were down $1.9 million compared to the prior year.

Oklahoma had a net recovery of $120 thousand for third quarter of 2013 compared to net charge-offs of $6.5 million or 0.45% of average loans on an annualized basis for the third quarter of 2012.

Average deposits attributed to the Bank of Oklahoma for the third quarter of 2013 increased $26 million compared to the prior year. Commercial Banking deposit balances increased $148 million or 3% over the prior year. Increased deposits related to energy and treasury services customers were partially offset by decreased average balances from commercial & industrial and healthcare customers. Consumer deposits also increased $34 million over the third quarter of 2012. Wealth Management deposits decreased $156 million compared to the third quarter of 2012 primarily due to decreased trust deposits.

Bank of Texas

Our Texas offices are located primarily in the Dallas, Fort Worth and Houston metropolitan areas. Texas is our second largest market with 35% of our average loans, 25% of our average deposits and 18% of our consolidated net income in the third quarter of 2013.

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

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2013	2012		2013	2012	
Net interest revenue	$37,496	$35,562	$1,934	$112,234	$106,545	$5,689
Net loans charged off (recovered)	(70)	1,780	(1,850)	2,958	4,911	(1,953)
Net interest revenue after net loans charged off (recovered)	37,566	33,782	3,784	109,276	101,634	7,642
Fees and commissions revenue	23,296	23,033	263	72,470	64,303	8,167
Gain on financial instruments and other assets, net	—	—	—	81	188	(107)
Other operating revenue	23,296	23,033	263	72,551	64,491	8,060
Personnel expense	21,755	20,470	1,285	64,909	60,528	4,381
Net losses and expenses of repossessed assets	217	1,125	(908)	647	1,542	(895)
Other non-personnel expense	6,027	6,076	(49)	19,045	18,190	855
Corporate allocations	11,507	9,463	2,044	34,855	28,134	6,721
Total other operating expense	39,506	37,134	2,372	119,456	108,394	11,062
Income before taxes	21,356	19,681	1,675	62,371	57,731	4,640
Federal and state income tax	7,688	7,085	603	22,454	20,783	1,671
Net income	$13,668	$12,596	$1,072	$39,917	$36,948	$2,969
Average assets	$5,332,851	$5,060,350	$272,501	$5,330,539	$5,016,112	$314,427
Average loans	4,291,909	3,827,175	464,734	4,222,012	3,786,717	435,295
Average deposits	4,849,171	4,538,400	310,771	4,839,832	4,500,972	338,860
Average invested capital	503,829	476,027	27,802	497,541	481,220	16,321
Return on average assets	1.02%	0.99%	3 bp	1.00%	0.98%	2 bp
Return on invested capital	10.76%	10.53%	23 bp	10.73%	10.26%	47 bp
Efficiency ratio	64.99%	63.37%	162 bp	64.67%	63.44%	123 bp
	(0.01)%	0.19%	(20) bp	0.09%	0.17%	(8) bp

Net charge-offs (annualized) to average loans						
Residential mortgage loans funded for sale	$132,836	$145,638	$(12,802)	$423,156	$358,144	$65,012

Net income for the Bank of Texas increased $1.1 million or 9% over the third quarter of 2012. Net interest revenue was up and net loans charged off declined from the prior year, partially offset by an increase in operating expenses.

Net interest revenue increased $1.9 million or 5% over the third quarter of 2012 primarily due to decreased deposit costs and growth of the loan portfolio and average deposit balances. Average outstanding loans grew by $465 million or 12% over the third quarter of 2012 and average deposits increased by $311 million or 7%.

Fees and commissions revenue increased $263 thousand or 1% over the third quarter of 2012. Mortgage banking revenue decreased $2.8 million or 39% compared to the prior year on lower gains on sale margins. Brokerage and trading revenue grew by $1.9 million or 49% primarily due to increased retail brokerage fees and investment banking revenue. Trust fees and commissions, transaction card revenue and deposit service charges and fees all increased over the prior year.

Operating expenses increased $2.4 million or 6% over the third quarter of 2012. Personnel costs were up $1.3 million or 6% primarily due to increased incentive compensation in addition to growth in head count and annual merit increases. Net losses and operating expenses of repossessed assets decreased $908 thousand compared to the third quarter of 2012 due primarily to lower impairment charges based on regularly scheduled appraisal updates. Non-personnel expenses were unchanged and corporate expense allocations were up $2.0 million on increased customer transaction activity.

