BOK FINANCIAL CORP ET AL
Form 10-Q
May 10, 2011

As filed with the Securities and Exchange Commission on May 10, 2011

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, 2011

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 68,438,422 shares of common stock ($.00006 par value) as of March 31, 2011.

BOK Financial Corporation
Form 10-Q
Quarter Ended March 31, 2011

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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 $64.8 million or $0.94 per diluted share for the first quarter of 2011 compared to $60.1 million or $0.88 per diluted share for the first quarter of 2010 and $58.8 million or $0.86 per diluted share for the fourth quarter of 2010. Net income for the first quarter of 2010 included a $6.5 million or $0.10 per diluted share gain from the purchase of the rights to service $4.2 billion of residential mortgage loans on favorable terms.

Highlights of the first quarter of 2011 included:

- Net interest revenue totaled $170.6 million for the first quarter of 2011 compared to $182.6 million for the first quarter of 2010 and $163.7 million for the fourth quarter of 2010. Net interest margin was 3.46% for the first quarter of 2011, 3.68% for the first quarter of 2010 and 3.19% for the fourth quarter of 2010. The decrease in net interest revenue compared with the first quarter of 2010 was due primarily to the reinvestment of cash flows from the securities portfolio at lower rates. Net interest revenue increased over the fourth quarter as premium amortization of the residential mortgage-backed securities portfolio slowed. Actual and projected prepayment speeds decreased as intermediate and long-term interest rates increased over the extremely low levels experienced in the fourth quarter of 2010.

- Fees and commissions revenue totaled $123.3 million for the first quarter of 2011, compared to $115.3 million for the first quarter of 2010 and $136.0 million for the fourth quarter of 2010. Revenue growth over the first quarter of 2010 was distributed across most of our fee generating businesses. However, deposit service charges and fees decreased $4.3 million due primarily to changes in overdraft fee regulations which became effective in the second half of 2010. The decrease in fees and commissions revenue compared with the previous quarter was due to mortgage banking revenue which decreased $7.8 million from reduced mortgage loan origination volumes.

- Operating expenses, excluding changes in the fair value of mortgage servicing rights, totaled $181.6 million, up $3.9 million over the first quarter of the prior year and down $21.9 million from the prior quarter. Personnel costs were up $3.2 million over the first quarter of 2010. Operating expenses decreased compared to the fourth quarter of 2010 primarily due to personnel costs and mortgage banking expenses.

- Provision for credit losses totaled $6.3 million for the first quarter of 2011 compared to $42.1 million for the first quarter of 2010 and $7.0 million for the fourth quarter of 2010. Net loans charged off continued to improve decreasing to $10.3 million in the first quarter of 2011 from $34.5 million for the first quarter of 2010 and $14.2 million for the fourth quarter of 2010.

- Combined allowance for credit losses totaled $303 million or 2.86% of outstanding loans, down from $307 million or 2.89% of outstanding loans at December 31, 2010. Nonperforming assets totaled $379 million or 3.54% of outstanding loans and repossessed assets at March 31, 2011, down from $394 million or 3.66% of outstanding loans and repossessed assets at December 31, 2010.

- Outstanding loan balances were $10.6 billion at March 31, 2011, down $53 million since December 31, 2010. Commercial loan balances increased $114 million during the first quarter of 2011. Commercial loan growth was offset by a $54 million decrease in construction and land development commercial real estate loans, a $51 million decrease in residential mortgage loans and a $62 million decrease in consumer loans.

- Total period end deposits increased $694 million during the first quarter of 2011 to $17.9 billion. All categories of deposits increased in the first quarter. Deposit growth was largely centered on commercial customers across most of our markets.

- Tangible common equity ratio increased to 9.54% at March 31, 2011 from 9.21% at December 31, 2010 largely due to retained earnings growth. 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 minus intangible assets and equity that does not benefit common shareholders such as preferred equity and equity provided by the U.S. Treasury's Troubled Asset Relief Program ("TARP") Capital Purchase Program. BOK Financial chose not to participate in the TARP Capital Purchase Program. The Company's Tier 1 capital ratios as defined by banking regulations were 12.97% at March 31, 2011 and 12.69% at December 31, 2010.

- The Company paid a cash dividend of $17.1 million or $0.25 per common share during the first quarter of 2011. On April 26, 2011, the board of directors increased the cash dividend to $0.275 per common share payable on or about May 27, 2011 to shareholders of record as of May 13, 2011. This is the sixth consecutive annual increase since we paid our first cash dividend in the second quarter of 2005.

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 $170.6 million for the first quarter of 2011, down $11.9 million or 7% from the first quarter of 2010 and up $7.0 million over the fourth quarter of 2010. The decrease in net interest revenue from the first quarter of 2010 was due primarily to lower yield on our securities portfolio, partially offset by lower funding costs. The increase in net interest revenue over the fourth quarter of 2010 resulted from improved yield on the securities portfolio.

Net interest margin was 3.46% for the first quarter of 2011, 3.68% for the first quarter of 2010 and 3.19% for the fourth quarter of 2010.

The decrease in net interest margin compared to the first quarter of 2010 was due largely to lower yield on our securities portfolio. The tax-equivalent yield on earning assets was 4.09% for the first quarter of 2011, down 32 basis points from the first quarter of 2010. The securities portfolio yield decreased 53 basis points to 3.25%. Cash flows from our securities portfolio are reinvested at lower current rates. Loan yields decreased 6 basis points to 4.75%. Funding costs were down 7 basis points from the first quarter of 2010. The cost of interest-bearing deposits decreased 22 basis points.

Net interest margin improved 27 basis points over the fourth quarter of 2010. Yield on average earning assets increased 25 basis points to 4.09%. Yield on the securities portfolio improved by 52 basis points. As intermediate and long-term interest rates increased near the end of the fourth quarter of 2010 and stabilized throughout the first quarter of 2011, premium amortization slowed and reinvestment rates improved. Yield on the loan portfolio decreased by 1 basis point. The cost of interest-bearing liabilities decreased 1 basis point from the previous quarter.

Changes in the average earning asset and average interest-bearing liabilities had little effect on changes in net interest revenue. Average earning assets for the first quarter of 2011 increased less than 1% over the first quarter of 2010. Average available for sale securities, which consist largely of U.S. government agency issued residential mortgage-backed securities, increased $652 million. We purchased these securities to supplement earnings, especially in a period of declining loan demand, and to manage interest rate risk. Average loans, net of allowances for loan losses, decreased $519 million. All major loan categories decreased largely due to reduced customer demand and normal repayment trends.

Average deposits increased $2.3 billion over the first quarter of 2010, including a $1.6 billion increase in average interest-bearing transaction accounts and a $780 million increase in average demand deposits. Average time deposits decreased $155 million compared with the first quarter of 2010. Average borrowed funds decreased $2.8 billion compared to the first quarter of 2010.

Average earning assets for the first quarter of 2011 decreased $491 million compared to the fourth quarter of 2010. Average securities decreased $319 million due to a $239 million decrease in available for sale securities and a $78 million decrease in mortgage trading securities which are used as an economic hedge of our mortgage servicing rights. Average outstanding loans, net of allowance for loan losses, were flat with the previous quarter. Average commercial loan balances increased in the first quarter 2011, offset by lower commercial real estate, residential mortgage and consumer loan balances. Average deposits increased $428 million over the fourth quarter of 2010, including a $307 million increase in average interest-bearing transaction accounts, a $94 million increase in average demand deposits and a $15 million increase in average time deposits. Average borrowed funds decreased $779 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 may also use derivative instruments to manage our interest rate risk. Interest rate swaps were used to convert fixed rate liabilities to floating rate based on LIBOR. Net interest revenue increased $437 thousand in the first quarter of 2011, $658 thousand in the first quarter of 2010 and $1.1 million in the fourth quarter of 2010 from periodic settlements of these contracts. This increase in net interest revenue contributed 1 basis point to the net interest margin in the first quarter of 2011, 1 basis point in the first quarter of 2010, and 2 basis points in the fourth quarter of 2010. Derivative contracts are carried on the balance sheet at fair value. Changes in fair value of these contracts are reported in income as derivatives gains or losses in the Consolidated Statements of Earnings. No interest rate swaps used to convert fixed rate liabilities to floating rate based on LIBOR were outstanding at March 31, 2011.

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, 2011 / 2010		
		Change Due To[1]	
	Change	Volume	Yield / Rate
Tax-equivalent interest revenue:			
Securities	$ (8,740)	$ 3,418	$ (12,158)
Trading securities	(216)	(105)	(111)
Residential mortgage loans held for sale	(408)	(139)	(269)
Loans	(8,008)	(6,291)	(1,717)
Funds sold and resell agreements	(4)	(3)	(1)
Total	(17,376)	(3,120)	(14,256)
Interest expense:			
Transaction deposits	(2,551)	1,719	(4,270)
Savings deposits	9	32	(23)
Time deposits	(1,033)	(706)	(327)
Federal funds purchased	(219)	(260)	41
Repurchase agreements	(442)	8	(450)
Other borrowings	(1,121)	(4,155)	3,034
Subordinated debentures	11	2	9
Total	(5,346)	(3,360)	(1,986)
Tax-equivalent net interest revenue	(12,030)	$ 240	$ (12,270)
Change in tax-equivalent adjustment	(95)		
Net interest revenue	$ (11,935)		

[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 $117.6 million for the first quarter of 2011 compared to $113.9 million for the first quarter of 2010. Fees and commissions revenue increased $8.0 million or 7%. Net gains on securities, derivatives and other assets decreased $3.9 million. Other-than-temporary impairment charges recognized in earnings in the first quarter of 2011 were $374 thousand greater than charges recognized in the first quarter of 2010.

Other operating revenue increased $5.7 million over the fourth quarter of 2010. Fees and commissions revenue decreased $12.7 million and net gains on securities, derivatives and other assets increased $16.3 million. Other-than-temporary impairment charges recognized in earnings were $2.0 million lower compared with the fourth quarter of 2010.

Table 2 – Other Operating Revenue
(In thousands)

	Three Months Ended March 31,		Increase	% Increase	Three Months Ended Dec. 31,	Increase	% Increase
	2011	2010	(Decrease)	(Decrease)	2010	(Decrease)	(Decrease)
Brokerage and trading revenue	$25,376	$21,035	$4,341	21 %	$28,610	$(3,234)	(11)%
Transaction card revenue	28,445	25,687	2,758	11 %	29,500	(1,055)	(4)%
Trust fees and commissions	18,422	16,320	2,102	13 %	18,145	277	2 %
Deposit service charges and fees	22,480	26,792	(4,312)	(16)%	23,732	(1,252)	(5)%
Mortgage banking revenue	17,356	14,871	2,485	17 %	25,158	(7,802)	(31)%
Bank-owned life insurance	2,863	2,972	(109)	(4)%	3,182	(319)	(10)%
Other revenue	8,332	7,638	694	9 %	7,648	684	9 %
Total fees and commissions revenue	123,274	115,315	7,959	7 %	135,975	(12,701)	(9)%
Gain (loss) on other assets	(68)	(1,390)	1,322	N/A	15	(83)	N/A
Loss on derivatives, net	(2,413)	(341)	(2,072)	N/A	(7,286)	4,873	N/A
Gain on available for sale securities, net	4,902	4,076	826	N/A	953	3,949	N/A
Loss on mortgage hedge securities, net	(3,518)	448	(3,966)	N/A	(11,117)	7,599	N/A
Gain (loss) on securities, net	1,384	4,524	(3,140)	N/A	(10,164)	11,548	N/A
Total other-than-temporary impairment	–	(9,708)	9,708	N/A	(4,768)	4,768	N/A
Portion of loss recognized in (reclassified from) other comprehensive income	(4,599)	5,483	(10,082)	N/A	(1,859)	(2,740)	N/A
Net impairment losses recognized in earnings	(4,599)	(4,225)	(374)	N/A	(6,627)	2,028	N/A
Total other operating revenue	$117,578	$113,883	$3,695	3 %	$111,913	$5,665	5 %

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 commission revenue are a significant part of our business strategy and represented 42% of total revenue for the first quarter of 2011, excluding provision for credit losses and gains and losses on asset sales, securities and derivatives. We believe that a variety of fee revenue sources provide an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile. 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 increased $4.3 million or 21% over the first quarter of 2010. Securities trading revenue totaled $14.6 million for the first quarter of 2011, up $3.6 million or 33% compared to the first quarter of 2010 on increased customer activity. Customer hedging revenue totaled $1.1 million for the first quarter of 2011, a $2.2 million decrease from the first quarter of 2010 due primarily to a $2.6 million credit loss on certain mortgage banking customer risk management derivative contracts. This loss was largely offset by a decrease in related accrued incentive compensation expense. Retail brokerage revenue increased $1.4 million over the first quarter of 2010 to $7.1 million and investment banking revenue increased $1.5 million over the first quarter of 2010 to $2.8 million.

Brokerage and trading revenue decreased $3.3 million compared to the fourth quarter of 2010. Investment banking revenue decreased $1.7 million primarily due to decreased loan syndication volume in the first quarter of 2011. Securities trading revenue decreased $573 thousand compared to the fourth quarter of 2010 and customer hedging revenue decreased $1.6 million compared to the fourth quarter of 2010. The $2.6 million credit loss on certain mortgage banking customer risk management derivative contracts was partially offset by increased energy derivative activity over the fourth quarter of 2010. Retail brokerage increased $554 thousand over the fourth quarter of 2010.

Transaction card revenue depends largely on the volume and amount of transactions processed, the number of ATM locations and the number of merchants served. Transaction card revenue totaled $28.4 million for the first quarter of 2011, up $2.8 million or 11% over the first quarter of 2010. Merchant discount fees increased $1.2 million or 18% to $7.9 million on increased transaction volumes. Check card revenue increased $886 thousand or 12% to $8.6

million and ATM network revenue increased $678 thousand or 6% over the first quarter of 2010. Increased ATM transaction volumes were partially offset by a decrease in the average rate charged per transaction. Transaction card revenue decreased $1.1 million compared to the fourth quarter of 2010 primarily due lower ATM network revenue. Merchant discount fees and check card revenue were flat with the prior quarter.

Interchange fee limits proposed by the Federal Reserve Bank as required by the Dodd-Frank Act (the "Act") would significantly reduce our transaction card revenue. Based on the $0.12 per transaction cap proposed in December 2010 to be effective as of July 21, 2011, we would expect a decline of $12 million to $15 million in our transaction card revenue in 2011. On March 29, 2011, the Federal Reserve Bank announced that it would not be able to issue final interchange fee standards by April 21, 2011 as required by the Act. In addition, legislation that would repeal or delay interchange fee limits is being considered. The ultimate effect of the Act on interchange fees is uncertain.

Trust fees and commissions increased $2.1 million or 13% over the first quarter of 2010 to $18.4 million primarily due to an increase in the fair value of trust assets, partially offset by lower balances in our proprietary mutual funds. We continue to voluntarily waive administration fees on the Cavanal Hill money market funds in order to maintain positive yields on these funds in the current low short-term interest rate environment. Waived fees totaled $1.2 million for the first quarter of 2011, $1.1 million for the fourth quarter of 2010 and $951 thousand for the first quarter of 2010. The fair value of trust assets administered by the Company totaled $32.0 billion compared to $32.8 billion at December 31, 2010 and $30.7 billion compared to March 31, 2010. Trust fees and commissions also increased $277 thousand over the fourth quarter of 2010.

Deposit service charges and fees decreased $4.3 million or 16% compared to the first quarter of 2010. Overdraft fees decreased $4.7 million or 28% to $12.3 million. The decrease in overdraft fees was primarily due to changes in federal regulations concerning overdraft charges that were effective July 1, 2010 and was partially mitigated by a new service charge imposed beginning the second quarter of 2010 on accounts that remain overdrawn for more than five days. Commercial account service charge revenue also decreased $363 thousand or 5% compared to the first quarter of 2010 to $7.3 million. Customers kept larger commercial account balances, which increases the earnings credit, a non-cash method for commercial customers to avoid incurring charges for deposit services based on account balances. Service charges on retail deposit accounts decreased $293 thousand or 21% to $1.1 million. Deposit service charges and fees decreased $1.3 million compared to the prior quarter. The decrease was primarily due to a $1.4 million seasonal decrease in overdraft fees partially offset by a $210 thousand increase in commercial service charges. Overdraft volumes historically are lower in the first quarter of each year.

Mortgage banking revenue was up $2.5 million or 17% over the first quarter of 2010. Revenue from originating and marketing mortgage loans increased $1.0 million over the first quarter of 2010 primarily due to a $69 million increase in mortgage loans funded for sale in the secondary market. Mortgage servicing revenue increased $1.5 million or 18% over the first quarter of 2010 and the outstanding principal balance of mortgage loans serviced for others increased $225 million. Mortgage banking revenue decreased $7.8 million compared to the fourth quarter of 2010, primarily due to a $7.6 million decrease in revenue from originating and marketing mortgage loans. Funding of residential mortgage loans for sale totaled $452 million in the first quarter of 2011 and $822 million in the fourth quarter of 2010.

