BOK FINANCIAL CORP ET AL
Form 10-Q
May 08, 2012

As filed with the Securities and Exchange Commission on May 8, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from _____________ to ______________

Commission File No. 0-19341

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

Oklahoma (State or other jurisdiction of Incorporation or Organization)	73-1373454 (IRS Employer Identification No.)
Bank of Oklahoma Tower P.O. Box 2300 Tulsa, Oklahoma (Address of Principal Executive Offices)	74192 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x 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 x

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,Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 68,116,893 shares of common stock ($.00006 par value) as of March 31, 2012.

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

Performance Summary

BOK Financial Corporation ("the Company") reported net income of $83.6 million or $1.22 per diluted share for the first quarter of 2012, compared to $64.8 million or $0.94 per diluted share for the first quarter of 2011 and $67.0 million or $0.98 per diluted share for the fourth quarter of 2011.

Highlights of the first quarter of 2012 included:

- Net interest revenue totaled $173.6 million for the first quarter of 2012, compared to $170.6 million for the first quarter of 2011 and $171.5 million for the fourth quarter of 2011. Net interest margin was 3.19% for the first quarter of 2012, 3.47% for the first quarter of 2011 and 3.20% for the fourth quarter of 2011. The decrease in net interest margin compared with the first quarter of 2011 was largely due to lower yield on available for sale securities, partially offset by growth in average earning assets.

- Fees and commissions revenue totaled $144.3 million for the first quarter of 2012 compared to $123.3 million for the first quarter of 2011 and $131.8 million for the fourth quarter of 2011. The increase in fees and commissions revenue was primarily due to higher mortgage-banking revenue, partially offset by lower interchange fees.

- Operating expenses, excluding changes in the fair value of mortgage servicing rights, totaled $192.4 million, up $10.8 million over the first quarter of 2011 and down $21.6 million compared to the fourth quarter of 2011. Personnel costs were up $14.8 million and non-personnel expenses were down $4.0 million compared to the first quarter of 2011.

- No provision for credit losses was recorded in the first quarter of 2012 compared to a $6.3 million provision for credit losses in the first quarter of 2011 and a $15.0 million negative provision in the fourth quarter of 2011. Net loans charged off totaled $8.5 million or 0.30% of average loans on an annualized basis for the first quarter of 2012 compared to $10.3 million or 0.39% of average loans on an annualized basis in the first quarter of 2011 and $9.5 million or 0.34% on an annualized basis in the fourth quarter of 2011.

- The combined allowance for credit losses totaled $254 million or 2.20% of outstanding loans at March 31, 2012, down from $263 million or 2.33% of outstanding loans at December 31, 2011. Nonperforming assets totaled $336 million or 2.87% of outstanding loans and repossessed assets at March 31, 2012 compared to $357 million or 3.13% of outstanding loans and repossessed assets at December 31, 2011.

- Outstanding loan balances were $11.6 billion at March 31, 2012, up $308 million over December 31, 2011. Commercial loan balances increased $371 million over December 31, 2011. Consumer loans decreased $38 million, commercial real estate loans decreased $16 million and residential mortgage loans decreased $9.6 million.

- Period-end deposits totaled $18.5 billion at March 31, 2012 compared to $18.8 billion at December 31, 2011. Demand deposit accounts increased $389 million offset by a $446 million decrease in interest-bearing transaction accounts and a $216 million decrease in time deposits.

- The tangible common equity ratio was 9.75% at March 31, 2012 and 9.56% at December 31, 2011. The tangible common equity ratio is a non-GAAP measure of capital strength used by the Company and investors based on shareholders' equity as defined by generally accepted accounting principles in the United States of America ("GAAP") minus intangible assets and equity that does not benefit common shareholders.

- The Company and its subsidiary bank continue to exceed the regulatory definition of well capitalized. The Company's Tier 1 capital ratios as defined by banking regulations were 13.03% at March 31, 2012 and 13.27% at December 31, 2011.

- The Company paid a cash dividend of $23 million or $0.33 per common share during the first quarter of 2012. On April 24, 2012, the board of directors declared a cash dividend of $0.38 per common share payable on or about May 29, 2012 to shareholders of record as of May 15, 2012.

Results of Operations

Net Interest Revenue and Net Interest Margin

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

Net interest revenue totaled $173.6 million for the first quarter of 2012 compared to $170.6 million for the first quarter 2011 and $171.5 million for the fourth quarter of 2011. Net interest margin was 3.19% for the first quarter of 2012, 3.47% for the first quarter of 2011 and 3.20% for the fourth quarter of 2011.

The tax-equivalent yield on earning assets was 3.64% for the first quarter of 2012, down 46 basis points from the first quarter of 2011. The available for sale securities portfolio yield decreased 67 basis points to 2.50%. Cash flows from these securities were then reinvested at current lower rates. In addition, loan yields decreased 25 basis points to 4.50% due to a combination of narrowing credit spreads and changes in market interest rates. Funding costs were down 17 basis points compared to the first quarter of 2011. Interest-bearing deposits decreased 17 basis points and the cost of other borrowed funds decreased 12 basis points. The benefit to net interest margin from earning assets funded by non-interest bearing liabilities was 18 basis points in the first quarter of 2012 compared to 17 basis points in the first quarter of 2011.

Average earning assets for the first quarter of 2012 increased $1.7 billion or 8% over first quarter of 2011. Average loans, net of allowance for loan losses, increased $826 million primarily due to growth in average commercial and residential mortgage loans. The average balance of available for sale securities, which consist largely of U.S. government agency issued residential mortgage-backed securities, increased $571 million. We purchased these securities to supplement earnings, especially in a period of declining loan demand, and to manage interest rate risk.

Average deposits increased $937 million over the first quarter of 2011, including a $1.6 billion increase in average demand deposit balances, partially offset by a $371 million decrease in average time deposits and a $313 million decrease in average interest-bearing transaction accounts. Average borrowed funds increased $565 million compared over the first quarter of 2011.

Net interest margin decreased 1 basis point from the fourth quarter of 2011. Yield on average earning assets decreased 5 basis points to 3.64%. Yield on the available for sale securities portfolio increased 12 basis points due to slower prepayment speeds on residential mortgage-backed securities which reduced premium amortization. Yield on the loan portfolio decreased 15 basis points. The cost of interest-bearing liabilities decreased 3 basis points compared to the previous quarter.

Average earning assets were up $192 million over the fourth quarter of 2011. Average outstanding loans, net of allowance for loan losses, increased $298 million due largely to growth in average commercial loan balances. Average fair value option securities decreased $105 million and available for sale securities were essentially flat compared to the prior quarter. Average deposits increased by $85 million during the first quarter of 2012, including a $259 million increase in demand deposits and a $43 million increase in interest-bearing transaction accounts, partially offset by a $239 million decrease in time deposits. The average balances of borrowed funds increased $119 million.

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

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

Table 1 – Volume / Rate Analysis
(In thousands)

	Three Months Ended March 31, 2012 / 2011		
		Change Due To[1]	
	Change	Volume	Yield / Rate
Tax-equivalent interest revenue:			
Funds sold and resell agreements	$ (2)	$ (2)	$ –
Trading securities	(130)	246	(376)
Investment securities:			
Taxable securities	2,089	2,220	(131)
Tax-exempt securities	(665)	(670)	5
Total investment securities	1,424	1,550	(126)
Available for sale securities:			
Taxable securities	(9,358)	5,652	(15,010)
Tax-exempt securities	(13)	68	(81)
Total available for sale securities	(9,371)	5,720	(15,091)
Fair value option securities	257	1,243	(986)
Residential mortgage loans held for sale	429	584	(155)
Loans	3,285	9,464	(6,179)
Total tax-equivalent interest revenue	(4,108)	18,805	(22,913)
Interest expense:			
Transaction deposits	(3,758)	(171)	(3,587)
Savings deposits	(45)	29	(74)
Time deposits	(2,741)	(1,544)	(1,197)
Funds purchased	(8)	162	(170)
Repurchase agreements	(776)	74	(850)
Other borrowings	542	(609)	1,151
Subordinated debentures	(25)	5	(30)
Total interest expense	(6,811)	(2,054)	(4,757)
Tax-equivalent net interest revenue	2,703	$ 20,859	$ (18,156)
Change in tax-equivalent adjustment	227		
Net interest revenue	$ 2,930		

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 $140.4 million for the first quarter of 2012 compared to $117.6 million for the first quarter of 2011 and $138.0 million for the fourth quarter of 2011. Fees and commissions revenue increased $21.1 million over the first quarter of 2011. Net gains on securities, derivatives and other assets increased $1.7 million. Other-than-temporary impairment charges recognized in earnings in the first quarter of 2012 were $877 thousand less than charges recognized in the first quarter of 2011.

Other operating revenue increased $2.4 million over the fourth quarter of 2011. Fees and commissions revenue increased $12.5 million. Net gains on securities, derivatives and other assets decreased $10.2 million. Other-than-temporary impairment charges recognized in earnings were $938 thousand more than charges recognized in the fourth quarter of 2011.

Table 2 – Other Operating Revenue
(In thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Increase (Decrease)	% Increase (Decrease)	Three Months Ended Dec. 31, 2011	Increase (Decrease)	% Increase (Decrease)
Brokerage and trading revenue	$31,111	$25,376	$5,735	23 %	$25,629	$5,482	21 %
Transaction card revenue	25,430	28,445	(3,015)	(11)	25,960	(530)	(2)
Trust fees and commissions	18,438	18,422	16	–	17,865	573	3
Deposit service charges and fees	24,379	22,480	1,899	8	24,921	(542)	(2)
Mortgage banking revenue	33,078	17,356	15,722	91	25,438	7,640	30
Bank-owned life insurance	2,871	2,863	8	–	2,784	87	3
Other revenue	9,027	8,332	695	8	9,189	(162)	(2)
Total fees and commissions revenue	144,334	123,274	21,060	17	131,786	12,548	10
Gain (loss) on other assets, net	(356)	(68)	(288)	424	1,897	(2,253)	(119)
Loss on derivatives, net	(2,473)	(2,413)	(60)	2	(174)	(2,299)	1,321
Gain (loss) on fair value option securities, net	(1,733)	(3,518)	1,785	(51)	222	(1,955)	(881)
Gain on available for sale securities	4,331	4,902	(571)	(12)	7,080	(2,749)	(39)
Total other-than-temporary impairment	(505)	–	(505)	N/A	(1,037)	532	(51)

Portion of loss recognized in (reclassified from) other comprehensive income	(3,217)	(4,599)	1,382	(30)	(1,747)	(1,470)	84
Net impairment losses recognized in earnings	(3,722)	(4,599)	877	(19)	(2,784)	(938)	34
Total other operating revenue	$140,381	$117,578	$22,803	19 %	$138,027	$2,354	2 %

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 45% of total revenue for the first quarter of 2012, excluding provision for credit losses and gains and losses on other assets, securities and derivatives. We believe that a variety of fee revenue sources provide an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile. We expect continued growth in other operating revenue through offering new products and services and by expanding into markets outside of Oklahoma. However, current and future economic conditions, regulatory constraints, increased competition and saturation in our existing markets could affect the rate of future increases.

Brokerage and trading revenue includes revenues from securities trading, retail brokerage, customer derivatives and investment banking. Brokerage and trading revenue increased $5.7 million or 23% over the first quarter of 2011. Securities trading revenue totaled $15.9 million for the first quarter of 2012, up $1.3 million over the first quarter of 2011. Securities trading revenue represents net realized and unrealized gains primarily related to sales of U.S. government securities, residential mortgage-backed securities guaranteed by U.S. government agencies and municipal securities to institutional customers, activities which we believe will be permitted under the Volcker Rule of the Dodd-Frank Act.

Revenue earned from retail brokerage transactions increased $446 thousand or 6% over the first quarter of 2011 to $7.6 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 growth was primarily due to increased market volatility which increased customer demand.

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 $4.6 million for the first quarter of 2012, up $3.5 million over the first quarter of 2011. Customer hedging revenue in the first quarter of 2011 was reduced by a $2.6 million credit loss on certain interest rate derivative contracts. Revenue from to be announced ("TBA") residential mortgage backed securities which are classified as interest rate derivative contracts sold to our mortgage banking customers increased $1.6 million over the first quarter of 2011, excluding last year's credit loss. Revenue from energy derivative contracts decreased $1.2 million compared to the first quarter of 2011.

Investment banking includes fees earned upon completion of underwriting and financial advisory service which totaled $3.0 million for the first quarter of 2012, a $486 thousand increase over the first quarter of 2011 related to the timing and volume of completed transactions.

Brokerage and trading revenue increased $5.5 million over the fourth quarter of 2011. Customer derivative revenues increased $4.9 million including the effect of a $1.7 million credit loss on unsettled contracts with MF Global recognized in the fourth quarter. Revenues from TBA securities sold to our mortgage banking customers were up $2.4 million. Retail brokerage fees were up $1.3 million over the fourth quarter of 2011, partially offset by a $598 thousand decrease in investment banking revenues. Securities trading revenue was largely unchanged compared to the fourth quarter of 2011.

We continue to monitor the on-going development of rules to implement the Volcker Rule in Title VI of the Dodd-Frank Act which prohibits banking entities from engaging in proprietary trading as defined by the Dodd-Frank Act and which restricts sponsorship of, or investment in, private equity funds and hedge funds, subject to limited exceptions. On October 11, 2011, regulators of financial institutions released a proposal for implementation of the Volcker Rule scheduled to take effect by July 21, 2012. On April 19, 2012 the Federal Reserve Board issued a statement clarifying that banking entities have until July 21, 2014 (two years from the July 21, 2012 effective date of the Volcker Rule) to conform all of their activities and investments to the requirements of the Volcker Rule. During this two year conformance period, banking entities are required to engage in good faith planning efforts, to enable them to conform their activities and investments to Volcker Rule requirements. Based on the proposed rules, we expect the Company's trading activity to be largely unaffected, as our trading activities are all done for the benefit of customers and securities traded are mostly exempted under the proposed rules. The Company's private equity investment activity may be curtailed, but is not expected to result in a material impact to the Company's financial statements. Final regulations will likely impose additional operating and compliance costs as presently proposed.

