BOK FINANCIAL CORP ET AL
Form 10-Q
May 02, 2014

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2014
OR

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

For the transition period from _____________ to ______________

Commission File No. 0-19341

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 69,140,210 shares of common stock ($.00006 par value) as of March 31, 2014.

BOK Financial Corporation
Form 10-Q
Quarter Ended March 31, 2014

Index

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

Performance Summary

BOK Financial Corporation (“the Company”) reported net income of $76.6 million or $1.11 per diluted share for the first quarter of 2014, compared to $88.0 million or $1.28 per diluted share for the first quarter of 2013 and $73.0 million or $1.06 per diluted share for the fourth quarter of 2013.

Highlights of the first quarter of 2014 included:

- Net interest revenue totaled $162.6 million for the first quarter of 2014, compared to $171.5 million for the first quarter of 2013 and $166.2 million for the fourth quarter of 2013. Net interest margin was 2.71% for the first quarter of 2014. Net interest margin was 2.90% for the first quarter of 2013 and 2.74% for the fourth quarter of 2013.
- Fees and commissions revenue totaled $140.9 million for the first quarter of 2014, compared to $157.1 million for the first quarter of 2013 and $142.4 million for the fourth quarter of 2013. Mortgage banking revenue decreased $17.1 million compared to the first quarter of 2013 and increased $968 thousand over the fourth quarter of 2013. Mortgage production volume decreased compared to the first quarter of 2013 due to higher interest rates. Gain on sale margin decreased compared to the prior year, but improved compared to the fourth quarter. Fiduciary and asset management revenue also grew over the prior year and prior quarter.
- Operating expenses totaled $185.1 million for the first quarter of 2014, a decrease of $18.9 million compared to the first quarter of 2013 and a decrease of $30.3 million compared to the previous quarter. Personnel costs decreased $21.2 million compared to both the first quarter of 2013 and the prior quarter. The Company reversed $15.5 million accrued during 2011 through 2013 for amounts payable to certain executive officers under the 2011 True-Up Plan. Non-personnel expense increased $2.3 million over the first quarter of 2013 primarily due to a $2.4 million discretionary contribution of appreciated stock to the BOKF Foundation during the first quarter of 2014. Non-personnel expenses decreased $9.1 million compared to the prior quarter. Mortgage banking expenses were down primarily due to lower provision for losses related to repurchases of mortgage loans. Other expense, professional fees and services and occupancy expense also decreased compared to the prior quarter.
- No provision for credit losses was recorded in the first quarter of 2014 compared to an $8.0 million negative provision for credit losses in the first quarter of 2013 and an $11.4 million negative provision for credit losses in the fourth quarter of 2013. Gross charge-offs were $2.8 million in the first quarter of 2014, $8.9 million in the first quarter of 2013 and $3.1 million in the fourth quarter of 2013. Recoveries were $5.4 million in the first quarter of 2014, compared to $6.6 million in the first quarter of 2013 and $6.1 million in the fourth quarter of 2013.
- The combined allowance for credit losses totaled $190 million or 1.45% of outstanding loans at March 31, 2014 compared to $187 million or 1.47% of outstanding loans at December 31, 2013. Nonperforming assets that are not guaranteed by U.S. government agencies totaled $153 million or 1.18% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at March 31, 2014 and $155 million or 1.23% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at December 31, 2013.
- Outstanding loan balances were $13.1 billion at March 31, 2014, an increase of $286 million over December 31, 2013. Commercial loan balances grew by $108 million and commercial real estate loan balances were up $216 million during the first quarter. Residential mortgage loans decreased by $33 million and consumer loans were down $5.6 million compared to December 31, 2013.
- Period end deposits totaled $20.4 billion at March 31, 2014, a $120 million increase over December 31, 2013. Demand deposit account balances increased $156 million during the first quarter, partially offset by a $34 million decrease in interest-bearing transaction accounts and a $34 million decrease in time deposits.
- The Company's Tier 1 common equity ratio, as defined by banking regulations, was 13.59% at both March 31, 2014 and December 31, 2013. The Company and its subsidiary bank continue to exceed the regulatory definition of well capitalized. The Company's Tier 1 capital ratio was 13.77% at both March 31, 2014 and December 31, 2013. Total capital ratio was 15.55% at March 31, 2014 and 15.56% at December 31, 2013. The Company's leverage ratio was

10.17% at March 31, 2014 and 10.05% at December 31, 2013.