Texas had a $70 thousand net recovery for the third quarter of 2013, compared to net charge-offs of $1.8 million or 0.19% of average loans for the third quarter of 2012 on an annualized basis.

Bank of Albuquerque

Net income attributable to the Bank of Albuquerque totaled $4.1 million or 5% of consolidated net income, down $2.5 million or 38% from the third quarter of 2012 primarily due to decreased mortgage banking revenue and increased net loans charged off, partially offset by decreased operating expenses. Net interest revenue was up $305 thousand over the third quarter of 2012. Average loan balances grew by $69 million over the prior year, primarily due to commercial loan growth. Average deposit balances were up $33 million or 3% over the prior year. Net loans charged off totaled $1.0 million or 0.50% of average loans on annualized basis in the third quarter of 2013 compared to net loans charged off of $232 thousand or 0.13% of average loans on an annualized basis in the third quarter of 2012.

Fees and commissions revenue decreased $4.6 million or 34% over the prior year primarily due to a $5.0 million decrease in mortgage banking revenue. Other operating expense decreased $982 thousand or 9%. Personnel expenses were down $498 thousand primarily due to decreased regular compensation expense. Net losses and operating expenses of repossessed assets and non-personnel expenses were largely unchanged compared to the prior year. Corporate expense allocations were down $728 thousand.

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

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2013	2012		2013	2012	
Net interest revenue	$9,177	$8,872	$305	$26,912	$25,737	$1,175
Net loans charged off	985	232	753	5,373	888	4,485
Net interest revenue after net loans charged off	8,192	8,640	(448)	21,539	24,849	(3,310)
Other operating revenue – fees and commission	9,075	13,685	(4,610)	35,545	34,793	752
Personnel expense	4,770	5,268	(498)	15,678	15,013	665
Net losses (gains) and expenses of repossessed assets	126	22	104	271	(112)	383
Other non-personnel expense	2,129	1,989	140	6,347	6,067	280
Corporate allocations	3,478	4,206	(728)	11,276	12,508	(1,232)
Total other operating expense	10,503	11,485	(982)	33,572	33,476	96
Income before taxes	6,764	10,840	(4,076)	23,512	26,166	(2,654)
Federal and state income tax	2,631	4,217	(1,586)	9,146	10,179	(1,033)
Net income	$4,133	$6,623	$(2,490)	$14,366	$15,987	$(1,621)
Average assets	$1,465,981	$1,415,978	$50,003	$1,426,032	$1,377,440	$48,592
Average loans	777,449	708,760	68,689	763,416	707,809	55,607
Average deposits	1,328,049	1,295,201	32,848	1,302,380	1,251,766	50,614
Average invested capital	80,226	78,457	1,769	80,217	79,688	529

Return on average assets	1.12	%	1.86	%	(74	) bp	1.35	%	1.55	%	(20	) bp
Return on invested capital	20.43	%	33.58	%	(1,315	) bp	23.94	%	26.80	%	(286	) bp
Efficiency ratio	57.54	%	50.92	%	662	bp	53.75	%	55.30	%	(155	) bp
Net charge-offs (recovered) to average loans (annualized)	0.50	%	0.13	%	37	bp	0.94	%	0.17	%	77	bp
Residential mortgage loans funded for sale	$90,462		$153,460		$(62,998	)	$399,125		$394,701		$4,424	

Bank of Arkansas

Net income attributable to the Bank of Arkansas decreased $1.0 million compared to the third quarter of 2012. Net interest revenue decreased $400 thousand. Average loan balances were down $28 million or 14% primarily due to a decrease in multifamily residential sector loans and the continued runoff of indirect automobile loans. Average deposits grew $18 million or 9% over the prior year.

Fees and commissions revenue was down $750 thousand compared to the prior year primarily due to decreased securities trading revenue at our Little Rock office and decreased mortgage banking revenue. Other operating expenses were up $1.6 million primarily due to increased corporate expense allocations.