Table 3 – Mortgage Banking Revenue
(In thousands)

	Three Months Ended March 31,				Three Months Ended		
	2011	2010	Increase	% Increase	Dec. 31, 2010	Increase (Decrease)	% Increase (Decrease)
Originating and marketing revenue	$7,529	$6,522	$1,007	15 %	$15,083	$(7,554)	(50)%
Servicing revenue	9,827	8,349	1,478	18 %	10,075	(248)	(2)%
Total mortgage revenue	$17,356	$14,871	$2,485	17 %	$25,158	$(7,802)	(31)%
Mortgage loans funded for sale during the quarter	$451,821	$383,293	$68,528	18 %	$821,921	$(370,100)	(45)%
Mortgage loan refinances to total funded	49 %	55 %			72 %		

	March 31,						
	2011	2010	Increase	% Increase	Dec. 31, 2010	Increase (Decrease)	% Increase (Decrease)
Outstanding principal balance of mortgage loans serviced for others	$11,202,626	$10,977,336	$225,290	2 %	$11,263,130	$(60,504)	(1)%

Net gains on securities, derivatives and other assets

We recognized $4.9 million of net gains on sales of $793 million of available for sale securities in the first quarter of 2011, excluding securities held as an economic hedge of mortgage servicing rights. Securities were sold either because they had reached their expected maximum potential return or to mitigate exposure from rising interest rates. We recognized net gains of $953 thousand on sales of $536 million of available for sale securities in the fourth quarter of 2010 and $4.1 million on sales of $286 million of available for sale securities in the first quarter of 2010.

We also maintain a portfolio of securities and 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 interest rates fall, prepayment speeds increase and the value of our mortgage servicing rights decrease.

Table 4 – Gain (Loss) on Mortgage Servicing Rights, Net of Economic Hedge
(In thousands)

	Three Months Ended		
	March 31, 2011	December 31, 2010	March 31, 2010
Loss on mortgage hedge derivative contracts	$(2,419)	$(7,392)	$(659)
Gain (loss) on mortgage trading securities	(3,518)	(11,117)	448
Net loss on financial instruments held as an economic hedge of mortgage servicing rights	(5,937)	(18,509)	(211)
Gain on change in fair value of mortgage servicing rights	3,129	25,111	2,100
Gain (loss) on changes in fair value of mortgage servicing rights, net of gain on financial instruments held as an economic hedge	$(2,808)	$6,602	$1,889 [1]
Net interest revenue on mortgage trading securities	$3,058	$4,232	$4,237

[1] Excludes $11.8 million day-one pre-tax gain on the purchase of mortgage servicing rights in the first quarter of 2010.

As more fully discussed in Note 2 to the Consolidated Financial Statements, we recognized other-than-temporary impairment losses on certain private-label residential mortgage-backed securities of $4.6 million in earnings during the first quarter of 2011 related to additional declines in projected cash flows as a result of increased delinquencies and foreclosures. We recognized other-than-temporary impairment losses in earnings of $6.6 million and $4.2 million in the fourth and first quarter of 2010, respectively.

Other Operating Expense

Other operating expense for the first quarter of 2011 totaled $178.4 million, up $14.7 million or 9% over the first quarter of 2010. Changes in the fair value of mortgage servicing rights decreased other operating expenses by $3.1 million in the first quarter of 2011 and decreased other operating expenses by $13.9 million in the first quarter of 2010. Excluding changes in the fair value of mortgage servicing rights, other operating expenses increased $3.9 million or 2% over the first quarter of 2010. Personnel expenses increased $3.2 million or 3% and non-personnel expenses increased $744 thousand or 1%.

Excluding the change in the fair value of mortgage servicing rights, other operating expenses decreased $21.9 million compared to the fourth quarter of 2010. Personnel expenses decreased $6.8 million and non-personnel expenses decreased $15.1 million.

During the first quarter of 2010, the Company purchased the rights to service more than 34 thousand residential mortgage loans with unpaid principal balances of $4.2 billion. The loans to be serviced are primarily concentrated in the New Mexico market and predominately held by Fannie Mae, Freddie Mac and Ginnie Mae. The cash purchase price for these servicing rights was approximately $32 million. The day-one fair value of the servicing rights purchased, based on independent valuation analyses, which were further supported by assumptions and models we regularly use to value our portfolio of servicing rights, was $11.8 million higher than the purchase price. This amount is included in the change in fair value of mortgage servicing rights for the first quarter of 2010. The discounted purchase price can be directly attributed to the distressed financial condition of the seller, which was subsequently closed by federal banking regulators.

Table 5 – Other Operating Expense
(In thousands)

	Three Months Ended March 31,		Increase	% Increase	Three Months Ended Dec 31,	Increase	% Increase
	2011	2010	(Decrease)	(Decrease)	2010	(Decrease)	(Decrease)
Regular compensation	$60,804	$57,760	$3,044	5 %	$61,659	$(855)	(1)%
Incentive compensation:							
Cash-based	19,555	18,677	878	5 %	26,453	(6,898)	(26)%
Stock-based	3,431	4,484	(1,053)	(23)%	4,994	(1,563)	(31)%
Total incentive compensation	22,986	23,161	(175)	(1)%	31,447	(8,461)	(27)%
Employee benefits	16,204	15,903	301	2 %	13,664	2,540	19 %
Total personnel expense	99,994	96,824	3,170	3 %	106,770	(6,776)	(6)%
Business promotion	4,624	3,978	646	16 %	4,377	247	6 %
Professional fees and services	7,458	6,401	1,057	17 %	9,527	(2,069)	(22)%
Net occupancy and equipment	15,604	15,511	93	1 %	16,331	(727)	(4)%

Insurance	6,186	6,533	(347)	(5)%	6,139	47	1%
Data processing & communications	22,503	20,309	2,194	11%	23,902	(1,399)	(6)%
Printing, postage and supplies	3,082	3,322	(240)	(7)%	3,170	(88)	(3)%
Net losses & operating expenses of repossessed assets	6,015	7,220	(1,205)	(17)%	6,966	(951)	(14)%
Amortization of intangible assets	896	1,324	(428)	(32)%	1,365	(469)	(34)%
Mortgage banking costs	6,471	9,267	(2,796)	(30)%	11,999	(5,528)	(46)%
Change in fair value of mortgage servicing rights	(3,129)	(13,932)	10,803	N/A	(25,111)	21,982	N/A
Visa retrospective responsibility obligation	–	–	–	N/A	(1,103)	1,103	N/A
Other expense	8,745	6,975	1,770	25%	14,029	(5,284)	(38)%
Total other operating expense	$178,449	$163,732	$14,717	9%	$178,361	$88	–%
Number of employees at end of period (full-time equivalent)	4,533	4,425	108	2%	4,432	101	2%

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

Personnel expense

Regular compensation, which consists of salaries and wages, overtime pay and temporary personnel costs increased $3.0 million or 5% over the first quarter of 2010 primarily due to increased average headcount and standard annual merit increases which were effective in the second quarter of 2010. The Company generally awards annual merit increases effective April 1st for a majority of its staff.

Incentive compensation was $1.1 million or 23% lower compared to the first quarter of 2010. Cash-based incentive compensation plans are either intended to provide current rewards to employees who generate long-term business opportunities to the Company based on growth in loans, deposits, customer relationships and other measurable metrics or are intended to compensate employees with commissions on completed transactions. Total cash-based incentive compensation increased $878 thousand over the first quarter of 2010 including a $422 thousand decrease in commissions related to brokerage and trading revenue offset by a $1.3 million increase in cash-based incentive compensation for other business lines.

The Company also provides stock-based incentive compensation plans. Stock-based compensation plans include both equity and liability awards. Compensation expense related to liability awards decreased $1.6 million compared with the first quarter of 2010 due to changes in the market value of BOK Financial common stock and other investments. The market value of BOK Financial common stock decreased $1.72 per share in the first quarter of 2011 and increased $4.91 per share in the first quarter of 2010. Compensation expense for equity awards increased $595 thousand compared with the first quarter of 2010. Expense for equity awards is based on the grant-date fair value of the awards and is unaffected by subsequent changes in fair value.

Employee benefit expense increased $301 thousand or 2% over the first quarter of 2010 primarily due to increased expenses related to employee retirement plans, payroll taxes, employee training expenses and other benefits costs, partially offset by medical insurance costs. Medical insurance costs were $1.2 million or 22% lower compared to the first quarter of 2010. The Company self-insures a portion of its employee health care coverage and these costs may be volatile.

Personnel expense decreased $6.8 million compared with the fourth quarter of 2010 primarily due to reduced incentive compensation partially offset by a seasonal increase in payroll taxes. Incentive compensation decreased $8.5 million, including a $6.9 million decrease in cash-based incentive compensation and a $1.6 million decrease in stock-based compensation expense. Stock-based compensation decreased in the first quarter primarily due to changes in the market value of BOK Financial common stock and other investments during the first quarter of 2011.

Non-personnel operating expenses

Non-personnel operating expenses, excluding changes in the fair value of mortgage servicing rights, increased $744 thousand or 1% over the first quarter of 2010. Increase data processing costs, professional fees and other expenses were primarily offset by lower mortgage banking costs and net losses and operating expenses related to repossessed assets.

Non-personnel operating expenses, excluding changes in the fair value of mortgage servicing rights, decreased $15.1 million compared to the fourth quarter of 2010. Mortgage banking expenses decreased $5.5 million primarily due to lower provisions for losses on loans sold with recourse and foreclosure costs on loans serviced for others. Other expenses decreased $5.3 million due largely to a reduction in depreciation expenses on equipment used in our leasing business. All other non-personnel expenses decreased by $4.3 million primarily due to decreases in professional fees, data processing costs and net losses and expenses on repossessed assets.

Income Taxes

Income tax expense was $38.8 million or 37% of book taxable income for the first quarter of 2011 compared with $30.3 million or 33% of book taxable income for the first quarter of 2010 and $31.1 million or 34% of book taxable income for the fourth quarter of 2010. Income tax expense increased largely due to increased book taxable income and lower recognition of federal and state tax credits in the first quarter of 2011.

BOK Financial operates in numerous jurisdictions, which requires judgment regarding the allocation of income, expense and earnings under various laws and regulations of each of these taxing jurisdictions. Each jurisdiction may audit our tax returns and may take different positions with respect to these allocations. The reserve for uncertain tax positions was $14 million at March 31, 2011 and $12 million at December 31, 2010.

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 to small businesses, middle market and larger commercial customers. Commercial banking also includes the TransFund 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 to the business lines, 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 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 the wholesale market for funds with similar duration and repricing characteristics. Market is 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 repricing 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 term swap rates. The expected duration ranges from 30 days for certain rate-sensitive deposits to five years.

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

As shown in Table 6, net income attributable to our lines of business increased $7.4 million over the first quarter of 2010. Excluding the day-one gain from the purchase of mortgage servicing rights on favorable terms in the first quarter of 2010, net income for the first quarter of 2011 attributed to our lines of business was up $13.9 million or 54% over the first quarter of 2010. The gain on mortgage servicing rights was attributed to the consumer banking line of business in the Oklahoma geographic market. The increase in net income attributed to our lines of business was due primarily to a decrease in net loans charged off and an increase in other operating revenue compared to the first quarter of 2010, partially offset by a decrease in net interest revenue. Net income attributed to funds management and other decreased compared to the first quarter of 2010 primarily due to an increase in the provision for income taxes. The decline in net interest revenue earned by funds management and other was primarily offset by a decrease in the loan loss provision in excess of charge-offs to the business lines.

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

	Three Months Ended March 31,	
	2011	2010
Commercial banking	$ 29,593	$ 11,591
Consumer banking	5,930	17,396
Wealth management	3,982	3,136
Subtotal	39,505	32,123
Funds management and other	25,269	28,010
Total	$ 64,774	$ 60,133

Commercial Banking

Commercial banking contributed $29.6 million to consolidated net income in the first quarter of 2011, up $18.0 million over the first quarter of 2010. The increase in commercial banking net income was primarily due a $21.6 million decrease in net loans charged off and increased net interest revenue and other operating revenue.

Table 7 – Commercial Banking
(Dollars in thousands)

	Three Months Ended March 31,		Increase
	2011	2010	(Decrease)
NIR (expense) from external sources	$ 84,854	$ 84,897	$ (43)
NIR (expense) from internal sources	(9,045)	(12,382)	3,337
Total net interest revenue	75,809	72,515	3,294
Other operating revenue	35,506	29,681	5,825
Operating expense	52,518	49,823	2,695
Net loans charged off	6,778	28,379	(21,601)
Loss on repossessed assets, net	(3,585)	(5,023)	1,438
Income before taxes	48,434	18,971	29,463
Federal and state income tax	18,841	7,380	11,461
Net income	$ 29,593	$ 11,591	$ 18,002
Average assets	$ 9,171,363	$ 9,175,488	$ (4,125)
Average loans	8,140,560	8,374,205	(233,645)
Average deposits	7,666,641	5,689,178	1,977,463
Average invested capital	861,980	927,953	(65,973)

Return on average assets	1.31	%	0.51	%	80	bp
Return on invested capital	13.92	%	5.07	%	886	bp
Efficiency ratio	47.18	%	48.75	%	(157	) bp
Net charge-offs (annualized) to average loans	0.34	%	1.37	%	(104	) bp

Net interest revenue increased $3.3 million or 5% over the first quarter of 2010 primarily due to a $2.0 billion increase in average deposits attributed to our commercial banking unit. Improving loan yield was partially offset by a $234 million decrease in average loan balances compared to the first quarter of 2010.

Other operating revenue increased $5.8 million or 20% over the first quarter of 2010. Most categories of other operating revenue increased including a $1.8 million increase in transaction card revenues on increased customer activity. Energy derivative trading revenue, loan syndication fees, lease financing fees and service charges on commercial deposit accounts all increased over the prior year.

Operating expenses increased $2.7 million or 5% over the first quarter of 2010 primarily due to increased data processing costs related to higher transaction card volumes, increased personnel costs as a result of annual merit increases and increased deposit insurance expenses related to the increase in average deposit balances.

The average outstanding balance of loans attributed to commercial banking was $8.1 billion for the first quarter of 2011, down $234 million or 3% compared to the first quarter of 2010. See Loans section 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 $21.6 million compared to the first quarter of 2010 to $6.8 million or 0.34% 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 $7.7 billion for the first quarter of 2011, up $2.0 billion or 35% over the first quarter of 2010. Average deposit balances attributed to our commercial & industrial customers increased $841 million or 43% and average treasury services deposit balances increased $671 million or 46%. Average deposit balances attributable to our small business customers increased $287 million or 27% and average balances attributed to our energy customers increased $109 million or 17%. We believe that commercial customers are building cash reserves due to continued economic uncertainty.

Consumer Banking

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

Consumer banking contributed $5.9 million to consolidated net income for the first quarter of 2011, down $11.5 million compared to the first quarter of 2010. Net income attributed to the consumer banking unit for the first quarter of 2010 included the $6.5 million day-one gain from the purchase of rights to service $4.2 billion of residential mortgage loans on favorable terms. Excluding the impact of this gain, net income attributed to consumer banking decreased $4.9 million compared to the first quarter of 2010 primarily due to decreased net interest revenue and deposit service charges, partially offset by increased mortgage banking revenue.

Table 8 – Consumer Banking
(Dollars in thousands)

	Three Months Ended March 31,		Increase
	2011	2010	(Decrease)
NIR (expense) from external sources	$ 18,664	$ 19,496	$ (832)
NIR (expense) from internal sources	9,363	11,879	(2,516)
Total net interest revenue	28,027	31,375	$ (3,348)
Other operating revenue	43,419	43,221	198
Operating expense	55,139	56,169	(1,030)
Net loans charged off	3,601	3,708	(107)
Increase in fair value of mortgage service rights	3,129	13,932	(10,803)
	(5,937)	(211)	(5,726)

Loss on financial instruments, net						
Gain (loss) on repossessed assets, net	(192	)	31		(223	)
Income before taxes	9,706		28,471		(18,765	)
Federal and state income tax	3,776		11,075		(7,299	)
Net income	$ 5,930		$ 17,396		$ (11,466	)
Average assets	$ 6,062,395		$ 6,159,190		$ (96,795	)
Average loans	1,995,150		2,133,943		(138,793	)
Average deposits	5,938,691		6,064,687		(125,996	)
Average invested capital	271,192		314,193		(43,001	)
Return on average assets	0.40	%	1.15	%	(75	) bp
Return on invested capital	8.87	%	22.45	%	(1,359	) bp
Efficiency ratio	77.18	%	75.30	%	188	bp
Net charge-offs (annualized) to average loans	0.73	%	0.70	%	3	bp
Mortgage loans funded for resale	$ 451,821		$ 383,293		$ 68,528	

	March 31, 2011	March 31, 2010	Increase (Decrease)
Branch locations	208	202	6
Mortgage loan servicing portfolio1	$ 12,075,328	$ 11,760,761	$ 314,567

1 Includes outstanding principal for loans serviced for affiliates

Net interest revenue from consumer banking activities decreased $3.3 million or 11% compared to the first quarter of 2010 primarily due to a decrease in interest earned on securities held as an economic hedge of our mortgage servicing rights and a $139 million decrease in average loan balances. Average loan balances declined due to a decrease in average residential mortgage balances as well as the continued paydown of indirect automobile loans. The Company previously disclosed its decision to exit the indirect automobile loan business in the first quarter of 2009. Net interest revenue also decreased due to a reduction in average balances sold to the funds management unit.

