BOK FINANCIAL CORP ET AL
Form 10-Q
August 01, 2014

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2014
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: 69,286,001 shares of common stock ($.00006 par value) as of June 30, 2014.

BOK Financial Corporation
Form 10-Q
Quarter Ended June 30, 2014

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

Performance Summary

BOK Financial Corporation (“the Company”) reported net income of $75.9 million or $1.10 per diluted share for the second quarter of 2014, compared to $79.9 million or $1.16 per diluted share for the second quarter of 2013 and $76.6 million or $1.11 per diluted share for the first quarter of 2014.

Highlights of the second quarter of 2014 included:

- Net interest revenue totaled $166.1 million for the second quarter of 2014, compared to $168.9 million for the second quarter of 2013 and $162.6 million for the first quarter of 2014. Net interest margin was 2.75% for the second quarter of 2014. Net interest margin was 2.80% for the second quarter of 2013 and 2.71% for the first quarter of 2014.
- Fees and commissions revenue totaled $164.1 million for the second quarter of 2014, a $4.9 million or 3% increase over the second quarter of 2013. Growth in brokerage and trading, fiduciary and asset management and transaction card revenues, was partially offset by a $7.3 million decrease in mortgage banking revenue. Mortgage production volume was lower than the second quarter of 2013 as mortgage interest rates have trended higher. Fees and commissions revenue increased $23.2 million over the first quarter of 2014. All fees and commissions revenue categories experienced growth over the first quarter of 2014.
- Operating expenses totaled $214.7 million for the second quarter of 2014, an increase of $3.8 million over the second quarter of 2013. Personnel costs decreased $4.4 million primarily due to lower incentive compensation expense, partially offset by increased regular compensation expense. Non-personnel expense increased $8.2 million. Professional fees and services, data processing and communications and net occupancy expense increased over the prior year. Operating expenses increased $29.6 million over the previous quarter. Personnel costs increased $19.3 million. The Company reversed $17.2 million primarily related to amounts payable to certain executive officers accrued during 2011 through 2013 under the 2011 True-Up Plan in the first quarter of 2014. Non-personnel expense increased $10.3 million over the prior quarter. Mortgage banking expenses were up $4.3 million primarily due to increased accruals for loan servicing costs. The Company made a $2.4 million discretionary contribution of appreciated stock to the BOKF Foundation during the first quarter of 2014. Professional fees and services, data processing and communications and net occupancy expense also increased over the prior quarter.
- No provision for credit losses was recorded in the second quarter of 2014 or the second quarter of 2013 and first quarter of 2014. Gross charge-offs were $3.5 million in the second quarter of 2014, $8.6 million in the second quarter of 2013 and $2.8 million in the first quarter of 2014. Recoveries were $5.5 million in the second quarter of 2014, compared to $6.2 million in the second quarter of 2013 and $5.4 million in the first quarter of 2014.
- The combined allowance for credit losses totaled $192 million or 1.43% of outstanding loans at June 30, 2014 compared to $190 million or 1.45% of outstanding loans at March 31, 2014. Nonperforming assets that are not guaranteed by U.S. government agencies totaled $145 million or 1.09% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at June 30, 2014 and $153 million or 1.18% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at March 31, 2014.
- Outstanding loan balances were $13.4 billion at June 30, 2014, an increase of $349 million over March 31, 2014. Commercial loan balances grew by $316 million and commercial real estate loan balances were up $24 million. Residential mortgage loans decreased by $10 million and consumer loan balances increased $20 million.
- Period end deposits totaled $20.6 billion at June 30, 2014, a $182 million increase over March 31, 2014. Demand deposit account balances increased $436 million, partially offset by a $201 million decrease in interest-bearing transaction accounts and a $46 million decrease in time deposits.
- The Company's Tier 1 common equity ratio, as defined by banking regulations, was 13.46% at June 30, 2014 and 13.59% at March 31, 2014. The Company and its subsidiary bank continue to exceed the regulatory definition of well capitalized. The Company's Tier 1 capital ratio was 13.63% at June 30, 2014 and 13.77% at March 31, 2014. Total capital ratio was 15.38% at June 30, 2014 and 15.55% at March 31, 2014. The Company's leverage ratio was 10.26% at June 30, 2014 and 10.17% at March 31, 2014.

- The Company paid a regular quarterly cash dividend of $28 million or $0.40 per common share during the second quarter of 2014. On July 29, 2014, the board of directors approved a quarterly cash dividend of $0.40 per common share payable on or about August 29, 2014 to shareholders of record as of August 15, 2014.

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 $166.1 million for the second quarter of 2014 compared to $168.9 million for the second quarter of 2013 and $162.6 million for the first quarter of 2014. Net interest margin was 2.75% for the second quarter of 2014, 2.80% for the second quarter of 2013 and 2.71% for the first quarter of 2014.

Net interest revenue decreased $2.8 million compared to the second quarter of 2013. Net interest revenue decreased $7.4 million primarily due to continued narrowing of interest rate spreads. Net interest revenue increased $4.8 million over the previous quarter primarily due to the growth in average outstanding loans and a decrease in the average balance of other borrowings, partially offset by a decrease in average securities balances.

The tax-equivalent yield on earning assets was 3.02% for the second quarter of 2014, down 8 basis points from the second quarter of 2013. Loan yields decreased 27 basis points. Credit spreads have narrowed due to market pricing pressure in our loan portfolio. The available for sale securities portfolio yield was unchanged at 1.96%. Cash flows received from payments on residential mortgage-backed securities are currently being reinvested in short-duration securities that yield nearly 2%. Funding costs were down 1 basis point from the second quarter of 2013. The cost of interest-bearing deposits decreased 4 basis points and the cost of other borrowed funds increased 4 basis points largely due to the mix of funding sources. Additionally, the benefit to net interest margin from earning assets funded by non-interest bearing liabilities was 15 basis points in the second quarter of 2014 compared to 13 basis points in the second quarter of 2013.

Average earning assets for the second quarter of 2014 decreased $188 million or 1% compared to the second quarter of 2013. Average loans, net of allowance for loan losses, increased $1.0 billion due primarily to growth in average commercial and commercial real estate loans. The average balance of available for sale securities decreased $1.3 billion. We intend to allow the size of our bond portfolio to decrease to better position the balance sheet for a longer-term rising rate environment. We anticipate a $600 million reduction in our bond portfolio over the remainder of 2014. This reduction in earning assets is expected to be partially offset by quarterly loan growth in low double-digits for the balance of the year. The resulting shift in earning asset mix should be supportive of net interest margin. The average balance of interest-bearing cash and cash equivalents and investment securities was up over the prior year, offset by a decrease in the average balances of our trading portfolio, fair value option securities primarily held as an economic hedge of our mortgage servicing rights and residential mortgage loans held for sale.

Average deposits increased $970 million over the second quarter of 2013, including a $765 million increase in average demand deposit balances and a $347 million increase in average interest-bearing transaction accounts, partially offset by a $182 million decrease in average time deposits. Average borrowed funds decreased $996 million compared to the second quarter of 2013 primarily due to decreased borrowings from the Federal Home Loan Banks and funds purchased and repurchase agreements.

Net interest margin increased 4 basis points over the first quarter of 2014. The yield on average earning assets increased 3 basis points. The yield on the available for sale securities portfolio increased 5 basis points to 1.96%. The loan portfolio yield decreased 4 basis points to 3.85% primarily due to market pricing pressure. Funding costs were up 1 basis point to 0.42%. Rates paid on time deposits decreased 1 basis point. The cost of other borrowed funds increased 4 basis points over the first quarter. The benefit to net interest margin from earning assets funded by non-interest bearing liabilities increased 2 basis points.

Average earning assets increased $180 million during the second quarter of 2014. Growth in average outstanding loans of $317 million was partially offset by a $276 million decrease in the available for sale securities portfolio. Average commercial loan balances were up $295 million and average commercial real estate loan balances increased $18 million. The average balance of interest-bearing cash and cash equivalents increased $86 million, the average balance of residential mortgage loans held for sale increased $34 million, the average trading securities balance increased $24 million and the average balance of restricted equity securities increased $12 million.

Average deposits increased $262 million over the previous quarter. Demand deposit balances increased $342 million. Interest-bearing transaction account balances decreased $50 million and time deposit account balances decreased $50 million. The average balance of borrowed funds decreased $49 million compared to the first quarter of 2014.

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 ¾ 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.

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

	Three Months Ended June 30, 2014 / 2013			Six Months Ended June 30, 2014 / 2013		
		Change Due To[1]			Change Due To[1]	
	Change	Volume	Yield / Rate	Change	Volume	Yield /Rate
Tax-equivalent interest revenue:						
Interest-bearing cash and cash equivalents	$105	$144	$(39)	$186	$154	$32
Trading securities	(302)	(302)	—	(478)	(449)	(29)
Investment securities:						
Taxable securities	(409)	(269)	(140)	(925)	(550)	(375)
Tax-exempt securities	196	433	(237)	543	812	(269)
Total investment securities	(213)	164	(377)	(382)	262	(644)
Available for sale securities:						
Taxable securities	(4,902)	(4,877)	(25)	(12,654)	(6,976)	(5,678)
Tax-exempt securities	(6)	(221)	215	(178)	(201)	23
Total available for sale securities	(4,908)	(5,098)	190	(12,832)	(7,177)	(5,655)
Fair value option securities	(230)	(238)	8	(556)	(402)	(154)
Restricted equity securities	(187)	(724)	537	(55)	(388)	333
Residential mortgage loans held for sale	229	(421)	650	27	(329)	356
Loans	1,516	9,959	(8,443)	(894)	8,420	(9,314)
Total tax-equivalent interest revenue	(3,990)	3,484	(7,474)	(14,984)	91	(15,075)
Interest expense:						
Transaction deposits	(273)	152	(425)	(860)	(158)	(702)
Savings deposits	(14)	12	(26)	(36)	5	(41)
Time deposits	(845)	(709)	(136)	(2,131)	(1,329)	(802)
Funds purchased	(98)	(46)	(52)	(301)	(116)	(185)
Repurchase agreements	53	13	40	58	18	40
Other borrowings	(163)	(729)	566	(185)	(371)	186
Subordinated debentures	(11)	4	(15)	(12)	(1)	(11)
Total interest expense	(1,351)	(1,303)	(48)	(3,467)	(1,952)	(1,515)
Tax-equivalent net interest revenue	(2,639)	4,787	(7,426)	(11,517)	2,043	(13,560)
Change in tax-equivalent adjustment	156			88		
Net interest revenue	$(2,795)			$(11,605)		

[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 $162.6 million for the second quarter of 2014, a $771 thousand decrease compared to the second quarter of 2013 and a $25.6 million increase over the first quarter of 2014. Fees and commissions revenue increased $4.9 million over the second quarter of 2013 and $23.2 million over the prior quarter. The change in the fair value of mortgage servicing rights, net of the change in the fair value of securities and derivative contracts held as an economic hedge, decreased other operating revenue by $1.5 million in the second quarter of 2014, decreased other operating revenue $908 thousand in the first quarter of 2014 and increased operating revenue $2.7 million in the second quarter of 2013. Net gains on available for sale securities decreased $3.7 million compared to the prior year and decreased $1.2 million compared to the previous quarter. The loss on other assets in the first quarter of 2014 was primarily due to changes in the fair value of assets held as an economic hedge of a deferred compensation liability and charges related to certain merchant banking equity investments.

Table 2 – Other Operating Revenue
(In thousands)

	Three Months Ended June 30,				Three Months Ended Mar. 31, 2014		
	2014	2013	Increase(Decrease)	% Increase(Decrease)		Increase(Decrease)	% Increase(Decrease)
Brokerage and trading revenue	$39,056	$32,874	$ 6,182	19 %	$29,516	$ 9,540	32 %
Transaction card revenue	31,510	29,942	1,568	5 %	29,134	2,376	8 %
Fiduciary and asset management revenue	29,543	24,803	4,740	19 %	25,722	3,821	15 %
Deposit service charges and fees	23,133	23,962	(829)	(4)%	22,689	444	2 %
Mortgage banking revenue	29,330	36,596	(7,266)	(20)%	22,844	6,486	28 %
Bank-owned life insurance	2,274	2,236	38	2 %	2,106	168	8 %
Other revenue	9,208	8,760	448	5 %	8,852	356	4 %
Total fees and commissions revenue	164,054	159,173	4,881	3 %	140,863	23,191	16 %
Loss on other assets, net	(52)	(1,666)	1,614	N/A	(4,264)	4,212	N/A
Gain (loss) on derivatives, net	831	(2,527)	3,358	N/A	968	(137)	N/A
Gain (loss) on fair value option securities, net	4,176	(9,156)	13,332	N/A	2,660	1,516	N/A
Change in fair value of mortgage servicing rights	(6,444)	14,315	(20,759)	N/A	(4,461)	(1,983)	N/A
Gain on available for sale securities, net	4	3,753	(3,749)	N/A	1,240	(1,236)	N/A
Total other-than-temporary impairment	—	(1,138)	1,138	N/A	—	—	N/A
	—	586	(586)	N/A	—	—	N/A

Portion of loss recognized in (reclassified from) other comprehensive income							
Net impairment losses recognized in earnings	—	(552)	552	N/A	—	—	N/A
Total other operating revenue	$162,569	$163,340	$ (771)	— %	$137,006	$ 25,563	19 %

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 50% of total revenue for the second quarter of 2014, excluding provision for credit losses and gains and losses on other assets, securities and derivatives and the change in the fair value of mortgage servicing rights. We believe that a variety of fee revenue sources provides an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile. As an example of this strength, many of the economic factors that cause net interest revenue compression such as falling interest rates may also drive growth in our mortgage banking revenue. We expect growth in other operating revenue to come through offering new products and services and by further development of our presence in other markets. However, current and future economic conditions, regulatory constraints, increased competition and saturation in our existing markets could affect the rate of future increases.

Brokerage and trading revenue, which includes revenues from securities trading, retail brokerage, customer hedging and investment banking, increased $6.2 million over the second quarter of 2013.

Securities trading revenue totaled $18.6 million for the second quarter of 2014, a $4.4 million increase over the second quarter of 2013. 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. The second quarter of 2013 included a negative mark-to-market of municipal and U.S. government agency securities due to an increase in interest rates.

Customer hedging revenue is based primarily on realized and unrealized changes in the fair value of derivative contracts held for customer risk management programs. As more fully discussed under Customer Derivative Programs in Note 3 of the Consolidated Financial Statements, we offer commodity, interest rate, foreign exchange and equity derivatives to our customers. Customer hedging revenue totaled $3.7 million for the second quarter of 2014. Combined recoveries from the Lehman Brothers and MF Global bankruptcies totaled $1.6 million and $662 thousand in the second quarter of 2014 and 2013, respectively. Excluding the impact of these recoveries, customer hedging revenue decreased $2.4 million compared to the second quarter of 2013, primarily due to a lower volume of derivative contracts executed by our energy and mortgage banking customers.

Revenue earned from retail brokerage transactions grew by $1.2 million or 13% over the second quarter of 2013 to $10.3 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 $6.5 million for the second quarter of 2014, a $2.0 million or 47% increase over the second quarter of 2013 related to the timing and volume of completed transactions.

Brokerage and trading revenue increased $9.5 million over the first quarter of 2014. Securities trading revenue increased $3.5 million. Excluding the impact of recoveries from the Lehman Brothers and MF Global bankruptcies, customer hedging revenue increased $590 thousand over the prior quarter. Retail brokerage fees were up $863 thousand and investment banking fees grew by $3.0 million.

Transaction card revenue depends largely on the volume and amount of transactions processed, the number of TransFund automated teller machine (“ATM”) locations and the number of merchants served. Transaction card revenue for the second quarter of 2014 increased $1.6 million or 5% over the second quarter of 2013. Revenues from the processing of transactions on behalf of the members of our TransFund electronic funds transfer ("EFT") network totaled $16.0 million, a $796 thousand or 5% increase over the prior year, due to increased transaction volumes and increased dollar amounts per transaction. Merchant services fees totaled $10.7 million, an increase of $695 thousand or 7% 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, an increase of $77 thousand or 2% over the second quarter of 2013.