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

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2013	2012		2013	2012	
Net interest revenue	$1,358	$1,758	$(400)	$4,295	$8,267	$(3,972)
Net loans charged off (recovered)	(85)	934	(1,019)	(224)	(1,168)	944
Net interest revenue after net loans charged off (recovered)	1,443	824	619	4,519	9,435	(4,916)
Other operating revenue – fees and commissions	11,927	12,677	(750)	38,597	36,428	2,169
Personnel expense	6,397	6,100	297	19,094	17,731	1,363
Net losses and expenses of repossessed assets	1,045	85	960	1,277	160	1,117
Other non-personnel expense	1,110	1,125	(15)	3,412	3,708	(296)
Corporate allocations	3,216	2,898	318	9,362	8,494	868
Total other operating expense	11,768	10,208	1,560	33,145	30,093	3,052
Income before taxes	1,602	3,293	(1,691)	9,971	15,770	(5,799)
Federal and state income tax	623	1,281	(658)	3,879	6,135	(2,256)
Net income	$979	$2,012	$(1,033)	$6,092	$9,635	$(3,543)
Average assets	$324,481	$226,898	$97,583	$272,821	$249,117	$23,704
Average loans	176,318	204,278	(27,960)	171,820	229,222	(57,402)
Average deposits	226,704	208,229	18,475	219,916	210,193	9,723
Average invested capital	18,689	18,306	383	18,207	20,258	(2,051)
	1.20%	3.53%	(233) bp	2.99%	5.17%	(218) bp

Return on average assets						
Return on invested capital	20.78 %	43.72 %	(2,294) bp	44.74 %	63.53 %	(1,879) bp
Efficiency ratio	88.58 %	70.72 %	1,786 bp	77.28 %	67.33 %	995 bp
Net recoveries to average loans (annualized)	(0.19)%	1.82 %	(201) bp	(0.17)%	(0.68)%	51 bp
Residential mortgage loans funded for sale	$28,621	$28,789	$(168)	$86,800	$79,543	$7,257

- 26 -

Colorado State Bank & Trust

Net income attributed to Colorado State Bank & Trust decreased $1.8 million or 29% compared to the third quarter of 2012 to $4.5 million. Colorado State Bank & Trust experienced a net recovery of $699 thousand in the third quarter of 2013, compared to a net recovery of $2.4 million in the third quarter of 2012. Net interest revenue increased $691 thousand due primarily to a $57 million or 6% increase in average loans outstanding and lower deposit costs, partially offset by decreased yield on funds sold to the Funds Management unit. Average deposits grew $59 million or 5% over the third quarter of 2012. Interest-bearing transaction deposits grew by $64 million and demand deposits were up $35 million, partially offset by a $44 million decrease in time deposits.

Fees and commissions revenue was down $1.2 million over the third quarter of 2012. Trust fees and commissions increased $1.9 million due primarily to the acquisition of the Milestone Group during the third quarter of 2012. The Milestone Group is a Denver-based registered investment adviser which provides wealth management services to high net worth clients in Colorado and Nebraska. Mortgage banking revenue decreased $3.2 million due to lower gains on sale margins. Operating expenses were up $824 thousand over the prior year primarily due to the Milestone Group acquisition. Personnel expenses were up $790 thousand, and non-personnel expenses were up $268 thousand.

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

	Three Months Ended September 30, 2013	2012	Increase (Decrease)	Nine Months Ended September 30, 2013	2012	Increase (Decrease)
Net interest revenue	$9,869	$9,178	$691	$29,774	$26,678	$3,096
Net loans charged off (recovered)	(699)	(2,367)	1,668	(2,710)	(70)	(2,640)
Net interest revenue after net loans charged off (recovered)	10,568	11,545	(977)	32,484	26,748	5,736
Other operating revenue – fees and commissions revenue	11,115	12,277	(1,162)	36,526	28,846	7,680
Personnel expense	7,875	7,085	790	23,479	19,123	4,356
Net losses and expenses of repossessed assets	196	144	52	28	216	(188)
Other non-personnel expense	2,314	2,046	268	6,770	4,823	1,947
Corporate allocations	3,923	4,209	(286)	11,631	11,667	(36)
Total other operating expense	14,308	13,484	824	41,908	35,829	6,079
Income before taxes	7,375	10,338	(2,963)	27,102	19,765	7,337
Federal and state income tax	2,869	4,021	(1,152)	10,543	7,689	2,854
Net income	$4,506	$6,317	$(1,811)	$16,559	$12,076	$4,483
Average assets	$1,376,419	$1,294,910	$81,509	$1,380,544	$1,300,638	$79,906
Average loans	1,016,173	958,842	57,331	1,048,439	890,021	158,418
Average deposits	1,334,937	1,276,068	58,869	1,343,124	1,288,010	55,114
Average invested capital	147,463	130,633	16,830	147,860	123,235	24,625
Return on average assets	1.30%	1.94%	(64) bp	1.60%	1.24%	36 bp
Return on invested capital	12.12%	19.24%	(712) bp	14.97%	13.09%	188 bp
Efficiency ratio	68.19%	62.85%	534 bp	63.21%	64.53%	(132) bp
Net charge-offs (recoveries) to average loans (annualized)	(0.27)%	(0.98)%	71 bp	(0.35)%	(0.01)%	(34) bp