Title VII of the Dodd-Frank Act subjects nearly all derivative transactions to Commodity Futures Trading Commission ("CFTC") or Securities and Exchange Commission ("SEC") regulations. Title VII, among other things, imposes registration, recordkeeping, reporting, capital and margin, as well as business conduction requirements on swap dealers and major swap participants. The CFTC and SEC delayed the effective dates of a large portion of the proposed regulations under Title VII until December 31, 2012. On April 18, 2012, the CFTC and SEC both approved interim final rules on the definition of swaps dealers. The interim final rule has not yet been made publicly available by the CFTC and the SEC. Based on summaries of the interim final rule issued by the Commissions, however, we currently understand that the interim final rule provides that entities transacting less than $8 billion in swaps over a 12 month period, or a de minimis volume, will be exempt from the definition of swaps dealer, that swaps entered into for hedging purposes or in connection with originating a loan will not be considered dealing activity, and that the rule allows for “limited purpose” swap dealers, subject to registration and regulation as swap dealers only for specified categories of swaps. If these descriptions of the interim final rule are accurate, if the interim final rule does not contain other provisions that would negate or limit the foregoing elements of the rule, and if the interim final rule goes into effect as approved by the Commissions, then the Company anticipates that one or more of its subsidiaries may be required to register as a “limited purpose swap dealer” by December 31, 2012 with the CFTC, and that, though the ultimate impact of Title VII remains uncertain, its full implementation is likely not to impose significantly higher compliance costs on the Company.

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 first quarter of 2012 decreased $3.0 million or 11% compared to the first quarter of 2011. Revenues from the processing of transactions on behalf of the members of our TransFund electronic funds transfer ("EFT") network totaled $13.3 million, up $1.3 million or 11% over the first quarter of 2011, due primarily to increased transaction volumes. Merchant services fees paid by customers for account management and electronic processing of transactions totaled $7.9 million, largely unchanged compared to the prior year.

Revenue from interchange fees paid by merchant banks for transactions processed from debit cards issued by the Company totaled $4.2 million for the first quarter of 2012 compared to $8.6 million for the first quarter of 2011. This decrease was primarily due to the impact of interchange fee regulations, commonly referred to as the Durbin Amendment, which became effective on October 1, 2011, partially offset by increased transaction volumes. Our experience in the first quarter of 2012 was consistent with our previously disclosed expectation of a decline of $20 million to $25 million annually in our transaction card revenue based on the final rule.

Transaction card revenue decreased $530 thousand compared to the fourth quarter of 2011. Revenues from processing transactions on behalf of members of our TransFund EFT network decreased $468 thousand, merchant services fees decreased $121 thousand and revenue from interchange fees paid by merchant banks for transactions processed from debit cards issued by the Company increased $59 thousand.

Trust fees and commissions totaled $18.4 million, consistent with the first quarter of 2011. We continue to voluntarily waive administration fees on the Cavanal Hill money market funds in order to maintain positive yields on these funds in the current low short-term interest rate environment. Waived fees totaled $2.6 million for the first quarter of 2012, $1.2 million for the first quarter of 2011 and $2.4 million for the fourth quarter of 2011. The fair value of trust assets administered by the Company totaled $35.1 billion at March 31, 2012, $32.0 billion at March 31, 2011 and $34.4 billion at December 31, 2011. Trust fees and commissions increased $573 thousand over the fourth quarter of 2011 primarily due to an increase in the fair value of trust assets and the timing of fees.

Deposit service charges and fees increased $1.9 million or 8% over the first quarter of 2011. Commercial account service charge revenue totaled $8.5 million, up $1.3 million or 17% over the prior year. The average earnings credit, a non-cash method for commercial customers to avoid incurring charges for deposit services based on account balances, decreased 25 basis points compared to the prior year consistent with the movement in market interest rates. Overdraft fees totaled $13.5 million for the first quarter of 2012, up $478 thousand or 4% over the first quarter of 2011. Service charges on deposit accounts with a standard monthly fee increased $187 thousand or 13% to $1.6 million.

Deposit service charges and fees were down $542 thousand compared to the previous quarter. Overdraft fees were down $1.9 million, partially offset by a $1.3 million increase in commercial account service charges. Service charges on deposit accounts with a standard monthly fee were flat compared to the fourth quarter of 2011.

Mortgage banking revenue grew by $15.7 million over the first quarter of 2011. Revenue from originating and marketing residential mortgage loans totaled $23.1 million, up $15.6 million or 207% over the first quarter of 2011. The unpaid principal balance of residential mortgage loans held for sale increased $109 million or 90% and unfunded mortgage loan commitments increased $143 million or 90%. Mortgage loans funded for sale totaled $746 million in the first quarter of 2012 compared to $420 million in the first quarter of 2011. A 93 basis point decrease in mortgage loan interest rates and expanded government programs such as Home Affordable Refinance Program ("HARP II") have stimulated mortgage loan production. In addition, the Company has increased the number of mortgage loan officers by approximately 18% during the first quarter of 2011, focusing on growth in Texas, Colorado and Kansas/Missouri markets. We have expanded our mortgage banking operations to include correspondent lending. All mortgages originated by correspondent lenders are evaluated for compliance with our underwriting standards. Mortgage loans funded for sale of $746 million includes $48 million originated by correspondent lenders. Mortgage servicing revenue increased $171 thousand or 2% over the first quarter of 2011 to $10.0 million. The outstanding principal balance of residential mortgage loans serviced for others totaled $11.4 billion, a $176 million decrease compared to the first quarter 2011.

Mortgage banking revenue increased $7.6 million over the fourth quarter of 2011 due primarily to a $7.7 million increase in revenue from originating and marketing residential mortgage loans. Residential mortgage loans funded for sale decreased $55 million compared to the previous quarter. The unpaid principal balance of residential mortgage loans held for sale increased $53 million or 30% over the fourth quarter of 2011 and unfunded mortgage loan commitments increased $113 million or 59%.

Table 3 – Mortgage Banking Revenue
(In thousands)

	Three Months Ended March 31, 2012	2011	Increase (Decrease)	% Increase (Decrease)	Three Months Ended Dec. 31, 2011	Increase (Decrease)	% Increase (Decrease)
Originating and marketing revenue	$23,081	$7,529	$15,552	207 %	$15,342	$7,739	50 %
Servicing revenue	9,997	9,827	170	2	10,096	(99)	(1)
Total mortgage revenue	33,078	$17,356	$15,722	91 %	$25,438	$7,640	30 %
Residential mortgage loans funded for sale	$746,241	$419,684	$326,557	78 %	$753,215	$(6,974)	(1)%
Residential mortgage loan refinances to total funded		67 %			66 %		

	March 31, 2012	2011	Increase	% Increase	Dec. 31, 2011	Increase	% Increase
Outstanding principal balance of residential mortgage loans serviced for others	$11,378,806	$11,202,626	$176,180	2 %	$11,300,986	$77,820	1 %

Net gains on securities, derivatives and other assets

The Company sold $892 million of U.S government agency mortgage-backed securities held as available for sale and recognized a gain of $11.7 million in the first quarter of 2012. We recognized $4.9 million of gains on sales of $793 million of available for sale securities in the first quarter of 2011 and $7.1 million of net gains on sales of $667 million of available for sale securities in the fourth quarter of 2011. In each of these periods, securities were sold either because they had reached their expected maximum potential return or to mitigate exposure to prepayment risk.

We also sold $107 million of privately issued residential mortgage-backed securities at a $7.4 million loss in March 2012. The fair value of these securities increased nearly 10% between December 31, 2011 and February 29, 2012. In response to this increase in fair value, management evaluated all privately-issued residential mortgage-backed securities to determine which securities we did not intend to sell based on their expected performance. All securities which we believe to have reached their expected maximum potential were sold in March. We do not intend to sell the remaining $371 million of privately issued residential mortgage-backed 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 5 to the Consolidated Financial Statements. As benchmark mortgage interest rates increase, prepayment speeds slow and the value of our mortgage servicing rights increase. As benchmark mortgage rates fall, prepayment speeds increase and the value of our mortgage servicing rights decrease.

Changes in the fair value of mortgage servicing rights are highly dependent on changes in rates offered to borrowers or primary mortgage rates and assumptions about servicing revenue, servicing costs and discount rates. Changes in the fair value of residential mortgage backed securities and derivative contracts are highly dependent on changes in rates required by investors or secondary mortgage rates. 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 rate can cause significant quarterly earnings volatility as shown in Table 4.

Table 4 following shows the relationship between changes in the fair value of mortgage servicing rights and financial instruments designated as an economic hedge.

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

	Three Months Ended		
	March 31, 2012	Dec. 31, 2011	March 31, 2011
Gain (loss) on mortgage hedge derivative contracts, net	$ (2,445)	$ 121	$ (2,419)
Gain (loss) on fair value option securities, net	(2,393)	222	(3,518)
Gain (loss) on economic hedge of mortgage servicing rights	(4,838)	343	(5,937)
Gain (loss) on change in fair value of mortgage servicing rights	7,127	(5,261)	3,129
Gain (loss) on changes in fair value of mortgage servicing rights, net of economic hedges	$ 2,289	$ (4,918)	$ (2,808)
Net interest revenue on mortgage trading securities	$ 3,165	$ 4,436	$ 3,058

As more fully discussed in Note 2 to the Consolidated Financial Statements, we recognized other-than-temporary impairment losses on certain privately issued residential mortgage-backed securities of $3.7 million during the first quarter of 2012. These losses primarily related to additional declines in projected cash flows as a result of increased home price depreciation on the remaining privately issued residential mortgage-backed securities that we do not intend to sell. We recognized other-than-temporary impairment losses in earnings of $4.6 million in the first quarter of 2011 and $2.8 million in the fourth quarter of 2011.

Other Operating Expense

Other operating expense for the first quarter of 2012 totaled $185.2 million, up $6.8 million or 4% over the first quarter of 2011. Changes in the fair value of mortgage servicing rights decreased operating expense $7.1 million in the first quarter of 2012 and $3.1 million in the first quarter of 2011. Excluding changes in the fair value of mortgage servicing rights, operating expenses were up $10.8 million or 6% over the first quarter of 2011. Personnel expenses increased $14.8 million or 15%. Non-personnel expenses decreased $4.0 million or 5%.

Excluding changes in the fair value of mortgage servicing rights, operating expenses were down $21.6 million compared to the previous quarter. Personnel expenses decreased $6.4 million and non-personnel expenses decreased $15.2 million.

Table 5 – Other Operating Expense
(In thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Increase (Decrease)	% Increase (Decrease)	Three Months Ended Dec. 31, 2011	Increase (Decrease)	% Increase (Decrease)
Regular compensation	$63,132	$60,804	$2,328	4 %	$63,759	$(627)	(1)%
Incentive compensation:							
Cash-based	26,241	19,555	6,686	34	27,882	(1,641)	(6)
Stock-based	6,625	3,431	3,194	93	14,598	(7,973)	(55)
Total incentive compensation	32,866	22,986	9,880	43	42,480	(9,614)	(23)
Employee benefits	18,771	16,204	2,567	16	14,890	3,881	26
Total personnel expense	114,769	99,994	14,775	15	121,129	(6,360)	(5)
Business promotion	4,388	4,624	(236)	(5)	5,868	(1,480)	(25)
Professional fees and services	7,599	7,458	141	2	7,664	(65)	(1)
Net occupancy and equipment	16,023	15,604	419	3	16,826	(803)	(5)
Insurance	3,866	6,186	(2,320)	(38)	3,636	230	6
Data processing & communications	22,144	22,503	(359)	(2)	26,599	(4,455)	(17)
Printing, postage and supplies	3,311	3,082	229	7	3,637	(326)	(9)
Net losses & operating expenses of repossessed assets	2,245	6,015	(3,770)	(63)	6,180	(3,935)	(64)
	575	896	(321)	(36)	895	(320)	(36)

Amortization of intangible assets							
Mortgage banking costs	7,573	6,471	1,102	17	10,154	(2,581)	(25)
Change in fair value of mortgage servicing rights	(7,127)	(3,129)	(3,998)	128	5,261	(12,388)	(235)
Other expense	9,871	8,745	1,126	13	11,348	(1,477)	(13)
Total other operating expense	$185,237	$178,449	$6,788	4%	$219,197	$(33,960)	(15)%
Number of employees (full-time equivalent)	4,630	4,533	97	2%	4,511	119	3%

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 $2.3 million or 4% over the first quarter of 2011 primarily due to standard annual merit increases which were effective in the second quarter of 2011. In addition, the Company changed the timing of annual merit increases to March 1 from April 1 for a majority of its staff beginning in 2012.

Incentive compensation increased $9.9 million or 43% over the first quarter of 2011. Cash-based incentive compensation plans are either intended to provide current rewards to employees who generate long-term business opportunities for the Company based on growth in loans, deposits, customer relationships and other measurable metrics or intended to compensate employees with commissions on completed transactions. Total cash-based incentive compensation increased $6.7 million or 34% compared to the first quarter of 2011. Cash-based incentive compensation related to brokerage and trading revenue was up $6.3 million over the first quarter of 2011. Cash-based incentive compensation for other business lines was essentially flat compared to the first quarter of 2011.

The Company also provides stock-based incentive compensation plans. Stock-based compensation plans include both equity and liability awards. Compensation expense for equity awards decreased $532 thousand compared to the first quarter of 2012. Expense for equity awards is based on the grant-date fair value of the awards and is unaffected by subsequent changes in fair value. Stock-based compensation expense also includes incentive compensation that will ultimately be settled in cash indexed to investment performance or changes in earnings per share. Compensation expense for liability awards increased $3.7 million over the first quarter of 2011 primarily due to a $3.0 million increase related to the BOK Financial Corp. True-Up Plan. Approved by shareholders on April 26, 2011, the True-Up Plan is designed to adjust annual and long-term performance-based incentive compensation for certain senior executives either upward or downward based on the earnings per share performance and compensation of comparable senior executives at peer banks.

Employee benefit expense increased $2.6 million or 16% over the first quarter of 2011 due primarily to increased medical insurance costs and payroll taxes.

Personnel expense decreased $6.4 million compared to the fourth quarter of 2011 due primarily to reduced incentive compensation expense, partially offset by a seasonal increase in payroll taxes. Incentive compensation decreased $9.6 million. Stock-based incentive compensation decreased $8.0 million due primarily to the timing of accruals for the BOK Financial Corporation 2011 True-Up Plan and first quarter performance of BOK Financial stock and other investments. Cash based incentive compensation decreased $1.6 million. Employee benefits expense increased $3.9 million due primarily to seasonal changes in payroll taxes.