Transaction card revenue increased $2.4 million over the the first quarter of 2014. Revenue increased from processing transactions on behalf of members of our TransFund EFT network and from merchant services fees primarily due to growth in transaction volumes. Interchange fees paid on debit cards issued by the Company also increased over the prior quarter on increased transaction volumes.

Fiduciary and asset management revenue grew by $4.7 million or 19% over the second quarter of 2013. The acquisition of Topeka, Kansas-based GTRUST Financial Corporation in the first quarter of 2014 added $371 thousand of revenue and $631 million of fiduciary assets as of June 30, 2014. 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 $32.7 billion at June 30, 2014, $28.3 billion at June 30, 2013 and $31.3 billion at March 31, 2014.

Fiduciary and asset management revenue increased $3.8 million over the first quarter of 2014. The acquisition of MBM Advisors in the second quarter of 2014 and a full quarter of revenue from the acquisition of GTRUST Financial Corporation in the first quarter of 2014 added approximately $1.5 million in fiduciary and asset management revenue over the first quarter of 2014. The remainder of the increase was primarily due to the seasonal timing of tax service fees and an increase in the fair value of assets managed.

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 $2.4 million for the second quarter of 2014 compared to $1.9 million for the second quarter of 2013 and $2.2 million for the first quarter of 2014.

Deposit service charges and fees were $23.1 million for the second quarter of 2014 compared to $24.0 million for the second quarter of 2013. Overdraft fees totaled $12.0 million for the second quarter of 2014, a decrease of $468 thousand or 4% compared to the second quarter of 2013. Consumers are generally maintaining higher average balances and better managing their accounts to reduce overdraft fees. Commercial account service charge revenue totaled $9.3 million, a decrease of $147 thousand or 2% compared to the prior year. Service charges on deposit accounts with a standard monthly fee were $1.8 million, a decrease of $216 thousand or 11% compared to the second quarter of 2013. Deposit service charges and fees increased $444 thousand over the prior quarter primarily due to increased overdraft fee volumes, partially offset by decreased commercial account service charges.

Mortgage banking revenue decreased $7.3 million compared to the second quarter of 2013. Mortgage production revenue totaled $17.7 million, a decrease of $8.6 million. Average primary mortgage interest rates were 4.23% for the first quarter of 2014, up 56 basis points over the second quarter of 2013. This increase in interest rates reduced loan production volume compared to the prior year. Mortgage loans funded for sale totaled $1.1 billion in the second quarter of 2014, a decrease of $105 million compared to the second quarter of 2013. Outstanding commitments to originate mortgage loans were largely unchanged compared to June 30, 2013. In addition to the effect of lower production volume, mortgage banking revenue decreased due to an overall narrowing of gain on sale margins and a shift in product mix toward loans with narrower margins. Approximately 41% of loans originated in the second quarter of 2014 were through correspondent channels, up from 26% for the second quarter of 2013. Mortgage loans funded through Home Direct Mortgage, our recently launched online loan channel, were 7% of total originations in the second quarter of 2014. Refinanced mortgage loans decreased to 25% of loans originated in the second quarter of 2014 compared to 48% of loans originated in the second quarter of 2013.

Mortgage servicing revenue grew by $1.4 million or 13% over the second quarter of 2013. The outstanding principal balance of mortgage loans serviced for others totaled $14.6 billion, an increase of $1.9 billion or 15% over June 30, 2013.

Mortgage banking revenue increased $6.5 million over the first quarter of 2014. Mortgage production revenue was up $6.3 million. Outstanding commitments to originate residential mortgage loans were up $159 million or 41% and residential mortgage loans funded for sale increased $363 million over the prior quarter. In addition to the typical seasonal increase in mortgage loan funding and commitment volumes, interest rates also decreased compared to the prior quarter and we continue to expand our correspondent channel.

Mortgage servicing revenue increased $211 thousand over the prior quarter. The outstanding balance of mortgage loans serviced for others increased $581 million over March 31, 2014.

Table 3 – Mortgage Banking Revenue
(In thousands)

	Three Months Ended June 30,		Increase (Decrease)	% Increase (Decrease)	Three Months Ended Mar. 31, 2014	Increase (Decrease)	% Increase (Decrease)
	2014	2013					
Mortgage production revenue	$17,727	$26,356	$(8,629)	(33)%	$11,452	$6,275	55 %
Servicing revenue	11,603	10,240	1,363	13 %	11,392	211	2 %
Total mortgage revenue	$29,330	$36,596	$(7,266)	(20)%	$22,844	$6,486	28 %
Period end outstanding mortgage commitments	$546,864	$547,508	$(644)	— %	$387,755	$159,109	41 %
Mortgage loans funded for sale	1,090,629	1,196,038	(105,409)	(9)%	727,516	363,113	50 %
Average primary residential mortgage interest rate	4.23 %	3.67 %	56 bp		4.36 %	(13) bp	
Mortgage loan refinances to total funded	25 %	48 %			32 %		
Outstanding principal balance of mortgage loans serviced for others	$14,626,291	$12,741,651	$1,884,640	15 %	$14,045,642	$580,649	4 %

Net gains on securities, derivatives and other assets

In the second quarter of 2014, we recognized a $4 thousand net gain from sales of $800 million of available for sale securities. Securities were sold either because they had reached their expected maximum potential return or to move into securities that will perform better in a rising rate environment. In the second quarter of 2013, we recognized a $3.8 million net gain from sales of $1.1 billion of available for sale securities and in the first quarter of 2014, we recognized a $1.2 million net gain on sales of $531 million of available for sale securities.

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 6 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		
	June 30, 2014	March 31, 2014	June 30, 2013
Gain (loss) on mortgage hedge derivative contracts, net	$831	$968	$(2,526)
Gain (loss) on fair value option securities, net	4,074	2,585	(9,102)
Gain (loss) on economic hedge of mortgage servicing rights	4,905	3,553	(11,628)
Gain (loss) on change in fair value of mortgage servicing rights	(6,444)	(4,461)	14,315
Gain (loss) on changes in fair value of mortgage servicing rights, net of economic hedges	$(1,539)	$(908)	$2,687
Net interest revenue on fair value option securities	$721	$790	$910
Primary residential mortgage interest rate at period end	4.14%	4.40%	4.46%
Secondary residential mortgage interest rate at period end	3.17%	3.42%	3.31%

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.

Gain (loss) on other assets included changes in the fair value of certain equity investments the Company holds as an economic hedge of a deferred compensation liability. During the first quarter of 2014, the fair value of certain of these investments was adjusted downward by $1.7 million. Gain (loss) on other assets for the first quarter of 2014 also included a $1.5 million charge against a merchant-banking investment that is accounted for by the equity method.

Other Operating Expense

Other operating expense for the second quarter of 2014 totaled $214.7 million, a $3.8 million or 2% increase over the second quarter of 2013. Personnel expenses decreased $4.4 million or 3%. Non-personnel expenses increased $8.2 million or 10% over the prior year.

Operating expenses increased $29.6 million over the previous quarter. Personnel expense increased $19.3 million. During the first quarter of 2014, the Company reversed $17.2 million primarily related to amounts payable to certain executive officers that had been accrued during 2011 through 2013 under the 2011 True-Up Plan. Non-personnel expense increased $10.3 million.

Table 5 -- Other Operating Expense
(In thousands)

	Three Months Ended June 30,		Increase (Decrease)	% Increase (Decrease)	Three Months Ended Mar. 31, 2014	Increase (Decrease)	% Increase (Decrease)
	2014	2013					
Regular compensation	$73,064	$69,289	$3,775	5 %	$72,367	$697	1 %
Incentive compensation:							
Cash-based	29,042	30,111	(1,069)	(4)%	24,727	4,315	17 %
Stock-based	3,527	9,500	(5,973)	(63)%	(13,193)	16,720	(127)%
Total incentive compensation	32,569	39,611	(7,042)	(18)%	11,534	21,035	182 %
Employee benefits	18,081	19,210	(1,129)	(6)%	20,532	(2,451)	(12)%
Total personnel expense	123,714	128,110	(4,396)	(3)%	104,433	19,281	18 %
Business promotion	7,150	5,770	1,380	24 %	5,841	1,309	22 %
Charitable contributions to BOKF Foundation	—	—	—	N/A	2,420	(2,420)	N/A
Professional fees and services	11,054	8,381	2,673	32 %	7,565	3,489	46 %
Net occupancy and equipment	18,789	16,909	1,880	11 %	16,896	1,893	11 %
Insurance	4,467	4,044	423	10 %	4,541	(74)	(2)%
Data processing and communications	29,071	26,734	2,337	9 %	27,135	1,936	7 %
Printing, postage and supplies	3,429	3,580	(151)	(4)%	3,541	(112)	(3)%
Net losses and operating expenses of repossessed assets	1,118	282	836	296 %	1,432	(314)	(22)%
Amortization of intangible assets	949	875	74	8 %	816	133	16 %
Mortgage banking costs	7,960	7,910	50	1 %	3,634	4,326	119 %
Other expense	7,006	8,326	(1,320)	(16)%	6,850	156	2 %
Total other operating expense	$214,707	$210,921	$3,786	2 %	$185,104	$29,603	16 %
	4,657	4,731	(74)	(2)%	4,640	17	— %

Average number of employees (full-time equivalent)

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

Personnel expense

Regular compensation, which consists of salaries and wages, overtime pay and temporary personnel costs, increased $3.8 million or 5% over the second quarter of 2013. Although the average number of employees decreased 2% compared to the prior year, we continue to invest in higher-costing wealth management, compliance and risk management positions. Growth in these positions was partially offset by a decrease in the average number of employees in consumer banking. In addition, standard annual merit increases in regular compensation were effective for the majority of our staff March 1.

Incentive compensation decreased $7.0 million compared to the second quarter of 2013. 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 $1.1 million or 4% compared to the second quarter of 2013.

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 $1.3 million and compensation expense for liability awards decreased $7.3 million compared to the second quarter of 2013.

Stock-based compensation expense included accruals for amounts payable to certain executive officers of the Company under the 2011 True-Up Plan. Approved by shareholders on April 26, 2011, the True-Up Plan was designed to adjust annual and long-term performance-based incentive compensation for certain senior executives either upward or downward based on the earnings per share performance and compensation of comparable senior executives at peer banks for 2006 through 2013. The peer group of banks was determined based on asset size and included an equal number of publicly-traded SEC registered bank holding companies with the Company being the median bank. Amounts accrued related to the 2011 True-Up Plan were paid in May 2014. Stock-based compensation expense for the second quarter of 2013 included $7.0 million expense related to accruals for the 2011 True-Up Plan.

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. Expenses based on changes in the fair value of BOK Financial common stock and other investments decreased $264 thousand compared to the second quarter of 2013.

Employee benefit expense decreased $1.1 million or 6% compared to the second quarter of 2013 primarily due to decreased employee medical costs. The Company self-insures a portion of its employee health care coverage and these costs may be volatile.

Personnel costs increased $19.3 million over the first quarter of 2014 primarily due to the adjustment to the 2011 True-Up Plan accrual during the first quarter. Regular compensation expense increased $697 thousand over prior quarter. Incentive compensation expense increased $21.0 million. Cash-based incentive compensation, which rewards employees as they generate business opportunities for the Company by growing loans, deposits, customer relationships or other measurable metrics, increased $4.3 million. Stock-based compensation expense increased $16.7 million. The first quarter included a $17.2 million reversal of amounts payable to certain executive officers of the Company primarily related to the 2011 True-Up Plan. Based on the annual Form 10-K and proxy statements filed by our peer banks in the first quarter of 2014, the composition of the peer group and the compensation levels of comparable senior executives used in determining the amounts payable both changed. The first quarter of 2014 also included a $1.7 million decrease in the deferred compensation expense related to the decrease in the fair value of assets held for deferred compensation purposes. This decrease in fair value was included in the gain (loss) on other assets, net. Employee benefits expense decreased $2.5 million primarily due to a decrease in employee medical costs.

Non-personnel operating expenses

Non-personnel operating expenses increased $8.2 million or 10% over the second quarter of 2013. Professional fees and services expense increased $2.7 million due to increased increased risk management and regulatory compliance costs. Data processing and communication expense was up $2.3 million primarily due to increased transaction activity.

Non-personnel expense increased $10.3 million over the first quarter of 2014. Mortgage banking costs increased $4.3 million over the prior quarter. The Company finalized hold-back claims related to purchased mortgage loan servicing rights which reduced expenses by $1.3 million in the first quarter. The remaining increase was due to increased accruals for loan servicing costs. Professional fees and services expense increased $3.5 million largely due to increased risk management and regulatory compliance costs. Data processing, net occupancy expense and business promotion expense all increased over the prior quarter. In addition, BOK Financial made a $2.4 million discretionary contribution of appreciated stock to the BOKF Foundation during the first quarter of 2014. This contribution also resulted in a $1.2 million reduction in income tax expense.

Income Taxes

Income tax expense was $37.2 million or 33% of book taxable income for the second quarter of 2014 compared to $41.4 million or 34% of book taxable income for the second quarter of 2013 and $37.5 million or 33% of book taxable income for the first quarter of 2014. The Company made a charitable contribution of appreciated securities to the BOKF Foundation in the first quarter of 2014, which reduced income tax expense by $1.2 million.

BOK Financial operates in numerous jurisdictions, which requires judgment regarding the allocation of income, expense and earnings under various laws and regulations of each of these taxing jurisdictions. Each jurisdiction may audit our tax returns and may take different positions with respect to these allocations. The reserve for uncertain tax positions was $12 million at both June 30, 2014 and March 31, 2014, and $13 million at June 30, 2013.

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, private banking services and investment advisory services in all markets. Wealth Management also underwrites state and municipal securities and engages in brokerage and trading activities.

In conjunction with the previously announced change in our chief executive officer and other changes to the executive leadership team, we re-evaluated the reporting units within our principal lines of business. We defined reporting units to align with the various products and services offered by our lines of business rather than geographic region. This definition change better represents how the current executive team evaluates the Company's performance and growth beyond our traditional markets.

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 using the net direct contribution which includes the allocation of funds, actual net credit losses and capital costs. In addition, we measure the performance of our business lines after allocation of certain indirect expenses and taxes based on statutory rates. Corporate expense allocations were updated in the first quarter of 2014. The allocations for 2013 have been revised on a comparable basis.

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 other 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 $1.7 million or 3% compared to the second quarter of 2013. The decrease was primarily due to increased operating expenses and lower mortgage banking revenue, partially offset by growth in other fee-based revenue, increased net interest revenue and lower credit losses.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Commercial Banking	$40,033	$36,039	$76,331	$71,177
Consumer Banking	7,790	17,757	16,174	35,641
Wealth Management	5,162	926	7,703	2,812
Subtotal	52,985	54,722	100,208	109,630
Funds Management and other	22,910	25,209	52,277	58,265
Total	$75,895	$79,931	$152,485	$167,895

Commercial Banking

Commercial Banking contributed $40.0 million to consolidated net income in the second quarter of 2014, up $4.0 million or 11% over the second quarter of 2013. Increased net interest revenue, decreased net loans charged off and growth in transaction card revenue was partially offset by increased operating expenses.