• The Company paid a regular quarterly cash dividend of $28 million or $0.40 per common share during the first quarter of 2014. On April 29, 2014, the board of directors approved a quarterly cash dividend of $0.40 per common share payable on or about May 30, 2014 to shareholders of record as of May 16, 2014.

Results of Operations

Net Interest Revenue and Net Interest Margin

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

Net interest revenue totaled $162.6 million for the first quarter of 2014 compared to $171.5 million for the first quarter of 2013 and $166.2 million for the fourth quarter of 2013. Net interest margin was 2.71% for the first quarter of 2014, 2.90% for the first quarter of 2013 and 2.74% for the fourth quarter of 2013.

Net interest revenue decreased $8.8 million compared to the first quarter of 2013. Net interest revenue decreased $13.5 million primarily due to a narrowing of interest rate spreads. Net interest revenue increased $4.7 million primarily due to the growth in average outstanding loans and a decrease in the average balance of other borrowings, partially offset by a decrease in average securities balances.

The tax-equivalent yield on earning assets was 2.99% for the first quarter of 2014, down 22 basis points from the first quarter of 2013. Loan yields decreased 31 basis points. Credit spreads have narrowed due to market pricing pressure and improved credit quality in our loan portfolio. The available for sale securities portfolio yield decreased 20 basis points to 1.91%. Cash flows received from payments on residential mortgage-backed securities are currently being reinvested in short-duration securities that yield nearly 2%. Funding costs were down 5 basis points from the first quarter of 2013. The cost of interest-bearing deposits decreased 5 basis points and the cost of other borrowed funds decreased 3 basis points. Additionally, the benefit to net interest margin from earning assets funded by non-interest bearing liabilities was 13 basis points in the first quarter of 2014 compared to 15 basis points in the first quarter of 2013.

Average earning assets for the first quarter of 2014 decreased $350 million or 1% compared to the first quarter of 2013. Average loans, net of allowance for loan losses, increased $750 million due primarily to growth in average commercial and commercial real estate loans. The average balance of available for sale securities decreased $1.2 billion. We intend to allow the size of our bond portfolio to decrease to better position the balance sheet for a longer-term rising rate environment. We anticipate a $1 billion reduction in our bond portfolio over the full year of 2014. This reduction in earning assets is expected to be partially offset by loan growth in the mid to high single digits. The resulting shift in earning asset mix should be supportive of net interest margin. The average balance of investment securities was up over the prior year, offset by a decrease in the average balance of fair value option securities primarily held as an economic hedge of our mortgage servicing rights and a decrease in the average balance of our trading portfolio.

Average deposits increased $187 million over the first quarter of 2013, including a $310 million increase in average demand deposit balances and a $65 million increase in average interest-bearing transaction accounts, partially offset by a $228 million decrease in average time deposits. Average borrowed funds decreased $64 million compared to the first quarter of 2013. Decreased borrowings from the Federal Home Loan Banks and funds purchased and repurchase agreements was partially offset by increased borrowings from the Federal Reserve.

Net interest margin decreased 3 basis points from the fourth quarter of 2013. The yield on average earning assets decreased 3 basis points. The loan portfolio yield decreased 12 basis points to 3.89% primarily due to market pricing pressure. The yield on the available for sale securities portfolio increased 2 basis points to 1.91%. Funding costs decreased 1 basis point to 0.41%. Rates paid on time deposits and savings accounts each increased 1 basis point. Rates paid on interest-bearing transaction accounts decreased a basis point. The cost of other borrowed funds was unchanged compared to the fourth quarter and the benefit to net interest margin from earning assets funded by non-interest bearing liabilities decreased a basis point.