Non-personnel operating expenses

Non-personnel operating expenses, excluding changes in the fair value of mortgage servicing rights, decreased $4.0 million compared to the first quarter of 2011. Net losses and operating expenses of repossessed assets decreased $3.8 million compared to the first quarter of 2011. FDIC insurance expense decreased $2.3 million due to the impact of a change to a risk-sensitive assessment based on assets rather than deposits. Mortgage banking costs increased $1.1 million and other expenses increased $1.1 million.

Excluding changes in the fair value of mortgage servicing rights, non-personnel operating expenses decreased $15.2 million compared to the fourth quarter of 2011 across most non-personnel expense categories. Data processing and communications expense decreased $4.5 million due to the favorable resolution of a dispute with a service provider. Net losses and operating expenses of repossessed assets were down $3.9 million due primarily to decreased write-downs and net losses on sales of repossessed assets. Mortgage banking costs were down $2.6 million due primarily to lower foreclosure costs on residential mortgage loans serviced for others.

Income Taxes

Income tax expense was $45.5 million or 35% of book taxable income for the first quarter of 2012 compared to $38.8 million or 37% of book taxable income for the first quarter of 2011 and $37.4 million or 36% of book taxable income for the fourth quarter of 2011. The decrease in the effective tax rate over the first quarter of 2011 was due to the increased utilization of income tax credits and the decrease in the accrual for state uncertain tax positions.

During the first quarter of 2012, the Internal Revenue Service completed an audit of our federal income tax return for the year ended December 31, 2008. No changes were required.

BOK Financial operates in numerous jurisdictions, which requires judgment regarding the allocation of income, expense and earnings under various laws and regulations of each of these taxing jurisdictions. Each jurisdiction may audit our tax returns and may take different positions with respect to these allocations. The reserve for uncertain tax positions was $13 million at March 31, 2012, $12 million at December 31, 2011 and $14 million at March 31, 2011.

Lines of Business

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

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

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

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

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

As shown in Table 6, net income attributable to our lines of business increased $17.0 million over the first quarter of 2011. The increase in net income attributed to our lines of business was due primarily to our Consumer Banking segment. Increased mortgage banking revenue was partially offset by decreased transaction card revenue due to changes as a result of debit card interchange fee revenue effective in the third quarter of 2011. In addition, brokerage and trading revenue attributed mostly to the Wealth Management segment was up and net interest revenue increased for all of our lines of business. Net income attributed to funds management and other also increased $1.8 million over the first quarter of 2011 primarily due to increased gains on securities in excess of other-than-temporary charges and a decrease in operating expenses attributed to the funds management unit. Decreased provision for credit losses in excess of net charge-offs was partially offset by a decline in net interest revenue due to lower interest rates.

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

	Three Months Ended March 31,	
	2012	2011
Commercial banking	$ 33,029	$ 28,733
Consumer banking	19,540	6,518
Wealth management	3,921	4,195
Subtotal	56,490	39,446
Funds management and other	27,125	25,328
Total	$ 83,615	$ 64,774

Commercial Banking

Commercial Banking contributed $33.0 million to consolidated net income in the first quarter of 2012, up $4.3 million or 15% over the first quarter of 2011. Net interest revenue increased $3.4 million or 5% primarily due to a $783 million increase in average loan balances, partially offset by a decrease in the loan yield compared to the first quarter of 2011. Fees and commissions revenue increased $3.3 million or 9%. Other operating expenses were flat compared to the first quarter of 2011.

Table 7 – Commercial Banking
(Dollars in thousands)

	Three Months Ended March 31,		Increase
	2012	2011	(Decrease)
Net interest revenue from external sources	$ 89,731	$ 83,686	$ 6,045
Net interest expense from internal sources	(12,126)	(9,436)	(2,690)
Total net interest revenue	77,605	74,250	3,355
Net loans charged off	6,416	6,776	(360)
Net interest revenue after net loans charged off	71,189	67,474	3,715
Fees and commissions revenue	38,769	35,430	3,339
Gain on financial instruments and other assets, net	44	–	44
Other operating revenue	38,813	35,430	3,383
Personnel expense	24,866	23,227	1,639
Net losses and expenses of repossessed assets	667	4,700	(4,033)
Other non-personnel expense	17,739	17,852	(113)
Corporate allocations	12,672	10,099	2,573
Total other operating expense	55,944	55,878	66
Income before taxes	54,058	47,026	7,032
Federal and state income tax	21,029	18,293	2,736
Net income	$ 33,029	$ 28,733	$ 4,296

Average assets	$ 10,131,453		$ 8,992,933		$ 1,138,520	
Average loans	8,892,639		8,109,495		783,144	
Average deposits	8,403,643		7,494,839		908,804	
Average invested capital	867,690		861,980		5,710	
Return on average assets	1.31	%	1.30	%	1	bp
Return on invested capital	15.31	%	13.52	%	179	bp
Efficiency ratio	48.07	%	50.95	%	(288	) bp
Net charge-offs (annualized) to average loans	0.29	%	0.34	%	(5	) bp

The Company has focused on development of banking services for small business. As part of this initiative, small business banking activities were transferred to the Commercial Banking segment from the Consumer Banking segment in the second quarter of 2011. This transfer increased Commercial Banking net income by approximately $1.0 million in the first quarter of 2012 compared to the first quarter of 2011. Net interest revenue increased $1.6 million. Average deposits increased $469 million and average loans increased $12 million primarily due to the transfer. Other operating revenue increased $810 thousand and operating expenses increased $1.4 million.

Other operating revenue increased $3.4 million or 10% over the first quarter of 2011 due primarily to increased deposit service charge and transaction card revenues. The increase in deposit service charge revenue related to additional service charge revenue from the transfer of the small business banking activities and increased service charges as a result of decreased earnings credit available to our treasury services customers.

Operating expenses were flat compared to the first quarter of 2011. Personnel costs increased $1.6 million or 7% due primarily to increased incentive compensation and standard annual merit increases. Net losses and operating expenses on repossessed assets decreased $4.0 million compared to the first quarter of 2011, primarily due to decreased write-downs and losses on sales of repossessed assets. Other non-personnel expenses were primarily flat compared to the prior year. Corporate expense allocations increased due primarily to increased customer loan and deposit activity.

The average outstanding balance of loans attributed to Commercial Banking was $8.9 billion for the first quarter of 2012, up $783 million over the first quarter of 2011. See the Loans section of Management's Discussion and Analysis of Financial Condition following for additional discussion of changes in commercial and commercial real estate loans which are primarily attributed to the Commercial Banking segment. Net Commercial Banking loans charged off decreased $360 thousand compared to the first quarter of 2011 to $6.4 million or 0.29% of average loans attributed to this line of business on an annualized basis. The decrease in net loans charged off was primarily due to a decrease in losses on commercial real estate loans.

Average deposits attributed to commercial banking were $8.4 billion, up $909 million or 12% over the first quarter of 2011. The transfer of small business banking activities to the Commercial Banking segment contributed $469 million to this increase. Average balances attributed to our energy customers increased $499 million or 67% and average balances attributed to our commercial & industrial loan customers increased $268 million or 9%. Average balances attributed to our treasury services customers decreased $340 million or 16% due primarily to a $220 million or 24% increase in average balances held by states and local municipalities offset by a $561 million or 46% decrease in average balances held by our other treasury services customers.

Consumer Banking

Consumer Banking services are provided through five primary distribution channels: traditional branches, supermarket branches, the 24-hour ExpressBank call center, internet banking and mobile banking.

The Consumer Banking segment contributed $19.5 million to consolidated net income for the first quarter of 2012, up $13.0 million over the first quarter of 2011 due primarily to growth in mortgage banking revenues. Revenue from mortgage loan production grew $15.5 million over the first quarter of 2011. Changes in fair value of our mortgage servicing rights, net of economic hedge, increased net income attributed to Consumer Banking by $1.4 million in the first quarter of 2012 and decreased net income attributed to Consumer Banking by $1.7 million in the first quarter of 2011.

Table 8 – Consumer Banking
(Dollars in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Increase (Decrease)
Net interest revenue from external sources	$ 23,947	$ 18,664	$ 5,283
Net interest revenue from internal sources	6,120	9,405	(3,285)
Total net interest revenue	30,067	28,069	1,998
Net loans charged off	1,432	2,682	(1,250)
Net interest revenue after net loans charged off	28,635	25,387	3,248
Fees and commissions revenue	55,934	43,419	12,515
Loss on financial instruments and other assets, net	(4,838)	(5,937)	1,099
Other operating revenue	51,096	37,482	13,614
Personnel expense	21,123	21,046	77
Net losses and expenses of repossessed assets	215	570	(355)
Change in fair value of mortgage servicing rights	(7,127)	(3,129)	(3,998)
Other non-personnel expense	23,221	20,645	2,576
Corporate allocations	10,318	13,069	(2,751)
	47,750	52,201	(4,451)

Total other operating expense			
Income before taxes	31,981	10,668	21,313
Federal and state income tax	12,441	4,150	8,291
Net income	$ 19,540	$ 6,518	$ 13,022
Average assets	$ 5,819,073	$ 6,120,855	$ (301,782)
Average loans	2,131,316	1,995,123	136,193
Average deposits	5,615,055	5,938,691	(323,636)
Average invested capital	286,392	271,192	15,200
Return on average assets	1.35 %	0.43 %	92 bp
Return on invested capital	27.44 %	9.75 %	1,769 bp
Efficiency ratio	63.81 %	77.40 %	(1,359) bp
Net charge-offs (annualized) to average loans	0.27 %	0.55 %	(28) bp
Mortgage loans funded for sale	$ 746,241	$ 419,684	$ 326,557

	March 31, 2012	March 31, 2011	Increase (Decrease)
Banking locations	212	208	4
Mortgage loans servicing portfolio1	$ 12,442,937	$ 12,075,328	$ 367,609

1 Includes outstanding principal for loans serviced for affiliates

Net interest revenue from Consumer Banking activities increased $2.0 million or 7% compared to the first quarter of 2011 primarily due to growth in average loans. Average loan balances were up $136 million or 7% of the prior year. Other consumer loans increased, partially offset by decreased balances of indirect automobile loans. The Company previously disclosed its decision to exit the indirect automobile loan business in the first quarter of 2009.

Fees and commissions revenue increased $12.5 million over the first quarter of 2011. Mortgage banking revenue was up $15.7 million or 90% over the prior year due primarily to increased residential mortgage loan originations and commitments. Transaction card revenues were down $4.0 million or 43% compared to the prior year due primarily to the impact of interchange fee regulations which became effective on October 1, 2011. Deposit service charges decreased $875 thousand primarily related to service fees on small business deposits transferred to the Commercial Banking segment.

Excluding the change in the fair value of mortgage servicing rights, operating expenses were flat compared to the first quarter of 2011.

Net loans charged off by the Consumer Banking unit decreased $1.3 million compared to the first quarter of 2011. Net consumer banking charge-offs include residential mortgage loans, indirect automobile loans, overdrawn deposit accounts and other direct consumer loans.

Average consumer deposits decreased $324 million or 5% compared to the first quarter of 2011 primarily due to the transfer of small business banking to the Commercial Banking segment, offset by some growth in Consumer Banking deposits. Average time deposits decreased $269 million or 12% and average demand deposits decreased $143 million. Average interest-bearing transaction accounts increased $54 million or 2%.

Our Consumer Banking division originates, markets and services conventional and government-sponsored residential mortgage loans for all of our geographical markets. We funded $814 million of mortgage loans in the first quarter of 2012 and $457 million in the first quarter of 2011. Approximately 34% of our mortgage loans funded were in the Oklahoma market, 15% in the New Mexico market, 13% in the Texas market and 13% in the Colorado market. In addition, 6% of our mortgage loan fundings came from correspondent lenders. Mortgage loan fundings included $746 million of mortgage loans funded for sale in the secondary market and $68 million funded for retention within the consolidated group. At March 31, 2012, we have $230 million of residential mortgage loans held for sale and outstanding commitments to originate $302 million of residential mortgage loans. A 93 basis point decrease in mortgage loan interest rates and government programs such as HARP II have stimulated mortgage loan production. We increased the number of mortgage loan officers by approximately 18% during the first quarter of 2011, focusing on growth in Texas, Colorado and Kansas/Missouri markets.

At March 31, 2012, the Consumer Banking division services $11.4 billion of mortgage loans serviced for others and $1.0 billion of loans retained within the consolidated group. Approximately 97% of the mortgage loans serviced was to borrowers in our primary geographical market areas. The performance of residential mortgage loans serviced for others continues to improve. Loan past due 90 days or more decreased to $109 million or 0.96% of loans serviced for others at March 31, 2012 from $136 million or 1.20% of loans serviced for others at December 31, 2011. Mortgage servicing revenue increased $115 thousand or 1% over the first quarter of 2011 to $10.0 million.

Wealth Management

Wealth Management contributed $3.9 million to consolidated net income in first quarter of 2012 compared to $4.2 million in first quarter of 2011.

Table 9 – Wealth Management
(Dollars in thousands)

	Three Months Ended March 31, 2012	2011	Increase (Decrease)
Net interest revenue from external sources	$ 6,747	$ 7,796	$ (1,049)
Net interest revenue from internal sources	5,113	3,134	1,979
Total net interest revenue	11,860	10,930	930
Net loans charged off	626	439	187
Net interest revenue after net loans charged off	11,234	10,491	743
Fees and commissions revenue	46,424	39,911	6,513
Gain (loss) on financial instruments and other assets, net	(52)	42	(94)
Other operating revenue	46,372	39,953	6,419
Personnel expense	35,228	28,272	6,956
Net (gains) losses and expenses of repossessed assets	4	(41)	45
Other non-personnel expense	6,931	7,078	(147)
Corporate allocations	9,026	8,269	757
Other operating expense	51,189	43,578	7,611
Income before taxes	6,417	6,866	(449)
Federal and state income tax	2,496	2,671	(175)
Net income	$ 3,921	$ 4,195	$ (274)
Average assets	$ 4,147,907	$ 3,810,143	$ 337,764
Average loans	895,640	1,016,786	(121,146)
Average deposits	4,057,342	3,709,656	347,686

Average invested capital	175,013	175,478	(465)
Return on average assets	0.38 %	0.45 %	(7) bp
Return on invested capital	9.01 %	9.70 %	(69) bp
Efficiency ratio	87.83 %	85.71 %	212 bp
Net charge-offs (annualized) to average loans	0.28 %	0.18 %	10 bp

	March 31, 2012	March 31, 2011	Increase (Decrease)
Trust assets in custody for which BOKF has sole or joint discretionary authority	$ 10,351,742	$ 9,570,725	$ 781,017
Trust assets not in custody for which BOKF has sole or joint discretionary authority	227,987	206,303	21,684
Non-managed trust assets in custody	13,195,059	12,279,752	915,307
Trust assets held in safekeeping	11,876,010	10,163,010	1,713,000
Trust assets	35,650,798	32,219,790	3,431,008
Other assets held in safekeeping	8,026,619	6,889,523	1,137,096
Brokerage accounts under BOKF administration	4,318,795	3,269,111	1,049,684
Assets under management or in custody	$ 47,996,212	$ 42,378,424	$ 5,617,788

Net interest revenue for the first quarter of 2012 was up $930 thousand or 9% over the first quarter of 2011. Average loan balances were down $121 million. Net loans charged off decreased $187 thousand compared to the first quarter of 2011 to $626 thousand or 0.28% of average loans on an annualized basis. Average deposit balances were up $348 million or 9% over the prior year. Loan yields were up and funding costs related to deposits decreased compared to the first quarter of 2011.