Other operating revenue was flat compared to the first quarter of 2010. Deposits service charges decreased $4.2 million primarily due to lower overdraft fees as a result of changes in banking regulations that became effective in the third quarter of 2010, offset by a $2.5 million increase in mortgage banking revenue and a $953 thousand increase in transaction card revenues.

Operating expenses decreased $1.0 million or 2% compared to the first quarter of 2010. Mortgage banking expenses decreased due to lower provisions for losses on loans sold with recourse and foreclosure costs on loans serviced for others. Corporate expenses allocated to the consumer banking division also decreased, partially offset by increased personnel costs related to increased mortgage activity.

Net loans charged off by the consumer banking unit decreased $107 thousand or 3% compared to the first quarter of 2010. Net consumer banking charge-offs include residential mortgage loans, indirect automobile loans, overdrawn deposit accounts and other direct consumer loans.

Average consumer deposits decreased $126 million or 2% compared to the first quarter of 2010. Average balances of higher-costing time deposits decreased $262 million or 11%, partially offset by a $102 million or 4% increase in average interest-bearing transaction accounts balances and a $10 million or 1% increase in average demand deposit account balances over the first quarter of 2010. Movement of funds among the various types of consumer deposits was largely based on interest rates and product features offered.

Our Consumer Banking division originates, markets and services conventional and government-sponsored mortgage loans for all of our geographical markets. During the first quarter of 2011, a total of $457 million of mortgage loans were funded compared to $432 million funded in the first quarter of 2010. These amounts include loans funded for sale in the secondary market and loans funded for retention by the Company. Approximately 43% of our mortgage loans funded were in the Oklahoma market, 12% in the Texas market, 16% in New Mexico and 14% in the Colorado market. In addition to the $11.2 billion of mortgage loans serviced for others, the Consumer Banking division also services $892 million of loans for affiliated entities. Approximately 97% of the mortgage loans serviced was to borrowers in our primary geographical market areas. Mortgage servicing revenue increased to $9.9 million in the first quarter of 2011 compared to $8.3 million in the first quarter of 2010, primarily due to mortgage servicing rights purchased in the first quarter of 2010.

Changes in the fair value of our mortgage loan servicing rights, net of economic hedge, decreased Consumer Banking pre-tax net income by $2.8 million in the first quarter of 2011. Excluding the $11.8 million pre-tax day-one gain on the purchase of mortgage servicing rights during the first quarter, changes in fair value of our mortgage loan servicing rights, net of economic hedge, increased consumer banking net income by $1.2 million in the first quarter of 2010. Changes in the fair value of mortgage servicing rights and securities held as an economic hedge are due to movements in interest rates, actual and anticipated loan prepayment speeds and related factors. Net interest revenue on mortgage trading securities totaled $3.1 million for the first quarter of 2011 compared to $4.2 million for the first quarter of 2010.

Wealth Management

Wealth Management contributed consolidated net income of $4.0 million in the first quarter of 2011 compared to $3.1 million in the first quarter of 2010.

Table 9 – Wealth Management
(Dollars in thousands)

	Three Months Ended March 31,		Increase
	2011	2010	(Decrease)
NIR (expense) from external sources	$ 7,529	$ 8,629	$ (1,100)
NIR (expense) from internal sources	2,743	3,021	(278)
Total net interest revenue	10,272	11,650	(1,378)
Other operating revenue	39,859	37,320	2,539
Operating expense	43,187	41,072	2,115
Net loans charged off	445	2,765	(2,320)
Gain on financial instruments, net	18	–	18
Income before taxes	6,517	5,133	1,384
Federal and state income tax	2,535	1,997	538
Net income	$ 3,982	$ 3,136	$ 846
Average assets	$ 3,627,198	$ 3,288,173	$ 339,025
Average loans	985,721	1,085,092	(99,371)
Average deposits	3,537,854	3,209,866	327,988
Average invested capital	175,478	166,455	9,023
Return on assets	0.45 %	0.39 %	6 bp
Return on invested capital	9.20 %	7.64 %	156 bp
Efficiency ratio	86.15 %	83.87 %	228 bp
Net charge-offs (annualized) to average loans	0.18 %	1.03 %	(85) bp

	March 31, 2011	March 31, 2010	Increase (Decrease)
Trust assets	$ 32,013,487	$ 30,739,254	$ 1,274,233
Trust assets for which BOKF has sole or joint discretionary authority	9,570,725	8,307,404	1,263,321
Non-managed trust assets	12,279,752	12,679,508	(399,756)

Assets held in safekeeping	10,163,010	9,752,342	410,668

Net interest revenue for the first quarter of 2011 decreased $1.4 million or 12% compared to the first quarter of 2010 primarily due to a decrease in the yield and average balances of securities and loans, partially offset by a $328 million increase in average deposit balances.

Other operating revenue increased $2.5 million or 7% over the first quarter of 2010 primarily due to a $2.1 million or 13% increase in trust fees and commission primarily due to increases in the fair value of trust assets. Brokerage and trading revenue increased primarily offset by a decrease in other revenues.

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 2011, the wealth management unit participated in 35 underwritings that totaled $773 million. Our interest in these underwritings totaled approximately $212 million. In the first quarter of 2010, the wealth management unit participated in 32 underwritings that totaled $1.3 billion. Our interest in those underwriting totaled approximately $114 million.

Operating expenses increased $2.1 million or 5% over the first quarter of 2010. Personnel expenses increased $1.1 million primarily due to increased headcount. Non-personnel expenses increased $1.0 million over the first quarter of 2010 due to increased professional fees, deposit insurance expense, net occupancy and equipment costs and other expenses.

Growth in average assets was largely due to funds sold to the funds management unit. Average deposits attributed to the wealth management unit increased $328 million of 10% over the first quarter of 2010 including a $255 million increase in interest bearing transaction accounts and an $87 million increase in average demand deposit accounts, partially offset by a $15 million decrease in average time deposit balances.

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 also include insignificant results of operations in locations outside our primary geographic regions.

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

	Three Months Ended March 31,	
	2011	2010
Oklahoma	$ 25,743	$ 32,699
Texas	10,554	5,770
New Mexico	2,720	257
Arkansas	818	319
Colorado	2,352	1,052
Arizona	(3,065)	(8,349)
Kansas / Missouri	550	717
Subtotal	39,672	32,465
Funds management and other	25,102	27,668
Total	$ 64,774	$ 60,133

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 49% of our average loans, 53% of our average deposits and 40% of our consolidated net income in the first quarter of 2011. In addition, all of our mortgage servicing activity and 74% of our trust assets are attributed to the Oklahoma market.

Table 11 – Oklahoma
(Dollars in thousands)

	Three Months Ended March 31,		
	2011	2010	Increase (Decrease)
Net interest revenue	$ 55,156	$ 58,761	$ (3,605)
Other operating revenue	75,589	70,743	4,846
Operating expense	79,058	79,507	(449)
Net loans charged off	6,125	10,778	(4,653)
Increase in fair value of mortgage servicing rights	3,129	13,932	(10,803)
Loss on financial instruments, net	(5,920)	(211)	(5,709)
Gain (loss) on repossessed assets, net	(639)	578	(1,217)
Income before taxes	42,132	53,518	(11,386)
Federal and state income tax	16,389	20,819	(4,430)
Net income	$ 25,743	$ 32,699	$ (6,956)
Average assets	$ 10,379,787	$ 9,252,465	$ 1,127,322
Average loans	5,188,424	5,537,376	(348,952)
Average deposits	9,461,918	8,323,646	1,138,272
Average invested capital	531,392	590,628	(59,236)
Return on average assets	1.01 %	1.43 %	(42) bp
Return on invested capital	19.65 %	22.45 %	(280) bp
Efficiency ratio	60.47 %	61.39 %	(92) bp
Net charge-offs (annualized) to average loans	0.48 %	0.79 %	(31) bp

Net income generated in the Oklahoma market in the first quarter of 2011 decreased $7.0 million or 21% compared to the first quarter of 2010. Excluding the impact of the $6.5 million day-one gain from the rights to service $4.2 billion of residential mortgage loans on favorable terms in the first quarter of 2010, net income generated in the Oklahoma market would have been down $424 thousand or 2% compared to the first quarter of 2010.

Net interest revenue decreased $3.6 million or 6% compared to the first quarter of 2010. Net interest revenue decreased primarily due to a $349 million decrease in average loan balances and a decrease in the yield on funds sold to the funds management unit, partially offset by a $1.1 billion increase in average deposit balances.

Other operating revenue increased $4.8 million or 7% compared to the first quarter of 2010. Mortgage banking revenue increased $2.5 million and all other operating revenues were up $5.2 million including increases in transaction card revenues, brokerage and trading revenue, trust fees and commissions and other revenues. Deposit service charges and fees decreased $2.8 million due to lower overdraft fees as a result of changes in banking regulations that became effective in the third quarter of 2010.

Other operating expenses decreased $449 thousand or 1% compared to the first quarter of 2010. Personnel expenses increased $1.6 million offset by a $1.9 million decrease in non-personnel expenses primarily due to lower data processing costs and decreased corporate expense allocations.

Average deposits in the Oklahoma market for the first quarter of 2011 increased $1.1 billion over the first quarter of 2010. The increase came primarily from the commercial and wealth management units, including trust, broker/dealer and private banking. The increase was partially offset by a decrease in deposits attributable to consumer banking.

Texas Market

Our Texas offices are located primarily in the Dallas, Fort Worth and Houston metropolitan areas. Texas is our second largest market with 31% of our average loans, 25% of our average deposits and contributing 16% of our consolidated net income in the first quarter of 2011.

Table 12 – Texas
(In thousands)

	Three Months Ended March 31,		Increase
	2011	2010	(Decrease)
Net interest revenue	$ 34,086	$ 32,993	$ 1,093
Other operating revenue	15,404	14,495	909
Operating expense	32,287	31,511	776
Net loans charged off	1,245	6,536	(5,291)
Gain (loss) on repossessed assets, net	532	(425)	957
Income before taxes	16,490	9,016	7,474
Federal and state income tax	5,936	3,246	2,690
Net income	$ 10,554	$ 5,770	$ 4,784
Average assets	$ 4,942,289	$ 4,327,161	$ 615,128
Average loans	3,262,960	3,332,841	(69,881)
Average deposits	4,356,711	3,747,668	609,043
Average invested capital	465,208	489,542	(24,334)
Return on average assets	0.87 %	0.54 %	33 bp
Return on invested capital	9.20 %	4.78 %	442 bp
Efficiency ratio	65.24 %	66.36 %	(112) bp
Net charge-offs (annualized) to average loans	0.15 %	0.80 %	(65) bp

Net income in the Texas market increased $4.8 million or 83% over the first quarter of 2010 primarily due to a decrease in net loans charged off.

Net interest revenue increased $1.1 million or 3% over the first quarter of 2010. Average assets increased $615 million due primarily to a $609 million or 16% increase in deposits which were sold to the funds management unit. Average outstanding loans decreased $70 million or 2% compared to the first quarter of 2010.

Other operating revenue increased $909 thousand or 6% over the first quarter of 2010 primarily due to increased trust fees and commissions, transaction card revenue and trading and brokerage fees. Deposit service charges decreased primarily due to lower overdraft fees as a result of changes in banking regulations that became effective in the third quarter of 2010. Mortgage banking revenue also decreased due to lower mortgage origination volume.

Operating expenses increased $776 thousand or 2% over the first quarter of 2010. Higher corporate expenses allocated to the Texas market and personnel costs were partially offset by decreased non-personnel expenses.

Net loans charged off improved to $1.2 million or 0.15% of average loans for the first quarter of 2011 on an annualized basis compared to $6.5 million or 0.80% of average loans for the first quarter of 2010 on an annualized basis.

Other Markets

Net income attributable to our New Mexico market increased $2.5 million over the first quarter of 2010 to $2.7 million and represented 4% of consolidated net income for the first quarter of 2011 compared to contributing less than 1% of consolidated net income in the first quarter of 2010. Net interest income increased $472 thousand or 6% over the first quarter of 2010. Average deposits increased $58 million. Net interest revenue earned on those deposits and improved loan yields were partially offset by a decrease in average loan balances attributed to the New Mexico market and lower yields earned on funds sold to the funds management unit. Operating revenue increased over the first quarter of 2010 primarily due to increased mortgage banking and transaction card revenues partially offset by lower overdraft fees and trading and brokerage revenue. Net charge-offs improved to $608 thousand or 0.35% of average loans on an annualized basis in the first quarter of 2011 from $2.8 million or 1.55% of average loans on an annualized basis in the first quarter of 2010.

Net income in the Arkansas market increased $499 thousand over the first quarter of 2010. Net interest revenue decreased $644 thousand primarily due to a $77 million decrease in average loans. Average deposits in our Arkansas market were up $48 million or 27% over the first quarter of 2010 due primarily to increased commercial banking deposits, partially offset by decreases in consumer and wealth management deposits. Other operating revenue decreased compared to the first quarter of 2010 primarily due to lower brokerage and trading revenue and decreased mortgage banking revenue. Other operating expenses were flat with the prior year. Net loans charged off improved to $336 thousand or 0.47% of average loans on an annualized basis compared to $2.0 million or 2.22% on an annualized basis in the first quarter of 2010.

Net income in the Colorado market increased $1.3 million over the first quarter of 2010 primarily due to a $2.7 million decrease in net loans charged off. The Colorado market experienced a net recovery of $44 thousand in the first quarter of 2011 compared to a net charge-off of $2.7 million or 1.32% of average loans on an annualized basis for the first quarter of 2010. Net interest income decreased $435 thousand primarily due to a $50 million decrease in average outstanding loan balances attributed to the Colorado market. Other operating revenues increased primarily due to increased trust fees and commission and brokerage and trading revenue partially offset by decreased mortgage banking revenue and overdraft charges. Operating expenses increased primarily due to increased personnel expenses. Average deposits attributed to the Colorado market increased $97 million over the first quarter of 2010 primarily related to an increase in commercial and wealth management deposits, partially offset by a decrease in consumer deposit balances.

The net loss attributed to the Arizona market totaled $3.1 million in the first quarter of 2011 down from $8.3 million in the first quarter of 2010. Net loans charged off during the first quarter of 2011 improved to $1.9 million or 1.39% of average loans on an annualized basis compared to $10.1 million or 7.98% of average loans on an annualized basis in the first quarter of 2010. First quarter of 2011 performance included losses of $3.2 million on repossessed assets, up $2.9 million from the first quarter of 2010. Average loan balances increased $40 million over the first quarter of 2010 and average deposits increased $39 million over the first quarter of 2010 primarily due to commercial deposit growth. Period end commercial loans increased $42 million, residential mortgage loans increased $21 million and commercial real estate loans increased by $11 compared to period end balances at March 31, 2010.

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. 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.

Net income attributed to the Kansas/Missouri market decreased $167 thousand compared to the first quarter of 2010.   Net loans charged off increased to $908 thousand or 1.02% of average loans on an annualized basis for the first quarter of 2011 compared to a net recovery of $54 thousand in the first quarter of 2010. Net interest revenue increased $751 thousand or 36%.   Total average loan balances increased $72 million or 25% over the first quarter of 2010 and average deposits balances increased $190 million. Operating revenue increased $584 thousand over the first quarter of 2010 primarily due to increased mortgage banking revenue, trust fees and commission and transaction card revenues, partially offset by a decrease in brokerage and trading revenue and overdraft charges. Operating expenses increased $647 thousand primarily due to increased personnel expenses, repossession expenses and corporate expense allocations.