Average earning assets increased $16 million during the first quarter of 2014. Growth in average outstanding loans of $486 million was partially offset by a $358 million decrease in the available for sale securities portfolio. Average commercial loan balances were up $234 million and average commercial real estate loan balances increased $252 million. The average balance of restricted equity securities was down $38 million, the average trading securities balance decreased $35 million and the average balance of residential mortgage loans held for sale decreased $33 million.
Average deposits increased $360 million over the previous quarter. Interest-bearing transaction account balances increased $415 million primarily due to a normal seasonal increase in public funds. Demand deposit balances decreased $44 million and time deposit account balances decreased $24 million. The average balance of borrowed funds decreased $218 million compared to the fourth quarter of 2013.

Our overall objective is to manage the Company's balance sheet to be relatively neutral to changes in interest rates as is further described in the Market Risk section of this report. Approximately ¾ of our commercial and commercial real estate loan portfolios are either variable rate or fixed rate that will re-price within one year. These loans are funded primarily by deposit accounts that are either non-interest bearing, or that re-price more slowly than the loans. The result is a balance sheet that would be asset sensitive, which means that assets generally re-price more quickly than liabilities. Among the strategies that we use to manage toward a relatively rate-neutral position, we purchase fixed rate residential mortgage-backed securities issued primarily by U.S. government agencies and fund them with market rate sensitive liabilities. The liability-sensitive nature of this strategy provides an offset to the asset-sensitive characteristics of our loan portfolio. We also may use derivative instruments to manage our interest rate risk.

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

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

	Three Months Ended Mar. 31, 2014 / 2013		
		Change Due To[1]	
	Change	Volume	Yield / Rate
Tax-equivalent interest revenue:			
Interest-bearing cash and cash equivalents	$81	$74	$7
Trading securities	(176)	(359)	183
Investment securities:			
Taxable securities	(516)	(367)	(149)
Tax-exempt securities	347	950	(603)
Total investment securities	(169)	583	(752)
Available for sale securities:			
Taxable securities	(7,752)	(2,844)	(4,908)
Tax-exempt securities	(172)	(101)	(71)
Total available for sale securities	(7,924)	(2,945)	(4,979)
Fair value option securities	(326)	(289)	(37)
Restricted equity securities	132	(8)	140
Residential mortgage loans held for sale	(202)	(250)	48
Loans	(2,410)	7,211	(9,621)
Total tax-equivalent interest revenue	(10,994)	4,017	(15,011)
Interest expense:			
Transaction deposits	(587)	81	(668)
Savings deposits	(22)	12	(34)
Time deposits	(1,286)	(883)	(403)
Funds purchased	(203)	(23)	(180)
Repurchase agreements	5	(17)	22
Other borrowings	(22)	191	(213)
Subordinated debentures	(1)	—	(1)
Total interest expense	(2,116)	(639)	(1,477)
Tax-equivalent net interest revenue	(8,878)	4,656	(13,534)
Change in tax-equivalent adjustment	(68)		
Net interest revenue	$(8,810)		

[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 $137.0 million for the first quarter of 2014, a $23.7 million decrease compared to the first quarter of 2013 and a $10.0 million decrease compared to the fourth quarter of 2013. Fees and commissions revenue decreased $16.2 million compared to the first quarter of 2013 and $1.5 million compared to the prior quarter. The change in the fair value of mortgage servicing rights, net of the change in the fair value of securities and derivative contracts held as an economic hedge, decreased other operating revenue by $908 thousand in the first quarter of 2014, increased other operating revenue $2.1 million in the fourth quarter of 2013 and decreased operating revenue $2.2 million in the first quarter of 2013. Net gains on available for sale securities decreased $3.6 million compared to the prior year and decreased $394 thousand compared to the previous quarter. The loss on other assets in the first quarter of 2014 was primarily due to changes in the value of assets held as an economic hedge of a deferred compensation liability and charges related to certain merchant banking equity investments.