Other operating revenue was up $6.4 million or 16% over the first quarter of 2011, primarily due to a $6.3 million or 31% increase in brokerage and trading revenues. Trust fees and commission were flat compared to the prior year.

Other operating revenue includes fees earned from state and municipal bond underwriting and financial advisory services, primarily in the Oklahoma and Texas markets. In the first quarter of 2012, the Wealth Management division participated in 90 underwritings that totaled $1.4 billion. As a participant, the Wealth Management division was responsible for facilitating the sale of approximately $549 million of these underwritings. In the first quarter of 2011, the Wealth Management division participated in 35 underwritings that totaled approximately $774 million. Our interest in these underwritings totaled approximately $212 million.

Operating expenses increased $7.6 million or 17% over the first quarter of 2011. Personnel expenses increased $7.0 million or 25%. Incentive compensation increased $5.4 million over the prior year and regular compensation costs increased $1.3 million primarily due to increased headcount and annual merit increases. Non-personnel expenses decreased $147 thousand or 2% compared to the prior year. Corporate expense allocations were up $757 thousand or 9% due primarily to expansion of the Wealth Management business line.

Growth in average assets was largely due to funds sold to the Funds Management unit. Average deposits attributed to the Wealth Management division increased $348 million or 9% over the first quarter of 2011 including a $294 million or 72% increase in average demand deposit accounts and a $102 million or 4% increase in interest-bearing transaction accounts. Average time deposit balances decreased $50 million or 7% compared to the first quarter of 2011.

Geographical Market Distribution

The Company also secondarily evaluates performance by primary geographical market. Loans are generally attributed to geographical markets based on the location of the customer and may not reflect the location of the underlying collateral. Brokered deposits and other wholesale funds are not attributed to a geographical market. Funds management and other include insignificant results of operations in locations outside our primary geographic regions.

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

	Three Months Ended March 31,	
	2012	2011
Oklahoma	$ 33,449	$ 25,047
Texas	12,947	10,167
New Mexico	4,530	2,910
Arkansas	2,169	833
Colorado	2,490	2,412
Arizona	(1,791)	(3,068)
Kansas / Missouri	2,040	969
Subtotal	55,834	39,270
Funds management and other	27,781	25,504

Total	$ 83,615	$ 64,774

Oklahoma Market

Our Oklahoma offices are located primarily in the Tulsa and Oklahoma City metropolitan areas. Oklahoma is a significant market to the Company, representing 47% of our average loans, 55% of our average deposits and 40% of our consolidated net income in the first quarter of 2012. In addition, all mortgage servicing activity, TransFund EFT network and 72% of our trust assets is attributed to the Oklahoma market.

Table 11 – Oklahoma
(Dollars in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Increase (Decrease)
Net interest revenue	$ 58,030	$ 55,008	$ 3,022
Net loans charged off	1,032	6,420	(5,388)
Net interest revenue after net loans charged off	56,998	48,588	8,410
Fees and commissions revenue	77,455	71,780	5,675
Loss on financial instruments and other assets, net	(4,890)	(5,896)	1,006
Other operating revenue	72,565	65,884	6,681
Personnel expense	36,542	33,640	2,902
Net losses and expenses of repossessed assets	417	584	(167)
Change in fair value of mortgage servicing rights	(7,127)	(3,129)	(3,998)
Other non-personnel expense	35,383	32,893	2,490
Corporate allocations	9,604	9,491	113
Total other operating expense	74,819	73,479	1,340
Income before taxes	54,744	40,993	13,751
Federal and state income tax	21,295	15,946	5,349
Net income	$ 33,449	$ 25,047	$ 8,402

Average assets	$ 11,553,806		$ 10,442,761		$ 1,111,045	
Average loans	5,365,299		5,188,424		176,875	
Average deposits	10,342,861		9,461,918		880,943	
Average invested capital	543,759		531,392		12,367	
Return on average assets	1.16	%	0.97	%	19	bp
Return on invested capital	24.74	%	19.12	%	562	bp
Efficiency ratio	60.48	%	60.42	%	6	bp
Net charge-offs (annualized) to average loans	0.08	%	0.50	%	(42	) bp

Net income generated in the Oklahoma market in the first quarter of 2012 increased $8.4 million or 34% over the first quarter of 2011 due primarily to growth in net interest and fee revenue, a decrease in net loans charged off and improvement in the fair value of mortgage loan servicing rights.

Net interest revenue increased $3.0 million or 5%. Average loan balances increased $176 million or 3%. The favorable net interest impact of the $881 million increase in average deposit balances was partially offset by lower yield on funds sold to the Funds Management unit.

Fees and commission revenue increased $5.7 million over the first quarter of 2011. Mortgage banking revenue increased $5.6 million due to increased mortgage loan origination and commitment volumes. Increased brokerage and trading and deposit service charge revenue were largely offset by decreased transaction card revenues.

Changes in the fair value of mortgage servicing rights, net of economic hedges, increased net income $1.4 million in the first quarter of 2012 and decreased net income $1.7 million in the first quarter of 2011.

Excluding the change in the fair value of mortgage servicing rights, other operating expenses increased $5.3 million or 7% over the prior year. Personnel expenses were up $2.9 million or 9% over the prior year. Incentive compensation expense increased $1.7 million and regular compensation expense was up $1.1 million. Non-personnel expenses increased $2.5 million or 8%.

Net loans charged off decreased to $1.0 million or 0.08% of average loans on an annualized basis for first quarter of 2012 compared with $6.4 million or 0.50% of average loans on an annualized basis for the first quarter of 2011.

Average deposits in the Oklahoma market increased $881 million over the first quarter of 2011. Commercial Banking deposit balances increased $588 million or 14% over the prior year. Increased deposits related to energy and commercial & industrial customers were partially offset by decreased deposits related to treasury services customers. Wealth Management deposits increased $356 million or 17% over the prior year in the private banking division, trust and broker/dealer divisions. Consumer Banking deposits decreased and Commercial Banking deposits increased compared to the prior year primarily due to the transfer of small business banking activities from the Consumer Banking segment to the Commercial Banking segment.

Texas Market

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

Table 12 – Texas
(Dollars in thousands)

	Three Months Ended March 31, 2012	2011	Increase (Decrease)
Net interest revenue	$ 34,848	$ 33,165	$ 1,683
Net loans charged off	444	928	(484)
Net interest revenue after net loans charged off	34,404	32,237	2,167
Fees and commissions revenue	19,268	16,038	3,230
Gain on financial instruments and other assets, net	44	–	44
Other operating revenue	19,312	16,038	3,274
Personnel expense	19,078	16,804	2,274
Net (gains) losses and expenses of repossessed assets	(577)	144	(721)
Other non-personnel expense	5,717	5,753	(36)
Corporate allocations	9,269	9,688	(419)
Total other operating expense	33,487	32,389	1,098
Income before taxes	20,229	15,886	4,343
Federal and state income tax	7,282	5,719	1,563
Net income	$ 12,947	$ 10,167	$ 2,780
Average assets	$ 5,066,051	$ 4,942,289	$ 123,762
Average loans	3,782,795	3,262,960	519,835
Average deposits	4,482,885	4,356,711	126,174
Average invested capital	478,977	465,208	13,769
Return on average assets	1.03 %	0.83 %	20 bp

Return on invested capital	10.87	%	8.86	%	201	bp
Efficiency ratio	61.88	%	65.83	%	(395	) bp
Net charge-offs (annualized) to average loans	0.05	%	0.12	%	(7	) bp

Net income in the Texas market increased $2.8 million or 27% over the first quarter of 2011 primarily due to increased net interest and fees and commission revenue.

Net interest revenue increased $1.7 million or 5% over the first quarter of 2011. Average outstanding loans grew by $520 million or 16% and average deposits increased $126 million or 3% over the first quarter of 2011.

Fees and commission revenue increased $3.2 million or 20% over the first quarter of 2011 due primarily to increased mortgage banking revenue. In addition, brokerage and trading revenue, deposit service charges and trust fees and commissions revenue all increased over the prior year. Transaction card revenue was down compared to the prior year due primarily to debit card interchange fee regulations which became effective in the third quarter of 2011.

Operating expenses increased $1.1 million or 3% over the prior year. Personnel costs were up $2.3 million or 14% due primarily to incentive compensation expense and increased headcount related to higher mortgage origination activity. Net losses (gains) and operating expenses of repossessed assets improved by $721 thousand compared first quarter of 2011. Non-personnel expenses were flat compared to the prior year and corporate expense allocations were down $419 thousand or 4% compared to the first quarter of 2011.

Net loans charged off totaled $444 thousand or 0.05% of average loans for the first quarter of 2012 on an annualized basis, down from $928 thousand or 0.12% of average loans for the first quarter of 2011 on an annualized basis.

New Mexico

Net income attributable to our New Mexico market totaled $4.5 million or 5% of consolidated net income, an increase of $1.6 million or 56% over the first quarter of 2011. Net interest income increased $163 thousand or 2% over the first quarter of 2011. Average loan balances increased $5.9 million over the first quarter of 2011. Average demand deposit balances were down $29 million or 2% compared to the prior year. Time deposit balances decreased $52 million and interest-bearing transaction deposit balance decreased $26 million, partially offset by a $48 million increase in demand deposit balances. Net charge-offs totaled $885 thousand or 0.50% of average loans attributed to the New Mexico market for the first quarter of 2012, compared to $411 thousand or 0.24% of average loans for the first quarter of 2011. Fees and commissions revenue was up $2.8 million or 37% due primarily to growth in mortgage banking revenue over the first quarter of 2011. Deposit service charges, brokerage and trading and trust fees and commission were also all up over the prior year, partially offset by a decrease in transaction card revenue due to debit card interchange fee regulations. Other operating expenses were down $129 thousand or 1% compared to the first quarter of 2011. Personnel costs increased $687 thousand, partially offset by a $606 thousand decrease in net (gains) losses and expenses of repossessed assets and a $262 thousand decrease in non-personnel expenses.

Table 13 – New Mexico
(Dollars in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Increase (Decrease)
Net interest revenue	$ 8,484	$ 8,321	$ 163
Net loans charged off	885	411	474
Net interest revenue after net loans charged off	7,599	7,910	(311)
Fees and commissions revenue	10,414	7,580	2,834
Personnel expense	4,885	4,198	687
Net (gains) losses and expenses of repossessed assets	(191)	415	(606)
Other non-personnel expense	1,977	2,239	(262)
Corporate allocations	3,928	3,876	52
Total other operating expense	10,599	10,728	(129)
Income before taxes	7,414	4,762	2,652

Federal and state income tax	2,884		1,852		1,032	
Net income	$ 4,530		$ 2,910		$ 1,620	
Average assets	$ 1,375,861		$ 1,376,750		$ (889	)
Average loans	708,803		702,932		5,871	
Average deposits	1,227,265		1,255,773		(28,508	)
Average invested capital	79,317		81,776		(2,459	)
Return on average assets	1.32	%	0.86	%	46	bp
Return on invested capital	22.97	%	14.43	%	854	bp
Efficiency ratio	56.09	%	67.47	%	(1,138	) bp
Net charge-offs (annualized) to average loans	0.50	%	0.24	%	26	bp

Arkansas Market

Net income attributable to our Arkansas market increased $1.3 million or 161% over the first quarter of 2011 to $2.2 million. Net interest revenue decreased $330 thousand or 14% primarily due to a $28 million decrease in average loans. Loans in the Arkansas market continued to decrease due to the run-off of indirect automobile loans. Average deposits in our Arkansas market were down $7.0 million or 3% compared to the first quarter of 2011. Time deposits decreased $31 million, offset by a $19 million increase in interest-bearing transaction deposits and a $4.0 million increase in demand deposits. Net loans charged off decreased $272 thousand to $64 thousand or 0.10% of average loans on an annualized basis. Fees and commission revenue increased $2.8 million primarily due to increased securities trading revenue at our Little Rock office and higher mortgage banking revenues. Other operating expenses were up $565 thousand or 6% over the prior year. Personnel expense increased $259 thousand or 5% primarily due to increased incentive compensation costs related to trading activity. Non-personnel expenses were up $348 thousand over the prior year.