Table 13 – New Mexico
(Dollars in thousands)

	Three Months Ended March 31, 2011	2010	Increase (Decrease)
Net interest revenue	$ 8,207	$ 7,735	$ 472
Other operating revenue	6,746	5,818	928
Operating expense	9,498	8,221	1,277
Net loans charged off	608	2,831	(2,223)
Loss on repossessed assets, net	(396)	(2,081)	1,685
Income before taxes	4,451	420	4,031
Federal and state income tax	1,731	163	1,568
Net income	$ 2,720	$ 257	$ 2,463
Average assets	$ 1,376,750	$ 1,273,166	$ 103,584
Average loans	702,943	739,922	(36,979)
Average deposits	1,255,773	1,198,249	57,524
Average invested capital	81,776	84,764	(2,988)
Return on average assets	0.80 %	0.08 %	72 bp
Return on invested capital	13.49 %	1.23 %	1,226 bp
Efficiency ratio	63.52 %	60.66 %	286 bp
Net charge-offs (annualized) to average loans	0.35 %	1.55 %	(120) bp

Table 14 –Arkansas
(In thousands)

	Three Months Ended March 31, 2011	2010	Increase (Decrease)
Net interest revenue	$ 2,273	$ 2,917	$ (644)
Other operating revenue	8,298	8,613	(315)
Operating expense	8,883	8,907	(24)
Net loans charged off	336	1,999	(1,663)
Loss on repossessed assets, net	(14)	(102)	88

Income before taxes	1,338		522		816	
Federal and state income tax	520		203		317	
Net income	$ 818		$ 319		$ 499	
Average assets	$ 303,346		$ 383,512		$ (80,166)	
Average loans	287,813		365,270		(77,457)	
Average deposits	228,226		180,185		48,041	
Average invested capital	22,571		24,071		(1,500)	
Return on average assets	1.09	%	0.34	%	76	bp
Return on invested capital	14.70	%	5.37	%	932	bp
Efficiency ratio	84.03	%	77.25	%	678	bp
Net charge-offs (annualized) to average loans	0.47	%	2.22	%	(175	) bp

Table 15 – Colorado
(Dollars in thousands)

	Three Months Ended March 31, 2011	2010	Increase (Decrease)
Net interest revenue	$ 7,983	$ 8,418	$ (435)
Other operating revenue	5,216	5,138	78
Operating expense	9,337	9,180	157
Net loans charged off (recovered)	(44)	2,655	(2,699)
Loss on repossessed assets, net	(56)	–	(56)
Income before taxes	3,850	1,721	2,129
Federal and state income tax	1,498	669	829
Net income	$ 2,352	$ 1,052	$ 1,300
Average assets	$ 1,299,938	$ 1,206,094	$ 93,844
Average loans	765,464	815,817	(50,353)
Average deposits	1,232,873	1,135,920	96,953
Average invested capital	117,244	129,783	(12,539)
Return on average assets	0.73 %	0.35 %	38 bp
Return on invested capital	8.14 %	3.29 %	485 bp
Efficiency ratio	70.74 %	67.72 %	302 bp
Net charge-offs (recoveries) to average loans (annualized)	(0.02)%	1.32 %	(134) bp

Table 16 – Arizona
(Dollars in thousands)

	Three Months Ended March 31, 2011	2010	Increase (Decrease)
Net interest revenue	$ 3,577	$ 2,623	$ 954
Other operating revenue	1,477	1,156	321
Operating expense	4,972	4,377	595
Net loans charged off	1,895	10,105	(8,210)
Losses on repossessed assets, net	(3,204)	(2,961)	(243)

Net loss before taxes	(5,017)	(13,664)	8,647
Federal and state income tax	(1,952)	(5,315)	3,363
Net loss	$ (3,065)	$ (8,349)	$ 5,284
Average assets	$ 620,793	$ 593,346	$ 27,447
Average loans	553,309	513,390	39,919
Average deposits	238,561	199,348	39,213
Average invested capital	64,688	66,687	(1,999)
Return on average assets	(2.00)%	(5.71)%	371 bp
Return on invested capital	(19.22)%	(50.77)%	3,155 bp
Efficiency ratio	98.38 %	115.82 %	(1,744) bp
Net charge-offs (annualized) to average loans	1.39 %	7.98 %	(659) bp

Table 17 – Kansas / Missouri
(Dollars in thousands)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Increase (Decrease)
Net interest revenue	$ 2,843	$ 2,092	$ 751
Other operating revenue	4,580	3,996	584
Operating expense	5,615	4,968	647
Net loans charged off (recovered)	908	(54)	962
Income before taxes	900	1,174	(274)
Federal and state income tax	350	457	(107)
Net income	$ 550	$ 717	$ (167)
Average assets	$ 370,773	$ 298,030	$ 72,743
Average loans	360,517	288,624	71,893
Average deposits	369,124	178,714	190,410
Average invested capital	25,321	22,758	2,563
Return on average assets	0.60 %	0.98 %	(38) bp
Return on invested capital	8.81 %	12.78 %	(397) bp
Efficiency ratio	75.64 %	81.60 %	(596) bp
Net charge-offs (annualized) to average loans	1.02 %	(0.08)%	110 bp

Financial Condition

Securities

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

Investment (held-to-maturity) securities consist primarily of long-term, fixed-rate Oklahoma municipal bonds and Texas school construction bonds. Substantially all of these bonds are general obligations of the issuer. Approximately, $92 million of the Texas school construction bonds are also guaranteed by the Texas Permanent School Fund Guarantee Program. At March 31, 2011, investment securities were carried at $343 million and had a fair value of $355 million.

Available for sale securities, which may be sold prior to maturity, are carried at fair value. Unrealized gains or losses, less deferred taxes, are recorded as accumulated other comprehensive income in shareholders' equity. The amortized cost of available for sale securities totaled $9.5 billion at March 31, 2011, up $395 million over December 31,

2010. At March 31, 2011, residential mortgage-backed securities represented 98% of total available for sale securities.

A primary risk of holding 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 very low effective durations. Our best estimate of the duration of the residential mortgage-backed securities portfolio at March 31, 2011 is 2.6 years. Management estimates that the expected duration would extend to approximately 3.5 years assuming an immediate 200 basis point upward rate shock. The estimated duration contracts to 1.1 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 either partially or fully guaranteed. At March 31, 2011, approximately $8.7 billion of the amortized costs of the Company's residential mortgage-backed securities were issued by U.S. government agencies. The fair value of these mortgage-backed securities totaled $8.9 billion at March 31, 2011.

We also hold amortized cost of $630 million in residential mortgage-backed securities privately issued by publicly-owned financial institutions, a decline of $85 million from December 31, 2010. The decline was primarily due to $80 million of cash received and $4.6 million of other-than-temporary losses charged against earnings during the first quarter of 2011. The fair value of our portfolio of privately issued residential mortgage-backed securities totaled $573 million at March 31, 2011. The net unrealized loss on the below investment grade residential mortgage-backed securities decreased for the ninth consecutive quarter to $57 million at March 31, 2011 from $70 million at December 31, 2010.

The amortized cost of our portfolio of privately issued residential mortgage-backed securities included $421 million of Jumbo-A residential mortgage loans and $209 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 residential mortgage loans generally do not have sufficient documentation to meet government agency underwriting standards. Credit risk on securities backed by Alt-A loans is mitigated by investment in senior tranches with additional collateral support. None of these securities are backed by sub-prime mortgage loans, collateralized debt obligations or collateralized loan obligations. Approximately 94% of our Alt-A residential mortgage-backed securities were issued with credit support from additional layers of loss-absorbing subordinated tranches including 100% of our Alt-A residential mortgage-backed securities originated in 2007 and 2006. The weighted average original credit enhancement of the Alt-A residential mortgage backed securities was 10.3% and currently stands at 6.4%. The Jumbo-A residential mortgage backed securities had original credit enhancement of 8.5% and the current level is 8.8%. Approximately 82% of our Alt-A mortgage-backed securities represents pools of fixed-rate mortgage loans. None of the adjustable rate mortgages are payment option adjustable rate mortgages ("ARMs"). Approximately 75% 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.

Privately issued residential mortgage-backed securities with a total amortized cost of $498 million were rated below investment grade at March 31, 2011 by at least one of the nationally-recognized rating agencies. Net unrealized losses on the below investment grade residential mortgage-backed securities totaled $51 million at March 31, 2011. The net unrealized loss on these securities decreased $11 million during the first quarter of 2011.

The aggregate gross amount of unrealized losses on available for sale securities totaled $75 million at March 31, 2011. 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 $4.6 million were recognized in earnings in the first quarter of 2011 on certain privately issued residential mortgage backed securities we do not intend to sell.

Certain government agency issued residential mortgage-backed securities, identified as mortgage trading securities, have been designated as economic hedges of mortgage servicing rights. These securities are carried 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.

We also maintain a separate trading portfolio with the intent to sell at a profit for the Company that is also carried at fair value with changes in fair value recognized in current period income.

Bank-Owned Life Insurance

We have approximately $258 million of bank-owned life insurance at March 31, 2011. This investment is expected to provide a long-term source of earnings to support existing employee benefit programs. Approximately $226 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, 2011, the cash surrender value represented by the underlying fair value of investments held in separate accounts was approximately $238 million. As the underlying fair value of the investments held in a separate account at March 31, 2011 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 highly-rated, domestic financial institution. The remaining cash surrender value of $32 million primarily represented 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 $10.6 billion at March 31, 2011, a $53 million decrease since December 31, 2010.

Table 18 – Loans
(In thousands)

	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	March 31, 2010
Commercial:					
Energy	$1,759,452	$1,711,409	$1,761,926	$1,844,643	$1,892,306
Services	1,586,785	1,580,921	1,594,215	1,669,069	1,741,924
Wholesale/retail	984,273	1,010,246	1,041,004	964,440	873,170
Manufacturing	380,043	325,191	347,478	357,671	395,964
Healthcare	840,809	809,625	814,456	805,619	777,668
Integrated food services	211,637	204,283	169,956	147,700	155,410
Other commercial and industrial	285,258	292,321	242,973	222,386	178,297
Total commercial	6,048,257	5,933,996	5,972,008	6,011,528	6,014,739
Commercial real estate:					
Construction and land development	394,337	447,864	502,465	545,659	605,667
Retail	420,193	405,540	399,500	392,910	408,936
Office	488,515	457,450	490,429	466,939	463,995
Multifamily	355,240	369,242	352,200	346,460	377,673
Industrial	177,807	182,093	176,594	176,535	181,117
Other real estate loans	386,890	415,161	401,934	412,406	406,460
Total commercial real estate	2,222,982	2,277,350	2,323,122	2,340,909	2,443,848
Residential mortgage:					
Permanent mortgage	1,216,821	1,274,944	1,356,269	1,320,408	1,303,589
Home equity	560,500	553,304	527,639	513,838	494,122
Total residential mortgage	1,777,321	1,828,248	1,883,908	1,834,246	1,797,711
Consumer:					
Indirect automobile	198,663	239,576	284,920	338,147	396,280
Other consumer	342,612	363,866	341,886	357,887	318,646
Total consumer	541,275	603,442	626,806	696,034	714,926
Total	$10,589,835	$10,643,036	$10,805,844	$10,882,717	$10,971,224

Commercial loan balances were up $114 million over December 31, 2010, primarily in the manufacturing, energy and healthcare sectors. Construction and land development loans decreased $54 million, residential mortgage loans decreased $51 million and consumer decreased $62 million. A breakdown by geographical market follows on Table 19 along with discussion of changes in the balance by portfolio and geography.

Table 19 –Loans by Principal Market
(In thousands)

	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	March 31, 2010
Oklahoma:					
Commercial	$2,618,045	$2,581,082	$2,662,347	$2,704,460	$2,616,086
Commercial real estate	661,254	726,409	748,501	784,549	787,543
Residential mortgage	1,219,237	1,253,466	1,293,334	1,257,497	1,235,788
Consumer	291,412	336,492	349,720	395,274	404,570
Total Oklahoma	4,789,948	4,897,449	5,053,902	5,141,780	5,043,987
Texas:					
Commercial	1,916,270	1,888,635	1,876,994	1,902,934	1,935,819
Commercial real estate	687,817	686,956	715,859	731,399	769,682
Residential mortgage	283,925	297,027	309,815	308,496	307,643
Consumer	141,199	146,986	151,434	160,377	160,449
Total Texas	3,029,211	3,019,604	3,054,102	3,103,206	3,173,593
New Mexico:					
Commercial	262,597	279,432	289,368	286,555	326,203
Commercial real estate	326,104	314,781	314,957	294,425	298,197
Residential mortgage	90,466	88,392	87,851	87,549	85,629
Consumer	19,242	19,583	20,153	20,542	16,713
Total New Mexico	698,409	702,188	712,329	689,071	726,742
Arkansas:					
Commercial	75,889	84,775	91,752	89,376	86,566
Commercial real estate	124,875	116,989	117,137	114,576	129,125
Residential mortgage	14,114	13,155	14,937	15,823	17,071
Consumer	61,746	72,787	84,869	96,189	110,123
Total Arkansas	276,624	287,706	308,695	315,964	342,885
Colorado:					
Commercial	514,100	470,500	457,421	484,188	495,916
Commercial real estate	172,416	197,180	203,866	225,758	228,998
Residential mortgage	67,975	72,310	75,152	69,325	68,049
Consumer	20,145	21,409	15,402	18,548	17,991
Total Colorado	774,636	761,399	751,841	797,819	810,954
Arizona:					
Commercial	251,390	231,117	234,739	204,326	209,019
Commercial real estate	213,442	201,018	188,943	163,374	202,192
Residential mortgage	89,384	89,245	85,184	78,890	68,015
Consumer	5,266	3,445	3,061	2,971	3,068
Total Arizona	559,482	524,825	511,927	449,561	482,294
Kansas / Missouri:					
Commercial	409,966	398,455	359,387	339,689	345,130
Commercial real estate	37,074	34,017	33,859	26,828	28,111

Residential mortgage	12,220	14,653	17,635	16,666	15,516
Consumer	2,265	2,740	2,167	2,133	2,012
Total Kansas / Missouri	461,525	449,865	413,048	385,316	390,769
Total BOK Financial loans	$10,589,835	$10,643,036	$10,805,844	$10,882,717	$10,971,224

Commercial

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

The commercial loan portfolio grew to $6.0 billion at March 31, 2011. Manufacturing sector loans increased $55 million, energy sector loans increased $48 million and healthcare sector loans increased $31 million. Wholesale / retail sector loans decreased $26 million from December 31, 2010.

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

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

			New				Kansas/	
	Oklahoma	Texas	Mexico	Arkansas	Colorado	Arizona	Missouri	Total
Energy	$945,543	$578,838	$–	$279	$234,792	$–	$–	$1,759,452
Services	466,862	511,256	158,699	19,461	189,554	130,009	110,944	1,586,785
Wholesale/retail	390,832	411,356	43,851	32,611	13,140	60,423	32,060	984,273
Manufacturing	206,692	99,581	18,993	1,317	25,972	20,472	7,016	380,043
Healthcare	506,577	229,190	8,206	5,939	45,303	22,183	23,411	840,809
Integrated food services	12,724	9,497	–	270	146	–	189,000	211,637
Other commercial and industrial	88,815	76,552	32,848	16,012	5,193	18,303	47,535	285,258
Total commercial loans	$2,618,045	$1,916,270	$262,597	$75,889	$514,100	$251,390	$409,966	$6,048,257

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

Energy loans totaled $1.8 billion or 17% of total loans. Outstanding energy loans increased $48 million during the first quarter of 2011. Unfunded energy loan commitments decreased $118 million to $1.9 billion at March 31, 2011.

Approximately $1.5 billion of energy loans were to oil and gas producers, up $3.8 million over December 31, 2010. Approximately 51% of the committed production loans are secured by properties primarily producing natural gas and 49% are secured by properties primarily producing oil. Loans to borrowers that provide services to the energy industry increased $29 million over December 31, 2010 to $62 million and loans to borrowers engaged in wholesale or retail energy sales increased $30 million to $217 million. Loans to borrowers that manufacture equipment primarily for the energy industry decreased $12 million during the first quarter of 2011 to $15 million at March 31, 2011.

The services sector of the loan portfolio totaled $1.6 billion or 15% of total loans and consists of a large number of loans to a variety of businesses, including communications, educational, gaming and transportation services. Service sector loans increased $5.9 million from December 31, 2010. Approximately $1.0 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, 2011, the outstanding principal balance of these loans totaled $1.5 billion. Substantially all of these loans are to borrowers with local market relationships. We serve as the agent lender in approximately 19% of our shared national credits, based on dollars committed. We hold shared national 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. Risk grading provided by the regulators in the third quarter of 2010 did not differ significantly from management's assessment.