Table 7 -- Commercial Banking
(Dollars in thousands)

	Three Months Ended June 30,		Increase (Decrease)	Six Months Ended June 30,		Increase (Decrease)
	2014	2013		2014	2013	
Net interest revenue from external sources	$95,018	$90,551	$4,467	$186,037	$181,433	$4,604
Net interest expense from internal sources	(7,857)	(9,389)	1,532	(16,714)	(18,534)	1,820
Total net interest revenue	87,161	81,162	5,999	169,323	162,899	6,424
Net loans charged off (recovered)	(2,812)	86	(2,898)	(6,043)	1,107	(7,150)
Net interest revenue after net loans charged off (recovered)	89,973	81,076	8,897	175,366	161,792	13,574
Fees and commissions revenue	44,849	43,330	1,519	87,014	84,762	2,252
Gain (loss) on financial instruments and other assets, net	(13)	—	(13)	(1,489)	19	(1,508)
Other operating revenue	44,836	43,330	1,506	85,525	84,781	744
Personnel expense	27,544	26,699	845	54,496	52,168	2,328
Net losses (gains) and operating expenses of repossessed assets	1,162	(217)	1,379	3,354	953	2,401
Other non-personnel expense	22,216	20,860	1,356	42,460	40,881	1,579
Other operating expense	50,922	47,342	3,580	100,310	94,002	6,308
Net direct contribution	83,887	77,064	6,823	160,581	152,571	8,010
Corporate expense allocations	18,367	18,080	287	35,653	36,079	(426)
Income before taxes	65,520	58,984	6,536	124,928	116,492	8,436

Federal and state income tax	25,487	22,945	2,542	48,597	45,315	3,282
Net income	$40,033	$36,039	$3,994	$76,331	$71,177	$5,154
Average assets	$11,243,678	$10,363,144	$880,534	$11,100,687	$10,486,544	$614,143
Average loans	10,577,582	9,626,933	950,649	10,429,821	9,603,323	826,498
Average deposits	9,875,644	9,027,912	847,732	9,738,496	9,136,188	602,308
Average invested capital	937,085	899,087	37,998	934,768	895,748	39,020
Return on average assets	1.43 %	1.39 %	4 bp	1.39 %	1.37 %	2 bp
Return on invested capital	17.14 %	16.08 %	106 bp	16.47 %	16.02 %	45 bp
Efficiency ratio	38.52 %	37.96 %	56 bp	39.07 %	37.89 %	118 bp
Net charge-offs (annualized) to average loans	(0.11)%	— %	(11) bp	(0.12)%	0.02 %	(14) bp

Net interest revenue increased $6.0 million or 7% over the prior year. Growth in net interest revenue was primarily due to a $951 million increase in average loan balances and a $848 million increase in average deposits over the second quarter of 2013, partially offset by reduced yields on loans and deposits sold to our Funds Management unit. The Commercial Banking unit experienced a net recovery of $2.8 million in the second quarter of 2014 compared to net loans charged off of $86 thousand in the second quarter of 2013.

Fees and commissions revenue increased $1.5 million or 4% over the second quarter of 2013 primarily due to a $1.6 million increase in transaction card revenues from our TransFund electronic funds transfer network. Brokerage and trading revenue decreased $138 thousand primarily due to lower customer hedging revenue. Commercial deposit service charge revenue was largely unchanged compared to the prior year.

Operating expenses increased $3.6 million or 8% over the second quarter of 2013. Personnel costs increased $845 thousand or 3% primarily due to standard annual merit increases and increased incentive compensation. Net losses and operating expenses on repossessed assets increased $1.4 million. Net gains on repossessed assets in the the second quarter of 2013 were $1.1 million. A minimal net loss was experienced in the second quarter of 2014 and operating expenses of repossessed assets increased. Other non-personnel expenses increased $1.4 million or 7%, primarily related to increased data processing expenses related to growth in the transaction activity. Corporate expense allocations also increased $287 thousand over the prior year.

The average outstanding balance of loans attributed to Commercial Banking grew by $951 million during the second quarter of 2014 to $10.6 billion. 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 $9.9 billion for the second quarter of 2014, up $848 million or 9% over the second quarter of 2013. Average balances attributed to our commercial & industrial loan customers increased $718 million or 24%. Balances related to small business customers were up $139 million or 7% and balances from treasury services customers increased $123 million or 7%. Balances related to healthcare customers grew by $37 million or 8% and commercial real estate balances increased $15 million or 4%. This growth was partially offset by a $164 million or 11% decrease in balances attributed to energy customers. 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 provides retail banking services 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, through correspondent loan originators and through Home Direct Mortgage, an on-line origination channel.

Consumer Banking contributed $7.8 million to consolidated net income for the second quarter of 2014, down $10.0 million compared to the second quarter of 2013 primarily due to a decrease in mortgage banking revenue and higher non-personnel expense and corporate expense allocations.

Table 8 -- Consumer Banking
(Dollars in thousands)

	Three Months Ended June 30,		Increase (Decrease)	Six Months Ended June 30,		Increase (Decrease)
	2014	2013		2014	2013	
Net interest revenue from external sources	$24,170	$24,830	$(660)	$48,826	$48,925	$(99)
Net interest revenue from internal sources	4,666	5,167	(501)	8,860	10,650	(1,790)
Total net interest revenue	28,836	29,997	(1,161)	57,686	59,575	(1,889)
Net loans charged off	1,345	1,402	(57)	2,201	2,332	(131)
Net interest revenue after net loans charged off	27,491	28,595	(1,104)	55,485	57,243	(1,758)
Fees and commissions revenue	54,443	61,338	(6,895)	100,585	124,541	(23,956)
Gain (loss) on financial instruments and other assets, net	3,257	(13,344)	16,601	4,988	(19,406)	24,394
Change in fair value of mortgage servicing rights	(6,444)	14,315	(20,759)	(10,905)	16,973	(27,878)
Other operating revenue	51,256	62,309	(11,053)	94,668	122,108	(27,440)
Personnel expense	23,328	23,498	(170)	46,766	45,954	812
Net losses (gains) and operating expenses of repossessed assets	86	206	(120)	(482)	(44)	(438)
Other non-personnel expense	25,673	23,447	2,226	44,648	46,249	(1,601)
Total other operating expense	49,087	47,151	1,936	90,932	92,159	(1,227)
Net direct contribution	29,660	43,753	(14,093)	59,221	87,192	(27,971)
Corporate expense allocations	16,911	14,690	2,221	32,750	28,859	3,891
Income before taxes	12,749	29,063	(16,314)	26,471	58,333	(31,862)
Federal and state income tax	4,959	11,306	(6,347)	10,297	22,692	(12,395)
Net income	$7,790	$17,757	$(9,967)	$16,174	$35,641	$(19,467)
Average assets	$5,668,256	$5,695,096	$(26,840)	$5,642,181	$5,709,446	$(67,265)
Average loans	2,341,053	2,363,129	(22,076)	2,373,607	2,358,828	14,779
Average deposits	5,635,528	5,645,595	(10,067)	5,610,465	5,644,103	(33,638)
Average invested capital	276,294	297,674	(21,380)	279,897	297,375	(17,478)
Return on average assets	0.55%	1.25%	(70) bp	0.58%	1.26%	(68) bp
Return on invested capital	11.31%	23.93%	(1,262) bp	11.65%	24.17%	(1,252) bp

Efficiency ratio	55.11 %	49.26 %	585 bp	53.74 %	47.91 %	583 bp
Net charge-offs (annualized) to average loans	0.23 %	0.24 %	(1) bp	0.19 %	0.20 %	(1) bp
Residential mortgage loans funded for sale	$ 1,090,629	$ 1,196,038	$ (105,409)	$ 1,818,145	$ 2,152,353	$ (334,208)

	June 30, 2014	June 30, 2013	Increase (Decrease)
Banking locations	188	195	(7)
Residential mortgage loan servicing portfolio[1]	$ 15,748,719	$ 13,846,184	$ 1,902,535

[1] Includes outstanding principal for loans serviced for affiliates

Net interest revenue from Consumer Banking activities decreased $1.2 million or 4% compared to the second quarter of 2013. Average loan balances were $22 million or 1% lower than the prior year. Net interest revenue decreased $589 thousand compared to the prior year due to the phase-out of the deposit advance product during the second quarter of 2014.

Fees and commissions revenue decreased $6.9 million or 11% compared to the second quarter of 2013 primarily due to a $7.4 million decrease in mortgage banking revenue. Residential mortgage fundings were lower compared to the second quarter of 2013 when funding reached all-time highs. Funding levels have since contracted as average mortgage interest rates trended higher compared to the prior year. Gains on sale margin also narrowed as the mix of mortgage loan production shifted toward loans with lower margins. Deposit service charges and fees decreased $650 thousand compared to the prior year primarily due to lower overdraft fees.

Operating expenses increased $1.9 million or 4% over the second quarter of 2013. Personnel expenses were down $170 thousand or 1% due to staffing reductions, net of standard annual merit increases. Non-personnel expense increased $2.2 million or 9%. Professional fees were up $808 thousand and data processing and communications expense increased $562 thousand primarily related to increased transaction activity and higher compliance costs to comply with mortgage servicing regulations. Corporate expense allocations were up $2.2 million over the second quarter of 2013.

Average consumer deposits were largely unchanged compared to the second quarter of 2013. Average demand deposit balances increased $23 million or 3% and average interest-bearing transaction accounts increased $107 million or 4%. Average time deposit balances were down $171 million or 10% compared to the prior year.

Mortgage banking activities include the origination, marketing and servicing of conventional and government-sponsored residential mortgage loans. We funded $1.1 billion of residential mortgage loans in the second quarter of 2014 and $1.3 billion in the second quarter of 2013. Mortgage loan fundings included $1.1 billion of mortgage loans funded for sale in the secondary market and $30 million funded for retention within the consolidated group. Approximately 16% of our mortgage loans funded were in the Oklahoma market and 15% in the Texas market. In addition, 40% of our mortgage loan fundings came from correspondent lenders compared to 24% in the second quarter of 2013 and 6% was originated from our recently added Home Direct Mortgage on-line sales channel launched in the fourth quarter of 2013.

At June 30, 2014, we serviced $14.6 billion of mortgage loans for others and $1.1 billion of loans retained within the consolidated group. Approximately 91% of the mortgage loans serviced were to borrowers in our primary geographical market areas. Loans past due 90 days or more totaled $71 million or 0.49% of loans serviced for others at June 30, 2014 compared to $71 million or 0.51% of loans serviced for others at March 31, 2014. Mortgage servicing revenue, including revenue on loans serviced for the consolidated group, totaled $12.0 million, up $1.0 million or 9% over the second quarter of 2013. Changes in the fair value of our mortgage servicing rights, net of economic hedge, resulted in a $940 thousand decrease in Consumer Banking net income in the second quarter of 2014, compared to a $1.6 million increase in Consumer Banking net income in the second quarter of 2013.

Wealth Management

Wealth Management contributed $5.2 million to consolidated net income in second quarter of 2014 compared to $926 thousand in the second quarter of 2013. Growth in fiduciary and asset management revenue and brokerage and trading revenue was partially offset by increased operating expenses.

Table 9 -- Wealth Management
(Dollars in thousands)

	Three Months Ended June 30,		Increase (Decrease)	Six Months Ended June 30,		Increase (Decrease)
	2014	2013		2014	2013	
Net interest revenue from external sources	$5,765	$6,512	$(747)	$11,604	$12,991	$(1,387)
Net interest revenue from internal sources	4,719	5,107	(388)	9,403	10,403	(1,000)
Total net interest revenue	10,484	11,619	(1,135)	21,007	23,394	(2,387)
Net loans charged off	19	931	(912)	(26)	1,449	(1,475)
Net interest revenue after net loans charged off	10,465	10,688	(223)	21,033	21,945	(912)
Fees and commissions revenue	65,698	55,095	10,603	120,368	107,190	13,178
Loss on financial instruments and other assets, net	(171)	192	(363)	(581)	(412)	(169)
Other operating revenue	65,527	55,287	10,240	119,787	106,778	13,009
Personnel expense	43,871	42,000	1,871	83,459	80,349	3,110
Net losses and expenses of repossessed assets	2	17	(15)	329	49	280
Other non-personnel expense	11,283	9,423	1,860	20,615	18,164	2,451
Other operating expense	55,156	51,440	3,716	104,403	98,562	5,841
Net direct contribution	20,836	14,535	6,301	36,417	30,161	6,256
Corporate expense allocations	12,388	13,019	(631)	23,810	25,559	(1,749)
Income before taxes	8,448	1,516	6,932	12,607	4,602	8,005
Federal and state income tax	3,286	590	2,696	4,904	1,790	3,114
Net income	$5,162	$926	$4,236	$7,703	$2,812	$4,891
Average assets	$4,556,825	$4,544,061	$12,764	$4,589,141	$4,615,169	$(26,028)
Average loans	975,982	935,856	40,126	956,431	931,786	24,645
Average deposits	4,427,350	4,336,034	91,316	4,463,109	4,473,779	(10,670)
Average invested capital	214,936	206,219	8,717	208,909	204,161	4,748
Return on average assets	0.45%	0.08%	37 bp	0.34%	0.12%	22 bp
	9.63%	1.80%	783 bp	7.44%	2.78%	466 bp

Return on invested capital						
Efficiency ratio	72.29 %	76.87 %	(458) bp	73.72 %	75.24 %	(152) bp
Net charge-offs (annualized) to average loans	0.01 %	0.40 %	(39) bp	(0.01)%	0.31 %	(32) bp

	June 30, 2014	June 30, 2013	Increase (Decrease)
Fiduciary assets in custody for which BOKF has sole or joint discretionary authority	$14,124,496	$11,580,842	$2,543,654
Fiduciary assets not in custody for which BOKF has sole or joint discretionary authority	3,103,877	1,947,821	1,156,056
Non-managed trust assets in custody	15,488,275	14,751,551	736,724
Total fiduciary assets	32,716,648	28,280,214	4,436,434
Assets held in safekeeping	23,233,467	21,824,166	1,409,301
Brokerage accounts under BOKF administration	5,273,814	4,586,789	687,025
Assets under management or in custody	$61,223,929	$54,691,169	$6,532,760

Net interest revenue for the second quarter of 2014 was down $1.1 million or 10% compared to the second quarter of 2013. Average deposit balances were up $91 million or 2% over the second quarter of 2013. However, yields on funds sold to the Funds Management unit were down compared to the prior year. Non-interest bearing demand deposits increased $80 million and interest-bearing transaction account balances increased $53 million. Higher-costing time deposit balances decreased $47 million. Average loan balances were up $40 million or 4% over the prior year. The benefit of this growth was partially offset by lower yields. Net loans charged off decreased $912 thousand compared to the second quarter of 2013 to $19 thousand or 0.01% of average loans on an annualized basis.

Fees and commissions revenue was up $10.6 million or 19% over the second quarter of 2013. Brokerage and trading revenue increased $5.9 million or 20%. Securities trading revenue increased $4.4 million or 31% over the prior year. The second quarter of 2013 included a negative mark-to-market of municipal and U.S. government agency securities due to an increase in interest rates. Retail brokerage grew by $1.2 million or 13% and investment banking revenue was up $1.2 million or 28%. This growth was partially offset by a $817 thousand decrease in customer hedging revenue primarily related to a decrease in hedging activity by mortgage banking customers. Mortgage pipelines being hedged by these customers were at historic highs in the second quarter of 2013. Fiduciary and asset management revenue grew by $4.8 million or 19%. The acquisition of MBM Advisors in the second quarter of 2014 and GTRUST Financial Corporation in the first quarter of 2014 added approximately $1.8 million in revenue over the prior year. The remaining increase was primarily due to the increase in the fair value of assets managed.

Other operating revenue includes fees earned from state and municipal bond and corporate debt underwriting and financial advisory services, primarily in the Oklahoma and Texas markets. In the second quarter of 2014, the Wealth Management division participated in 108 state and municipal bond underwritings that totaled $1.9 billion. As a participant, the Wealth Management division was responsible for facilitating the sale of approximately $604 million of these underwritings. The Wealth Management division also participated in seven corporate debt underwritings that totaled $6.4 billion. In the second quarter of 2013, the Wealth Management division participated in 159 state and municipal bond underwritings that totaled approximately $2.2 billion. Our interest in these underwritings totaled approximately $1.1 billion. The Wealth Management division also participated in six corporate debt underwritings that totaled $1.7 billion.