Residential mortgage loans funded for sale	$111,079	$145,306	$(34,227)	$348,914	$338,121	$10,793

Bank of Arizona

Bank of Arizona had net income of $1.1 million for the third quarter of 2013 compared to a net loss of $76 thousand for the third quarter of 2012. Net loans charged off totaled $345 thousand or 0.20% of average loans on an annualized basis for the third quarter of 2013 compared to a net recovery of $1.4 million in the third quarter of 2012.

Net interest revenue increased $1.3 million or 31% over the third quarter of 2012. Average loan balances were up $124 million or 22% over the third quarter of 2012. Average deposits were up $206 million or 58% over the third quarter of 2012. Interest-bearing transaction account balances increased $165 million and demand deposit balances increased $37 million both primarily due to growth in commercial and wealth management deposits.

Fees and commissions revenue was down $353 thousand primarily due to increased mortgage banking revenue. Trust fees and commissions and transaction card revenues both increased over the prior year. Other operating expense decreased $2.6 million or 32% compared to the third quarter of 2012. Personnel expenses increased due to increased headcount and annual merit increases. Net losses and operating expenses of repossessed assets totaled $163 thousand in the third quarter of 2013 compared to $3.6 million in the third quarter of 2012. Impairment charges against repossessed assets based on regularly scheduled appraisal updates were less than the prior year. Non-personnel expenses were unchanged and corporate allocations increased due to increased customer transaction activity.

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

	Three Months Ended September 30, 2013	2012	Increase (Decrease)	Nine Months Ended September 30, 2013	2012	Increase (Decrease)
Net interest revenue	$5,605	$4,270	$1,335	$15,573	$12,497	$3,076
Net loans charged off (recovered)	345	(1,391)	1,736	(249)	3,029	(3,278)
Net interest revenue after net loans charged off (recovered)	5,260	5,661	(401)	15,822	9,468	6,354
Fees and commissions revenue	2,243	2,596	(353)	8,362	6,949	1,413
Gain on financial instruments and other assets, net	—	—	—	310	—	310
Other operating revenue	2,243	2,596	(353)	8,672	6,949	1,723
Personnel expense	3,009	2,639	370	9,200	7,634	1,566
Net losses and expenses of repossessed assets	163	3,616	(3,453)	293	7,284	(6,991)
Other non-personnel expense	876	860	16	2,814	2,484	330
Corporate allocations	1,687	1,267	420	5,249	3,686	1,563
Total other operating expense	5,735	8,382	(2,647)	17,556	21,088	(3,532)
Income (loss) before taxes	1,768	(125)	1,893	6,938	(4,671)	11,609
Federal and state income tax	688	(49)	737	2,699	(1,817)	4,516
Net income (loss)	$1,080	$(76)	$1,156	$4,239	$(2,854)	$7,093
Average assets	$731,940	$625,593	$106,347	$690,075	$609,923	$80,152
Average loans	690,975	567,198	123,777	643,790	553,260	90,530
Average deposits	560,638	354,865	205,773	565,362	288,533	276,829
Average invested capital	66,442	60,261	6,181	64,160	60,835	3,325
Return on average assets	0.59 %	(0.05)%	64 bp	0.82 %	(0.63)%	145 bp
Return on invested capital	6.45 %	(0.50)%	695 bp	8.83 %	(6.27)%	1,510 bp
Efficiency ratio	73.08 %	122.08 %	(4,900) bp	73.35 %	108.44 %	(3,509) bp
Net charge-offs (recoveries) to average	0.20 %	(0.98)%	118 bp	(0.05)%	0.73 %	(78) bp

loans (annualized)						
Residential mortgage loans funded for sale	$27,154	$29,340	$(2,186)	$101,002	$70,261	$30,741

Bank of Kansas City

Net income attributed to the Bank of Kansas City was $1.4 million for the third quarter of 2013 compared to $2.8 million for the third quarter of 2012. Net interest revenue increased $630 thousand or 19%. Average loan balances increased $95 million or 22% and average deposit balances were up $55 million or 18%. Demand deposit balances grew $89 million due primarily to commercial account balances. Interest-bearing transaction account balances were down $27 million and higher costing time deposit balances decreased by $6.8 million. Bank of Kansas City had a net recovery of $57 thousand for the third quarter of 2013 compared to net charge-offs of $43 thousand for the third quarter of 2012.