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

Commercial real estate loans totaled $2.2 billion or 21% of the loan portfolio at March 31, 2011. 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 $54 million from the previous quarter end. 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)

			New				Kansas/	
	Oklahoma	Texas	Mexico	Arkansas	Colorado	Arizona	Missouri	Total
Construction and land development	$ 109,911	$82,011	$61,289	$13,228	$86,048	$37,260	$4,590	$394,337
Retail	141,719	142,126	48,878	17,891	6,945	51,733	10,901	420,193
Office	102,242	192,677	95,258	14,961	41,775	41,535	67	488,515
Multifamily	118,088	112,032	21,376	48,720	7,196	44,416	3,412	355,240
Industrial	67,705	66,955	26,355	393	1,050	6,846	8,503	177,807
Other real estate loans	121,589	92,016	72,948	29,682	29,402	31,652	9,601	386,890
Total commercial real estate loans	$ 661,254	$687,817	$326,104	$124,875	$172,416	$213,442	$37,074	$2,222,982

Construction and land development loans, which consisted primarily of residential construction properties and developed building lots, decreased $54 million from December 31, 2010 to $394 million at March 31, 2011 primarily due to payments. In addition, approximately $4.8 million of construction and land development loans were transferred to other real estate owned in the first quarter of 2011 and $1.4 million were charged-off. This sector of the loan portfolio is expected to continue to decrease as construction projects currently in process are completed.

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 $1.8 billion, down $51 million from December 31, 2010. Permanent 1-4 family mortgage loans decreased $58 million and home equity loans increased $7.2 million, primarily in the Oklahoma and Texas markets. 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 permanent mortgage loan portfolio is primarily composed of various 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 $1.1 billion. Jumbo loans may be fixed or variable rate and are fully amortizing. The size of jumbo loans exceed maximums set under government sponsored entity standards, but otherwise generally conform to those standards. These loans generally require a minimum FICO score of 720 and a maximum debt-to-income ratio ("DTI") of 38%. Loan-to-value ratios ("LTV") are tiered from 60% to 100%, depending on the market. Special mortgage programs include fixed and variable rate fully amortizing loans tailored to the needs of certain health-care professionals. Variable rate loans are fully indexed at origination and may have fixed rates for three to ten years, then adjust annually thereafter.

Approximately $95 million or 8% of permanent mortgage loans consist of first lien, fixed rate residential mortgage loans originated under various community development programs. The outstanding balance of these loans is down from $96 million at December 31, 2010. 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 given default than traditional residential mortgage loans. The initial maximum LTV of loans in these programs was 103%.

The composition of residential mortgage and consumer loans at March 31, 2011 is as follows in Table 22.

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	$879,142	$188,622	$11,879	$9,202	$46,596	$73,980	$7,400	$1,216,821
Home equity	340,095	95,303	78,587	4,912	21,379	15,404	4,820	560,500
Total residential mortgage	$1,219,237	$283,925	$90,466	$14,114	$67,975	$89,384	$12,220	$1,777,321

Consumer:								
Indirect automobile	$111,488	$31,680	$–	$55,495	$–	$–	$–	$198,663
Other consumer	179,924	109,519	19,242	6,251	20,145	5,266	2,265	342,612
Total consumer	$291,412	$141,199	$19,242	$61,746	$20,145	$5,266	$2,265	$541,275

Indirect automobile loans decreased $41 million from December 31, 2010, 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.

Loan Commitments

We enter into certain off-balance sheet arrangements in the normal course of business. These arrangements included unfunded loan commitments which totaled $5.1 billion and standby letters of credit which totaled $520 million at March 31, 2011. 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 $2.4 million of the outstanding standby letters of credit were issued on behalf of customers whose loans are non-performing at March 31, 2011.

We also have off-balance sheet commitments for residential mortgage loans sold with full or partial recourse as more fully described in Note 5 to the Consolidated Financial Statements. At March 31, 2011, the principal balance of residential mortgage loans sold subject to recourse obligations totaled $284 million, down from $289 million at December 31, 2010. Substantially all of these loans are to borrowers in our primary markets including $200 million to borrowers in Oklahoma, $30 million to borrowers in Arkansas, $17 million to borrowers in New Mexico, $15 million to borrowers in the Kansas/Missouri area and $13 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 due to standard representations and warranties made under contractual agreements. As of March 31, 2011, less than 10% of the repurchase requests made in 2010 and 2011 have resulted in actual repurchases or indemnification by BOK Financial. We have repurchased 2 loans for approximately $267 thousand from the agencies in 2011 and no losses have been incurred on these loans as of March 31, 2011. At March 31, 2011, we have unresolved deficiency requests from the agencies on 124 loans with an aggregate outstanding balance of $22 million.

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.

We recognized a $2.6 million credit loss in the first quarter of 2011 on customer derivative positions. Two customers who used interest rate based derivative contracts to hedge their mortgage loan production were unable to meet their margin requirements. Subsequent to March 31, these losses were realized when the customer contracts were closed.

Derivative contracts are carried at fair value. At March 31, 2011, the net fair values of derivative contracts reported as assets under these programs totaled $244 million, down from $268 million at December 31, 2010 due to cash settlements and reduced transaction volumes. At March 31, 2011, derivative contracts carried as assets included energy contracts with fair values of $109 million, interest rate contracts with fair values of $74 million, and foreign exchange contracts with fair values of $57 million. The aggregate net fair values of derivative contracts held under these programs reported as liabilities totaled $156 million.

At March 31, 2011, total derivative assets were reduced by $24 million of cash collateral received from counterparties and total derivative liabilities were reduced by $112 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 (Unaudited).

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, 2011 follows in Table 23.

Table 23 – Fair Value of Derivative Contract Report As Assets Under Customer Derivative Programs
(In thousands)

Customers	$166,702
Banks	48,858
Energy companies	22,974
Other	5,602
Fair value of customer hedge asset derivative contracts, net	$244,136

At March 31, 2011, the largest amount due from a single counterparty, a highly-rated international financial institution, totaled $15 million. This amount is offset by $12 million of cash collateral received from this counterparty. The next largest amount due was $14 million from an energy customer. This amount was fully secured by cash and securities as of March 31, 2011.

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 $41 per barrel of oil would increase the fair value of derivative assets by $1.4 million. An increase in prices equivalent $175 per barrel of oil would increase the fair value of our derivative assets by $292 million. 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 $55 million.

Summary of Loan Loss Experience

We maintain separate allowances for loan losses and reserves for off-balance sheet credit risk. The combined allowance for loan losses and off-balance sheet credit losses totaled $303 million or 2.86% of outstanding loans and 134.17% of nonaccruing loans at March 31, 2011. The allowance for loan losses was $290 million and the allowance for off-balance sheet credit losses was $14 million. At December 31, 2010, the combined allowance for loan losses and off-balance sheet credit losses was $307 million or 2.89% of outstanding loans and 133% of nonaccruing loans.   At December 31, 2010, the allowance for loan losses totaled $293 million and the allowance for off-balance sheet credit losses totaled $14 million.

The provision for loan losses is the amount necessary to maintain the allowance for loan losses at an amount determined by management to be adequate based on its evaluation and includes the combined charge to expense for both the allowance for loan losses and the allowance for off-balance sheet credit losses. 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. The provision for credit losses totaled $6.3 million for the first quarter of 2011, $7.0 million for the fourth quarter of 2010 and $42.1 million for the first quarter of 2010. Factors considered in determining the provision for credit losses for the first quarter of 2011 included trends of net charge-offs, nonperforming loans and risk grading.

Table 24 – Summary of Loan Loss Experience
(Dollars in thousands)

	Three Months Ended				
	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	March 31, 2010
Allowance for loan losses:					
Beginning balance	$292,971	$299,154	$299,489	$299,717	$292,095
Loans charged off:					
Commercial	2,352	4,802	5,435	6,030	11,373
Commercial real estate	6,893	9,462	8,704	19,439	22,357
Residential mortgage	2,948	2,030	7,380	8,804	1,842
Consumer	3,039	3,859	3,820	3,895	4,756
Total	15,232	20,153	25,339	38,168	40,328
Recoveries of loans previously charged off:					
Commercial	1,571	2,933	2,309	958	3,063
Commercial real estate	343	1,327	1,086	94	672
Residential mortgage	1,082	338	316	127	120
Consumer	1,918	1,342	1,493	1,435	1,995
Total	4,914	5,940	5,204	2,614	5,850
Net loans charged off	10,318	14,213	20,135	35,554	34,478
Provision for loan losses	6,896	8,030	19,800	35,326	42,100
Ending balance	$289,549	$292,971	$299,154	$299,489	$299,717
Allowance for off-balance sheet credit losses:					
Beginning balance	$14,271	$15,302	$15,102	$14,388	$14,388
Provision for off-balance sheet credit losses	(646)	(1,031)	200	714	–
Ending balance	$13,625	$14,271	$15,302	$15,102	$14,388
Total provision for credit losses	$6,250	$6,999	$20,000	$36,040	$42,100
Allowance for loan losses to loans outstanding at period-end	2.73 %	2.75 %	2.77 %	2.75 %	2.73 %
Net charge-offs (annualized) to average loans	0.39	0.53	0.74	1.30	1.23
Total provision for credit losses (annualized) to average loans	0.23	0.26	0.74	1.31	1.51
Recoveries to gross charge-offs	32.26	29.47	20.54	6.85	14.51
Allowance for off-balance sheet credit losses to off-balance sheet credit commitments	0.24 %	0.25 %	0.28 %	0.28 %	0.26 %
Combined allowance for credit losses to loans outstanding at period-end	2.86	2.89	2.91	2.89	2.86

Allowance for Loan Losses

The adequacy 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 impaired loans that have not yet been charged down to amounts we expect to recover, general allowances based on migration factors and non-specific allowances based on general economic, risk concentration and related factors. An independent Credit Administration department is responsible for performing this evaluation for the entire company to ensure that the methodology is applied consistently. For the three months ended March 31, 2011, there have been no material changes in the approach or techniques utilized in developing the allowance for loan losses.

Specific allowances for impaired loans are determined by evaluation of estimated future cash flows, collateral value or historical statistics. Loans are considered to be impaired when it is probable that we will not be able to collect all amounts due according to the contractual terms of the loan agreement. This is substantially the same criteria used to determine when a loan should be placed on nonaccrual status. Generally, all nonaccruing commercial and commercial real estate loans are considered impaired. Substantially all impaired loans are collateralized. Collateral includes real property, inventory, accounts receivable, operating equipment, interests in mineral rights, and other property. Collateral may also include personal guaranties by borrowers and related parties.

Delinquency status is not a significant consideration in the evaluation of impairment or risk-grading of commercial or commercial real estate loans. These evaluations are based on an assessment of the borrowers' paying capacity and attempt to identify changes in credit risk before payments become delinquent. Changes in the delinquency trends of residential mortgage loans and consumer loans may indicate increases or decreases in expected losses.

Impaired loans are charged-off when the loan balance or a portion of the loan balance is no longer supported by the paying capacity of the borrower based on an evaluation of available cash resources or collateral value. Collateral value of real property is generally based on third party appraisals that conform to Uniform Standards of Professional Appraisal Practice, less estimated selling costs. Appraised values are generally on an "as is" basis and are not adjusted by us. Collateral value of mineral rights is generally determined by our internal staff of engineers based on projected cash flows from proven oil and gas reserves under existing economic and operating conditions. The value of other collateral is generally determined by our special assets staff based on projected liquidation cash flows under current market conditions. Collateral values and available cash resources that support impaired loans are evaluated quarterly. Updated appraisals are obtained at least annually or more frequently if market conditions indicate collateral values have declined. The excess of the outstanding principal balance over the fair value of collateral, less estimated costs and available cash resources of the borrower is charged-off against the allowance for loan losses.

No allowances are attributed to the remaining balance of loans that have been charged-down to amounts management expects to recover. However, the remaining balance continues to be classified as nonaccruing until full recovery of principal and interest, including the charged-off portion of the loans, is probable.

Impaired loans totaled $197 million at March 31, 2011 and $203 million at December 31, 2010. At March 31, 2011, $132 million of impaired loans had specific allowances of $9.8 million and $66 million had no specific allowances because they had been charged down to amounts we expect to recover. Impaired loans had gross outstanding principal balances of $276 million. Cumulative life-to-date charge-offs of impaired loans at March 31, 2011 totaled $78 million, including $2.8 million charged-off in the first quarter of 2011. At December 31, 2010, $125 million of impaired loans had $7.1 million of specific allowances and $78 million had no specific reserves because they had been charged down to amounts we expect to recover.

General allowances for unimpaired loans are based on migration models. Separate migration models are used to determine general allowances for commercial and commercial real estate loans, residential mortgage loans and consumer loans. Substantially all commercial and commercial real estate loans and certain residential mortgage and consumer loans are risk-graded based on an evaluation of the borrowers' ability to repay the loans. Migration factors are determined for each risk-grade to determine the inherent loss based on historical trends. We use an eight-quarter aggregate accumulation of net losses as a basis for the migration factors. Losses incurred in more recent periods are more heavily weighted by a sum-of-periods-digits formula. The higher of current loss factors based on migration trends or a minimum migration factor based upon long-term history is assigned to each risk grade.

Migration models fairly measure loss exposure during an economic cycle. However, because they are based on historic trends, their accuracy is limited near the beginning and ending of a cycle. Because of this limitation, the results of the migration model are evaluated by management quarterly. The general allowance may be adjusted upward or downward accordingly so that the allowance for loan losses fairly represents the expected credit losses inherent in the loan portfolio as of the balance sheet date.

The general allowance for residential mortgage loans is based on an eight-quarter average percent of loss. The general allowance for consumer loans is based on an eight-quarter average percent of loss with separate migration factors determined by major product line, such as indirect automobile loans and direct consumer loans.

The aggregate amount of general allowances determined by migration factors for all unimpaired loans totaled $255 million at March 31, 2011 and $259 million at December 31, 2010.

Nonspecific allowances are maintained for risks beyond factors specific to a particular loan or identified by the migration models. These factors include trends in the economy in our primary lending areas, conditions in certain industries where we have a concentration and overall growth in the loan portfolio. Evaluation of nonspecific factors considers the effect of the duration of the business cycle on migration factors. Nonspecific factors also consider current economic conditions and other relevant factors. Nonspecific allowances totaled $25 million at March 31, 2011 and $27 million at December 31, 2010.

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

Our loan review 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 $183 million at March 31, 2011 and $176 million at December 31, 2010. The current composition of potential problem loans by primary industry included wholesale/retail - $51 million, services - $36 million, commercial real estate secured by office buildings - $23 million, construction and land development - $18 million and residential mortgage - $16 million.

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. Loans are evaluated quarterly and charge-offs are taken in the quarter in which the loss is identified.

Net loans charged off during the first quarter of 2011 totaled $10.3 million compared to $14.2 million in the previous quarter and $34.5 million in the first quarter of 2010. The ratio of net loans charged off (annualized) to average outstanding loans was 0.39% for the first quarter of 2011 compared with 0.53% in the fourth quarter of 2010 and 1.23% for the first quarter of 2010. Net loans charged off in the first quarter of 2011 decreased $3.9 million from the previous quarter.

Net loans charged off by category and principal market area during the first quarter of 2011 follow in Table 25.

Table 25 – Net Loans Charged Off (Recovered)
(In thousands)

	Oklahoma	Texas	Colorado	Arkansas	New Mexico	Arizona	Kansas/ Missouri	Total
Commercial	$ (518)	$714	$(42)	$43	$(149)	$737	$(4)	$781
Commercial real estate	5,049	154	(59)	–	238	1,168	–	6,550
Residential mortgage	1,792	(118)	–	18	180	(6)	–	1,866
Consumer	535	218	9	270	97	(8)	–	1,121
Total net loans charged off	$ 6,858	$968	$(92)	$331	$366	$1,891	$(4)	$10,318

Net commercial loans charged off during the first quarter of 2011 decreased $1.1 million compared to the prior quarter and included $1.1 million from the services sector of the loan portfolio primarily in the Arizona and Texas markets, partially offset by a net recovery of $416 thousand from the other commercial and industrial sector of the loan portfolio. We had net recoveries of commercial loan charge-offs in four of our seven primary markets in the first quarter of 2011.

Net charge-offs of commercial real estate loans decreased $1.6 million from the fourth quarter of 2010 and included $4.4 million of loans secured by multifamily residential properties primarily in the Oklahoma market and $1.2 million of land and residential construction sector loans primarily in the Arizona, New Mexico, Oklahoma and Texas markets. Land and residential construction sector charge-offs decreased $2.3 million from the prior quarter.

Residential mortgage net charge-offs increased $174 thousand over the previous quarter and consumer loan net charge-offs, which includes indirect auto loan and deposit account overdraft losses, decreased $1.4 million from the previous quarter. Net charge-offs of indirect auto loans totaled $676 thousand for the first quarter of 2011 and $922 thousand for the fourth quarter of 2010.