Operating expenses increased $3.7 million or 7% over the second quarter of 2013. Personnel expenses increased $1.9 million, including a $1.5 million increase in regular compensation and a $363 thousand increase in employee benefits primarily related to investments in Wealth Management talent, including the GTRUST and MBM acquisitions. Incentive compensation expense was largely unchanged compared to the second quarter of 2013. Non-personnel expense increased $1.9 million, primarily related to increased professional fees and services, data processing and communications fees, net occupancy and equipment and amortization of identifiable intangible assets from the acquisitions of MBM Advisors and GTRUST Financial Corporation. Corporate expense allocations decreased $631 thousand compared to the prior year.

Financial Condition
Securities

We maintain a securities portfolio to enhance profitability, manage interest rate risk, provide liquidity and comply with regulatory requirements. Securities are classified as trading, held for investment, or available for sale. See Note 2 to the consolidated financial statements for the composition of the securities portfolio as of June 30, 2014, December 31, 2013 and June 30, 2013.

At June 30, 2014, the carrying value of investment (held-to-maturity) securities was $650 million and the fair value was $671 million. Investment securities consist primarily of long-term, fixed rate Oklahoma and Texas 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 $80 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 $9.6 billion at June 30, 2014, a decrease of $305 million from March 31, 2014. The decrease was primarily in U.S. government agency residential mortgage-backed securities and U.S. government agency commercial mortgage-backed securities. Commercial mortgage-backed securities have prepayment penalties similar to commercial loans. At June 30, 2014, residential mortgage-backed securities represented 77% 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 combined residential mortgage-backed securities portfolio held in investment and available for sale securities at June 30, 2014 is 3.1 years. Management estimates the duration extends to 3.4 years assuming an immediate 200 basis point upward shock. The estimated duration contracts to 3.0 years assuming a 50 basis point decline in the current rate environment.

Residential mortgage-backed securities also have credit risk from delinquency or default of the underlying loans. We mitigate this risk by primarily investing in securities issued by U.S. government agencies. Principal and interest payments on the underlying loans are fully guaranteed. At June 30, 2014, approximately $7.2 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 $7.3 billion at June 30, 2014.

We also hold amortized cost of $169 million in residential mortgage-backed securities privately issued by publicly-owned financial institutions, a decrease of $11 million from March 31, 2014. The decrease was due to the sale of $3.6 million in amortized cost during the second quarter and cash payments received. The fair value of our portfolio of privately issued residential mortgage-backed securities totaled $179 million at June 30, 2014.

The amortized cost of our portfolio of privately issued residential mortgage-backed securities included $98 million of Jumbo-A residential mortgage loans and $71 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 9.5% and has been fully absorbed as of June 30, 2014. The Jumbo-A residential mortgage-backed securities had original credit enhancement of 9.7% and the current level is 3.3%. Approximately 91% 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 30% 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 $55 million at June 30, 2014, compared to $102 million at March 31, 2014. 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. No other-than-temporary impairment charges were recognized in earnings in the second quarter of 2014.

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.

BOK Financial is required to hold stock as members of the Federal Reserve system and the Federal Home Loan Banks ("FHLB"). These restricted equity securities are carried at cost as these securities do not have a readily determined fair value because the ownership of these shares are restricted and they lack a market. Federal Reserve Bank stock totaled $34 million and holdings of FHLB stock totaled $57 million at June 30, 2014.

Bank-Owned Life Insurance

We have approximately $289 million of bank-owned life insurance at June 30, 2014. This investment is expected to provide a long-term source of earnings to support existing employee benefit programs. Approximately $257 million is held in separate accounts. Our separate account holdings are invested in diversified portfolios of investment-grade fixed income securities and cash equivalents, including U.S. Treasury and Agency securities, residential mortgage-backed securities, corporate debt, asset-backed and commercial mortgage-backed securities. The portfolios are managed by unaffiliated professional managers within parameters established in the portfolio’s investment guidelines. The cash surrender value of certain life insurance policies is further supported by a stable value wrap, which protects against changes in the fair value of the investments. At June 30, 2014, the cash surrender value represented by the underlying fair value of investments held in separate accounts was approximately $273 million. As the underlying fair value of the investments held in a separate account at June 30, 2014 exceeded the net book value of the investments, no cash surrender value was supported by the stable value wrap. The stable value wrap is provided by a domestic financial institution. The remaining cash surrender value of $32 million primarily represents the cash surrender value of policies held in general accounts and other amounts due from various insurance companies.

Loans

The aggregate loan portfolio before allowance for loan losses totaled $13.4 billion at June 30, 2014, an increase of $349 million over March 31, 2014. Outstanding commercial loans grew by $316 million over March 31, 2014, largely due to growth in services, wholesale/retail and energy sector loans. Commercial real estate loan balances were up $24 million primarily related to growth in loans secured by industrial facilities, multifamily residential properties and other commercial real estate loans, partially offset by a decrease in loans secured by office buildings. Residential mortgage loans decreased $10 million and consumer loans increased $20 million compared to March 31, 2014.

Table 10 -- Loans
(In thousands)

	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Commercial:					
Energy	$2,419,788	$2,344,072	$2,351,760	$2,311,991	$2,384,746
Services	2,377,065	2,232,471	2,282,210	2,148,551	2,204,253
Wholesale/retail	1,318,151	1,225,990	1,201,364	1,181,806	1,175,543
Manufacturing	452,866	444,215	391,751	382,460	386,133
Healthcare	1,394,156	1,396,562	1,274,246	1,160,212	1,118,810
Other commercial and industrial	405,635	408,396	441,890	386,055	438,635
Total commercial	8,367,661	8,051,706	7,943,221	7,571,075	7,708,120
Commercial real estate:					
Residential construction and land development	184,779	184,820	206,258	216,456	225,654
Retail	642,110	640,506	586,047	556,918	553,412
Office	394,217	436,264	411,499	422,043	459,558
Multifamily	677,403	662,674	576,502	520,454	500,452
Industrial	342,080	305,207	243,877	245,022	253,990
Other commercial real estate	414,389	401,936	391,170	388,336	324,030
Total commercial real estate	2,654,978	2,631,407	2,415,353	2,349,229	2,317,096
Residential mortgage:					
Permanent mortgage	1,020,928	1,033,572	1,062,744	1,078,661	1,095,871
Permanent mortgages guaranteed by U.S. government agencies	188,087	184,822	181,598	163,919	156,887
Home equity	799,200	800,281	807,684	792,185	787,027
Total residential mortgage	2,008,215	2,018,675	2,052,026	2,034,765	2,039,785
Consumer	396,004	376,066	381,664	395,031	375,781
Total	$13,426,858	$13,077,854	$12,792,264	$12,350,100	$12,440,782

Commercial

Commercial loans represent loans for working capital, facilities acquisition or expansion, purchases of equipment and other needs of commercial customers primarily located within our geographical footprint. Commercial loans are underwritten individually and represent on-going relationships based on a thorough knowledge of the customer, the customer’s industry and market. While commercial loans are generally secured by the customer’s assets including real property, inventory, accounts receivable, operating equipment, interests in mineral rights and other property and may also include personal guarantees of the owners and related parties, the primary source of repayment of the loans is the on-going cash flow from operations of the customer’s business. Inherent lending risks are centrally monitored on a continuous basis from underwriting throughout the life of the loan for compliance with commercial lending policies.

Commercial loans totaled $8.4 billion or 62% of the loan portfolio at June 30, 2014, an increase of $316 million over March 31, 2014. Service sector grew by $145 million over the prior quarter. Wholesale/retail sector loans were up $92 million and energy loans grew by $76 million.

Table 11 presents the commercial sector of our loan portfolio distributed primarily by collateral location. Loans for which collateral location is less relevant, such as unsecured loans and reserve-based energy loans, are distributed by the borrower's primary operating location. The majority of the collateral securing our commercial loan portfolio is located within our geographical footprint with 34% concentrated in the Texas market and 24% concentrated in the Oklahoma market. The Other category is primarily composed of two states, California and Louisiana, which represent $163 million or 2% of the commercial loan portfolio and $141 million or 2% of the commercial loan portfolio, respectively, at June 30, 2014. All other states individually represent one percent or less of total commercial loans.

Table 11 -- Commercial Loans by Collateral Location
(In thousands)

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/Missouri	Other	Total
Energy	$569,010	$1,117,291	$29,416	$7,581	$338,893	$16,768	$61,928	$278,901	$2,419,788
Services	576,973	796,295	211,429	17,300	201,965	169,285	121,494	282,324	2,377,065
Wholesale/retail	426,677	487,684	34,625	58,329	59,321	45,114	56,512	149,889	1,318,151
Manufacturing	123,986	117,281	6,827	7,057	12,110	44,568	59,813	81,224	452,866
Healthcare	265,848	225,568	112,183	81,478	110,058	85,247	202,936	310,838	1,394,156
Other commercial and industrial	78,882	84,001	12,507	17,292	32,227	3,272	61,774	115,680	405,635
Total commercial loans	$2,041,376	$2,828,120	$406,987	$189,037	$754,574	$364,254	$564,457	$1,218,856	$8,367,661

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

Outstanding energy loans totaled $2.4 billion or 18% of total loans at June 30, 2014. Unfunded energy loan commitments increased by $171 million to $2.8 billion at June 30, 2014. Approximately $2.1 billion of energy loans were to oil and gas producers, up $35 million over March 31, 2014. Approximately 59% of the committed production loans are secured by properties primarily producing oil and 41% of the committed production loans are secured by properties primarily producing natural gas. Loans to borrowers that provide services to the energy industry increased $50 million to $128 million at June 30, 2014. Loans to borrowers engaged in wholesale or retail energy sales decreased $22 million from March 31, 2014 to $73 million. Loans to midstream oil and gas companies totaled $67 million at June 30, 2014, a decrease of $13 million from March 31, 2014. Loans to borrowers that manufacture equipment primarily for the energy industry totaled $19 million, down $2.6 million compared to the prior quarter.

The services sector of the loan portfolio totaled $2.4 billion or 18% of total loans and consists of a large number of loans to a variety of businesses, including gaming, governmental, utilities, not-for-profit entities and insurance. Service sector loans grew by $145 million over March 31, 2014. Approximately $1.2 billion of the services category is made up of loans with individual balances of less than $10 million. Service sector loans are generally secured by the assets of the borrower with repayment coming from the cash flows of ongoing operations of the customer's business.

We participate in shared national credits when appropriate to obtain or maintain business relationships with local customers. Shared national credits are defined by banking regulators as credits of more than $20 million and with three or more non-affiliated banks as participants. At June 30, 2014, the outstanding principal balance of these loans totaled $2.7

billion. Substantially all of these loans are to borrowers with local market relationships. We serve as the agent lender in approximately 15% of our shared national credits, based on dollars committed. We hold shared credits to the same standard of analysis and perform the same level of review as internally originated credits. Our lending policies generally avoid loans in which we do not have the opportunity to maintain or achieve other business relationships with the customer. In addition to management's quarterly assessment of credit risk, banking regulators annually review a sample of shared national credits for proper risk grading.

Commercial Real Estate

Commercial real estate represents loans for the construction of buildings or other improvements to real estate and property held by borrowers for investment purposes generally within our geographical footprint, with larger concentrations in Texas and Oklahoma which represent 33% and 17% of the total commercial real estate portfolio at June 30, 2014, respectively. We require collateral values in excess of the loan amounts, demonstrated cash flows in excess of expected debt service requirements, equity investment in the project and a portion of the project already sold, leased or permanent financing already secured. The expected cash flows from all significant new or renewed income producing property commitments are stress tested to reflect the risks in varying interest rates, vacancy rates and rental rates. As with commercial loans, inherent lending risks are centrally monitored on a continuous basis from underwriting throughout the life of the loan for compliance with applicable lending policies.

Commercial real estate loans totaled $2.7 billion or 20% of the loan portfolio at June 30, 2014. The outstanding balance of commercial real estate loans increased $24 million during the second quarter of 2014. Loans secured by industrial facilities increased $37 million. Loans secured by multifamily residential properties grew by $15 million and other commercial real estate loans increased $12 million over March 31, 2014. These increases were partially offset by a $42 million decrease in loans secured by office buildings. Residential construction and land development and loans secured by retail facilities were largely unchanged compared to March 31, 2014. The commercial real estate loan balance as a percentage of our total loan portfolio has ranged from 18% to 22% over the past five years. The commercial real estate sector of our loan portfolio distributed by collateral location follows in Table 12.

Table 12 -- Commercial Real Estate Loans by Collateral Location
(In thousands)

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/Missouri	Other	Total
Residential construction and land development	$53,980	$37,029	$32,938	$11,522	$40,654	$4,935	$ 3,023	$698	$184,779
Retail	103,017	209,212	66,734	10,177	26,800	57,534	26,637	141,999	642,110
Office	74,059	181,749	33,354	5,152	33,398	35,980	12,392	18,133	394,217
Multifamily	95,395	253,359	44,791	23,684	68,013	41,229	71,060	79,872	677,403
Industrial	49,955	101,195	33,898	634	6,817	8,820	42,110	98,651	342,080
Other real estate	76,707	103,271	48,489	15,438	33,320	48,227	24,138	64,799	414,389
Total commercial real estate loans	$453,113	$885,815	$260,204	$66,607	$209,002	$196,725	$ 179,360	$404,152	$2,654,978

Residential Mortgage and Consumer

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

Residential mortgage loans totaled $2.0 billion, a $10 million decrease compared to March 31, 2014. In general, we sell the majority of our conforming fixed rate loan originations in the secondary market and retain the majority of our non-conforming and adjustable-rate mortgage loans. We have no concentration in sub-prime residential mortgage loans. Our mortgage loan portfolio does not include payment option adjustable rate mortgage loans or adjustable rate mortgage loans with initial rates that are below market. Collateral for 98% of our residential mortgage loan portfolio is located within our geographical footprint.

The majority of our permanent mortgage loan portfolio is composed of various non-conforming mortgage programs to support customer relationships including jumbo mortgage loans, non-builder construction loans and special loan programs for high net worth individuals or certain professionals. The aggregate outstanding balance of loans in these programs is $900 million. Jumbo loans may be fixed or variable rate and are fully amortizing. The size of jumbo loans exceed maximums set under government sponsored entity standards, but otherwise generally conform to those standards. These loans generally require a minimum FICO score of 720 and a maximum debt-to-income ratio ("DTI") of 38%. Loan-to-value ratios ("LTV") are tiered from 60% to 100%, depending on the market. Special mortgage programs include fixed and variable rate fully amortizing loans tailored to the needs of certain healthcare professionals. Variable rate loans are fully indexed at origination and may have fixed rates for three to ten years, then adjust annually thereafter.

At June 30, 2014, $188 million of permanent residential mortgage loans are guaranteed by U.S. government agencies. We have minimal credit exposure on loans guaranteed by the agencies. This amount includes residential mortgage loans previously sold into GNMA mortgage pools that the Company may repurchase when certain defined delinquency criteria are met. Because of this repurchase right, the Company is deemed to have regained effective control over these loans and must include them on the Consolidated Balance Sheet. Permanent residential mortgage loans guaranteed by U.S. government agencies increased $3.3 million over March 31, 2014.

Home equity loans totaled $799 million at June 30, 2014, a decrease of $1.1 million compared to March 31, 2014. Our home equity loan portfolio is primarily composed of first-lien, fully amortizing home equity loans. Home equity loans generally require a minimum FICO score of 700 and a maximum DTI of 40%. The maximum loan amount available for our home equity loan products is generally $400 thousand. Revolving loans have a 5 year revolving period followed by a 15 year term of amortizing repayment. Interest-only home equity loans may not be extended for any additional revolving time. All other home equity loans may be extended at management's discretion for an additional 5 year revolving term subject to an update of certain credit information. A summary of our home equity loan portfolio at June 30, 2014 by lien position and amortizing status follows in Table 13.

Table 13 -- Home Equity Loans
(In thousands)

	Revolving	Amortizing	Total
First lien	$38,511	$516,657	$555,168
Junior lien	65,804	178,228	244,032
Total home equity	$104,315	$694,885	$799,200

The distribution of residential mortgage and consumer loans at June 30, 2014 is as follows in Table 14. Residential mortgage loans are distributed by collateral location. Consumer loans are generally distributed by borrower location.