Table 14 – Arkansas
(Dollars in thousands)

	Three Months Ended March 31, 2012	2011	Increase (Decrease)
Net interest revenue	$ 1,967	$ 2,297	$ (330)
Net loans charged off	64	336	(272)
Net interest revenue after net loans charged off	1,903	1,961	(58)
Fees and commissions revenue	11,249	8,439	2,810
Personnel expense	5,485	5,226	259
Net losses and expenses of repossessed assets	7	19	(12)
Other non-personnel expense	1,356	1,008	348
Corporate allocations	2,754	2,784	(30)
Total other operating expense	9,602	9,037	565
Income before taxes	3,550	1,363	2,187
Federal and state income tax	1,381	530	851
Net income	$ 2,169	$ 833	$ 1,336
Average assets	$ 275,643	$ 303,346	$ (27,703)
Average loans	259,587	287,813	(28,226)
Average deposits	221,254	228,226	(6,972)
Average invested capital	21,051	22,571	(1,520)
Return on average assets	3.16 %	1.11 %	205 bp
Return on invested capital	41.44 %	14.97 %	2,647 bp

Efficiency ratio	72.65 %	84.17 %	(1,152) bp
Net charge-offs (annualized) to average loans	0.10 %	0.47 %	(37) bp

Colorado Market

Net income attributed to our Colorado market totaled $2.5 million compared to $2.4 million in the first quarter of 2011. Net loans charged off totaled $1.9 million or 0.92% of average loans on an annualized basis compared with a net recovery of $50 thousand in the first quarter of 2011. Net interest revenue increased $699 thousand or 9% over the prior year. Average loans outstanding increased $61 million or 8% over the prior year. Average deposits were up $83 million or 7% due primarily to a $91 million increase in demand deposit balances partially offset by a $15 million decrease in time deposit balances. Fees and commission revenue increased $1.8 million or 30% over the prior year due primarily to increased mortgage banking revenue partially offset by decreased brokerage and trading and transaction card revenues. Operating expenses were up $426 thousand or 4% over the prior year. Personnel costs increased $723 thousand primarily due to increased incentive compensation related to increased mortgage activity. Net losses and operating expenses of repossessed assets were down $324 thousand compared to the prior year. Decreased non-personnel expenses were largely offset by increased corporate expense allocations.

Table 15 – Colorado
(Dollars in thousands)

	Three Months Ended March 31,		Increase
	2012	2011	(Decrease)
Net interest revenue	$ 8,773	$ 8,074	$ 699
Net loans charged off	1,884	(50)	1,934
Net interest revenue after net loans charged off	6,889	8,124	(1,235)
Fees and commissions revenue	7,724	5,933	1,791
Gain on financial instruments and other assets, net	–	1	(1)
Other operating revenue	7,724	5,934	1,790
Personnel expense	5,776	5,053	723
Net (gains) losses and expenses of repossessed assets	(18)	306	(324)
Other non-personnel expense	1,340	1,552	(212)
Corporate allocations	3,439	3,200	239
Total other operating expense	10,537	10,111	426
Income before taxes	4,076	3,947	129
Federal and state income tax	1,586	1,535	51
Net income	$ 2,490	$ 2,412	$ 78

Average assets	$ 1,380,459		$ 1,299,938		$ 80,521	
Average loans	826,268		765,448		60,820	
Average deposits	1,316,079		1,232,873		83,206	
Average invested capital	115,272		117,244		(1,972	)
Return on average assets	0.73	%	0.75	%	(2	) bp
Return on invested capital	8.69	%	8.34	%	35	bp
Efficiency ratio	63.87	%	72.19	%	(832	) bp
Net charge-offs (annualized) to average loans	0.92	%	(0.03	)%	95	bp

Arizona Market

The Arizona market incurred a net loss of $1.8 million for the first quarter of 2012 compared to a net loss of $3.1 million in the first quarter of 2011. Net interest revenue increased $768 thousand or 22% over the prior year. Average loan balances were flat compared to the prior year. Average deposits increased $8.8 million or 4% due primarily to a $22 million or 25% increase in demand deposit balances, partially offset by a $15 million or 31% decrease in time deposits. Growth was primarily related to commercial loans and deposits. Net loans charged off totaled $3.6 million or 2.62% of average loans on an annualized basis in the first quarter of 2012 compared to $1.9 million or 1.38% of average loans on an annualized basis for the first quarter of 2011. The increase in net loans charged off was largely due to resolution of loans from the Tucson market which we exited in 2009. Fees and commission revenue were flat compared to the prior year. Operating expense was down $3.0 million compared to the first quarter of 2011 due primarily to a $2.3 million decrease in net losses and operating expenses on repossessed assets. Personnel and other non-personnel costs were both down compared to the prior year.

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

Table 16 – Arizona
(Dollars in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Increase (Decrease)
Net interest revenue	$ 4,335	$ 3,567	$ 768
Net loans charged off	3,619	1,889	1,730
Net interest revenue after net loans charged off	716	1,678	(962)
Fees and commissions revenue	1,845	1,820	25
Personnel expense	2,354	2,828	(474)
Net losses and expenses of repossessed assets	1,231	3,568	(2,337)
Other non-personnel expense	761	978	(217)
Corporate allocations	1,147	1,145	2
Total other operating expense	5,493	8,519	(3,026)
Loss before taxes	(2,932)	(5,021)	2,089
Federal and state income tax	(1,141)	(1,953)	812
Net loss	$ (1,791)	$ (3,068)	$ 1,277

Average assets	$ 609,510	$ 620,793	$ (11,283)
Average loans	554,666	553,309	1,357
Average deposits	247,313	238,561	8,752
Average invested capital	58,573	64,688	(6,115)
Return on average assets	(1.18)%	(2.00)%	82 bp
Return on invested capital	(12.30)%	(19.23)%	693 bp
Efficiency ratio	88.88 %	158.14 %	(6,926) bp
Net charge-offs (annualized) to average loans	2.62 %	1.38 %	124 bp

Kansas / Missouri Market

Net income attributed to the Kansas / Missouri market increased by $1.1 million over the first quarter of 2011. Net interest revenue increased $278 thousand or 10%. Average loan balances increased $62 million or 17% over the first quarter of 2011. Average deposits balances were down $131 million or 35%. Interest-bearing transaction deposits decreased $121 million and time deposits decreased $23 million, partially offset by a $13 million increase in demand deposits. Fees and commission revenue increased $3.7 million or 74% primarily due to increased mortgage banking and brokerage and trading revenues. Operating expenses were up $1.9 million or 31% over the prior year. Personnel costs were up $1.4 million primarily due to increased incentive compensation related to mortgage and brokerage and trading activity and increased headcount. Non-personnel expenses were flat compared to the prior year and corporate expense allocations increased due to increased transaction activity.

Table 17 – Kansas / Missouri
(Dollars in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Increase (Decrease)
Net interest revenue	$ 3,111	$ 2,833	$ 278
Net loans charged off (recovered)	544	213	331
Net interest revenue after net loans charged off (recovered)	2,567	2,620	(53)
Fees and commission revenue	8,696	4,996	3,700
Personnel expense	4,800	3,430	1,370
Net losses and expenses of repossessed assets	18	194	(176)
Other non-personnel expense	991	976	15
Corporate allocations	2,116	1,430	686
Total other operating expense	7,925	6,030	1,895
Income before taxes	3,338	1,586	1,752
Federal and state income tax	1,298	617	681
Net income	$ 2,040	$ 969	$ 1,071
Average assets	$ 439,302	$ 370,773	$ 68,529
Average loans	422,176	360,517	61,659
Average deposits	238,383	369,124	(130,741)
Average invested capital	31,474	25,321	6,153
Return on average assets	1.87 %	1.06 %	81 bp
Return on invested capital	26.07 %	15.52 %	1,055 bp

Efficiency ratio	67.12	%	77.02	%	(990	) bp
Net charge-offs (annualized) to average loans	0.52	%	0.24	%	28	bp

Financial Condition

Securities

We maintain a securities portfolio to enhance profitability, support customer transactions, manage interest rate risk, provide liquidity and comply with regulatory requirements. Securities are classified as trading, held for investment, or available for sale. See Note 2 to the consolidated financial statements for the composition of the securities portfolio as of March 31, 2012, December 31, 2011 and March 31, 2011.

At March 31, 2012, the carrying value of investment (held-to-maturity) securities was $427 million and the fair value was $451 million. Investment securities consist primarily of long-term, fixed-rate Oklahoma municipal bonds, taxable Texas school construction bonds and U.S. residential mortgage-backed securities. The investment security portfolio is diversified among issuers. Excluding U.S. government agencies, the largest obligation of any single issuer is $30 million. Substantially all of the municipal bonds are general obligations of the issuer. Approximately $89 million of the taxable 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 $9.9 billion at March 31, 2012, down $48 million from December 31, 2011. At March 31, 2012, residential mortgage-backed securities represented 98% of total available for sale securities.

A primary risk of holding residential mortgage-backed securities comes from extension during periods of rising interest rates or prepayment during periods of falling interest rates. We evaluate this risk through extensive modeling of risk both before making an investment and throughout the life of the security. Current interest rates are historically low and prices for residential mortgage-backed securities are historically high resulting in low effective durations. Our best estimate of the duration of the residential mortgage-backed securities portfolio at March 31, 2012 is 1.6 years. Management estimates that the duration would extend to approximately 3.5 years assuming an immediate 200 basis point upward rate shock. The estimated duration contracts to 0.9 years assuming a 50 basis point decline in the current low 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 March 31, 2012, $9.4 billion of the amortized cost of the Company's residential mortgage-backed securities were issued by U.S. government agencies. The fair value of these residential mortgage-backed securities totaled $9.7 billion at March 31, 2012.

We also hold amortized cost of $371 million in residential mortgage-backed securities privately issued by publicly-owned financial institutions. The amortized costs of these securities decreased $132 million from December 31, 2011. In response to price increases during the first quarter of 2012, the Company sold $107 million of privately issued residential mortgage-backed securities at a $7.4 million loss. The remaining decrease from December 31, 2011 was due primarily to $22 million of cash received and $3.7 million of other-than-temporary impairment losses charged against earnings during the first quarter of 2012. The fair value of our portfolio of privately issued residential mortgage-backed securities totaled $327 million at March 31, 2012.

The amortized cost of our portfolio of privately issued residential mortgage-backed securities included $231 million of Jumbo-A residential mortgage loans and $140 million of Alt-A residential mortgage loans. Jumbo-A residential mortgage loans generally meet government underwriting standards, but have loan balances that exceed agency maximums. Alt-A mortgage loans generally do not have sufficient documentation to meet government agency underwriting standards. Credit risk on residential mortgage-backed securities originated by private issuers is mitigated by investment in senior tranches with additional collateral support. All of our Alt-A residential mortgage-backed securities were issued with credit support from additional layers of loss-absorbing subordinated tranches, including all Alt-A residential mortgage backed securities held that were originated in 2007 and 2006. The weighted average original credit enhancement of the Alt-A residential mortgage-backed securities was 10.2% and currently stands at 1.9%. The Jumbo-A residential mortgage-backed securities had original credit enhancement of 9.4% and the current level is 6.6%. Approximately 78% of our Alt-A mortgage-backed securities represents pools of fixed-rate residential mortgage loans. None of the adjustable rate mortgages are payment option adjustable rate mortgages (“ARMs”). Approximately 25% 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 $49 million at March 31, 2012. On a quarterly basis, we perform separate evaluations on debt and equity securities to determine if the unrealized losses are temporary as more fully described in Note 2 of the Consolidated Financial Statements. Other-than-temporary impairment charges of $3.7 million were recognized in earnings in the first quarter of 2012 related to certain privately issued residential mortgage-backed securities that we do not intend to sell.

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

Bank-Owned Life Insurance

We have approximately $266 million of bank-owned life insurance at March 31, 2012. This investment is expected to provide a long-term source of earnings to support existing employee benefit programs. Approximately $235 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 March 31, 2012, the cash surrender value represented by the underlying fair value of investments held in separate accounts was approximately $256 million. As the underlying fair value of the investments held in a separate account at March 31, 2012 exceeded the net book value of the investments, no cash surrender value was supported by the stable value wrap. The stable value wrap is provided by a domestic financial institution. The remaining cash surrender value of $31 million primarily represents the cash surrender value of policies held in general accounts and other amounts due from various insurance companies.

Loans

The aggregate loan portfolio before allowance for loan losses totaled $11.6 billion at March 31, 2012, a $308 million increase since December 31, 2011.

Table 18 – Loans
(In thousands)

	March 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	March 31, 2011
Commercial:					
Energy	$2,206,490	$2,015,619	$1,797,609	$1,682,842	$1,759,452
Services	1,881,079	1,745,189	1,857,478	1,713,057	1,586,785
Wholesale/retail	1,002,780	962,984	1,026,229	1,068,186	984,273
Healthcare	987,436	976,481	907,147	869,308	840,809
Manufacturing	362,061	350,834	370,729	367,151	380,043
Integrated food services	209,642	208,738	199,852	195,774	211,637
Other commercial and industrial	293,153	311,609	316,645	282,278	285,258
Total commercial	6,942,641	6,571,454	6,475,689	6,178,596	6,048,257
Commercial real estate:					
Construction and land development	311,708	327,480	355,215	367,092	394,337
Retail	481,815	509,743	445,794	438,494	420,193
Office	386,025	406,508	425,743	482,505	488,515
Multifamily	432,546	368,519	387,468	335,662	355,240
Industrial	287,462	277,733	225,353	162,167	177,807
Other real estate	364,547	389,926	420,329	397,795	386,890
Total commercial real estate	2,264,103	2,279,909	2,259,902	2,183,715	2,222,982
Residential mortgage:					
Permanent mortgage	1,133,191	1,150,321	1,151,168	1,151,176	1,153,269
Permanent mortgages guaranteed by U.S. government agencies	180,862	184,973	168,690	134,458	63,552
Home equity	646,835	635,167	592,038	582,363	560,500
Total residential mortgage	1,960,888	1,970,461	1,911,896	1,867,997	1,777,321
Consumer:					
Indirect automobile	81,791	105,149	130,296	162,500	198,663
Other consumer	328,021	342,770	346,786	344,736	342,612
Total consumer	409,812	447,919	477,082	507,236	541,275
Total	$11,577,444	$11,269,743	$11,124,569	$10,737,544	$10,589,835

Outstanding commercial loan balances continued to grow in most geographic regions, increasing $371 million over December 31, 2011. Commercial real estate loans decreased $16 million during the first quarter of 2012. Residential mortgage loans decreased $9.6 million from December 31, 2011. Consumer loans decreased $38 million from December 31, 2011 primarily related to the continued runoff of indirect automobile loans related to the previously announced decision to curtail that business in favor of a customer-focused direct approach to consumer lending.

A breakdown of geographical market follows on Table 19 with discussion of changes in the balance by portfolio and geography. This breakdown may not always represent the location of the borrower or the collateral.