Nonperforming Assets

Table 26 – Nonperforming Assets
(In thousands)

	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	March 31, 2010
Nonaccrual loans:					
Commercial	$57,449	$38,455	$49,361	$82,775	$84,491
Commercial real estate	125,504	150,366	177,709	193,698	219,639
Residential mortgage	37,824	37,426	38,898	40,033	36,281
Consumer	5,185	4,567	2,784	3,188	3,164
Total nonaccrual loans	225,962	230,814	268,752	319,694	343,575
Renegotiated loans2	21,705	22,261	25,252	21,327	17,763
Total nonperforming loans	247,667	253,075	294,004	341,021	361,338
Other nonperforming assets	131,420	141,394	126,859	119,908	121,933
Total nonperforming assets	$379,087	$394,469	$420,863	$460,929	$483,271
Nonaccrual loans by principal market:					
Oklahoma	$49,585	$60,805	$72,264	$93,898	$102,231
Texas	34,404	33,157	36,979	49,695	58,067
New Mexico	17,510	19,283	23,792	26,956	23,021
Arkansas	29,769	7,914	9,990	10,933	14,652
Colorado3	40,629	49,416	55,631	66,040	66,883
Arizona	54,065	60,239	70,038	72,111	78,656
Kansas/Missouri	–	–	58	61	65
Total nonaccrual loans	$225,962	$230,814	$268,752	$319,694	$343,575
Nonaccrual loans by loan portfolio sector:					
Commercial:					
Energy	$415	$465	$8,189	$26,259	$17,182
Manufacturing	4,545	2,116	2,454	3,237	4,834
Wholesale / retail	30,411	8,486	5,584	5,561	6,629
Integrated food services	6	13	58	58	65
Services	15,720	19,262	23,925	31,062	35,535
Healthcare	2,574	3,534	2,608	8,568	10,538
Other	3,778	4,579	6,543	8,030	9,708
Total commercial	57,449	38,455	49,361	82,775	84,491
Commercial real estate:					
Land development and construction	90,707	99,579	116,252	132,686	140,508
Retail	5,276	4,978	8,041	4,967	14,843
Office	14,628	19,654	24,942	24,764	26,660
Multifamily	1,900	6,725	6,924	7,253	15,725
Industrial	–	4,087	4,151	4,223	–
Other commercial real estate	12,993	15,343	17,399	19,805	21,903
Total commercial real estate	125,504	150,366	177,709	193,698	219,639
Residential mortgage:					
Permanent mortgage	33,466	32,111	36,654	37,978	34,134
Home equity	4,358	5,315	2,244	2,055	2,147
Total residential mortgage	37,824	37,426	38,898	40,033	36,281
Consumer	5,185	4,567	2,784	3,188	3,164
Total nonaccrual loans	$225,962	$230,814	$268,752	$319,694	$343,575

Ratios:										
Reserve for loan losses to nonperforming loans	116.91	%	115.76	%	101.75	%	87.82	%	82.95	%
Nonperforming loans to period-end loans	2.34		2.38		2.72		3.13		3.29	
Accruing loans past due (90 days or more) 1	$9,291		$9,961		$6,433		$12,474		$12,915	
1Includes residential mortgages guaranteed by agencies of the U.S. Government.	$1,248		$1,995		$854		$3,210		$3,183	
2Includes residential mortgage loans guaranteed by agencies of the U.S. government. These loans have been modified to extend payment terms and/or reduce interest rates.	18,304		18,551		21,706		17,598		14,083	
3Includes loans subject to First United Bank sellers escrow.	–		–		–		–		4,281	

Nonperforming assets decreased $15 million during the first quarter of 2011 to $379 million or 3.54% of outstanding loans and repossessed assets at March 31, 2011. Nonaccruing loans totaled $226 million, renegotiated residential mortgage loans totaled $22 million (including $18 million of residential mortgage loans guaranteed by U.S. government agencies) and real estate and other repossessed assets totaled $131 million. The Company generally retains nonperforming assets to maximize potential recovery which may cause future nonperforming assets to increase.

Renegotiated loans represent troubled debt restructurings of residential mortgage loans. Generally, we modify residential mortgage loans by reducing interest rates and extending the number of payments. We do not forgive principal or unpaid interest. At March 31, 2011, approximately $11 million of the renegotiated residential mortgage loans are currently performing in accordance with the modified terms, $3.6 million are 30 to 89 days past due and $6.8 million are past due 90 days or more. Restructured residential mortgage loans guaranteed by agencies of the U.S. government in accordance with agency guideline represent $18 million of our $22 million portfolio of renegotiated loans. Interest continues to accrue on these guaranteed loans based on the modified terms of the loan. Renegotiated loans may be transferred to loans held for sale after a period of satisfactory performance, generally at least nine months. If it becomes probable that we will not be able to collect all amounts due according to the modified loan terms, the loans are placed on nonaccrual status and included in nonaccrual loans.

Commercial and commercial real estate loans are considered distressed when it becomes probable that we will not collect the full contractual principal and interest. All distressed commercial and commercial real estate loans are placed on nonaccrual status. We may modify loans to distressed borrowers generally consisting of extension of payment terms, not to exceed the final contractual maturity date of the original loan. We do not forgive principal or accrued but unpaid interest, nor do we grant interest rate concessions. We do not modify consumer loans to troubled borrowers.

A rollforward of nonperforming assets for the first quarter of 2011 follows in Table 27.

Table 27 – Rollforward of Nonperforming Assets
(In thousands)

	Nonaccruing Loans	Renegotiated Loans	Real Estate and Other Repossessed Assets	Total Nonperforming Assets
Balance, December 31, 2010	$ 230,814	$ 22,261	$ 141,394	$ 394,469
Additions	54,768	2,783	–	57,551
Payments	(23,743)	(239)	–	(23,982)
Charge-offs	(15,232)	–	–	(15,232)
Net writedowns and losses	–	–	(4,331)	(4,331)
Foreclosures	(21,010)	–	21,010	–
Proceeds from sales	–	–	(15,232)	(15,232)
Net transfer to nonaccruing Loans	348	(348)	–	–
Transfer to residential mortgage loans held for sale	–	(2,094)	–	(2,094)

Transfer to available for sale securities	–	–	(11,723)	(11,723)
Other, net	17	(658)	302	(339)
Balance, March 31, 2011	$ 225,962	$ 21,705	$ 131,420	$ 379,087

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, 2011		December 31, 2010		Change	
		% of outstanding loans		% of outstanding loans		% of outstanding loans
	Amount		Amount		Amount	
Oklahoma	$49,585	1.04 %	$60,805	1.24 %	$(11,220)	(20) bp
Texas	34,404	1.14	33,157	1.10	1,247	4
New Mexico	17,510	2.51	19,283	2.75	(1,773)	(24)
Arkansas	29,769	10.76	7,914	2.75	21,855	801
Colorado	40,629	5.24	49,416	6.49	(8,787)	(125)
Arizona	54,065	9.66	60,239	11.48	(6,174)	(182)
Kansas / Missouri	–	–	–	–	–	–
Total	$225,962	2.13 %	$230,814	2.17 %	$(4,852)	(4) bp

The majority of nonaccruing loans are concentrated in the Oklahoma, Arizona and Colorado markets. Nonaccruing loans in the Oklahoma market are primarily composed of $11 million of commercial real estate loans and $11 million of commercial loans. Nonaccruing loans in the Arizona and Colorado markets consisted primarily of commercial real estate loans.

Nonaccruing loans decreased $4.9 million from December 31, 2010. Nonaccruing loans in Arkansas increased $22 million due largely to a single customer relationship. Nonaccruing loans decreased $11 million in the Oklahoma market, $8.8 million in the Colorado market and $6.2 million in the Arizona market.

Commercial

Nonaccruing commercial loans totaled $57 million or 0.95% of total commercial loans at March 31, 2011 and $38 million or 0.65% of total commercial loans at December 31, 2010. At March 31, 2011, nonaccruing commercial loans were primarily composed of $30 million or 3.09% of total wholesale / retail sector loans and nonaccruing services sector loans totaled $16 million or 0.99% of total services sector loans.

Nonaccruing commercial loans increased $19 million over December 31, 2010 largely due to a single customer relationship in the Arkansas market in the wholesale / retail sector.   Newly identified nonaccruing commercial loans in the first quarter of 2011 totaled approximately $31 million, offset by $8.4 million in payments, $2.4 million in charge-offs and $1.1 million in foreclosures. 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, 2011		December 31, 2010		Change	
		% of outstanding loans		% of outstanding loans		% of outstanding loans
	Amount		Amount		Amount	
Oklahoma	$10,776	0.41 %	$13,978	0.54 %	$(3,202)	(13) bp
Texas	9,165	0.48	5,603	0.30	3,562	18
New Mexico	3,667	1.40	5,818	2.08	(2,151)	(68)
Arkansas	22,651	29.85	212	0.25	22,439	2,960 bp

Colorado	5,086	0.99		6,702	1.42		(1,616	)	(43	)
Arizona	6,104	2.43		6,142	2.66		(38	)	(23	)
Kansas / Missouri	–	–		–	–		–		–	
Total commercial	$57,449	0.95	%	$38,455	0.65	%	$18,994		30	bp

Commercial Real Estate

Nonaccruing commercial real estate loans totaled $126 million or 5.65% of outstanding commercial real estate loans at March 31, 2011 compared to $150 million or 6.60% of outstanding commercial real estate loans at December 31, 2010. Nonaccruing commercial real estate loans continue to be largely concentrated in land development and residential construction loans. Nonaccruing commercial real estate loans decreased $25 million since December 31, 2010. Newly identified nonaccruing commercial real estate loans totaled $6.9 million, offset by $6.9 million of charge-offs, $12 million of cash payments received and $13 million of foreclosures. The distribution of our nonaccruing commercial real estate loans among our geographic market is as follows in Table 30.

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

	March 31, 2011		December 31, 2010		Change	
	Amount	% of outstanding loans	Amount	% of outstanding loans	Amount	% of outstanding loans
Oklahoma	$10,907	1.65 %	$19,005	2.62 %	$(8,098)	(97) bp
Texas	18,985	2.76	21,228	3.09	(2,243)	(33)
New Mexico	11,736	3.60	11,494	3.65	242	(5)
Arkansas	5,830	4.67	6,346	5.42	(516)	(75)
Colorado	33,963	19.70	41,066	20.83	(7,103)	(113)
Arizona	44,083	20.65	51,227	25.48	(7,144)	(483)
Kansas / Missouri	–	–	–	–	–	–
Total commercial real estate	$125,504	5.65 %	$150,366	6.60 %	$(24,862)	(95) bp

Nonaccruing commercial real estate loans are primarily concentrated in the Arizona and Colorado markets. Approximately $44 million or 20.65% of commercial real estate loans in Arizona are nonaccruing and consist primarily of nonaccruing residential construction and land development loans. Approximately $34 million or 19.70% of commercial real estate loans in the Colorado market are nonaccruing and consist primarily of nonaccruing residential construction and land development loans.

Residential Mortgage and Consumer

Nonaccruing residential mortgage loans totaled $38 million or 2.13% of outstanding residential loans at March 31, 2011 compared to $37 million or 2.05% of total residential loans at December 31, 2010. Nonaccruing residential mortgage loans primarily consist of permanent residential mortgage loans which totaled $33 million or 2.75% of outstanding residential mortgage loans at March 31, 2011, a $1.4 million increase over December 31, 2010. Nonaccruing home equity loans continued to perform well with only $4.4 million or 0.78% of total home equity loans in nonaccrual status.

In addition to nonaccruing residential mortgage and consumer loans, payments of residential mortgage loans and consumer loans may be delinquent. The composition of residential mortgage and consumer loans past due is included in the following Table 31. Residential mortgage loans past due 30 to 89 days decreased $9.3 million and residential mortgage loans past due 90 days or more decreased $747 thousand during first quarter of 2011. Consumer loans past due 30 to 89 days decreased $2.8 million from December 31, 2010 primarily due to a decrease in indirect automobile loans, partially offset by an increase in other consumer loans. Consumer loans past due 90 days or more decreased $229 thousand during the first quarter of 2011, primarily due to a decrease in other consumer loans.

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

	March 31, 2011		December 31, 2010	
	90 Days or More	30 to 89 Days	90 Days or More	30 to 89 Days
Residential mortgage:				
Permanent mortgage[1]	$1,248	$12,776	$1,995	$21,719
Home equity	–	1,246	–	1,605
Total residential mortgage	$1,248	$14,022	$1,995	$23,324
Consumer:				
Indirect automobile	$73	$7,865	$67	$11,382
Other consumer	60	1,647	295	927
Total consumer	$133	$9,512	$362	$12,309

[1] Excludes past due residential mortgage loans which we may voluntarily repurchase but do not have the obligation to repurchase from Government National Mortgage Association (“GNMA”) mortgage pools. Repayment of these loans is fully guaranteed by agencies of the U.S. government. See Note 4 in the Consolidated Financial Statements for additional discussion.

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 costs, determined by the fair value at the date of foreclosure less estimated disposal costs, or the current fair value less estimated disposal costs. The fair value of real property is generally based on third party appraisals that conform to Uniform Standards of Professional Appraisal Practice. Appraisals are ordered at foreclosure and are updated on a no less than annual basis. For certain property types, such as residential building lots, or in certain distressed markets, we may request updated appraisals more frequently. Appraised values are on an “as is” basis and are not adjusted. For uncompleted properties, we may also obtain the appraised value for properties on an “as completed” basis to use in the determination of whether to develop properties to completion. Such costs to complete properties may be capitalized not to exceed the estimated “as completed” fair value as determined by the independent appraisal. The fair value of mineral rights is generally determined by our internal staff of engineers based on the projected cash flows from proven oil and gas reserves under existing economic and operating conditions. The value of other assets is generally determined by our special assets staff based on projected liquidation cash flow under current market conditions.

The carrying value of real estate and other repossessed assets is evaluated by management on a quarterly basis. We consider decreases in listing prices and other relevant information in our quarterly evaluations and reduce the carrying values when necessary.

Real estate and other repossessed assets totaled $131 million at March 31, 2011, a decrease of $10 million from December 31, 2010. During the first quarter of 2011, $12 million of cost basis shares of an entity in which we hold an equity interest were transferred to the available for sales portfolio as the shares are listed for trading on a national stock exchange. 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)

					New		Kansas/		
	Oklahoma	Texas	Colorado	Arkansas	Mexico	Arizona	Missouri	Other	Total

1-4 family residential properties and residential land development properties	$ 9,189	$ 19,501	$ 3,587	$ 5,879	$ 1,031	$ 13,543	$ 777	$ 2,157	$ 55,664
Developed commercial real estate properties	2,244	1,510	8,957	2,199	5,546	22,545	–	3,332	46,333
Undeveloped land	297	8,919	3,026	72	1,501	5,953	4,802	–	24,570
Oil and gas properties	–	2,403	–	–	–	–	–	–	2,403
Construction equipment	–	–	–	–	–	–	1,597	–	1,597
Vehicles	313	113	–	257	–	–	–	–	683
Other	–	–	170	–	–	–	–	–	170
Total real estate and other repossessed assets	$ 12,043	$ 32,446	$ 15,740	$ 8,407	$ 8,078	$ 42,041	$ 7,176	$ 5,489	$ 131,420

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 our subsidiary bank. Based on average balances for the first quarter of 2011, approximately 75% of our funding was provided by average deposit accounts, 9% 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 and 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 2011 totaled $17.7 billion and represented approximately 75% of total average liabilities and capital, compared with $17.3 billion and 71% of total average liabilities and capital for the fourth quarter of 2010. Average deposits increased $428 million in first quarter of 2011. Average interest-bearing transaction deposit accounts continued to grow, up $307 million over the fourth quarter of 2010. Growth in our average interest-bearing transaction deposit accounts included $527 million of commercial deposits, partially offset by a seasonal decrease of $158 million in wealth management deposits and a $58 million decrease in consumer banking deposits. Average demand deposits increased $94 million in the first quarter of 2011, from the fourth quarter of 2010, primarily related to a $260 million increase in balances held by our commercial banking customers and a $15 million increase in wealth management deposits, partially offset by a seasonal decrease of $145 million in consumer deposits. Average time deposits also increased $15 million during the first quarter of 2011. Growth in our average commercial deposit balances was largely driven by small business and commercial and industrial customers.

Brokered deposits, which are included in time deposits, averaged $237 million for the first quarter of 2011, up $2.8 million over the fourth quarter of 2010.

The distribution of deposit accounts among our principal markets is shown in Table 33.