Table 14 -- Residential Mortgage and Consumer Loans by Collateral Location
(In thousands)

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/Missouri	Other	Total
Residential mortgage:									
Permanent mortgage	$222,329	$385,863	$42,455	$19,847	$167,388	$98,852	$ 58,469	$25,725	$1,020,928
Permanent mortgages guaranteed by U.S. government agencies	61,077	21,091	65,722	6,929	9,866	2,876	14,244	6,282	188,087
Home equity	477,277	139,177	126,688	4,579	32,750	9,948	8,158	623	799,200
Total residential mortgage	$760,683	$546,131	$234,865	$31,355	$210,004	$111,676	$ 80,871	$32,630	$2,008,215
Consumer	$191,127	$145,878	$12,442	$1,789	$23,321	$8,676	$ 10,759	$2,012	$396,004

The Company secondarily evaluates loan portfolio performance based on the primary geographical market managing the loan. Loans attributed to a geographical market may not represent the location of the borrower or the collateral. All permanent mortgage loans serviced by our mortgage banking unit and held for investment by the Bank are centrally managed by the Bank of Oklahoma.

Table 15 -- Loans Managed by Primary Geographical Market
(In thousands)

	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Bank of Oklahoma:					
Commercial	$3,101,513	$2,782,997	$2,902,140	$2,801,979	$2,993,247
Commercial real estate	598,790	593,282	602,010	564,141	569,780
Residential mortgage	1,490,171	1,505,702	1,524,212	1,497,027	1,503,457
Consumer	187,914	179,733	192,283	207,360	211,744
Total Bank of Oklahoma	5,378,388	5,061,714	5,220,645	5,070,507	5,278,228
Bank of Texas:					
Commercial	3,107,808	3,161,203	3,052,274	2,858,970	2,849,888
Commercial real estate	995,182	969,804	816,574	853,857	813,659
Residential mortgage	251,290	256,332	260,544	263,945	263,916
Consumer	147,322	136,782	131,297	129,144	105,390
Total Bank of Texas	4,501,602	4,524,121	4,260,689	4,105,916	4,032,853
Bank of Albuquerque:					
Commercial	381,843	351,454	342,336	325,542	296,036
Commercial real estate	309,421	305,080	308,829	306,914	314,871
Residential mortgage	137,110	131,932	133,900	131,756	133,058
Consumer	12,346	12,972	13,842	14,583	14,364
Total Bank of Albuquerque	840,720	801,438	798,907	778,795	758,329
Bank of Arkansas:					
Commercial	71,859	73,804	81,556	73,063	61,414
Commercial real estate	85,633	81,181	78,264	84,364	85,546
Residential mortgage	8,334	7,898	7,922	10,466	10,691
Consumer	6,323	6,881	8,023	9,426	11,819
Total Bank of Arkansas	172,149	169,764	175,765	177,319	169,470
Colorado State Bank & Trust:					
Commercial	856,323	825,315	735,626	748,331	786,262
Commercial real estate	200,995	213,850	190,355	158,320	146,137
Residential mortgage	60,360	57,345	62,821	66,475	62,490
Consumer	23,330	22,095	22,686	22,592	23,148
Total Colorado State Bank & Trust	1,141,008	1,118,605	1,011,488	995,718	1,018,037
Bank of Arizona:					
Commercial	446,814	453,799	417,702	379,817	355,698
Commercial real estate	292,799	301,266	257,477	250,129	258,938
Residential mortgage	41,059	42,899	47,111	49,109	51,774
Consumer	7,821	7,145	7,887	7,059	4,947

Total Bank of Arizona	788,493	805,109	730,177	686,114	671,357
Bank of Kansas City:					
Commercial	401,501	403,134	411,587	383,373	365,575
Commercial real estate	172,158	166,944	161,844	131,504	128,165
Residential mortgage	19,891	16,567	15,516	15,987	14,399
Consumer	10,948	10,458	5,646	4,867	4,369
Total Bank of Kansas City	604,498	597,103	594,593	535,731	512,508
Total BOK Financial loans	$13,426,858	$13,077,854	$12,792,264	$12,350,100	$12,440,782

Loan Commitments

We enter into certain off-balance sheet arrangements in the normal course of business. These arrangements included unfunded loan commitments which totaled $7.5 billion and standby letters of credit which totaled $469 million at June 30, 2014. Loan commitments may be unconditional obligations to provide financing or conditional obligations that depend on the borrower's financial condition, collateral value or other factors. Standby letters of credit are unconditional commitments to guarantee the performance of our customer to a third party. Since some of these commitments are expected to expire before being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Approximately $624 thousand of the outstanding standby letters of credit were issued on behalf of customers whose loans are nonperforming at June 30, 2014.

As more fully described in Note 6 to the Consolidated Financial Statements, we have off-balance sheet commitments related to certain residential mortgage loans originated under community development loan programs that were sold to a U.S. government agency with full recourse. These mortgage loans were underwritten to standards approved by the agencies, including full documentation and originated under programs available only for owner-occupied properties. The Company no longer sells residential mortgage loans with recourse other than obligations under standard representations and warranties. We are obligated to repurchase these loans for the life of these loans in the event of foreclosure for the unpaid principal and interest at the time of foreclosure. At June 30, 2014, the principal balance of residential mortgage loans sold subject to recourse obligations totaled $181 million, down from $187 million at March 31, 2014. Substantially all of these loans are to borrowers in our primary markets including $125 million to borrowers in Oklahoma, $20 million to borrowers in Arkansas, $13 million to borrowers in New Mexico and $10 million to borrowers in the Kansas/Missouri market.

We also have an off-balance sheet obligation to repurchase residential mortgage loans sold to government sponsored entities through our mortgage banking activities due to standard representations and warranties made under contractual agreements as described further in Note 6 to the Consolidated Financial Statements. For the period from 2010 through the second quarter of 2014 combined, approximately 14% of repurchase requests have currently resulted in actual repurchases or indemnification by the Company. The accrual for credit losses related to potential loan repurchases under representations and warranties totaled $6 million at June 30, 2014 and $8 million at March 31, 2014.

Customer Derivative Programs

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

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

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

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

Derivative contracts are carried at fair value. At June 30, 2014, the net fair values of derivative contracts, before consideration of cash margin, reported as assets under these programs totaled $359 million compared to $222 million at March 31, 2014. Derivative contracts carried as assets included to-be-announced residential mortgage-backed securities sold to our mortgage banking customers considered interest rate derivative contracts. At June 30, 2014, the fair value of our derivative contracts included $81 million related to these to-be-announced residential mortgage-backed securities, $40 million for interest rate swaps, $45 million for energy contracts, and $175 million for foreign exchange contracts. The aggregate net fair value of derivative contracts, before consideration of cash margin, held under these programs reported as liabilities totaled $355 million at June 30, 2014 and $217 million at March 31, 2014.

At June 30, 2014, total derivative assets were reduced by $1.7 million of cash collateral received from counterparties and total derivative liabilities were reduced by $59 million of cash collateral paid to counterparties related to instruments executed with the same counterparty under a master netting agreement.

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

The fair value of derivative contracts reported as assets under these programs, net of cash margin held by the Company, by category of debtor at June 30, 2014 follows in Table 16.

Table 16 -- Fair Value of Derivative Contracts
(In thousands)

Customers	$183,267
Banks and other financial institutions	174,413
Fair value of customer risk management program asset derivative contracts, net	$357,680

At June 30, 2014, our largest derivative exposure was to an internationally active domestic financial institution for equity option contracts which totaled $13 million. At June 30, 2014, our aggregate gross exposure to internationally active domestic financial institutions was approximately $234 million comprised of $220 million of cash and securities positions and $14 million of gross derivative positions. We have no direct exposure to European sovereign debt and our aggregate gross exposure to European financial institutions totaled $6.2 million at June 30, 2014.

Our customer derivative program also introduces liquidity and capital risk. We are required to provide cash margin to certain counterparties when the net negative fair value of the contracts exceeds established limits. Also, changes in commodity prices affect the amount of regulatory capital we are required to hold as support for the fair value of our derivative assets. These risks are modeled as part of the management of these programs. Based on current prices, a decrease in market prices equivalent to $48.57 per barrel of oil would decrease the fair value of derivative assets by $33 million. An increase in prices equivalent to $156.82 per barrel of oil would increase the fair value of derivative assets by $295 million as current prices move away from the fixed prices embedded in our existing contracts. Liquidity requirements of this program are also affected by our credit rating. A decrease in our credit rating to below investment grade would increase our obligation to post cash margin on existing contracts by approximately $21 million. The fair value of our to-be-announced residential mortgage-backed securities and interest rate swap derivative contracts is affected by changes in interest rates. Based on our assessment as of June 30, 2014, changes in interest rates would not materially impact regulatory capital or liquidity needed to support this portion of our customer derivative program.

Summary of Loan Loss Experience

We maintain an allowance for loan losses and an accrual for off-balance sheet credit risk. The combined allowance for loan losses and off-balance sheet credit losses totaled $192 million or 1.43% of outstanding loans and 199% of nonaccruing loans at June 30, 2014. The allowance for loans losses was $191 million and the accrual for off-balance sheet credit losses was $1.3 million. At March 31, 2014, the combined allowance for credit losses was $190 million or 1.45% of outstanding loans and 181% of nonaccruing loans. The allowance for loan losses was $188 million and the accrual for off-balance sheet credit losses was $1.7 million.

The provision for credit losses is the amount necessary to maintain the allowance for loan losses and an accrual for off-balance sheet credit risk at an amount determined by management to be appropriate based on its evaluation. The provision includes the combined charge to expense for both the allowance for loan losses and the accrual for off-balance sheet credit risk. All losses incurred from lending activities will ultimately be reflected in charge-offs against the allowance for loan losses following funds advanced against outstanding commitments. After evaluating all credit factors, the Company determined that no provision for credit losses was necessary during the second quarter of 2014. No provision for credit losses was recorded in the first quarter of 2014 or in the second quarter of 2013.

Table 17 -- Summary of Loan Loss Experience
(In thousands)

	Three Months Ended				
	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Allowance for loan losses:					
Beginning balance	$188,318	$185,396	$194,325	$203,124	$205,965
Loans charged off:					
Commercial	(29)	(144)	(145)	(1,354)	(4,538)
Commercial real estate	—	(220)	(176)	(419)	(450)
Residential mortgage	(1,842)	(996)	(956)	(961)	(2,057)
Consumer	(1,651)	(1,488)	(1,836)	(1,974)	(1,507)
Total	(3,522)	(2,848)	(3,113)	(4,708)	(8,552)
Recoveries of loans previously charged off:					
Commercial	1,196	1,985	1,291	864	1,940
Commercial real estate	2,621	1,827	3,496	2,073	2,727
Residential mortgage	722	354	354	188	444
Consumer	985	1,194	927	1,284	1,099
Total	5,524	5,360	6,068	4,409	6,210
Net loans recovered (charged off)	2,002	2,512	2,955	(299)	(2,342)
Provision for loan losses	370	410	(11,884)	(8,500)	(499)
Ending balance	$190,690	$188,318	$185,396	$194,325	$203,124
Accrual for off-balance sheet credit losses:					
Beginning balance	$1,678	$2,088	$1,604	$1,604	$1,105
Provision for off-balance sheet credit losses	(370)	(410)	484	—	499
Ending balance	$1,308	$1,678	$2,088	$1,604	$1,604
Total combined provision for credit losses	$—	$—	$(11,400)	$(8,500)	$—
Allowance for loan losses to loans outstanding at period-end	1.42%	1.44%	1.45%	1.57%	1.63%
Net charge-offs (annualized) to average loans	(0.06)%	(0.08)%	(0.09)%	0.01%	0.08%
Total provision for credit losses (annualized) to average loans	—%	—%	(0.37)%	(0.27)%	—%
Recoveries to gross charge-offs	156.84%	188.20%	194.92%	93.65%	72.61%
Accrual for off-balance sheet credit losses to off-balance sheet credit commitments	0.02%	0.02%	0.03%	0.02%	0.02%
Combined allowance for credit losses to loans outstanding at period-end	1.43%	1.45%	1.47%	1.59%	1.65%

Allowance for Loan Losses

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

Loans are considered to be impaired when it is probable that we will not collect all amounts due according to the contractual terms of the loan agreement. This includes all nonaccruing loans, all loans modified in troubled debt restructurings and all government guaranteed loans repurchased from GNMA pools. At June 30, 2014, impaired loans totaled $283 million, including $4.7 million with specific allowances of $3.4 million and $278 million with no specific allowances because the loan balances represent the amounts we expect to recover. At March 31, 2014, impaired loans totaled $288 million, including $5.5 million of impaired loans with specific allowances of $4.2 million and $282 million with no specific allowances.

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

The aggregate amount of general allowances for all unimpaired loans totaled $160 million at June 30, 2014, compared to $157 million at March 31, 2014. The increase in the general allowance was primarily related to growth in commercial loans during the quarter.

Nonspecific allowances are maintained for risks beyond factors specific to a particular portfolio segment or loan class. These factors include trends in the economy in our primary lending areas, concentrations in loans with large balances and other relevant factors. Nonspecific allowances totaled $27 million at June 30, 2014, largely unchanged compared to March 31, 2014. The nonspecific allowance also considers the possible impact of the European debt crisis and similar economic factors on our loan portfolio. Risks related to the European debt crisis and domestic economic risks remain stable compared to the previous quarter.

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

Our loan monitoring process also identified loans that possess more than the normal amount of risk due to deterioration in the financial condition of the borrower or the value of the collateral. Because the borrowers are still performing in accordance with the original terms of the loan agreements, and no loss of principal or interest is anticipated, these loans were not included in nonperforming assets. Known information does, however, cause management concern as to the borrowers’ ability to comply with current repayment terms. The potential problem loans totaled $105 million at June 30, 2014, primarily composed of $22 million of energy loans, $21 million of service sector loans, $17 million of residential construction and land development loans and $14 million of loans secured by multifamily residential properties. Potential problem loans totaled $74 million at March 31, 2014.

Net Loans Charged Off

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

BOK Financial had a net recovery of $2.0 million in the second quarter of 2014 compared to a net recovery of $2.5 million in the first quarter of 2014 and net charge-offs of $2.3 million in the second quarter of 2013. The ratio of net loans charged off to average loans on an annualized basis was (0.06)% for the second quarter of 2014 compared with (0.08)% for the first quarter of 2014 and 0.08% for the second quarter of 2013. The net recovery in the second quarter of 2014 was $510 thousand less than the previous quarter.

Net commercial loans recoveries totaled $1.2 million in the second quarter of 2014 compared to $1.8 million in the first quarter of 2014. Net commercial real estate loan recoveries were $2.6 million in the second quarter and $1.6 million in the first quarter. Residential mortgage net charge-offs were $1.1 million and consumer net charge-offs were $666 thousand for the second quarter. Consumer loan net charge-offs include indirect auto loan and deposit account overdraft losses.