Fees and commissions revenue decreased $3.6 million or 34% compared the prior year primarily due to decreased mortgage banking revenue and brokerage and trading revenue. Trust fees and commissions and deposit service charges and fees grew over the prior year. Personnel costs were down $578 thousand primarily due to reduced incentive compensation expense, partially offset by annual merit increases and growth in headcount. Non-personnel expense increased $297 thousand and corporate expense allocations decreased by $395 thousand.

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

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2013	2012		2013	2012	
Net interest revenue	$4,032	$3,402	$630	$11,663	$9,755	$1,908
Net loans charged off (recovered)	(57)	43	(100)	91	(113)	204
Net interest revenue after net loans charged off (recovered)	4,089	3,359	730	11,572	9,868	1,704
Other operating revenue – fees and commission	7,168	10,798	(3,630)	25,036	28,729	(3,693)
Personnel expense	4,884	5,462	(578)	15,007	15,018	(11)
Net losses and expenses of repossessed assets	22	58	(36)	54	49	5
Other non-personnel expense	1,500	1,203	297	4,471	3,287	1,184
Corporate allocations	2,485	2,880	(395)	7,693	8,193	(500)
Total other operating expense	8,891	9,603	(712)	27,225	26,547	678
Income before taxes	2,366	4,554	(2,188)	9,383	12,050	(2,667)
Federal and state income tax	920	1,772	(852)	3,650	4,687	(1,037)
Net income	$1,446	$2,782	$(1,336)	$5,733	$7,363	$(1,630)
Average assets	$544,304	$460,744	$83,560	$528,303	$446,770	$81,533
Average loans	528,801	433,798	95,003	510,020	425,597	84,423
Average deposits	368,212	313,024	55,188	366,244	264,073	102,171
Average invested capital	40,619	33,460	7,159	39,059	32,800	6,259
Return on average assets	1.05%	2.40%	(135) bp	1.45%	2.20%	(75) bp
Return on invested capital	14.12%	33.08%	(1,896) bp	19.62%	29.99%	(1,037) bp

Efficiency ratio	79.38 %	67.63 %	1,175 bp	74.18 %	68.98 %	520 bp
Net charge-offs (annualized) to average loans	(0.04)%	0.04 %	(8) bp	0.02 %	(0.04)%	6 bp
Residential mortgage loans funded for sale	$ 50,687	$ 84,707	$ (34,020)	$ 176,428	$ 204,817	$ (28,389)

- 31 -

Financial Condition
Securities

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

At September 30, 2013, the carrying value of investment (held-to-maturity) securities was $644 million and the fair value was $654 million. Investment securities consist primarily of long-term, fixed rate Oklahoma municipal bonds, taxable Texas school construction bonds and residential mortgage-backed securities issued by U.S. government agencies. The investment security portfolio is diversified among issuers. The largest obligation of any single issuer is $30 million. Substantially all of these bonds are general obligations of the issuers. Approximately $83 million of the Texas school construction bonds are also guaranteed by the Texas Permanent School Fund Guarantee Program supervised by the State Board of Education for the State of Texas.

Available for sale securities, which may be sold prior to maturity, are carried at fair value. Unrealized gains or losses, net of deferred taxes, are recorded as accumulated other comprehensive income in shareholders’ equity. The amortized cost of available for sale securities totaled $10.4 billion at September 30, 2013, a decrease of $290 million from June 30, 2013. The decrease was primarily in U.S. government agency residential mortgage-backed securities partially offset by an increase in U.S. government agency backed commercial mortgage-backed securities. Commercial mortgage-backed securities have prepayment penalties similar to commercial loans. At September 30, 2013, residential mortgage-backed securities represented 79% of total available for sale securities.

A primary risk of holding residential mortgage-backed securities comes from extension during periods of rising interest rates or prepayment during periods of falling interest rates. We evaluate this risk through extensive modeling of risk both before making an investment and throughout the life of the security. Our best estimate of the duration of the residential mortgage-backed securities portfolio at September 30, 2013 is 3.3 years. Management estimates the duration extends to 3.8 years assuming an immediate 200 basis point upward shock. The estimated duration contracts to 3.1 years assuming a 50 basis point decline in the current rate environment. Net unamortized premiums are less than 1% of the available for sale securities portfolio amortized cost.