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

	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	March 31, 2010
Oklahoma:					
Demand	$2,420,210	$2,271,375	$2,238,303	$2,101,994	$2,062,084
Interest-bearing:					
Transaction	6,068,304	6,061,626	5,609,811	5,562,287	5,237,983
Savings	120,020	106,411	103,524	102,590	101,708
Time	1,465,506	1,373,307	1,497,344	1,442,525	1,360,756
Total interest-bearing	7,653,830	7,541,344	7,210,679	7,107,402	6,700,447
Total Oklahoma	10,074,040	9,812,719	9,448,982	9,209,396	8,762,531
Texas:					
Demand	1,405,892	1,389,876	1,238,103	1,150,495	1,068,656
Interest-bearing:					
Transaction	1,977,850	1,791,810	1,786,979	1,674,519	1,675,759
Savings	40,313	36,429	35,614	36,814	37,175
Time	1,015,754	966,116	1,031,877	1,003,936	1,043,813
Total interest-bearing	3,033,917	2,794,355	2,854,470	2,715,269	2,756,747
Total Texas	4,439,809	4,184,231	4,092,573	3,865,764	3,825,403
New Mexico:					
Demand	282,708	270,916	262,567	223,869	222,685
Interest-bearing:					
Transaction	498,355	530,244	535,012	491,708	480,189
Savings	24,455	28,342	27,906	30,231	20,036
Time	453,580	450,177	469,493	476,155	495,243
Total interest-bearing	976,390	1,008,763	1,032,411	998,094	995,468
Total New Mexico	1,259,098	1,279,679	1,294,978	1,221,963	1,218,153
Arkansas:					
Demand	15,144	15,310	17,604	14,919	17,599
Interest-bearing:					
Transaction	130,613	129,580	137,797	108,104	61,398
Savings	1,514	1,266	1,522	1,288	1,266
Time	94,889	100,998	116,536	119,472	105,794
Total interest-bearing	227,016	231,844	255,855	228,864	168,458
Total Arkansas	242,160	247,154	273,459	243,783	186,057
Colorado:					
Demand	197,579	157,742	156,685	143,783	136,048
Interest-bearing:					
Transaction	528,948	522,207	501,405	441,085	456,508
Savings	21,655	20,310	19,681	18,869	18,118
Time	546,586	502,889	495,899	497,538	509,410
Total interest-bearing	1,097,189	1,045,406	1,016,985	957,492	984,036
Total Colorado	1,294,768	1,203,148	1,173,670	1,101,275	1,120,084

Arizona:					
Demand	106,880	74,887	97,384	71,711	61,183
Interest-bearing:					
Transaction	102,089	95,890	94,108	94,033	81,851
Savings	984	809	812	1,062	1,105
Time	50,060	52,227	59,678	63,643	64,592
Total interest-bearing	153,133	148,926	154,598	158,738	147,548
Total Arizona	260,013	223,813	251,982	230,449	208,731
Kansas/Missouri:					
Demand	28,774	40,658	35,869	28,518	31,726
Interest-bearing:					
Transaction	222,705	124,005	180,273	116,423	100,037
Savings	323	200	132	110	146
Time	51,236	63,454	70,673	69,819	74,648
Total interest-bearing	274,264	187,659	251,078	186,352	174,831
Total Kansas/Missouri	303,038	228,317	286,947	214,870	206,557
Total BOK Financial deposits	$17,872,926	$17,179,061	$16,822,591	$16,087,500	$15,527,516

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 $183 million at March 31, 2011. Securities repurchase agreements generally mature within 90 days and are secured by certain available for sale securities. All of our repurchase agreement transactions are recognized as secured borrowing. 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 U.S. agency issued residential 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 and Dallas averaged $112 million during the first quarter.

We generally have been using the proceeds of deposit growth to reduce higher-costing other borrowing while maintaining access to these funding sources. At March 31, 2011, the estimated unused credit available to the subsidiary bank from collateralized sources was approximately $7.4 billion.

Information relating to other borrowing is summarized in Table 34 following:

Table 34 – Other borrowings
(In thousands)

	As of March 31, 2011	Average Balance During the Quarter	Rate	Maximum Outstanding At Any Month End During the Quarter	As of Dec. 31, 2010	Average Balance During the Quarter	Rate	Maximum Outstanding At Any Month End During the Quarter
Parent Company and Other Non-Bank Subsidiaries:								
Trust preferred debt	$7,217	7,217	5.06 %	$7,217	$7,217	7,217	5.06 %	$7,217
Other	1,300	58	– %	1,300	–	–	– %	–
Total Parent Company and other Non-Bank Subsidiaries	8,517	7,275	5.06 %		7,217	7,217	5.06 %	
Subsidiary Bank:								
Funds purchased	466,749	820,969	0.22 %	965,762	1,025,018	775,620	0.11 %	1,025,018
Repurchase agreements	1,006,051	1,062,359	0.25 %	1,124,060	1,258,762	1,201,760	0.59 %	1,258,762
Federal Home Loan Bank advances	1,699	111,725	3.20 %	1,749	801,797	800,042	0.14 %	851,562

Subordinated debentures	398,744	398,723	5.51 %	398,744	398,701	398,680	5.78 %	398,701
Other	26,648	25,987	2.52 %	30,664	24,564	22,497	1.69 %	32,543
Total Subsidiary Bank	1,899,891	2,419,763	1.39 %		3,508,842	3,198,599	0.95 %	
Total Other Borrowings	$1,908,408	$2,427,038	1.44 %		$3,516,059	$3,205,816	0.98 %	

Parent Company

The primary source of liquidity for BOK Financial is dividends from the subsidiary bank, which are limited by various banking regulations to net profits, as defined, for the year plus retained profits for the two preceding years. Dividends are further restricted by minimum capital requirements. Based on the most restrictive limitations as well as management's internal capital policy, at March 31, 2011, the subsidiary bank could declare up to $72 million of dividends without regulatory approval. Future losses or increases in required regulatory capital at the subsidiary bank could affect its ability to pay dividends to the parent company.

The Company has an unsecured revolving credit agreement with George B. Kaiser, its Chairman and principal shareholder. The committed amount under the terms of the credit agreement is $100 million and matures on December 2, 2012. Interest on outstanding balances due to Mr. Kaiser is based on one-month LIBOR plus 250 basis points and is payable quarterly. Additional interest in the form of a facility fee is paid quarterly on the unused portion of the commitment at 50 basis points. The credit agreement has no restrictive covenants. No amounts were outstanding under this credit agreement as of March 31, 2011 or December 31, 2010.

Our equity capital at March 31, 2011 was $2.6 billion, up from $2.5 billion at December 31, 2010. Net income less cash dividend paid increased equity $48 million during the first quarter of 2011. Capital is managed to maximize long-term value to the shareholders. Factors considered in managing capital include projections of future earnings, asset growth and acquisition strategies, and regulatory and debt covenant requirements. Capital management may include subordinated debt issuance, share repurchase and stock and cash dividends.

Based on asset size, we are the largest commercial bank that elected not to participate in the TARP Capital Purchase Program. The decision not to participate in TARP was based on an evaluation of our capital needs in both the current environment and in several capital stress environments. We considered capital requirements for organic growth and potential acquisitions, the cost of TARP capital and a defined exit strategy when the cost of TARP capital increases substantially at the end of year five.

On April 26, 2005, the Board of Directors authorized a share repurchase program, which replaced a previously authorized program. The maximum of two million common shares may be repurchased. The specific timing and amount of shares repurchased will vary based on market conditions, regulatory limitations and other factors. Repurchases may be made over time in open market or privately negotiated transactions. The repurchase program may be suspended or discontinued at any time without prior notice. Since this program began, 784,073 shares have been repurchased by the Company for $38.7 million. No shares were repurchased in the first quarter of 2011.

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

For a banking institution to qualify as well capitalized, its Tier 1, Total and Leverage capital ratios must be at least 6%, 10% and 5%, respectively. The Company's banking subsidiary exceeded the regulatory definitions of well capitalized. The capital ratios for BOK Financial on a consolidated basis are presented in Table 35.

Table 35 – Capital Ratios

	Well Capitalized Minimums		March 31, 2011		Dec. 31, 2010		Sept. 30, 2010		June 30, 2010		March 31, 2010	
Average total equity to average assets	–		10.80	%	10.44	%	10.26	%	10.15	%	9.69	%
Tangible common equity ratio	–		9.54		9.21		8.96		8.88		8.46	
Tier 1 common equity ratio	–		12.84		12.55		12.17		11.77		11.33	
Risk-based capital:												
Tier 1 capital	6.00	%	12.97		12.69		12.30		11.90		11.45	
Total capital	10.00		16.48		16.20		15.79		15.38		15.09	
Leverage	5.00		9.13		8.74		8.61		8.57		8.25	

Capital resources of financial institutions are also regularly measured by the tangible common shareholders' equity ratio. Tangible common shareholders' equity is shareholders' equity as defined by generally accepted accounting principles in the United States of America ("GAAP") less intangible assets and equity which does not benefit common shareholders. Equity that does not benefit common shareholders includes preferred equity and equity provided by the U.S. Treasury's TARP program. Tier 1 common equity is tier 1 equity as defined by banking regulations, adjusted for other comprehensive income (loss) and equity which does not benefit common shareholders. These non-GAAP measures are valuable indicators of a financial institution's capital strength since it eliminates intangible assets from shareholders' equity and retains the effect of unrealized losses on securities and other components of accumulated other comprehensive income (loss) in shareholders' equity.

Table 36 following provides a reconciliation of the non-GAAP measures with financial measures defined by GAAP.

Table 36 – Non-GAAP Measures
(Dollars in thousands)

	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	March 31, 2010
Tangible common equity ratio:					
Total shareholders' equity	$2,576,133	$2,521,726	$2,503,650	$2,428,738	$2,312,443
Less: Goodwill and intangible assets, net	348,507	349,404	350,769	351,592	352,916
Tangible common equity	2,227,626	2,172,322	2,152,881	2,077,146	1,959,527
Total assets	23,701,023	23,941,603	24,385,952	23,736,728	23,501,976
Less: Goodwill and intangible assets, net	348,507	349,404	350,769	351,592	352,916
Tangible assets	$23,352,516	$23,592,199	$24,035,183	$23,385,136	$23,149,060
Tangible common equity ratio	9.54 %	9.21 %	8.96 %	8.88 %	8.46 %
Tier 1 common equity ratio:					
Tier 1 capital	$2,129,998	$2,076,525	$2,027,226	$1,976,588	$1,922,783
Less: Non-controlling interest	21,555	22,152	20,338	21,289	20,274
Tier 1 common equity	2,108,443	2,054,373	2,006,888	1,955,299	1,902,509
Risk weighted assets	$16,416,387	$16,368,976	$16,484,702	$16,611,662	$16,787,566
Tier 1 common equity ratio	12.84 %	12.55 %	12.17 %	11.77 %	11.33 %

Off-Balance Sheet Arrangements

The Company agreed to guarantee rents totaling $28.7 million through September of 2017 to the City of Tulsa ("City") as owner of a building immediately adjacent to the Bank's main office for space currently rented by third-party tenants in the building. All rent payments are current. Remaining guaranteed rents totaled $19.3 million at March 31, 2011. Current leases expire or are subject to lessee termination options at various dates in 2012 and 2014. Our obligation under the agreement would be affected by lessee decisions to exercise these options.

In return for this guarantee, we will receive 80% of net cash flow as defined in an agreement with the City through September 2017 from rental of space that was vacant at the inception of the agreement. Approximately 42 thousand square feet of this additional space has been rented to outside parties since the date of the agreement. The maximum amount that we may receive under this agreement is $4.5 million.

Market Risk

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

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

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

Interest Rate Risk – Other than Trading

As previously noted in the Net Interest Revenue section of this report, management has implemented strategies to manage the Company's balance sheet to have relatively limited exposure to changes in interest rates over a twelve month period. The effectiveness of these strategies in managing the overall interest rate risk is evaluated through the use of an asset/liability model. BOK Financial performs a sensitivity analysis to identify more dynamic interest rate risk exposures, including embedded option positions, on net interest revenue, net income and economic value of equity. A simulation model is used to estimate the effect of changes in interest rates over the next 12 months and longer time periods based on multiple interest rate scenarios. Two specified interest rate scenarios are used to evaluate interest rate risk against policy guidelines. The first assumes a sustained parallel 200 basis point increase and the second assumes a sustained parallel 50 basis point decrease in interest rates. Management historically evaluated interest rate sensitivity for a sustained 200 basis point decrease in interest rates. However, the results of a 200 basis point decrease in interest rates in the current low-rate environment are not meaningful.

The Company's primary interest rate exposures included the Federal Funds rate, which affects short-term borrowings, and the prime lending rate and LIBOR, which are the basis for much of the variable-rate loan pricing. Additionally, mortgage rates directly affect the prepayment speeds for mortgage-backed securities and mortgage servicing rights. Derivative financial instruments and other financial instruments used for purposes other than trading are included in this simulation. The model incorporates assumptions regarding the effects of changes in interest rates and account balances on indeterminable maturity deposits based on a combination of historical analysis and expected behavior. The impact of planned growth and new business activities is factored into the simulation model. The effects of changes in interest rates on the value of mortgage servicing rights are excluded from Table 37 due to the extreme volatility over such a large rate range. The effects of interest rate changes on the value of mortgage servicing rights and securities identified as economic hedges are presented in Note 5 to the Consolidated Financial Statements.

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

Table 36 – Interest Rate Sensitivity
(Dollars in thousands)

	200 bp Increase		50 bp Decrease	
	2011	2010	2011	2010
Anticipated impact over the next twelve months on net interest revenue	$(426)	$(12,706)	$(10,292)	$(24,197)
	(0.06)%	(1.7)%	(1.4)%	(3.3)%

Trading Activities

BOK Financial enters into trading activities both as an intermediary for customers and for its own account. As an intermediary, BOK Financial will take positions in securities, generally mortgage-backed securities, government agency securities, and municipal bonds. These securities are purchased for resale to customers, which include individuals, corporations, foundations and financial institutions. BOK Financial will also take trading positions in U.S. Treasury securities, mortgage-backed securities, municipal bonds and financial futures for its own account. These positions are taken with the objective of generating trading profits. Both of these activities involve interest rate risk.

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

Management uses a Value at Risk ("VAR") methodology to measure the market risk inherent in its trading activities. VAR is calculated based upon historical simulations over the past five years using a variance / covariance matrix of interest rate changes. It represents an amount of market loss that is likely to be exceeded only one out of every 100 two-week periods. Trading positions are managed within guidelines approved by the Board of Directors. These guidelines limit the VAR to $7.4 million. At March 31, 2011, the VAR was $2.6 million. The greatest value at risk during the first quarter of 2011 was $3.1 million.