Nonperforming Assets

Table 18 -- Nonperforming Assets
(In thousands)

	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Nonaccruing loans:					
Commercial	$17,103	$19,047	$16,760	$19,522	$20,869
Commercial real estate	34,472	39,305	40,850	52,502	58,693
Residential mortgage	44,340	45,380	42,320	39,256	40,534
Consumer	765	974	1,219	1,624	2,037
Total nonaccruing loans	96,680	104,706	101,149	112,904	122,133
Accruing renegotiated loans guaranteed by U.S. government agencies	57,818	55,507	54,322	50,099	48,733
Total nonperforming loans	154,498	160,213	155,471	163,003	170,866
Real estate and other repossessed assets:					
Guaranteed by U.S. government agencies	49,720	45,638	37,431	37,906	32,155
Other	50,391	49,877	54,841	70,216	77,957
Real estate and other repossessed assets	100,111	95,515	92,272	108,122	110,112
Total nonperforming assets	$254,609	$255,728	$247,743	$271,125	$280,978
Total nonperforming assets excluding those guaranteed by U.S. government agencies	$145,124	$153,011	$155,213	$182,543	$200,007
Nonaccruing loans by loan portfolio segment and class:					
Commercial:					
Energy	$1,619	$1,759	$1,860	$1,953	$2,277
Services	3,669	4,581	4,922	6,927	7,448
Wholesale / retail	5,885	6,854	6,969	7,223	6,700
Manufacturing	3,507	3,565	592	843	876
Healthcare	1,422	1,443	1,586	1,733	2,670
Other commercial and industrial	1,001	845	831	843	898
Total commercial	17,103	19,047	16,760	19,522	20,869
Commercial real estate:					
Residential construction and land development	15,146	16,547	17,377	20,784	21,135
Retail	4,199	4,626	4,857	7,914	8,406
Office	3,591	6,301	6,391	6,838	7,828
Multifamily	—	—	7	4,350	6,447
Industrial	631	886	252	—	—
Other commercial real estate	10,905	10,945	11,966	12,616	14,877
Total commercial real estate	34,472	39,305	40,850	52,502	58,693
Residential mortgage:					
Permanent mortgage	32,952	36,342	34,279	31,797	32,747
Permanent mortgage guaranteed by U.S. government agencies	1,947	1,572	777	577	83

Home equity	9,441	7,466	7,264	6,882	7,704
Total residential mortgage	44,340	45,380	42,320	39,256	40,534
Consumer	765	974	1,219	1,624	2,037
Total nonaccruing loans	$96,680	$104,706	$101,149	$112,904	$122,133

	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Nonaccruing loans as % of outstanding balance for class:					
Commercial:					
Energy	0.07 %	0.08 %	0.08 %	0.08 %	0.10 %
Services	0.15 %	0.21 %	0.22 %	0.32 %	0.34 %
Wholesale / retail	0.45 %	0.56 %	0.58 %	0.61 %	0.57 %
Manufacturing	0.77 %	0.80 %	0.15 %	0.22 %	0.23 %
Healthcare	0.10 %	0.10 %	0.12 %	0.15 %	0.24 %
Other commercial and industrial	0.25 %	0.21 %	0.19 %	0.22 %	0.20 %
Total commercial	0.20 %	0.24 %	0.21 %	0.26 %	0.27 %
Commercial real estate:					
Residential construction and land development	8.20 %	8.95 %	8.42 %	9.60 %	9.37 %
Retail	0.65 %	0.72 %	0.83 %	1.42 %	1.52 %
Office	0.91 %	1.44 %	1.55 %	1.62 %	1.70 %
Multifamily	— %	— %	— %	0.84 %	1.29 %
Industrial	0.18 %	0.29 %	0.10 %	— %	— %
Other commercial real estate	2.63 %	2.72 %	3.06 %	3.25 %	4.59 %
Total commercial real estate	1.30 %	1.49 %	1.69 %	2.23 %	2.53 %
Residential mortgage:					
Permanent mortgage	3.23 %	3.52 %	3.23 %	2.95 %	2.99 %
Permanent mortgage guaranteed by U.S. government agencies	1.04 %	0.85 %	0.43 %	0.35 %	0.05 %
Home equity	1.18 %	0.93 %	0.90 %	0.87 %	0.98 %
Total residential mortgage	2.21 %	2.25 %	2.06 %	1.93 %	1.99 %
Consumer	0.19 %	0.26 %	0.32 %	0.41 %	0.54 %
Total nonaccruing loans	0.72 %	0.80 %	0.79 %	0.91 %	0.98 %
Ratios:					
Allowance for loan losses to nonaccruing loans	197.24 %	179.86 %	183.29 %	172.12 %	166.31 %
Nonaccruing loans to period-end loans	0.72 %	0.80 %	0.79 %	0.91 %	0.98 %
Accruing loans 90 days or more past due[1]	$67	$1,991	$1,415	$188	$2,460

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

Nonperforming assets totaled $255 million or 1.88% of outstanding loans and repossessed assets at June 30, 2014. Nonaccruing loans totaled $97 million, accruing renegotiated residential mortgage loans totaled $58 million and real estate and other repossessed assets totaled $100 million. All accruing renegotiated residential mortgage loans, $1.9 million of nonaccruing loans and $50 million of real estate and other repossessed assets are guaranteed by U.S. government agencies. Excluding assets guaranteed by U.S. government agencies, nonperforming assets decreased $7.9 million during the second quarter. The Company generally retains nonperforming assets to maximize potential recovery which may cause future nonperforming assets to decrease more slowly.

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

At June 30, 2014, renegotiated loans consist solely of accruing residential mortgage loans guaranteed by U.S. government agencies that have been modified in troubled debt restructurings. See Note 4 to the Consolidated Financial Statements for additional discussion of troubled debt restructurings. Generally, we modify residential mortgage loans primarily by reducing interest rates and extending the number of payments in accordance with U.S. government agency guidelines. Generally, no unpaid principal or interest is forgiven. Interest continues to accrue based on the modified terms of the loan. Modified loans guaranteed by U.S. government agencies under residential mortgage loan programs may be sold once they become eligible according to U.S. government agency guidelines.

A rollforward of nonperforming assets for the three and six ended June 30, 2014 follows in Table 19.

Table 19 -- Rollforward of Nonperforming Assets
(In thousands)

	Three Months Ended June 30, 2014			
	Nonaccruing Loans	Renegotiated Loans	Real Estate and Other Repossessed Assets	Total Nonperforming Assets
Balance, March 31, 2014	$104,706	$55,507	$95,515	$255,728
Additions	14,225	14,264	—	28,489
Payments	(12,802)	(727)	—	(13,529)
Charge-offs	(3,522)	—	—	(3,522)
Net gains and write-downs	—	—	617	617
Foreclosure of nonperforming loans	(5,926)	—	5,926	—
Foreclosure of loans guaranteed by U.S. government agencies	—	(1,581)	13,294	11,713
Proceeds from sales	—	(9,593)	(5,919)	(15,512)
Conveyance to U.S. government agencies	—	—	(9,212)	(9,212)
Net transfers to nonaccruing loans	—	—	—	—
Return to accrual status	—	—	—	—
Other, net	(1)	(52)	(110)	(163)
Balance, June 30, 2014	$96,680	$57,818	$100,111	$254,609

	Six Months Ended June 30, 2014			
	Nonaccruing Loans	Renegotiated Loans	Real Estate and Other Repossessed Assets	Total Nonperforming Assets
Balance, December 31, 2013	$101,149	$54,322	$92,272	$247,743
Additions	30,445	27,083	—	57,528
Payments	(20,350)	(1,056)	—	(21,406)
Charge-offs	(6,370)	—	—	(6,370)
Net gains and write-downs	—	—	532	532
Foreclosure of nonperforming loans	(8,196)	—	8,196	—
Foreclosure of loans guaranteed by U.S. government agencies	—	(4,770)	30,601	25,831
Proceeds from sales	—	(17,486)	(13,029)	(30,515)
Conveyance to U.S. government agencies	—	—	(18,312)	(18,312)
Net transfers to nonaccruing loans	—	—	—	—
Return to accrual status	—	—	—	—
Other, net	2	(275)	(149)	(422)
Balance, June 30, 2014	$96,680	$57,818	$100,111	$254,609

We foreclose on loans guaranteed by U.S. government agencies in accordance with agency guidelines. Generally these loans are not eligible for modification programs or have failed to comply with modified loan terms. Principal is guaranteed by agencies of the U.S. government, subject to limitations and credit risk is minimal. These properties will be conveyed to the agencies once applicable criteria have been met. During the second quarter of 2014, $13 million of properties guaranteed by U.S. government agencies were foreclosed on and $9.2 million of properties were conveyed to the applicable U.S. government agencies.

Nonaccruing loans totaled $97 million or 0.72% of outstanding loans at June 30, 2014 and $105 million or 0.80% of outstanding loans at March 31, 2014. Nonaccruing loans decreased $8.0 million compared to March 31, 2014. Newly identified nonaccruing loans totaled $14 million for the second quarter of 2014, were offset by $13 million of payments, $5.9 million of foreclosures and $3.5 million of charge-offs.

Commercial

Nonaccruing commercial loans totaled $17 million or 0.20% of total commercial loans at June 30, 2014, compared to $19 million or 0.24% of total commercial loans at March 31, 2014. Nonaccruing commercial loans decreased $1.9 million in the second quarter of 2014. Newly identified nonaccruing commercial loans of $907 thousand were offset by $1.9 million in payments, $913 thousand of foreclosures and $29 thousand of charge-offs during the second quarter.

Nonaccruing commercial loans at June 30, 2014 were primarily composed of $5.9 million or 0.45% of total wholesale/retail sector loans, $3.7 million or 0.15% of total services sector loans and $3.5 million or 0.77% of total manufacturing sector loans. Over half of the balance of nonaccruing wholesale/retail sector loans was comprised of a single customer in the New Mexico market.

Commercial Real Estate

Nonaccruing commercial real estate loans totaled $34 million or 1.30% of outstanding commercial real estate loans at June 30, 2014 compared to $39 million or 1.49% of outstanding commercial real estate loans at March 31, 2014. Newly identified nonaccruing commercial real estate loans totaled $2.4 million were offset by $5.7 million of cash payments received and $1.5 million of foreclosures.

Nonaccruing commercial real estate loans continue to be largely concentrated in residential construction and land development loans, totaling $15 million or 8.20% of residential construction and land development loans. Other commercial real estate loans totaled $11 million or 2.63% of other commercial real estate loans.

Residential Mortgage and Consumer

Nonaccruing residential mortgage loans totaled $44 million or 2.21% of outstanding residential mortgage loans at June 30, 2014, compared to $45 million or 2.25% of outstanding residential mortgage loans at March 31, 2014. Newly identified nonaccruing residential mortgage loans totaled $9.0 million, offset by $5.0 million of payments, $3.3 million of foreclosures and $1.8 million of loans charged off during the quarter.

Nonaccruing residential mortgage loans primarily consist of non-guaranteed permanent residential mortgage loans which totaled $33 million or 3.23% of outstanding non-guaranteed permanent residential mortgage loans at June 30, 2014. Nonaccruing home equity loans totaled $9.4 million or 1.18% of total home equity loans.

Payments of accruing residential mortgage loans and consumer loans may be delinquent. The composition of residential mortgage loans and consumer loans past due but still accruing is included in the following Table 20. Substantially all non-guaranteed residential loans past due 90 days or more are nonaccruing. Residential mortgage loans 30 to 89 days past due increased $2.6 million in the second quarter to $11.9 million at June 30, 2014. Consumer loans past due 30 to 89 days increased $419 thousand over March 31, 2014.

Table 20 -- Residential Mortgage and Consumer Loans Past Due
(In thousands)

	June 30, 2014		March 31, 2014	
	90 Days or More	30 to 89 Days	90 Days or More	30 to 89 Days
Residential mortgage:				
Permanent mortgage[1]	$—	$10,079	$12	$5,732
Home equity	41	1,855	25	3,556
Total residential mortgage	$41	$11,934	37	$9,288
Consumer	$1	$992	$1	$573

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

Real Estate and Other Repossessed Assets

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

Real estate and other repossessed assets totaled $100 million at June 30, 2014, an increase of $4.6 million over March 31, 2014. The distribution of real estate and other repossessed assets attributed by geographical market is included in Table 21 following.

Table 21 -- Real Estate and Other Repossessed Assets by Collateral Location
(In thousands)

	Oklahoma	Texas	Colorado	Arkansas	New Mexico	Arizona	Kansas/ Missouri	Other	Total
1-4 family residential properties guaranteed by U.S. government agencies	$15,307	$2,252	$1,549	$1,511	$24,492	$458	$3,655	$496	$49,720
Developed commercial real estate properties	2,287	242	2,657	796	4,076	1,438	—	5,073	16,569
1-4 family residential properties	4,674	2,359	161	965	1,804	4,782	551	288	15,584
Undeveloped land	272	2,524	2,635	57	—	5,186	1,114	—	11,788
Residential land development properties	164	30	1,483	1,275	—	3,161	4	—	6,117
Multifamily residential properties	—	—	—	—	—	—	—	—	—
Other	—	9	—	—	—	324	—	—	333
Total real estate and other repossessed assets	$22,704	$7,416	$8,485	$4,604	$30,372	$15,349	$5,324	$5,857	$100,111

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

Liquidity and Capital

Subsidiary Bank

Deposits and borrowed funds are the primary sources of liquidity for the subsidiary bank. Based on the average balances for the second quarter of 2014, approximately 75% of our funding was provided by deposit accounts, 10% from borrowed funds, 1% from long-term subordinated debt and 12% from equity. Our funding sources, which primarily include deposits and borrowings from the Federal Home Loan Banks and other banks, provide adequate liquidity to meet our operating needs.

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

Average deposits for the second quarter of 2014 totaled $20.5 billion and represented approximately 75% of total liabilities and capital compared with $20.2 billion and 74% of total liabilities and capital for the first quarter of 2014. Average deposits increased $262 million over the first quarter of 2014. Average demand deposit balances increased $342 million over the first quarter. Average interest-bearing transaction deposit accounts decreased $50 million and and average time deposits decreased $50 million.

Average Commercial Banking deposit balances increased $276 million over the first quarter of 2014. Balances related to commercial & industrial customers increased $194 million, balances related to our treasury services customers increased $93 million. Balances related to energy customers decreased $87 million compared to the first quarter of 2014. Healthcare customer balances increased $30 million, commercial real estate customer balances increased $24 million and small business customer balances increased $24 million. Commercial customers continue to retain large cash reserves primarily due to low yields available on other high quality investment alternatives and to minimize deposit service charges through the earnings credit. The earnings credit is a non-cash method that enables commercial customers to offset deposit service charges based on account balances. These deposit account balances may decline due to future changes in economic conditions.

Average Consumer Banking deposit balances increased $50 million. Demand deposit balances grew by $49 million, interest-bearing transaction deposits were up $21 million and savings account balances were up $17 million. This growth was partially offset by a $36 million decrease in time deposits. Average Wealth Management deposits decreased $72 million compared to the first quarter of 2014 primarily due to a $165 million decrease in interest-bearing transaction deposit account balances, partially offset by a $96 million increase in demand deposit balances.

Brokered deposits included in time deposits averaged $201 million for the second quarter of 2014, an increase of $6.6 million over the first quarter of 2014. Average interest-bearing transaction accounts for the second quarter include $259 million of brokered deposits, an increase of $44 million over the first quarter of 2014.

The distribution of our period end deposit account balances among principal markets follows in Table 22.