Table 19 – Loans by Principal Market
(In thousands)

	March 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	March 31, 2011
Oklahoma:					
Commercial	$2,953,637	$2,697,623	$2,807,979	$2,594,502	$2,618,045
Commercial real estate	667,503	600,703	624,990	619,201	661,254
Residential mortgage	1,436,766	1,429,069	1,366,953	1,309,110	1,219,237
Consumer	210,361	236,056	248,851	267,550	291,412
Total Oklahoma	5,268,267	4,963,451	5,048,773	4,790,363	4,789,948
Texas:					
Commercial	2,304,162	2,214,462	2,069,117	2,003,847	1,916,270
Commercial real estate	812,209	830,831	741,984	711,906	687,817
Residential mortgage	259,173	266,050	273,025	282,934	283,925
Consumer	123,604	126,280	133,286	140,044	141,199
Total Texas	3,499,148	3,437,623	3,217,412	3,138,731	3,029,211
New Mexico:					
Commercial	274,224	252,367	269,690	280,306	262,597
Commercial real estate	282,966	316,853	314,701	311,565	326,104
Residential mortgage	104,495	100,581	93,444	95,021	90,466
Consumer	18,185	18,519	18,142	18,536	19,242
Total New Mexico	679,870	688,320	695,977	705,428	698,409
Arkansas:					
Commercial	74,364	86,111	89,262	74,677	75,889
Commercial real estate	129,980	127,687	124,393	121,286	124,875
Residential mortgage	13,778	14,511	14,428	13,939	14,114
Consumer	28,932	36,061	44,163	52,439	61,746
Total Arkansas	247,054	264,370	272,246	262,341	276,624
Colorado:					
Commercial	555,703	559,127	508,222	515,829	514,100
Commercial real estate	143,753	153,855	188,659	167,414	172,416
Residential mortgage	60,527	64,437	65,327	66,985	67,975
Consumer	19,813	21,651	22,024	19,507	20,145
Total Colorado	779,796	799,070	784,232	769,735	774,636
Arizona:					
Commercial	284,353	288,536	283,867	291,515	251,390
Commercial real estate	178,633	192,731	222,249	205,269	213,442
Residential mortgage	73,704	82,202	85,243	86,415	89,384
Consumer	5,381	5,505	6,625	6,772	5,266
Total Arizona	542,071	568,974	597,984	589,971	559,482
Kansas / Missouri:					
Commercial	496,198	473,228	447,552	417,920	409,966

Commercial real estate	49,059	57,249	42,926	47,074	37,074
Residential mortgage	12,445	13,611	13,476	13,593	12,220
Consumer	3,536	3,847	3,991	2,388	2,265
Total Kansas / Missouri	561,238	547,935	507,945	480,975	461,525
Total BOK Financial loans	$11,577,444	$11,269,743	$11,124,569	$10,737,544	$10,589,835

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 loan growth was primarily concentrated in the energy and services sectors of the portfolio. Energy sector loans increased $191 million over December 31, 2011 primarily in the Oklahoma, Texas and Colorado markets. Service sector loans increased $136 million primarily in the Oklahoma market. Service sector loans also grew in the New Mexico and Texas markets mostly offset by a decrease in service sector loans in the Colorado market. In addition, wholesale/retail sector loans increased $40 million primarily in the Oklahoma, Texas and Kansas/Missouri markets. In addition, growth in manufacturing and wholesale/retail sector loans primarily in the Oklahoma market was partially offset by a decrease in other commercial and industrial loans primarily in the Arkansas, Texas and New Mexico markets.

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

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Energy	$1,051,344	$854,569	$5,018	$246	$294,434	$–	$879	$2,206,490
Services	636,277	609,371	180,845	13,155	156,082	123,741	161,608	1,881,079
Wholesale/retail	407,943	385,269	51,547	24,631	19,218	74,367	39,805	1,002,780
Healthcare	582,417	250,736	10,776	5,674	64,118	45,384	28,331	987,436
Manufacturing	176,572	110,422	7,143	1,153	15,768	25,269	25,734	362,061
Integrated food services	15,803	7,269	–	29	1,848	–	184,693	209,642
Other commercial and industrial	83,281	86,526	18,895	29,476	4,235	15,592	55,148	293,153
Total commercial loans	$2,953,637	$2,304,162	$274,224	$74,364	$555,703	$284,353	$496,198	$6,942,641

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. Based on our most recent evaluation of changes in energy prices on our loan portfolio, a decrease in natural gas prices to $2.00 per MMBTUS in 2012 and oil prices to $55.00 per barrel in 2012 would not significantly impact the credit quality of our energy loan portfolio.

Energy loans totaled $2.2 billion or 19% of total loans. Unfunded energy loan commitments increased by $71 million to $2.0 billion at March 31, 2012. Energy loans to oil and gas producers totaled $1.9 billion, up $204 million over December 31, 2011. Approximately 53% of the committed production loans are secured by properties primarily producing oil and 47% of the committed production loans are secured by properties primarily producing natural gas. Loans to borrowers engaged in wholesale or retail energy sales decreased $12 million to $157 million. Loans to borrowers that provide services to the energy industry totaled $93 million, essentially flat with December 31, 2011. Loans to borrowers that manufacture equipment primarily for the energy industry increased $11 million during the first quarter of 2012 to $35 million.

The services sector of the loan portfolio totaled $1.9 billion or 16% of total loans and consists of a large number of loans to a variety of businesses, including community foundations, communications, educational, gaming and transportation services.

Service sector loans increased $136 million over December 31, 2011. Approximately $1.1 billion of the services category is made up of loans with individual balances of less than $10 million. Service sector loans are generally secured by the assets of the borrower with repayment coming from the cash flows of ongoing operations of the customer's business. Loans in this sector may also be secured by personal guarantees of the owners or related parties.

We participate in shared national credits when appropriate to obtain or maintain business relationships with local customers. Shared national credits are defined by banking regulators as credits of more than $20 million and with three or more non-affiliated banks as participants. At March 31, 2012, the outstanding principal balance of these loans totaled $2.2 billion. Substantially all of these loans are to borrowers with local market relationships. We serve as the agent lender in approximately 20% of our shared national credits, based on dollars committed. We hold shared credits to the same standard of analysis and perform the same level of review as internally originated credits. Our lending policies generally avoid loans in which we do not have the opportunity to maintain or achieve other business relationships with the customer. In addition to management's quarterly assessment of credit risk, grading of shared national credits is provided annually by banking regulators.

Commercial Real Estate

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

Commercial real estate loans totaled $2.3 billion or 20% of the loan portfolio at March 31, 2012. Over the past five years, the percentage of commercial real estate loans to our total loan portfolio ranged from 20% to 23%. The outstanding balance of commercial real estate loans decreased $16 million during the first quarter of 2012. The commercial real estate sector of our loan portfolio is distributed as follows in Table 21.

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Construction and land development	$ 111,700	$54,507	$58,132	$11,073	$49,878	$18,386	$8,032	$311,708
Retail	140,351	185,379	57,024	12,015	20,851	55,779	10,416	481,815
Office	96,299	159,734	73,783	12,565	11,337	32,246	61	386,025
Multifamily	135,241	160,137	21,676	63,377	22,323	18,261	11,531	432,546
Industrial	55,458	173,454	29,338	543	1,020	17,108	10,541	287,462
Other real estate	128,454	78,998	43,013	30,407	38,344	36,853	8,478	364,547
Total commercial real estate loans	$ 667,503	$812,209	$282,966	$129,980	$143,753	$178,633	$49,059	$2,264,103

Construction and land development loans, which consist primarily of residential construction properties and developed building lots, decreased $16 million from December 31, 2011 to $312 million at March 31, 2012 primarily due to payments. In addition, $4.1 million of construction and land development loans were charged-off and $415 thousand were transferred to other real estate owned in the first quarter of 2012. This sector of the loan portfolio is expected to continue to decrease as construction projects currently in process are completed.

Loans secured by multifamily residential properties increased $64 million, primarily concentrated in the Texas and Colorado markets. Loans secured by retail properties decreased $28 million from December 31, 2011 due primarily to decreases in the Texas and Kansas/Missouri markets, partially offset by an increase in the Oklahoma market. Loans secured by other commercial real estate decreased $25 million from December 31, 2011, primarily in the New Mexico market. Loans secured by office buildings decreased $20 million during the first quarter, primarily in the Texas and Colorado markets, partially offset by an increase in the Oklahoma market.

Residential Mortgage and Consumer

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

Residential mortgage loans totaled $2.0 billion, down $9.6 million compared to December 31, 2011. In general, we sell the majority of our conforming fixed-rate loan originations in the secondary market and retain the majority of our non-conforming and adjustable-rate mortgage loans. We have no concentration in sub-prime residential mortgage loans. Our mortgage loan portfolio does not include payment option adjustable rate mortgage loans or adjustable rate mortgage loans with initial rates that are below market.

The majority of our permanent mortgage loan portfolio is primarily composed of various non-conforming mortgage programs to support customer relationships including jumbo mortgage loans, non-builder construction loans and special loan programs for high net worth individuals or certain professionals. The aggregate outstanding balance of loans in these programs is approximately $970 million at March 31, 2012. Jumbo loans may be fixed or variable rate and are fully amortizing. The size of jumbo loans exceeds maximums set under government sponsored entity standards. Otherwise jumbo loans generally conform to those standards. These loans generally require a minimum FICO score of 720 and a maximum debt-to-income ratio ("DTI") of 38%. Loan-to-value ratios ("LTV") are tiered from 60% to 100%, depending on the market. Special mortgage programs include fixed and variable rate fully amortizing loans tailored to the needs of certain healthcare professionals. Variable rate loans are fully indexed at origination and may have fixed rates for three to ten years, then adjust annually thereafter.

Approximately $82 million or 7% of the non-guaranteed portion of the permanent mortgage loans at March 31, 2012 consist of first lien, fixed rate residential mortgage loans originated under various community development programs, down $2.5 million from December 31, 2011. These loans were underwritten to standards approved by various U.S. government agencies under these programs and include full documentation. However, these loans do have a higher risk of delinquency and losses in the event of default than traditional residential mortgage loans. The initial maximum LTV of loans in these programs was 103%.

At March 31, 2012, $181 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 $38 million of residential mortgage loans previously sold into GNMA mortgage pools. The Company may repurchase these loans when certain defined delinquency criteria are met. Because of this repurchase right, the Company is deemed to have regained effective control over these loans and must include them on the Consolidated Balance Sheet. The remaining amount represents loans that the Company has repurchased from GNMA mortgage pools. Permanent residential mortgage loans guaranteed by U.S. government agencies decreased $4.1 million compared to December 31, 2011.

Home equity loans totaled $647 million at March 31, 2012, a $12 million increase over December 31, 2011. Approximately 40% of the home equity loan portfolio is comprised of junior lien loans and 60% of the home equity loans portfolio is comprised of first lien loans. Junior lien loans are distributed 75% to amortizing term loans and 25% to revolving lines of credit. 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.

Indirect automobile loans decreased $23 million from December 31, 2011, primarily due to the previously-disclosed decision by the Company to exit the business in the first quarter of 2009 in favor of a customer-focused direct lending approach. Approximately $82 million of indirect automobile loans remain outstanding at March 31, 2012. Other consumer loans decreased $15 million during the first quarter of 2012.

The composition of residential mortgage and consumer loans at March 31, 2012 is as follows in Table 22. All permanent residential mortgage loans originated and serviced by our mortgage banking unit and retained within the consolidated group are attributed to the Oklahoma market. Other permanent residential mortgage loans originated by the Company subsidiary bank are attributed to their respective principal market.

Table 22 – Residential Mortgage and Consumer Loans by Principal Market
(In thousands)

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Residential mortgage:								
Permanent mortgage	$859,954	$152,133	$10,196	$8,856	$36,628	$59,217	$6,207	$1,133,191
Permanent mortgages guaranteed by U.S. government agencies	180,862	–	–	–	–	–	–	180,862
Home equity	395,950	107,040	94,299	4,922	23,899	14,487	6,238	646,835
Total residential mortgage	$1,436,766	$259,173	$104,495	$13,778	$60,527	$73,704	$12,445	$1,960,888
Consumer:								
Indirect automobile	$43,750	$14,098	$–	$23,943	$–	$–	$–	$81,791
Other consumer	166,611	109,506	18,185	4,989	19,813	5,381	3,536	328,021
Total consumer	$210,361	$123,604	$18,185	$28,932	$19,813	$5,381	$3,536	$409,812

Loan Commitments

We enter into certain off-balance sheet arrangements in the normal course of business. These arrangements included unfunded loan commitments which totaled $6.0 billion and standby letters of credit which totaled $556 million at March 31, 2012. Loan commitments may be unconditional obligations to provide financing or conditional obligations that depend on the borrower's financial condition, collateral value or other factors. Standby letters of credit are unconditional commitments to guarantee the performance of our customer to a third party. Since some of these commitments are expected to expire before being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Approximately $3.1 million of the outstanding standby letters of credit were issued on behalf of customers whose loans are nonperforming at March 31, 2012.

As more fully described in Note 5 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 March 31, 2012, the principal balance of residential mortgage loans sold subject to recourse obligations totaled $248 million, down from $259 million from December 31, 2011. Substantially all of these loans are to borrowers in our primary markets including $177 million to borrowers in Oklahoma, $22 million to borrowers in Arkansas, $15 million to borrowers in New Mexico, $14 million to borrowers in the Kansas/Missouri area and $12 million to borrowers in Texas.

Under certain conditions, we also have an off-balance sheet obligation to repurchase residential mortgage loans sold to government sponsored entities through our mortgage banking activities. These obligation arise from standard representations and warranties made under contractual agreements. At March 31, 2012, we have unresolved deficiency requests from the agencies on 280 loans with an aggregate outstanding balance of $36 million. At December 31, 2011, we had unresolved deficiency requests from the agencies on 247 loans with an aggregate outstanding balance of $37 million. For all of 2012, 2011 and 2010 combined, 10% of repurchase requests have currently resulted in actual repurchases or indemnification by the Company. We repurchased 15 loans from the agencies during the first quarter of 2012 for $2.0 million and recognized minimal losses. At March 31, 2012, we have a $2.1 million accrual for credit losses related to potential loan repurchases under representations and warranties.

Customer Derivative Programs

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

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

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

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

Derivative contracts are carried at fair value. At March 31, 2012, the net fair value of derivative contracts reported as assets under these programs totaled $379 million, up from $287 million at December 31, 2011. Derivative contracts carried as assets included foreign exchange contracts with fair values of $190 million, energy contracts with fair values of $91 million and interest rate contracts with fair values of $90 million. The aggregate net fair values of derivative contracts held under these programs reported as liabilities totaled $280 million.