Controls and Procedures

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

Forward-Looking Statements

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

Consolidated Statements of Earnings (Unaudited)
(In thousands except share and per share data)

	Three Months Ended March 31,	
Interest revenue	2011	2010
Loans	$123,740	$131,944
Residential mortgage loans held for sale	1,339	1,747
Taxable securities	74,589	82,612
Tax-exempt securities	2,003	2,449
Total securities	76,592	85,061
Trading securities	414	610
Funds sold and resell agreements	4	8
Total interest revenue	202,089	219,370
Interest expense		
Deposits	24,042	27,617
Borrowed funds	1,831	3,613
Subordinated debentures	5,577	5,566
Total interest expense	31,450	36,796
Net interest revenue	170,639	182,574
Provision for credit losses	6,250	42,100
Net interest revenue after provision for credit losses	164,389	140,474
Other operating revenue		
Brokerage and trading revenue	25,376	21,035
Transaction card revenue	28,445	25,687
Trust fees and commissions	18,422	16,320
Deposit service charges and fees	22,480	26,792
Mortgage banking revenue	17,356	14,871
Bank-owned life insurance	2,863	2,972
Other revenue	8,332	7,638
Total fees and commissions	123,274	115,315
Loss on other assets, net	(68)	(1,390)
Loss on derivatives, net	(2,413)	(341)
Gain on securities, net	1,384	4,524
Total other-than-temporary impairment losses	–	(9,708)
Portion of loss recognized in (reclassified from) other comprehensive income	(4,599)	5,483
Net impairment losses recognized in earnings	(4,599)	(4,225)
Total other operating revenue	117,578	113,883
Other operating expense		
Personnel	99,994	96,824
Business promotion	4,624	3,978
Professional fees and services	7,458	6,401
Net occupancy and equipment	15,604	15,511
Insurance	6,186	6,533
Data processing and communications	22,503	20,309
Printing, postage and supplies	3,082	3,322
Net losses and operating expenses of repossessed assets	6,015	7,220
Amortization of intangible assets	896	1,324

Mortgage banking costs	6,471	9,267
Change in fair value of mortgage servicing rights	(3,129)	(13,932)
Other expense	8,745	6,975
Total other operating expense	178,449	163,732
Income before taxes	103,518	90,625
Federal and state income tax	38,752	30,283
Net income before non-controlling interest	64,766	60,342
Net income (loss) attributable to non-controlling interest	(8)	209
Net income attributable to BOK Financial Corporation	$64,774	$60,133
Earnings per share:		
Basic	$0.95	$0.88
Diluted	$0.94	$0.88
Average shares used in computation:		
Basic	67,901,722	67,592,315
Diluted	68,176,527	67,790,049
Dividends declared per share	$0.25	$0.24

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets
(In thousands except share data)

	March 31, 2011 (Unaudited)	Dec. 31, 2010 (Footnote 1)	March 31, 2010 (Unaudited)
Assets			
Cash and due from banks	$805,928	$1,247,946	$902,575
Funds sold and resell agreements	2,462	21,458	29,410
Trading securities	80,719	55,467	115,641
Securities:			
Available for sale	9,707,825	9,171,908	8,744,641
Available for sale securities pledged to creditors	–	139,344	159,754
Investment (fair value: March 31, 2011 – $355,052; December 31, 2010 – $346,105; March 31, 2010 – $314,888)	343,401	339,553	309,910
Mortgage trading securities	326,624	428,021	427,196
Total securities	10,377,850	10,078,826	9,641,501
Residential mortgage loans held for sale	127,119	263,413	178,362
Loans	10,589,835	10,643,036	10,971,224
Less allowance for loan losses	(289,549)	(292,971)	(299,717)
Loans, net of allowance	10,300,286	10,350,065	10,671,507
Premises and equipment, net	265,532	265,465	279,152
Accrued revenue receivable	113,060	148,940	107,300
Goodwill	335,601	335,601	335,601
Intangible assets, net	12,906	13,803	17,315
Mortgage servicing rights	120,345	115,723	119,066
Real estate and other repossessed assets	131,420	141,394	121,933
Bankers' acceptances	1,884	1,222	2,945
Derivative contracts	245,124	270,445	325,364
Cash surrender value of bank-owned life insurance	258,322	255,442	248,927
Receivable on unsettled securities trades	242,828	135,059	–
Other assets	279,637	241,334	405,377
Total assets	$23,701,023	$23,941,603	$23,501,976
Liabilities and equity			
Noninterest-bearing demand deposits	$4,457,187	$4,220,764	$3,599,981
Interest-bearing deposits:			
Transaction	9,528,864	9,255,362	8,093,725
Savings	209,264	193,767	179,554
Time (includes fair value: $0 at March 31, 2011; $27,414 at December 31, 2010; $32,364 at March 31, 2010)	3,677,611	3,509,168	3,654,256
Total deposits	17,872,926	17,179,061	15,527,516
Funds purchased	466,749	1,025,019	1,465,983
Repurchase agreements	1,006,051	1,258,761	1,172,280
Other borrowings	36,864	833,578	1,909,934
Subordinated debentures	398,744	398,701	398,578
Accrued interest, taxes and expense	135,486	134,107	117,179
Bankers' acceptances	1,884	1,222	2,945
Due on unsettled securities trades	843,904	160,425	103,186

Derivative contracts	156,038	215,420	311,685
Other liabilities	184,689	191,431	159,973
Total liabilities	21,103,335	21,397,725	21,169,259
Shareholders' equity:			
Common stock ($.00006 par value; 2,500,000,000 shares authorized; shares issued and outstanding: March 31, 2011 – 71,073,780; December 31, 2010 – 70,815,563; March 31, 2010 – 70,593,401)	4	4	4
Capital surplus	790,852	782,805	764,863
Retained earnings	1,791,698	1,743,880	1,607,828
Treasury stock (shares at cost: March 31, 2011 – 2,635,358; December 31, 2010 – 2.607,874; March 31, 2010 – 2,550,483)	(114,734)	(112,802)	(107,909)
Accumulated other comprehensive income	108,313	107,839	47,657
Total shareholders’ equity	2,576,133	2,521,726	2,312,443
Non-controlling interest	21,555	22,152	20,274
Total equity	2,597,688	2,543,878	2,332,717
Total liabilities and equity	$23,701,023	$23,941,603	$23,501,976

See accompanying notes to consolidated financial statements.

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

	Common Stock		Accumulated Other Comprehensive	Capital	Retained	Treasury Stock		Total Shareholders’	Non-Controlling	Tota
	Shares	Amount	Income(Loss)	Surplus	Earnings	Shares	Amount	Equity	Interest	Equi
Balances at December 31, 2009	70,312	$4	$(10,740)	$758,723	$1,563,683	2,509	$(105,857)	$2,205,813	$19,561	$2,225,
Comprehensive income:										
Net income from BOKF	–	–	–	–	60,133	–	–	60,133	–	60,13
Net income attributable to non-controlling interest	–	–	–	–	–	–	–	–	(209)	(209
Other comprehensive income, net of tax	–	–	58,397	–	–	–	–	58,397	–	58,39
Comprehensive income								118,530	(209)	118,32
Exercise of stock options	281	–	–	3,750	–	41	(2,052)	1,698	–	1,698
Tax benefit on exercise of stock options	–	–	–	(83)	–	–	–	(83)	–	(83
Stock-based compensation	–	–	–	2,473	–	–	–	2,473	–	2,473
Cash dividends on common stock	–	–	–	–	(15,988)	–	–	(15,988)	–	(15,98
Capital calls, net	–	–	–	–	–	–	–	–	922	922
Balances at March 31, 2010	70,593	$ 4	$ 47,657	$764,863	$ 1,607,828	2,550	$(107,909)	$ 2,312,443	$20,274	$ 2,332
Balances at December 31, 2010	70,816	$4	$107,839	$782,805	$1,743,880	2,608	$(112,802)	$2,521,726	$22,152	$2,543,
Comprehensive income:										
Net income from BOKF	–	–	–	–	64,774	–	–	64,774	–	64,77
Net income attributable to	–	–	–	–	–	–	–	–	8	8

non-controlling interest										
Other comprehensive income, net of tax	–	–	474	–	–	–	–	474	–	474
Comprehensive income							–	65,248	8	65,25
Exercise of stock options	258	–	–	4,887	–	27	(1,932)	2,955	–	2,955
Tax benefit on exercise of stock options	–	–	–	545	–	–	–	545	–	545
Stock-based compensation	–	–	–	2,615	–	–	–	2,615	–	2,615
Cash dividends on common stock	–	–	–	–	(16,956)	–	–	(16,956)	–	(16,95
Capital distributions, net	–	–	–	–	–	–	–	–	(605)	(605
Balances at March 31, 2011	71,074	$ 4	$108,313	$790,852	$ 1,791,698	2,635	$(114,734)	$ 2,576,133	$ 21,555	$2,597,

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See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2011	2010
Cash Flows From Operating Activities:		
Net income before non-controlling interest	$64,766	$60,342
Adjustments to reconcile net income before non-controlling interest to net cash Provided by (used in) operating activities:		
Provision for credit losses	6,250	42,100
Change in fair value of mortgage servicing rights	(3,129)	(13,932)
Unrealized (gains) losses from derivatives	7,694	(1,160)
Tax expense (benefit) on exercise of stock options	(545)	83
Change in bank-owned life insurance	(2,863)	(2,972)
Stock-based compensation	2,615	2,473
Depreciation and amortization	12,369	17,380
Net amortization of securities discounts and premiums	24,098	21,539
Net realized (gains) losses on financial instruments and other assets	(9,722)	2,545
Mortgage loans originated for resale	(418,754)	(338,799)
Proceeds from sale of mortgage loans held for sale	562,576	382,487
Capitalized mortgage servicing rights	(4,969)	(5,201)
Change in trading securities, including mortgage trading securities	76,145	(194,364)
Change in accrued revenue receivable	35,880	1,522
Change in other assets	9,391	(9,048)
Change in accrued interest, taxes and expense	1,379	5,729
Change in other liabilities	(4,838)	2,763
Net cash provided by (used in) operating activities	358,343	(26,513)
Cash Flows From Investing Activities:		
Proceeds from maturities of investment securities	3,610	3,303
Proceeds from maturities or redemptions of available for sale securities	738,921	537,497
Purchases of investment securities	(7,495)	(72,863)
Purchases of available for sale securities	(1,939,500)	(1,036,892)
Proceeds from sales of available for sale securities	793,152	535,514
Change in amount receivable on unsettled security transactions	(107,769)	–
Loans originated or acquired net of principal collected	21,873	266,058
Purchase of mortgage servicing rights	–	(8,681)
Net (payments on) proceeds from derivative asset contracts	(65,861)	8,136
Proceeds from disposition of assets	15,233	8,103
Purchases of other assets	(7,443)	(9,170)
Net cash provided by (used in) investing activities	(555,279)	231,005
Cash Flows From Financing Activities:		
Net change in demand deposits, transaction deposits and savings accounts	525,422	123,025
Net change in time deposits	168,603	(113,202)
Net change in other borrowings	(1,607,694)	(56,903)
Net (payments on) proceeds from derivative liability contracts	64,182	(6,627)
Net change in derivative margin accounts	(84,614)	(16,178)
Change in amount due on unsettled security transactions	683,479	(109,149)
Issuance of common and treasury stock, net	2,955	1,698

Tax benefit on exercise of stock options	545	(83)
Dividends paid	(16,956)	(16,304)
Net cash used in financing activities	(264,078)	(193,723)
Net increase (decrease) in cash and cash equivalents	(461,014)	10,769
Cash and cash equivalents at beginning of period	1,269,404	921,216
Cash and cash equivalents at end of period	$808,390	$931,985
Cash paid for interest	$26,239	$32,616
Cash paid for taxes	$9,265	$6,011
Net loans transferred to repossessed real estate and other assets	$21,010	$7,938
Accrued purchase of mortgage servicing rights	$–	$23,211

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

(1) Significant Accounting Policies

Basis of Presentation

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

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

The financial information should be read in conjunction with BOK Financial's 2010 Form 10-K filed with the Securities and Exchange Commission, which contains audited financial statements. Amounts presented as of December 31, 2010 have been derived from the audited financial statements included in BOK Financial's 2010 Form 10-K but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the three month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ended December 31, 2011.

Newly Adopted and Pending Accounting Policies

Financial Accounting Standards Board ("FASB")

FASB Accounting Standards Update No. 2010-06, "Improving Disclosures About Fair Value Measurements" ("ASU 2010-06")

ASU 2010-06 amended ASC 820 to add new disclosure requirements about transfers into and out of Levels 1 and 2, as defined in ASC 820 and separate disclosures about purchases, sales, issuance and settlements relating to Level 3 measurements, as defined in ASC 820. It also clarified existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. ASU 2010-06 was effective for the Company on January 1, 2010 with exception of the requirement to provide Level 3 activity of purchases, sales, issuances, and settlement on a gross basis, which was effective for the Company on January 1, 2011. ASU 2010-06 did not have a significant impact on the Company's financial statements.

FASB Accounting Standards Update No. 2010-20 "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" ("ASU 2010-20")

On July 21, 2010, the FASB issued ASU 2010-20 which expanded the disclosure requirements concerning the credit quality of an entity's financing receivables and its allowance for credit losses. ASU 2010-20 was effective for the Company as of December 31, 2010 as it relates to disclosures required as of the end of the reporting period. Disclosures related to activity during the reporting period were effective for the Company on or after January 1, 2011.

FASB Accounting Standards Update No. 2010-28 “Intangibles – Goodwill and Other (Topic 530): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts” (“ASU 2010-28”)

On December 17, 2010, the FASB issued ASU 2010-28, a consensus of the FASB Emerging Issues Task Force. ASU 2010-28 modified Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The entity is no longer be able to assert that a reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative. The amendment was effective for the Company January 1, 2011 and is not expected to have a significant impact on the consolidated financial statements.

FASB Accounting Standards Update No. 2011-01 “Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructuring in Update No. 2010-20” (“ASU 2011-01”)

On January 20, 2011, the FASB issued ASU 2011-01, which temporarily defers the effective date in ASU 2010-20 for disclosure about troubled debt restructuring by creditors to coincide with the effective date of the proposed guidance clarifying what constitutes a troubled debt restructuring.

FASB Accounting Standards Update No. 2011-02 “Receivables (Topic 310): A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring” (“ASU 2011-01”)

On April 5, 2011, the FASB issued ASU 2011-02 to provide additional guidance or clarification to help creditors in determining whether a credit has granted a concession and whether a debtor is experiencing financial difficulties for the purposes of determining whether a restructuring constitutes a troubled debt restructuring. ASU 2011-02 is effective for the Company on July 1, 2011 and will be applied retrospectively to the beginning of the annual period of adoption. In addition, the disclosures required by ASU 2010-20 temporarily deferred by ASU 2011-01 will be made for the interim period beginning July 1, 2011. ASU 2011-02 is not expected to have a material impact on the Company’s consolidated financial statements.

(2) Securities

Investment Securities

The amortized cost and fair values of investment securities are as follows (in thousands):

	March 31,							
	2011				2010			
			Not Recognized in OCI[1]				Not Recognized in OCI[1]	
	Amortized	Fair	Gross Unrealized		Amortized	Fair	Gross Unrealized	
	Cost	Value	Gain	Loss	Cost	Value	Gain	Loss
Municipal and other tax-exempt	$185,272	$189,518	$4,303	$(57)	$236,074	$241,183	$5,368	$(259)
Other debt securities	158,129	165,534	7,665	(260)	73,836	73,705	86	(217)
Total	$343,401	$355,052	$11,968	$(317)	$309,910	$314,888	$5,454	$(476)

	December 31, 2010			
			Not Recognized in OCI[1]	
	Amortized	Fair	Gross Unrealized	
	Cost	Value	Gain	Loss
Municipal and other tax-exempt	$ 184,898	$ 188,577	$ 3,912	$ (233)
Other debt securities	154,655	157,528	4,505	(1,632)
Total	$ 339,553	$ 346,105	$ 8,417	$ (1,865)

[1] Other comprehensive income

The amortized cost and fair values of investment securities at March 31, 2011, by contractual maturity, are as shown in the following table (dollars in thousands):

	Less than One Year	One to Five Years	Six to Ten Years	Over Ten Years	Total	Weighted Average Maturity[2]
Municipal and other tax-exempt:						
Amortized cost	$56,592	$95,914	$26,737	$6,029	$185,272	2.69
Fair value	56,872	99,038	27,507	6,101	189,518	
Nominal yield[1]	4.64	4.57	5.51	6.24	4.78	
Other debt securities:						
Amortized cost	$5,599	$25,673	$22,534	$104,323	$158,129	11.07
Fair value	5,625	25,938	22,832	111,139	165,534	
Nominal yield	5.62	5.31	5.69	6.30	6.03	
Total fixed maturity securities:						
Amortized cost	$62,191	$121,587	$49,271	$110,352	$343,401	6.55
Fair value	62,497	124,976	50,339	117,240	355,052	
Nominal yield	4.73	4.73	5.59	6.29	5.36	
Total investment securities:						
Amortized cost					$343,401	
Fair value					355,052	
Nominal yield					5.36	

[1] Calculated on a taxable equivalent basis using a 39% effective tax rate.

[2] Expected maturities may differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without penalty.

Available for Sale Securities

The amortized cost and fair value of available for sale securities are as follows (in thousands):

	March 31, 2011				
				Recognized in OCI[1]	
	Amortized	Fair	Gross Unrealized		
	Cost	Value	Gain	Loss	OTTI[2]
Municipal and other tax-exempt	$69,039	$69,859	$1,401	$(225)	$(356)
Residential mortgage-backed securities:					
U. S. agencies:					
FNMA	5,351,388	5,470,100	128,500	(9,788)	–
FHLMC	2,533,322	2,603,754	77,362	(6,930)	–
GNMA	728,643	760,432	31,882	(93)	–
Other	85,298	91,304	6,006	–	–
Total U.S. agencies	8,698,651	8,925,590	243,750	(16,811)	–
Private issue:					
Alt-A loans	208,550	181,979	58	(188)	(26,441)
Jumbo-A loans	421,315	391,306	1,033	(9,562)	(21,480)

Total private issue	629,865	573,285	1,091	(9,750)	(47,921)
Total residential mortgage-backed securities	9,328,516	9,498,875	244,841	(26,561)	(47,921)
Other debt securities	5,900	5,899	–	(1)	–
Federal Reserve Bank stock	33,423	33,423	–	–	–
Federal Home Loan Bank stock	8,501	8,501	–	–	–
Perpetual preferred stock	19,511	22,574	3,063	–	–
Equity securities and mutual funds	41,595	68,694	27,105		