Table 22 -- Period End Deposits by Principal Market Area
(In thousands)

	June 30,	March 31,	December 31,	September 30,	June 30,
	2014	2014	2013	2013	2013
Bank of Oklahoma:					
Demand	$3,785,922	$3,476,876	$3,432,940	$3,442,831	$3,552,328
Interest-bearing:					
Transaction	5,997,474	6,148,712	6,318,045	5,565,462	5,644,959
Savings	210,330	211,770	191,880	189,186	185,345
Time	1,195,586	1,209,002	1,214,507	1,197,617	1,179,869
Total interest-bearing	7,403,390	7,569,484	7,724,432	6,952,265	7,010,173
Total Bank of Oklahoma	11,189,312	11,046,360	11,157,372	10,395,096	10,562,501
Bank of Texas:					
Demand	2,617,194	2,513,729	2,481,603	2,498,668	2,299,632
Interest-bearing:					
Transaction	1,957,236	1,967,107	1,966,580	1,853,586	1,931,758
Savings	67,012	70,890	64,632	63,368	63,745
Time	606,248	621,925	638,465	667,873	692,888
Total interest-bearing	2,630,496	2,659,922	2,669,677	2,584,827	2,688,391
Total Bank of Texas	5,247,690	5,173,651	5,151,280	5,083,495	4,988,023
Bank of Albuquerque:					
Demand	515,554	524,191	502,395	491,894	455,580
Interest-bearing:					
Transaction	489,378	516,734	529,140	541,565	525,481
Savings	36,442	37,481	33,944	34,003	34,096
Time	309,540	320,352	327,281	334,946	346,506
Total interest-bearing	835,360	874,567	890,365	910,514	906,083
Total Bank of Albuquerque	1,350,914	1,398,758	1,392,760	1,402,408	1,361,663
Bank of Arkansas:					
Demand	44,471	40,026	38,566	33,378	31,778
Interest-bearing:					
Transaction	205,216	212,144	144,018	205,891	187,223
Savings	2,287	2,264	1,986	1,919	1,974
Time	41,155	32,312	32,949	35,184	37,272
Total interest-bearing	248,658	246,720	178,953	242,994	226,469
Total Bank of Arkansas	293,129	286,746	217,519	276,372	258,247
Colorado State Bank & Trust:					
Demand	396,185	399,820	409,942	375,060	367,407
Interest-bearing:					
Transaction	566,320	536,438	541,675	536,734	519,584
Savings	29,234	28,973	26,880	27,782	27,948
Time	385,252	399,948	407,088	424,225	451,168
Total interest-bearing	980,806	965,359	975,643	988,741	998,700

Total Colorado State Bank & Trust	1,376,991	1,365,179	1,385,585	1,363,801	1,366,107

	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Bank of Arizona:					
Demand	293,836	265,149	204,092	188,365	186,382
Interest-bearing:					
Transaction	379,170	409,200	364,736	339,158	376,305
Savings	2,813	2,711	2,432	2,511	2,238
Time	37,666	37,989	34,391	36,285	35,490
Total interest-bearing	419,649	449,900	401,559	377,954	414,033
Total Bank of Arizona	713,485	715,049	605,651	566,319	600,415
Bank of Kansas City:					
Demand	254,843	252,496	246,739	301,780	252,216
Interest-bearing:					
Transaction	103,610	109,321	69,857	77,414	81,250
Savings	1,511	1,507	1,252	1,080	1,029
Time	40,379	40,646	41,312	23,890	24,779
Total interest-bearing	145,500	151,474	112,421	102,384	107,058
Total Bank of Kansas City	400,343	403,970	359,160	404,164	359,274
Total BOK Financial deposits	$20,571,864	$20,389,713	$20,269,327	$19,491,655	$19,496,230

In addition to deposits, subsidiary bank liquidity is provided primarily by federal funds purchased, securities repurchase agreements and Federal Home Loan Bank borrowings. Federal funds purchased consist primarily of unsecured, overnight funds acquired from other financial institutions. Funds are primarily purchased from bankers' banks and Federal Home Loan banks from across the country. The largest single source of federal funds purchased totaled $337 million at June 30, 2014. Securities repurchase agreements generally mature within 90 days and are secured by certain available for sale securities. Federal Home Loan Bank borrowings are generally short term and are secured by a blanket pledge of eligible collateral (generally unencumbered U.S. Treasury and mortgage-backed securities, 1-4 family residential mortgage loans, multifamily and other qualifying commercial real estate loans). Amounts borrowed from the Federal Home Loan Bank of Topeka averaged $1.3 billion during the quarter, up from $1.0 billion during the first quarter of 2014.

At June 30, 2014, the estimated unused credit available to the subsidiary bank from collateralized sources was approximately $8.1 billion.

A summary of other borrowings by the subsidiary bank follows in Table 23.

Table 23 -- Borrowed Funds
(In thousands)

		Three Months Ended June 30, 2014				Three Months Ended March 31, 2014		
	June 30, 2014	Average Balance During the Quarter	Rate	Maximum Outstanding At Any Month End During the Quarter	March 31, 2014	Average Balance During the Quarter	Rate	Maximum Outstanding At Any Month End During the Quarter
Subsidiary Bank:								
Funds purchased	$705,573	$574,926	0.07 %	$709,072	$1,166,178	$1,021,755	0.06 %	$1,548,676
Repurchase agreements	1,072,375	914,892	0.08 %	1,072,375	777,108	773,127	0.08 %	800,802
Other borrowings:								
Federal Home Loan Bank advances	1,200,000	1,264,533	0.23 %	1,400,000	1,002,500	1,005,370	0.20 %	1,005,650
GNMA repurchase liability	15,193	13,991	5.24 %	16,515	12,834	17,082	5.37 %	17,721
Other	16,469	16,408	5.02 %	16,227	16,359	16,295	3.29 %	16,159
Total other borrowings	1,231,662	1,294,932	0.40 %		1,031,693	1,038,747	0.40 %	
Subordinated debentures	347,890	347,868	2.52 %	347,890	347,846	347,824	2.52 %	347,846
Total Subsidiary Bank	3,357,500	3,132,618	0.48 %		3,322,825	3,181,453	0.45 %	
Total Borrowed Funds	$3,357,500	$3,132,618	0.48 %		$3,322,825	$3,181,453	0.45 %	

In 2007, the Company issued $250 million of subordinated debt due May 15, 2017 to fund the Worth National Bank and First United Bank acquisitions and fund continued asset growth. Interest on this debt was based on a fixed rate of 5.75% through May 14, 2012 which then converted to a floating rate of three-month LIBOR plus 0.69%. At June 30, 2014, $227 million of this subordinated debt remains outstanding.

In 2005, the Bank issued $150 million of 10-year, fixed rate subordinated debt. The cost of this subordinated debt, including issuance discounts and hedge loss is 5.56%. The proceeds of this debt were used to repay $95 million of BOK Financial's unsecured revolving line of credit and to provide additional capital to support assets growth. At June 30, 2014, $122 million of this subordinated debt remains outstanding.

The Bank also has a liability related to the repurchase of certain delinquent residential mortgage loans previously sold in GNMA mortgage pools. Interest is payable monthly at rates contractually due to investors.

Parent Company

The primary sources of liquidity for BOK Financial are cash on hand and dividends from the subsidiary bank. Dividends from the subsidiary bank are limited by various banking regulations to net profits, as defined, for the year plus retained profits for the two preceding years. Dividends are further restricted by minimum capital requirements. At June 30, 2014, based on the most restrictive limitations as well as management’s internal capital policy, the subsidiary bank could declare up to $238 million of dividends without regulatory approval. Future losses or increases in required regulatory capital at the subsidiary bank could affect its ability to pay dividends to the parent company.

The Company has a $100 million senior unsecured 364 day revolving credit facility with Wells Fargo Bank, National Association, administrative agent and other commercial banks (“the Credit Facility”). Interest on amounts outstanding under the Credit Facility is to be paid at a defined base rate minus 1.25% or LIBOR plus 1.00% based upon the Company’s option. Interest on amounts borrowed for certain acquisitions converted to a term loan at the Company's option is to be paid at a defined base rate minus 1.25% or LIBOR plus 1.25%. A commitment fee equal to 0.20% shall be paid quarterly on the unused portion of the credit commitment under the Credit Facility and there are no prepayment penalties. Any amounts outstanding at the end of the Credit Facility term shall be converted into a term loan which, except for amounts borrowed for certain acquisitions, shall be payable June 5, 2015. The Credit Agreement contains customary representations and warranties, as well as affirmative and negative covenants including limits on the Company’s ability to borrow additional funds, make investments and sell assets. These covenants also require BOKF to maintain minimum capital levels. No amounts were outstanding under the Credit Facility at June 30, 2014 and the Company met all of the covenants.

Our equity capital at June 30, 2014 was $3.2 billion, an increase of $103 million over March 31, 2014. Net income less cash dividends paid increased equity $48 million during the second quarter of 2014 and accumulated other comprehensive income increased $43 million primarily related to the change in unrealized gains on available for sale securities. Capital is managed to maximize long-term value to the shareholders. Factors considered in managing capital include projections of future earnings, asset growth and acquisition strategies, and regulatory and debt covenant requirements. Capital management may include subordinated debt issuance, share repurchase and stock and cash dividends.

On April 24, 2012, the Board of Directors authorized the Company to purchase up to two million shares of our common stock. The specific timing and amount of shares repurchased will vary based on market conditions, regulatory limitations and other factors. Repurchases may be made over time in open market or privately negotiated transactions. The repurchase program may be suspended or discontinued at any time without prior notice. As of June 30, 2014, the Company has repurchased 39,496 shares for $2.1 million under this program. No shares were repurchased in the second quarter of 2014.

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

For a banking institution to qualify as well capitalized, its Tier 1, Total and Leverage capital ratios must be at least 6%, 10% and 5%, respectively. The Company’s banking subsidiary exceeded the regulatory definitions of well capitalized. The capital ratios for BOK Financial on a consolidated basis are presented in Table 24.

Table 24 -- Capital Ratios

	Well Capitalized Minimums		June 30, 2014		March 31, 2014		December 31, 2013		September 30, 2013		June 30, 2013	
Average total equity to average assets	—		11.56	%	11.40	%	11.27	%	10.88	%	10.95	%
Tangible common equity ratio	—		10.20	%	10.06	%	9.90	%	9.73	%	9.38	%
Tier 1 common equity ratio	—		13.46	%	13.59	%	13.59	%	13.33	%	13.19	%
Risk-based capital:												
Tier 1 capital	6.00	%	13.63	%	13.77	%	13.77	%	13.51	%	13.37	%
Total capital	10.00	%	15.38	%	15.55	%	15.56	%	15.35	%	15.28	%

Leverage	5.00 %	10.26 %	10.17 %	10.05 %	9.80 %	9.43 %

In July 2013, banking regulators issued the final rule revising regulatory capital rules for substantially all U.S. banking organizations. The new capital rule will be effective for BOK Financial on January 1, 2015 and components of the rule will phase in through January 1, 2019. The new capital rule establishes a 7% threshold for the Tier 1 common equity ratio consisting of a minimum level plus capital conservation buffer. The Company expects to exclude unrealized gains and losses from available for sale securities from its calculation of Tier 1 capital, consistent with the treatment under current capital rules. BOK Financial's Tier 1 common equity ratio based on the existing Basel I standards was 13.46% as of June 30, 2014. Based on our interpretation of the new capital rule, our estimated Tier 1 common equity ratio on a fully phased-in basis would be 12.35%, nearly 535 basis points above the 7% regulatory threshold.

The rule also changes both the Tier 1 risk based capital requirements and the total risk based requirements to a minimum of 6% and 8%, respectively, plus a capital conservation buffer of 2.5% totaling 8.5% and 10.5%, respectively. The leverage ratio requirement under the rule is 4%. A bank which falls below these levels, including the capital conservation buffer, would be subject to regulatory restrictions on capital distributions (including but not limited to dividends and share repurchases) and executive bonus payments.

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

In accordance with the Dodd-Frank Act, the Federal Reserve must publish regulations that require bank holding companies with $10 billion to $50 billion in assets to perform annual capital stress tests. The requirements for annual capital stress tests became effective for the Company in the fourth quarter of 2013. Existing regulations indicate that results will be made public in June of 2015. The resulting capital stress test process may place constraints on capital distributions or increases in required regulatory capital under certain circumstances.

Table 25 provides a reconciliation of the non-GAAP measures with financial measures defined by GAAP.

Table 25 -- Non-GAAP Measure
(Dollars in thousands)

	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Tangible common equity ratio:					
Total shareholders' equity	$3,212,517	$3,109,925	$3,020,049	$2,991,244	$2,957,637
Less: Goodwill and intangible assets, net	414,356	396,131	384,323	385,166	386,001
Tangible common equity	2,798,161	2,713,794	2,635,726	2,606,078	2,571,636
Total assets	27,843,770	27,364,714	27,015,432	27,166,367	27,808,200
Less: Goodwill and intangible assets, net	414,356	396,131	384,323	385,166	386,001
Tangible assets	$27,429,414	$26,968,583	$26,631,109	$26,781,201	$27,422,199
Tangible common equity ratio	10.20 %	10.06 %	9.90 %	9.73 %	9.38 %

Off-Balance Sheet Arrangements

See Note 8 to the Consolidated Financial Statements for a discussion of the Company's significant off-balance sheet commitments.

Market Risk

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

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

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

Interest Rate Risk – Other than Trading

As previously noted in the Net Interest Revenue section of this report, management has implemented strategies to manage the Company’s balance sheet to have relatively limited exposure to changes in interest rates over a twelve-month period. The effectiveness of these strategies in managing the overall interest rate risk is evaluated through the use of an asset/liability model. BOK Financial performs a sensitivity analysis to identify more dynamic interest rate risk exposures, including embedded option positions on net interest revenue, net income and economic value of equity. A simulation model is used to estimate the effect of changes in interest rates on the Company's performance across multiple interest rate scenarios. While the current internal policy limit for net interest revenue variation is a maximum decline of 5% or 200 basis points change over twelve months, the results of a 200 basis point decrease in interest rates in the current low-rate environment are not meaningful. We report the effect of a 50 basis point decrease in the interim.

The Company’s primary interest rate exposures include the Federal Funds rate, which affects short-term borrowings, and the prime lending rate and LIBOR, which are the basis for much of the variable rate loan pricing. Additionally, residential mortgage rates directly affect the prepayment speeds for residential mortgage-backed securities and mortgage servicing rights. Derivative financial instruments and other financial instruments used for purposes other than trading are included in this simulation. In addition, the impact on the level and composition of DDA and other core deposit balances resulting from a significant increase in short-term market interest rates and the overall interest rate environment is likely to be material. The simulation incorporates assumptions regarding the effects of such changes based on a combination of historical analysis and expected behavior. The impact of planned growth and new business activities is factored into the simulation model. The effects of changes in interest rates on the value of mortgage servicing rights are excluded from Table 26 due to the extreme volatility over such a large rate range and our active risk management approach for that asset. The effects of interest rate changes on the value of mortgage servicing rights and financial instruments identified as economic hedges are presented in Note 6 to the Consolidated Financial Statements.

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

Table 26 -- Interest Rate Sensitivity
(Dollars in thousands)

	200 bp Increase		50 bp Decrease	
	2014	2013	2014	2013
Anticipated impact over the next twelve months on net interest revenue	$(8,161)	$(16,219)	$(15,479)	$(13,330)
	(1.18)%	(2.27)%	(2.23)%	(1.87)%

Trading Activities

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

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

Management uses a Value at Risk ("VaR") methodology to measure market risk due to changes in interest rates inherent in its trading activities. VaR is calculated based upon historical simulations over the past five years using a variance/covariance matrix of interest rate changes, a 10 business day holding period and a 99% confidence interval. It represents an amount of market loss that is likely to be exceeded in only one out of every 100 two-week periods. Trading positions are managed within guidelines approved by the Board of Directors. These guidelines limit the VaR to $7.3 million. There were no instances of VaR being exceeded during the three months ended June 30, 2014 and 2013. At June 30, 2014, there were no trading positions for the purposes of enhancing returns on the Company's securities portfolio.

The average, high and low VaR amounts for three months ended June 30, 2014 and June 30, 2013 are as follows in Table 27.