At March 31, 2012, total derivative assets were reduced by $12 million of cash collateral received from counterparties and total derivative liabilities were reduced by $116 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 March 31, 2012 follows in Table 23.

Table 23 – Fair Value of Derivative Contracts
(In thousands)

Customers	$228,533
Banks and other financial institutions	135,373

Exchanges	5,097
Energy companies	10,273
Fair value of customer hedge asset derivative contracts, net	$379,276

At March 31, 2012, the largest exposure to a single counterparty, an energy customer, totaled $16 million. This amount was fully secured by cash and securities as of March 31, 2012.

Our aggregate gross exposure to all European banks totaled $7.4 million at March 31, 2012. In addition, $8.5 million is owed to us by MF Global which filed for bankruptcy protection on October 31, 2011 after partial distributions from the bankruptcy trustee. The remaining amount due was written down during the fourth quarter of 2011 to $6.8 million based on our evaluation of the amount we expect to recover.

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 $36.89 per barrel of oil would increase the fair value of derivative assets by $82 million. An increase in prices equivalent to $171.23 per barrel of oil would increase the fair value of derivative assets by $368 million as current prices move away from the fixed prices embedded in our existing contracts. Liquidity requirements of this program are also affected by our credit rating. A decrease in credit rating from A1 to below investment grade would increase our obligation to post cash margin on existing contracts by approximately $42 million.

Summary of Loan Loss Experience

We maintain an allowance for loan losses and an accrual for off-balance sheet credit risk. The combined allowance for loan losses and accrual for off-balance sheet credit losses totaled $254 million or 2.20% of outstanding loans and 138% of nonaccruing loans at March 31, 2012. The allowance for loans losses was $244 million and the accrual for off-balance sheet credit losses was $10 million. The combined allowance for loan losses and accrual for off-balance sheet credit losses totaled $263 million or 2.33% of outstanding loans and 130% of nonaccruing loans at December 31, 2011. The allowance for loans losses was $253 million and the accrual for off-balance sheet credit losses was $9.3 million. The accrual for off-balance sheet losses for both March 31, 2012 and December 31, 2011 included $7.1 million related to an Oklahoma Supreme Court ruling that reversed a loan settlement agreement between the Company and the City of Tulsa. The refund of this settlement will increase future net charge-offs.

The provision for credit losses is the amount necessary to maintain the allowance for loan losses and accrual for off-balance sheet credit risk at an amount determined by management to be appropriate based on its evaluation. The provision includes the combined charge to expense for both the allowance for loan losses and the accrual for off-balance sheet credit risk. All losses incurred from lending activities will ultimately be reflected in charge-offs against the allowance for loan losses following funds advanced against outstanding commitments and after the exhaustion of collection efforts. No provision for credit losses was recorded in the first quarter of 2012 based on a continued trend of declining charge-offs, reduced nonaccruing loans and improvement in other credit quality factors. A negative provision for credit losses of $15 million was recorded in the fourth quarter of 2011 and the provision for credit losses totaled $6.3 million in the first quarter of 2011.

Table 24 – Summary of Loan Loss Experience
(In thousands)

	Three Months Ended				
	March 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	March 31, 2011
Allowance for loan losses:					
Beginning balance	$253,481	$271,456	$286,611	$289,549	$292,971
Loans charged off:					
Commercial	2,934	4,099	5,083	3,302	2,352
Commercial real estate	6,725	3,365	2,335	3,380	6,893
Residential mortgage	1,786	4,375	3,403	3,381	2,948
Consumer	2,229	2,932	3,202	2,711	3,039
Total	13,674	14,771	14,023	12,774	15,232
Recoveries of loans previously charged off:					
Commercial	1,946	2,316	1,404	2,187	1,571
Commercial real estate	1,312	1,220	911	306	343
Residential mortgage	411	715	283	254	1,082
Consumer	1,520	1,060	1,271	1,509	1,918
Total	5,189	5,311	3,869	4,256	4,914
Net loans charged off	8,485	9,460	10,154	8,518	10,318
Provision for (reduction of) allowance for loan losses	(787)	(8,515)	(5,001)	5,580	6,896
Ending balance	$244,209	$253,481	$271,456	$286,611	$289,549
Allowance for off-balance sheet credit losses:					
Beginning balance	$9,261	$15,746	$10,745	$13,625	$14,271
Provision for (reduction of) accrual for off-balance sheet credit losses	787	(6,485)	5,001	(2,880)	(646)
Ending balance	$10,048	$9,261	$15,746	$10,745	$13,625
Total provision for (reduction of) allowance for credit losses	$–	$(15,000)	$–	$2,700	$6,250
Allowance for loan losses to loans outstanding at period-end	2.11 %	2.25 %	2.44 %	2.67 %	2.73 %
Net charge-offs (annualized) to average loans	0.30	0.34	0.37	0.32	0.39
Total provision for (reduction of) allowance for credit losses (annualized) to average loans	–	(0.54)	–	0.10	0.23
Recoveries to gross charge-offs	37.95	35.96	27.59	33.32	32.26
Accrual for off-balance sheet credit losses to off-balance sheet credit commitments	0.15	0.14	0.25	0.18	0.24
Combined allowance for loan losses and accrual for off-balance sheet credit losses to loans outstanding at period-end	2.20	2.33	2.58	2.77	2.86

Allowance for Loan Losses

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

At March 31, 2012, impaired loans totaled $160 million, including $8.8 million of impaired loans with specific allowances of $2.3 million and $152 million with no specific allowances because the loan balances represent the amounts we expect to recover. At December 31, 2011, impaired loans totaled $176 million, including $22 million of impaired loans with specific allowances of $5.8 million and $155 million with no specific allowances.

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

The aggregate amount of general allowances for all unimpaired loans totaled $198 million at March 31, 2012 and $201 million at December 31, 2011. The decrease in the aggregate amount of general allowance for unimpaired loans was primarily due to the declining trend of charge-offs.

Nonspecific allowances are maintained for risks beyond factors specific to a particular loan or loan class. These factors include trends in the economy in our primary lending areas, concentrations in loans with large balances and other relevant factors. Nonspecific allowances totaled $44 million at March 31, 2012 and $46 million at December 31, 2011. At March 31, 2012 the nonspecific allowance includes consideration of the recent bankruptcy filing by a major employer in the Tulsa, Dallas/Ft. Worth and Kansas City markets. Although, we have no direct exposure, the secondary effect on employees, retirees, vendors, suppliers and other business partners could be significant. The nonspecific allowance also considers the possible impact of the European debt crisis and similar economic factors on our loan portfolio.

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. These potential problem loans totaled $173 million at March 31, 2012. The composition of potential problem loans by loan class included: services - $39 million, construction and land development - $28 million, wholesale / retail - $23 million, other commercial real estate - $14 million, residential mortgage - $14 million, commercial real estate secured by office buildings - $12 million and manufacturing - $10 million. Potential problem loans totaled $161 million at December 31, 2011.

Net Loans Charged Off

Loans are charged off against the allowance for loan losses when the loan balance or a portion of the loan balance is no longer covered by the paying capacity of the borrower based on an evaluation of available cash resources and collateral value. Commercial and commercial real estate loans are evaluated quarterly and charge-offs are taken in the quarter in which the loss is identified. Residential mortgage and consumer loans are generally charged off when payments are between 90 days and 180 days past due, depending on the loan class.

Net loans charged off during the first quarter of 2012 totaled $8.5 million compared to $9.5 million in the fourth quarter of 2011 and $10.3 million in the first quarter of 2011. The ratio of net loans charged off (annualized) to average outstanding loans was 0.30% for the first quarter of 2012 compared to 0.34% for the fourth quarter of 2011 and 0.39% for the first quarter of 2011. Net loans charged off in the first quarter of 2012 decreased $975 thousand compared to the previous quarter.

Net loans charged off by loan portfolio and principal market area during the first quarter of 2012 follow in Table 25.

Table 25 – Net Loans Charged Off
(In thousands)

	Oklahoma	Texas	Colorado	Arkansas	New Mexico	Arizona	Kansas/ Missouri	Total
Commercial	$ 633	$(47)	$64	$–	$(42)	$381	$(1)	$988
Commercial real estate	(426)	(62)	1,804	–	776	3,321	–	5,413
Residential mortgage	1,143	193	–	34	54	(122)	73	1,375
Consumer	304	200	20	29	98	43	15	709

Total net loans charged off	$ 1,654	$284	$1,888	$63	$886	$3,623	$87	$8,485

Net commercial loans charged off during the first quarter of 2012 decreased $795 thousand compared to fourth quarter of 2011 and were composed primarily of $1.0 million from the retail sector of the commercial loan portfolio in the Oklahoma market.

Net charge-offs of commercial real estate loans increased $3.3 million over the fourth quarter of 2011 and included $3.4 million of land and residential construction sector loans primarily in the Arizona, Colorado and New Mexico markets and $2.2 million of loans secured by other commercial real estate properties primarily in the Arizona market.

Residential mortgage net charge-offs were down $2.3 million compared to the fourth quarter of 2011. Consumer loan net charge-offs, which includes indirect auto loan and deposit account overdraft losses, decreased $1.2 million compared to the previous quarter. All residential mortgage net charge-offs related to loans serviced by our mortgage company across our geographical footprint are attributed to the Oklahoma market.

Nonperforming Assets

Table 26 – Nonperforming Assets
(In thousands)

	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	Mar. 31, 2011
Nonaccrual loans:					
Commercial	$61,750	$68,811	$83,736	$53,365	$57,449
Commercial real estate	86,475	99,193	110,048	110,363	125,504
Residential mortgage	27,462	29,767	31,731	31,693	37,824
Consumer	7,672	3,515	3,960	4,749	5,185
Total nonaccrual loans	183,359	201,286	229,475	200,170	225,962
Renegotiated loans2	36,764	32,893	30,477	22,261	21,705
Total nonperforming loans	220,123	234,179	259,952	222,431	247,667
Other nonperforming assets	115,790	122,753	127,943	129,026	131,420
Total nonperforming assets	$335,913	$356,932	$387,895	$351,457	$379,087
Nonaccrual loans by principal market:					
Oklahoma	$64,097	$65,261	$73,794	$41,411	$49,585
Texas	29,745	28,083	29,783	32,385	34,404
New Mexico	15,029	15,297	17,242	17,244	17,510
Arkansas	18,066	23,450	26,831	24,842	29,769
Colorado	28,990	33,522	36,854	37,472	40,629
Arizona	27,397	35,673	44,929	43,307	54,065
Kansas / Missouri	35	–	42	3,509	–
Total nonaccrual loans	$183,359	$201,286	$229,475	$200,170	$225,962
Nonaccrual loans by loan portfolio sector:					
Commercial:					
Energy	$336	$336	$3,900	$345	$415
Manufacturing	23,402	23,051	27,691	4,366	4,545
Wholesale / retail	15,388	21,180	27,088	25,138	30,411
Integrated food services	–	–	–	–	6
Services	12,890	16,968	18,181	16,254	15,720
Healthcare	7,946	5,486	5,715	5,962	2,574
Other	1,788	1,790	1,161	1,300	3,778
Total commercial	61,750	68,811	83,736	53,365	57,449
Commercial real estate:					
Land development and construction	52,416	61,874	72,207	76,265	90,707
Retail	6,193	6,863	6,492	4,642	5,276
Office	10,733	11,457	11,967	11,473	14,628
Multifamily	3,414	3,513	4,036	4,717	1,900
Other commercial real estate	13,719	15,486	15,346	13,266	12,993
Total commercial real estate	86,475	99,193	110,048	110,363	125,504
Residential mortgage:					
Permanent mortgage	22,822	25,366	27,486	27,991	33,466
Home equity	4,640	4,401	4,245	3,702	4,358
Total residential mortgage	27,462	29,767	31,731	31,693	37,824
Consumer	7,672	3,515	3,960	4,749	5,185
Total nonaccrual loans	$183,359	$201,286	$229,475	$200,170	$225,962
Ratios:					

Allowance for loan losses to nonaccruing loans	133.19 %	125.93 %	118.29 %	143.18 %	128.14 %
Nonaccruing loans to period-end loans	1.58 %	1.79 %	2.06 %	1.86 %	2.13 %
Accruing loans 90 days or more past due1	$6,140	$2,496	$1,401	$2,341	$8,043
1Excludes residential mortgages guaranteed by agencies of the U.S. Government.					
2Includes residential mortgages guaranteed by agencies of the U.S. Government. These loans have been modified to extend payment terms and/or reduce interest rates.	$32,770	28,974	26,670	18,716	18,304

Nonperforming assets decreased $21 million during the first quarter of 2012 to $336 million or 2.87% of outstanding loans and repossessed assets at March 31, 2012. Nonaccruing loans totaled $183 million, renegotiated residential mortgage loans totaled $37 million (composed primarily of $33 million of residential mortgage loans guaranteed by U.S. government agencies) and real estate and other repossessed assets totaled $116 million. The Company generally retains nonperforming assets to maximize potential recovery which may cause future nonperforming assets to decrease more slowly.

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

We generally do not modify consumer loans to troubled borrowers.

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

A rollforward of nonperforming assets for the first quarter of 2012 follows in Table 27.

Table 27 – Rollforward of Nonperforming Assets
(In thousands)

	For the Three Months Ended March 31, 2012			
	Nonaccruing Loans	Renegotiated Loans	Real Estate and Other Repossessed Assets	Total Nonperforming Assets
Balance, December 31, 2011	$ 201,286	$ 32,893	$ 122,753	$ 356,932
Additions	21,096	6,828	–	27,924
Payments	(19,569)	(342)	–	(19,911)
Charge-offs	(13,674)	–	–	(13,674)
Net write-downs and losses	–	–	(520)	(520)
Foreclosure of nonaccruing loans	(8,293)	–	8,293	–

Foreclosure of loans guaranteed by U.S. government agencies	–	–	17,748	17,748
Proceeds from sales	–	(2,699)	(33,432)	(36,131)
Net transfers from nonaccruing loans	(182)	182	–	–
Other, net	2,695	(98)	948	3,545
Balance, March 31, 2012	$ 183,359	$ 36,764	$ 115,790	$ 335,913

We foreclose on loans guaranteed by U.S. government agencies in accordance with agency guidelines. Generally these loans are not eligible for modification programs. 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 first quarter of 2012, $18 million of properties guaranteed by U.S. government agencies were foreclosed on. In addition, Proceeds from sales above include $15 million of properties conveyed to the applicable U.S. government agencies during the first quarter.