Residential mortgage-backed securities also have credit risk from delinquency or default of the underlying loans. We mitigate this risk by primarily investing in securities issued by U.S. government agencies. Principal and interest payments on the underlying loans are fully guaranteed. At September 30, 2013, approximately $7.9 billion of the amortized cost of the Company’s residential mortgage-backed securities were issued by U.S. government agencies. The fair value of these residential mortgage-backed securities totaled $8.0 billion at September 30, 2013.

We also hold amortized cost of $228 million in residential mortgage-backed securities privately issued by publicly-owned financial institutions, a decrease of $65 million from June 30, 2013. The decrease was due to the sale of approximately $45 million in amortized cost during the third quarter and cash received from paydowns. Other-than-temporary impairment losses charged against earnings related to privately issued mortgage-backed securities totaled $140 thousand during the third quarter of 2013. The fair value of our portfolio of privately issued residential mortgage-backed securities totaled $231 million at September 30, 2013.

The amortized cost of our portfolio of privately issued residential mortgage-backed securities included $118 million of Jumbo-A residential mortgage loans and $109 million of Alt-A residential mortgage loans. Jumbo-A residential mortgage loans generally meet government underwriting standards, but have loan balances that exceed agency maximums. Alt-A mortgage loans generally do not have sufficient documentation to meet government agency underwriting standards. Credit risk on residential mortgage-backed securities originated by private issuers is mitigated by investment in senior tranches with additional collateral support. All of our Alt-A residential mortgage-backed securities were issued with credit support from additional layers of loss-absorbing subordinated tranches, including all Alt-A residential mortgage-backed securities held that were originated in 2007 and 2006. The weighted average original credit enhancement of the Alt-A residential mortgage-backed securities was 10.2% and has been fully absorbed as of September 30, 2013. The Jumbo-A residential mortgage-backed securities had original credit enhancement of 9.7% and the current level is 4.0%. Approximately 80% of our Alt-A mortgage-backed securities represent pools of fixed rate residential mortgage loans. None of the adjustable rate mortgages are payment option adjustable rate mortgages ("ARMs"). Approximately 33% of our Jumbo-A residential mortgage-backed securities represent pools of fixed rate residential mortgage loans and none of the adjustable rate mortgages are payment option ARMs.

The aggregate gross amount of unrealized losses on available for sale securities totaled $132 million at September 30, 2013, compared to $99 million at June 30, 2013. On a quarterly basis, we perform separate evaluations on debt and equity securities to determine if the unrealized losses are temporary as more fully described in Note 2 of the Consolidated Financial Statements. Other-than-temporary impairment charges of $1.5 million were recognized in earnings in the third quarter of 2013 including $140 thousand of credit impairment related to certain privately issued residential mortgage-backed securities that we do not intend to sell and $1.4 million related to certain municipal securities which the Company now intends to sell prior to recovery of its amortized cost based on a tentative settlement offer from the securities issuer.

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

Bank-Owned Life Insurance

We have approximately $282 million of bank-owned life insurance at September 30, 2013. This investment is expected to provide a long-term source of earnings to support existing employee benefit programs. Approximately $251 million is held in separate accounts. Our separate account holdings are invested in diversified portfolios of investment-grade fixed income securities and cash equivalents, including U.S. Treasury and Agency securities, residential mortgage-backed securities, corporate debt, asset-backed and commercial mortgage-backed securities. The portfolios are managed by unaffiliated professional managers within parameters established in the portfolio’s investment guidelines. The cash surrender value of certain life insurance policies is further supported by a stable value wrap, which protects against changes in the fair value of the investments. At September 30, 2013, the cash surrender value represented by the underlying fair value of investments held in separate accounts was approximately $263 million. As the underlying fair value of the investments held in a separate account at September 30, 2013 exceeded the net book value of the investments, no cash surrender value was supported by the stable value wrap. The stable value wrap is provided by a domestic financial institution. The remaining cash surrender value of $31 million primarily represents the cash surrender value of policies held in general accounts and other amounts due from various insurance companies.

Loans

The aggregate loan portfolio before allowance for loan losses totaled $12.4 billion at September 30, 2013, a decrease of $91 million compared to June 30, 2013.

Table 18 -- Loans
(In thousands)

	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Commercial:					
Energy	$2,311,991	$2,384,746	$2,349,432	$2,460,659	$2,416,877
Services	2,148,551	2,204,253	2,114,799	2,164,186	1,967,568
Wholesale/retail	1,181,806	1,175,543	1,085,000		