Table 27 -- Value at Risk (VaR)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Average	$2,099	$3,378	$1,817	$3,471
High	3,433	5,826	3,731	5,826
Low	1,231	1,893	984	1,893

Controls and Procedures

As required by Rule 13a-15(b), BOK Financial’s management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by their report, of the effectiveness of the Company’s disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report. As required by Rule 13a-15(d), BOK Financial’s management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company’s internal controls over financial reporting to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

Forward-Looking Statements

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

Consolidated Statements of Earnings (Unaudited)

(In thousands, except share and per share data)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
Interest revenue	2014	2013	2014	2013
Loans	$125,493	$124,297	$247,964	$249,410
Residential mortgage loans held for sale	2,523	2,294	4,113	4,086
Trading securities	408	621	819	1,099
Taxable securities	3,195	3,604	6,477	7,402
Tax-exempt securities	1,471	1,150	2,975	2,178
Total investment securities	4,666	4,754	9,452	9,580
Taxable securities	46,458	51,360	93,713	106,367
Tax-exempt securities	631	687	1,125	1,291
Total available for sale securities	47,089	52,047	94,838	107,658
Fair value option securities	794	1,024	1,645	2,201
Restricted equity securities	1,275	1,462	2,272	2,327
Interest-bearing cash and cash equivalents	383	278	648	462
Total interest revenue	182,631	186,777	361,751	376,823
Interest expense				
Deposits	12,777	13,909	25,763	28,790
Borrowed funds	1,568	1,776	2,902	3,330
Subordinated debentures	2,189	2,200	4,347	4,359
Total interest expense	16,534	17,885	33,012	36,479
Net interest revenue	166,097	168,892	328,739	340,344
Provision for credit losses	—	—	—	(8,000)
Net interest revenue after provision for credit losses	166,097	168,892	328,739	348,344
Other operating revenue				
Brokerage and trading revenue	39,056	32,874	68,572	64,625
Transaction card revenue	31,510	29,942	60,644	57,633
Fiduciary and asset management revenue	29,543	24,803	55,265	47,116
Deposit service charges and fees	23,133	23,962	45,822	46,928
Mortgage banking revenue	29,330	36,596	52,174	76,572
Bank-owned life insurance	2,274	2,236	4,380	5,462
Other revenue	9,208	8,760	18,060	17,902
Total fees and commissions	164,054	159,173	304,917	316,238
Gain (loss) on assets, net	(52)	(1,666)	(4,316)	(1,199)
Gain (loss) on derivatives, net	831	(2,527)	1,799	(3,468)
Gain (loss) on fair value option securities, net	4,176	(9,156)	6,836	(12,327)
Change in fair value of mortgage servicing rights	(6,444)	14,315	(10,905)	16,973
Gain on available for sale securities, net	4	3,753	1,244	8,608
Total other-than-temporary impairment losses	—	(1,138)	—	(1,138)
Portion of loss recognized in (reclassified from) other comprehensive income	—	586	—	339
Net impairment losses recognized in earnings	—	(552)	—	(799)
Total other operating revenue	162,569	163,340	299,575	324,026
Other operating expense				
Personnel	123,714	128,110	228,147	253,765
Business promotion	7,150	5,770	12,991	11,223
Charitable contributions to BOKF Foundation	—	—	2,420	—

Professional fees and services	11,054	8,381	18,619	15,366
Net occupancy and equipment	18,789	16,909	35,685	33,390
Insurance	4,467	4,044	9,008	7,789
Data processing and communications	29,071	26,734	56,206	52,184
Printing, postage and supplies	3,429	3,580	6,970	7,254
Net losses and operating expenses of repossessed assets	1,118	282	2,550	1,528
Amortization of intangible assets	949	875	1,765	1,751
Mortgage banking costs	7,960	7,910	11,594	15,264
Other expense	7,006	8,326	13,856	15,390
Total other operating expense	214,707	210,921	399,811	414,904
Net income before taxes	113,959	121,311	228,503	257,466
Federal and state income taxes	37,230	41,423	74,731	88,519
Net income	76,729	79,888	153,772	168,947
Net income attributable to non-controlling interest	834	(43)	1,287	1,052
Net income attributable to BOK Financial Corporation shareholders	$75,895	$79,931	$152,485	$167,895
Earnings per share:				
Basic	$1.10	$1.16	$2.21	$2.45
Diluted	$1.10	$1.16	$2.20	$2.44
Average shares used in computation:				
Basic	68,359,945	67,993,822	68,318,689	67,904,599
Diluted	68,511,378	68,212,497	68,475,802	68,126,751
Dividends declared per share	$0.40	$0.38	$0.80	$0.76

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$76,729	$79,888	$153,772	$168,947
Other comprehensive income before income taxes:				
Net change in unrealized gain (loss)	70,038	(183,186)	124,651	(204,545)
Reclassification adjustments included in earnings:				
Interest revenue, Investments securities, Taxable securities	(333)	(873)	(736)	(2,021)
Interest expense, Subordinated debentures	71	72	154	124
Net impairment losses recognized in earnings	—	552	—	799
Gain on available for sale securities, net	(4)	(3,753)	(1,244)	(8,608)
Other comprehensive income (loss) before income taxes	69,772	(187,188)	122,825	(214,251)
Federal and state income taxes	(27,151)	72,819	(47,786)	83,345
Other comprehensive income (loss), net of income taxes	42,621	(114,369)	75,039	(130,906)
Comprehensive income (loss)	119,350	(34,481)	228,811	38,041
Comprehensive income (loss) attributable to non-controlling interests	834	(43)	1,287	1,052
Comprehensive income (loss) attributable to BOK Financial Corp. shareholders	$118,516	$(34,438)	$227,524	$36,989

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets
(In thousands, except share data)

	June 30, 2014 (Unaudited)	Dec 31, 2013 (Footnote 1)	June 30, 2013 (Unaudited)
Assets			
Cash and due from banks	$615,479	$512,931	$507,551
Interest-bearing cash and cash equivalents	732,395	574,282	570,836
Trading securities	101,097	91,616	190,591
Investment securities (fair value: June 30, 2014 – $670,811; December 31, 2013 – $687,127 ; June 30, 2013 – $625,705)	649,937	677,878	615,790
Available for sale securities	9,699,146	10,147,162	10,698,074
Fair value option securities	185,674	167,125	205,756
Restricted equity securities	91,213	85,240	157,847
Residential mortgage loans held for sale	325,875	200,546	301,057
Loans	13,426,858	12,792,264	12,440,782
Allowance for loan losses	(190,690)	(185,396)	(203,124)
Loans, net of allowance	13,236,168	12,606,868	12,237,658
Premises and equipment, net	280,286	277,849	271,191
Receivables	115,991	117,126	136,605
Goodwill	377,780	359,759	359,759
Intangible assets, net	36,576	24,564	26,242
Mortgage servicing rights	155,740	153,333	132,889
Real estate and other repossessed assets, net of allowance (June 30, 2014 – $22,530; December 31, 2013 – $24,195; June 30, 2013 – $26,857)	100,111	92,272	110,112
Derivative contracts	357,680	265,012	546,206
Cash surrender value of bank-owned life insurance	289,231	284,801	280,047
Receivable on unsettled securities sales	14,025	17,174	182,147
Other assets	479,366	359,894	277,842
Total assets	$27,843,770	$27,015,432	$27,808,200
Liabilities and Equity			
Liabilities:			
Noninterest-bearing demand deposits	$7,908,005	$7,316,277	$7,145,323
Interest-bearing deposits:			
Transaction	9,698,404	9,934,051	9,266,560
Savings	349,629	323,006	316,375
Time	2,615,826	2,695,993	2,767,972
Total deposits	20,571,864	20,269,327	19,496,230
Funds purchased	705,573	868,081	747,165
Repurchase agreements	1,072,375	813,454	845,106
Other borrowings	1,231,662	1,040,353	2,481,644
Subordinated debentures	347,890	347,802	347,716
Accrued interest, taxes and expense	100,227	194,870	175,677
Derivative contracts	297,851	247,185	521,991
Due on unsettled securities purchases	124,537	45,740	49,369
Other liabilities	144,145	133,647	150,420
Total liabilities	24,596,124	23,960,459	24,815,318
Shareholders' equity:			

Common stock ($.00006 par value; 2,500,000,000 shares authorized; shares issued and outstanding: June 30, 2014 – 73,896,899 ; December 31, 2013 – 73,163,275; June 30, 2013 – 73,029,101)	4	4	4
Capital surplus	938,665	898,586	884,238
Retained earnings	2,447,118	2,349,428	2,253,810
Treasury stock (shares at cost: June 30, 2014 – 4,610,898 ; December 31, 2013 – 4,304,782; June 30, 2013 – 4,289,893)	(222,686)	(202,346)	(199,429)
Accumulated other comprehensive income (loss)	49,416	(25,623)	19,014
Total shareholders’ equity	3,212,517	3,020,049	2,957,637
Non-controlling interests	35,129	34,924	35,245
Total equity	3,247,646	3,054,973	2,992,882
Total liabilities and equity	$27,843,770	$27,015,432	$27,808,200

See accompanying notes to consolidated financial statements.

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

	Common Stock		Capital Surplus	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Non-Controlling Interests	Total Equity
	Shares	Amount			Shares	Amount				
Balance, December 31, 2012	72,415	$4	$859,278	$2,137,541	4,088	$(188,883)	$149,920	$2,957,860	$35,821	$2,993,681
Net income	—	—	—	167,895	—	—	—	167,895	1,052	168,947
Other comprehensive loss	—	—	—	—	—	—	(130,906)	(130,906)	—	(130,906)
Issuance of shares for equity compensation	614	—	23,425	—	202	(10,546)	—	12,879	—	12,879
Tax effect from equity compensation, net	—	—	178	—	—	—	—	178	—	178
Stock-based compensation	—	—	1,357	—	—	—	—	1,357	—	1,357
Cash dividends on common stock	—	—	—	(51,626)	—	—	—	(51,626)	—	(51,626)
Capital calls and distributions, net	—	—	—	—	—	—	—	—	(1,628)	(1,628)
Balance, June 30, 2013	73,029	$4	$884,238	$2,253,810	4,290	$(199,429)	$19,014	$2,957,637	$35,245	$2,992,882
Balances at December 31, 2013	73,163	$4	$898,586	$2,349,428	4,305	$(202,346)	$(25,623)	$3,020,049	$34,924	$3,054,973
Net income	—	—	—	152,485	—	—	—	152,485	1,287	153,772
Other comprehensive income	—	—	—	—	—	—	75,039	75,039	—	75,039
Issuance of shares for equity compensation	734	—	10,964	—	306	(20,340)	—	(9,376)	—	(9,376)
Tax effect from equity	—	—	7,333	—	—	—	—	7,333	—	7,333

compensation, net										
Stock-based compensation	—	—	21,782	—	—	—	—	21,782	—	21,782
Cash dividends on common stock	—	—	—	(54,795)	—	—	—	(54,795)	—	(54,795)
Capital calls and distributions, net	—	—	—	—	—	—	—	—	(1,082)	(1,082)
Balance, June 30, 2014	73,897	$4	$938,665	$2,447,118	4,611	$(222,686)	$49,416	$3,212,517	$35,129	$3,247,646

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Six Months Ended June 30,	
	2014	2013
Cash Flows From Operating Activities:		
Net income	$153,772	$168,947
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	—	(8,000)
Change in fair value of mortgage servicing rights	10,905	(16,973)
Unrealized losses (gains) from derivative contracts	(1,371)	6,137
Tax effect from equity compensation, net	(7,333)	(178)
Change in bank-owned life insurance	(4,380)	(5,462)
Stock-based compensation	6,710	1,357
Depreciation and amortization	26,090	27,634
Net amortization of securities discounts and premiums	28,279	32,867
Net realized gains on financial instruments and other assets	(2,021)	(9,784)
Net gain on mortgage loans held for sale	(29,733)	(47,998)
Mortgage loans originated for sale	(1,818,145)	(2,152,353)
Proceeds from sale of mortgage loans held for sale	1,721,995	2,201,324
Capitalized mortgage servicing rights	(21,816)	(25,932)
Change in trading and fair value option securities	(28,867)	100,889
Change in receivables	4,608	(23,890)
Change in other assets	45,929	38,648
Change in accrued interest, taxes and expense	(124,579)	(1,001)
Change in other liabilities	23,629	(13,407)
Net cash provided by (used in) operating activities	(16,328)	272,825
Cash Flows From Investing Activities:		
Proceeds from maturities or redemptions of investment securities	34,074	99,020
Proceeds from maturities or redemptions of available for sale securities	805,216	1,689,165
Purchases of investment securities	(9,593)	(217,160)
Purchases of available for sale securities	(1,597,081)	(3,173,504)
Proceeds from sales of available for sale securities	1,340,190	1,837,970
Change in amount receivable on unsettled securities transactions	3,149	28,905
Loans originated, net of principal collected	(604,979)	(130,381)
Net payments on derivative asset contracts	(117,280)	(229,888)
Acquisitions, net of cash acquired	(21,898)	—
Proceeds from disposition of assets	52,871	53,191
Purchases of assets	(56,778)	(115,250)
Net cash used in investing activities	(172,109)	(157,932)
Cash Flows From Financing Activities:		
Net change in demand deposits, transaction deposits and savings accounts	382,704	(1,482,810)
Net change in time deposits	(80,167)	(200,020)
Net change in other borrowed funds	223,824	1,311,756
Net proceeds on derivative liability contracts	119,269	220,024
Net change in derivative margin accounts	(218,491)	114,958
Change in amount due on unsettled security transactions	78,797	(248,084)
Issuance of common and treasury stock, net	(9,376)	12,879

Tax effect from equity compensation, net	7,333	178
Dividends paid	(54,795)	(51,626)
Net cash provided by (used in) financing activities	449,098	(322,745)
Net increase (decrease) in cash and cash equivalents	260,661	(207,852)
Cash and cash equivalents at beginning of period	1,087,213	1,286,239
Cash and cash equivalents at end of period	$1,347,874	$1,078,387
Cash paid for interest	$32,535	$36,615
Cash paid for taxes	$50,187	$73,527
Net loans and bank premises transferred to repossessed real estate and other assets	$38,797	$52,967
Residential mortgage loans guaranteed by U.S. government agencies that became eligible for repurchase during the period	$63,898	$55,938
Conveyance of other real estate owned guaranteed by U.S. government agencies	$18,312	$22,527
Issuance of shares in settlement of accrued executive compensation	$15,072	$—

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

(1) Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of BOK Financial Corporation ("BOK Financial" or "the Company") have been prepared in accordance with accounting principles for interim financial information generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The unaudited consolidated financial statements include accounts of BOK Financial and its subsidiaries, principally BOKF, NA ("the Bank"), BOSC, Inc., The Milestone Group, Inc. and Cavanal Hill Investment Management Inc. Operating divisions of the Bank include Bank of Albuquerque, Bank of Arizona, Bank of Arkansas, Bank of Oklahoma, Bank of Texas, Colorado State Bank and Trust, Bank of Kansas City, BOK Financial Mortgage and the TransFund electronic funds network.

Certain reclassifications have been made to conform to the current period presentation.

The financial information should be read in conjunction with BOK Financial's 2013 Form 10-K filed with the Securities and Exchange Commission, which contains audited financial statements. Amounts presented as of December 31, 2013 have been derived from the audited financial statements included in BOK Financial's 2013 Form 10-K but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the six-month period ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

Newly Adopted and Pending Accounting Policies

Financial Accounting Standards Board ("FASB")

FASB Accounting Standards Update No. 2013-08, Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements (ASU 2013-08)

On June 7, 2013, the FASB issued ASU 2013-08 which amends the criteria an entity would need to meet to qualify as an investment company under ASC 946, Financial Services - Investment Companies. ASU 2013-08 also provides additional implementation guidance for the assessment and requires additional disclosures. ASU 2013-08 was effective prospectively during interim and annual periods beginning after December 15, 2013, with early adoption prohibited. The adoption of ASU 2013-08 did not have a material impact on the Company's consolidated financial statements.

FASB Accounting Standards Update No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects (ASU 2014-01)

On January 15, 2014, the FASB issued ASU 2014-01 to simplify the amortization method an entity uses and modify the criteria to elect a measurement and presentation alternative, including the simplified amortization method, for certain investments in qualified affordable housing projects. This alternative permits the entity to present the investment's performance net of the related tax benefits as part of income tax expense. ASU 2014-01 is effective for the Company for interim and annual periods beginning after December 15, 2014. Early adoption is permitted. Adoption of ASU 2014-01 may affect income statement presentation, but otherwise is not expected to have a material impact on the Company's consolidated financial statements.

FASB Accounting Standards Update No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure

On January 17, 2014, the FASB issued ASU 2014-04 to clarify when an entity is considered to have obtained physical possession (from an in-substance possession or foreclosure) of a residential real estate property collateralizing a mortgage loan. Upon physical possession of such real property, an entity is required to reclassify the nonperforming mortgage loan to other real estate owned. ASU 2014-04 is effective for the Company for interim and annual periods beginning after December 15, 2014. Early adoption is permitted. Adoption of ASU 2014-04 is not expected to have a material impact on the Company's consolidated financial statements.

(2) Securities
Trading Securities

The fair value and net unrealized gain (loss) included in trading securities is as follows (in thousands):