Nonaccruing loans totaled $183 million or 1.58% of outstanding loans at March 31, 2012 compared to $201 million or 1.79% of outstanding loans at December 31, 2011. Nonaccruing loans decreased $18 million from December 31, 2011 primarily due to $20 million of payments, $14 million of charge-offs and $8.3 million of foreclosures. Newly identified nonaccruing loans totaled $21 million for the first quarter of 2012.

The distribution of nonaccruing loans among our various markets follows in Table 28.

Table 28 – Nonaccruing Loans by Principal Market
(Dollars In thousands)

	March 31, 2012		December 31, 2011		Change	
	Amount	% of outstanding loans	Amount	% of outstanding loans	Amount	% of outstanding loans
Oklahoma	$64,097	1.22 %	$65,261	1.31 %	$(1,164)	(9) bp
Texas	29,745	0.85	28,083	0.82	1,662	3
New Mexico	15,029	2.21	15,297	2.22	(268)	(1)
Arkansas	18,066	7.31	23,450	8.87	(5,384)	(156)
Colorado	28,990	3.72	33,522	4.20	(4,532)	(48)
Arizona	27,397	5.05	35,673	6.27	(8,276)	(122)
Kansas / Missouri	35	–	–	–	35	–
Total	$183,359	1.58 %	$201,286	1.79 %	$(17,927)	(21) bp

Nonaccruing loans in the Oklahoma market are primarily composed of $22 million of manufacturing sector loans, $20 million of permanent residential mortgage loans and $16 million of commercial real estate loans. All residential loans originated and serviced by our mortgage company across our geographical footprint are attributed to the Oklahoma market. Nonaccruing loans in the Arizona and Colorado markets consisted primarily of commercial real estate loans. Nonaccruing loans attributed to the Texas market included $10 million of commercial real estate loans, $4.6 million of healthcare sector loans, $4.1 million of residential mortgage loans, and $3.4 million of service sector loans. Nonaccruing loans attributed to the Colorado market are primarily composed of commercial real estate loans. Nonaccruing loans attributed to the Arizona market are primarily composed of $19 million of commercial real estate loans and $4.7 million of service sector loans.

Commercial

Nonaccruing commercial loans totaled $62 million or 0.89% of total commercial loans at March 31, 2012, down from $69 million or 1.05% of total commercial loans at December 31, 2011. At March 31, 2012, nonaccruing commercial loans were primarily composed of $23 million or 6.46% of total manufacturing sector loans, $15 million or 1.53% of total wholesale/retail sector loans and $13 million or 0.69% of total services sector loans. Nonaccruing manufacturing sector loans were primarily composed of a single customer in the Oklahoma market totaling $21 million at March 31, 2012 and $16 million at December 31, 2011. Nonaccruing wholesale/retail sector loans were primarily composed of a single customer relationship in the Arkansas market totaling $11 million at March 31, 2012 and $16 million at December 31, 2011.

Nonaccruing commercial loans decreased $7.1 million during the first quarter primarily due to $11 million of payments and $2.9 million of charge-offs, partially offset by $6.9 million of newly identified nonaccruing commercial loans.

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

Table 29 – Nonaccruing Commercial Loans by Principal Market
(Dollars in thousands)

	March 31, 2012	December 31, 2011	Change
	Amount	Amount	Amount

		% of outstanding loans		% of outstanding loans		% of outstanding loans
Oklahoma	$26,456	0.90 %	$26,722	0.99 %	$(266)	(9) bp
Texas	11,751	0.51	12,037	0.54	(286)	(3)
New Mexico	2,854	1.04	3,056	1.21	(202)	(17)
Arkansas	11,369	15.29	16,648	19.33	(5,279)	(404)
Colorado	3,037	0.55	3,446	0.62	(409)	(7)
Arizona	6,283	2.21	6,902	2.39	(619)	(18)
Kansas / Missouri	–	–	–	–	–	–
Total commercial	$61,750	0.89 %	$68,811	1.05 %	$(7,061)	(16) bp

Commercial Real Estate

Nonaccruing commercial real estate loans totaled $86 million or 3.82% of outstanding commercial real estate loans at March 31, 2012 compared to $99 million or 4.35% of outstanding commercial real estate loans at December 31, 2011. Nonaccruing commercial real estate loans continue to be largely concentrated in land development and residential construction loans. Nonaccruing commercial real estate loans were down $12.7 million compared to the prior quarter. Newly identified nonaccruing commercial real estate loans totaled $2.8 million, offset by $8.4 million of cash payments received, $6.7 million of charge-offs and $1.3 million of foreclosures. The distribution of our nonaccruing commercial real estate loans among our geographic markets follows in Table 30.

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

	March 31, 2012			December 31, 2011			Change			
	Amount	% of outstanding loans		Amount	% of outstanding loans		Amount		% of outstanding loans	
Oklahoma	$15,519	2.32	%	$15,475	2.58	%	$44		(26	) bp
Texas	9,914	1.22		11,491	1.38		(1,577	)	(16	) bp
New Mexico	10,651	3.76		10,590	3.34		61		42	bp
Arkansas	5,588	4.30		5,638	4.42		(50	)	(12	) bp
Colorado	25,780	17.93		29,899	19.43		(4,119	)	(150	) bp
Arizona	19,023	10.65		26,100	13.54		(7,077	)	(289	) bp
Kansas / Missouri	–	–		–	–		–		–	
Total commercial real estate	$86,475	3.82	%	$99,193	4.35	%	$(12,718	)	(53	) bp

Nonaccruing commercial real estate loans were primarily concentrated in the Arizona and Colorado markets. Nonaccruing commercial real estate loans attributed to the Colorado market consist primarily of nonaccruing residential construction and land development loans. Nonaccruing commercial real estate loans attributed to the Arizona market consist primarily of $7.6 million of other commercial real estate loans, $6.8 million nonaccruing residential construction and land development loans, and $3.4 million of loans secured by office buildings.

Residential Mortgage and Consumer

Nonaccruing residential mortgage loans totaled $27 million or 1.40% of outstanding residential mortgage loans at March 31, 2012 compared to $30 million or 1.51% of outstanding residential mortgage loans at December 31, 2011. Newly identified nonaccrual residential mortgage loans totaled $4.8 million, offset by $1.8 million of loans charged off and $4.5 million of foreclosures during the quarter. Nonaccruing residential mortgage loans primarily consist of permanent residential mortgage loans which totaled $23 million or 1.74% of outstanding permanent residential mortgage loans at March 31, 2012. Nonaccruing home equity loans continued to perform well with only $4.6 million or 0.72% of total home equity loans in nonaccrual status.

Payments on accruing residential mortgage loans and consumer loans may be delinquent. The composition of residential mortgage loans and consumer loans that are past due but still accruing interest is included the following Table 31. Principally all non-guaranteed residential loans past due 90 days or more are nonaccruing. Residential mortgage loans 30 to 89 days past due decreased $5.5 million to $15 million at March 31, 2012. Consumer loans past due 30 to 89 days decreased $3.2 million from December 31, 2011. Residential mortgage loans past due 90 days or more decreased $589 thousand in the first quarter. Consumer loans past due 90 days or more increased $13 thousand in the first quarter of 2012.

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Table 31 – Residential Mortgage and Consumer Loans Past Due
(In thousands)

	March 31, 2012		December 31, 2011	
	90 Days or More	30 to 89 Days	90 Days or More	30 to 89 Days
Residential mortgage:				
Permanent mortgage1	$ 54	$ 12,705	$ 601	$ 17,259
Home equity	–	2,087	42	3,036
Total residential mortgage	$ 54	$ 14,792	$ 643	$ 20,295
Consumer:				
Indirect automobile	$ –	$ 2,231	$ 29	$ 4,581
Other consumer	42	1,467	–	2,286
Total consumer	$ 42	$ 3,698	$ 29	$ 6,867

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 $116 million at March 31, 2012, a $7.0 million decrease from December 31, 2011. The distribution of real estate and other repossessed assets attributed by geographical market is included in Table 32 following.

Table 32 – Real Estate and Other Repossessed Assets by Principal Market
(In thousands)

	Oklahoma	Texas	Colorado	Arkansas	New Mexico	Arizona	Kansas/ Missouri	Other	Total
Developed commercial real estate properties	$ 2,356	$ 7,522	$ 2,433	$ 1,498	$ 4,186	$ 14,901	$425	$ 3,060	$ 36,381
1-4 family residential properties	5,965	4,296	2,786	2,474	1,175	2,602	569	2,039	21,906
1-4 family residential properties guaranteed by U.S. government agencies	4,955	1,812	214	846	9,378	516	1,872	428	20,021
	361	4,808	2,903	149	242	5,980	4,515	–	18,958

Undeveloped land									
Residential land development properties	840	5,305	2,305	92	–	8,253	174	–	16,969
Oil and gas properties	–	734	–	–	–	–	–	–	734
Vehicles	150	77	–	91	–	–	–	–	318
Construction equipment	–	–	–	–	–	–	317	–	317
Multifamily residential properties	–	–	–		–	153	–	–	153
Other	–	–	–	–	–	–	–	33	33
Total real estate and other repossessed assets	$ 14,627	$ 24,554	$ 10,641	$ 5,150	$ 14,981	$ 32,405	$ 7,872	$ 5,560	$ 115,790

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 first quarter of 2012, approximately 73% of our funding was provided by deposit accounts, 10% from borrowed funds, 2% from long-term subordinated debt and 11% 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 first quarter of 2012 totaled $18.7 billion and represented approximately 73% of total liabilities and capital compared with $18.6 billion and 72% of total liabilities and capital for the fourth quarter of 2011. Average deposits increased $85 million over the fourth quarter of 2011. Average demand deposits increased $259 million due primarily to a $243 million increase in commercial demand deposits from energy and commercial and industrial customers. Average interest-bearing transaction deposit accounts increased $43 million. Increases in Consumer Banking deposits and Commercial Banking deposits were partially offset by a decrease in Wealth Management deposits. Average time deposits were down $239 million compared to the fourth quarter of 2011. Average commercial deposit balances increased $244 million primarily due to a $145 million increase in average deposits attributable to our energy customers and a $134 million increase in average deposits attributable to our treasury services customers. Commercial customers continue to retain large cash reserves primarily due to continued economic uncertainty.

Brokered deposits, which are included in time deposits, averaged $62 million for the first quarter of 2012, a $57 million decrease compared to the fourth quarter of 2011.

The distribution of our period-end deposit account balances among principal markets follows in Table 33.

Table 33 – Period-end Deposits by Principal Market Area
(In thousands)

	March 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	March 31, 2011
Oklahoma:					
Demand	$3,445,424	$3,223,201	$2,953,410	$2,486,671	$2,420,210
Interest-bearing:					
Transaction	5,889,625	6,050,986	6,038,770	5,916,784	6,068,304
Savings	148,556	126,763	122,829	120,278	120,020
Time	1,370,868	1,450,571	1,489,486	1,462,137	1,465,506
Total interest-bearing	7,409,049	7,628,320	7,651,085	7,499,199	7,653,830
Total Oklahoma	10,854,473	10,851,521	10,604,495	9,985,870	10,074,040
Texas:					
Demand	1,876,133	1,808,491	1,710,315	1,528,772	1,405,892
Interest-bearing:					
Transaction	1,734,655	1,940,819	1,820,116	1,741,176	1,977,850
Savings	50,331	45,872	42,272	42,185	40,313
Time	789,860	867,664	938,200	992,366	1,015,754
Total interest-bearing	2,574,846	2,854,355	2,800,588	2,775,727	3,033,917
Total Texas	4,450,979	4,662,846	4,510,903	4,304,499	4,439,809
New Mexico:					
Demand	333,707	319,269	325,612	299,305	282,708
Interest-bearing:					
Transaction	503,015	491,068	480,816	483,026	498,355
Savings	32,688	27,487	26,127	24,613	24,455
Time	392,234	410,722	431,436	449,618	453,580
Total interest-bearing	927,937	929,277	938,379	957,257	976,390
Total New Mexico	1,261,644	1,248,546	1,263,991	1,256,562	1,259,098
Arkansas:					
Demand	22,843	18,513	21,809	17,452	15,144
Interest-bearing:					
Transaction	151,708	131,181	181,486	138,954	130,613
Savings	2,358	1,727	1,735	1,673	1,514
Time	54,157	61,329	74,163	82,112	94,889
Total interest-bearing	208,223	194,237	257,384	222,739	227,016
Total Arkansas	231,066	212,750	279,193	240,191	242,160
Colorado:					
Demand	311,057	272,565	217,394	196,915	197,579
Interest-bearing:					
Transaction	476,718	511,993	520,743	509,738	528,948
Savings	23,409	22,771	22,599	21,406	21,655
Time	498,124	523,969	547,481	563,642	546,586
Total interest-bearing	998,251	1,058,733	1,090,823	1,094,786	1,097,189
Total Colorado	1,309,308	1,331,298	1,308,217	1,291,701	1,294,768

Arizona:					
Demand	131,539	106,741	138,971	150,194	106,880
Interest-bearing:					
Transaction	95,010	104,961	101,933	107,961	102,089
Savings	1,772	1,192	1,366	1,364	984
Time	34,199	37,641	40,007	44,619	50,060
Total interest-bearing	130,981	143,794	143,306	153,944	153,133
Total Arizona	262,520	250,535	282,277	304,138	260,013
Kansas / Missouri:					
Demand	68,469	51,004	46,773	46,668	28,774
Interest-bearing:					
Transaction	57,666	123,449	108,973	115,684	222,705
Savings	505	545	503	358	323
Time	26,657	30,086	33,697	40,206	51,236
Total interest-bearing	84,828	154,080	143,173	156,248	274,264
Total Kansas / Missouri	153,297	205,084	189,946	202,916	303,038
Total BOK Financial deposits	$18,523,287	$18,762,580	$18,439,022	$17,585,877	$17,872,926

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 $319 million at March 31, 2012. 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 Banks of Topeka averaged $8.3 million during the quarter.

At March 31, 2012, the estimated unused credit available to the subsidiary bank from collateralized sources was approximately $7.7 billion.

Table 34 – Other borrowings
(In thousands)

For the three months ended March 31, 2012			For the three months ended December 31, 2011		
As of	Average Balance	Maximum Outstanding At Any Month	As of	Average Balance	Maximum Outstanding At Any Month