Table 2 – Other Operating Revenue
(In thousands)

	Three Months Ended Mar. 31,				Three Months Ended Dec. 31,		
	2014	2013	Increase(Decrease)	% Increase(Decrease)	2013	Increase(Decrease)	% Increase(Decrease)
Brokerage and trading revenue	$29,516	$31,751	$ (2,235)	(7)%	$28,515	$ 1,001	4 %
Transaction card revenue	29,134	27,692	1,442	5 %	29,134	—	— %
Fiduciary and asset management revenue	25,722	22,313	3,409	15 %	25,074	648	3 %
Deposit service charges and fees	22,689	22,966	(277)	(1)%	23,440	(751)	(3)%
Mortgage banking revenue	22,844	39,976	(17,132)	(43)%	21,876	968	4 %
Bank-owned life insurance	2,106	3,226	(1,120)	(35)%	2,285	(179)	(8)%
Other revenue	8,852	9,140	(288)	(3)%	12,048	(3,196)	(27)%
Total fees and commissions revenue	140,863	157,064	(16,201)	(10)%	142,372	(1,509)	(1)%
Gain (loss) on other assets, net	(4,264)	467	(4,731)	N/A	651	(4,915)	N/A
Gain (loss) on derivatives, net	968	(941)	1,909	N/A	(930)	1,898	N/A
Gain (loss) on fair value option securities, net	2,660	(3,171)	5,831	N/A	(2,805)	5,465	N/A
Change in fair value of mortgage servicing rights	(4,461)	2,658	(7,119)	N/A	6,093	(10,554)	N/A
Gain on available for sale securities	1,240	4,855	(3,615)	N/A	1,634	(394)	N/A
Total other-than-temporary	—	—	—	N/A	—	—	N/A

impairment							
Portion of loss recognized in (reclassified from) other comprehensive income	—	(247)	247	N/A	—	—	N/A
Net impairment losses recognized in earnings	—	(247)	247	N/A	—	—	N/A
Total other operating revenue	$137,006	$160,685	$ (23,679)	(15)%	$147,015	$ (10,009)	(7)%

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

Fees and commissions revenue

Diversified sources of fees and commissions revenue are a significant part of our business strategy and represented 46% of total revenue for the first quarter of 2014, excluding provision for credit losses and gains and losses on other assets, securities and derivatives and the change in the fair value of mortgage servicing rights. We believe that a variety of fee revenue sources provides an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile. As an example of this strength, many of the economic factors that cause net interest revenue compression also may drive growth in our mortgage banking revenue. We expect growth in other operating revenue to come through offering new products and services and by further development of our presence in other markets. However, current and future economic conditions, regulatory constraints, increased competition and saturation in our existing markets could affect the rate of future increases.

Brokerage and trading revenue, which includes revenues from securities trading, retail brokerage, customer hedging and investment banking decreased $2.2 million compared to the first quarter of 2013.

Securities trading revenue totaled $15.1 million for the first quarter of 2014, a $2.0 million decrease compared to the first quarter of 2013. Securities trading revenue represents net realized and unrealized gains primarily related to sales of U.S. government securities, residential mortgage-backed securities guaranteed by U.S. government agencies and municipal securities to institutional customers.

Customer hedging revenue is based primarily on realized and unrealized changes in the fair value of derivative contracts held for customer risk management programs. As more fully discussed under Customer Derivative Programs in Note 3 of the Consolidated Financial Statements, we offer commodity, interest rate, foreign exchange and equity derivatives to our customers. Customer hedging revenue decreased $1.3 million compared to the prior year to $1.5 million for the first quarter of 2014, primarily due to decreased activity by our energy and mortgage banking customers.

Revenue earned from retail brokerage transactions grew by $1.3 million or 15% over the first quarter of 2013 to $9.5 million. Retail brokerage revenue is primarily based on fees and commissions earned on sales of fixed income securities, annuities and mutual funds to retail customers. Revenue is primarily based on the volume of customer transactions during the quarter. The number of transactions typically increases with market volatility and decreases with market stability.

Investment banking, which includes fees earned upon completion of underwriting and financial advisory services and loan syndication fees, totaled $3.5 million for the first quarter of 2014, a $182 thousand or 5% decrease over the first quarter of 2013 related to the timing and volume of completed transactions.

Brokerage and trading revenue increased $1.0 million over the fourth quarter of 2013. Retail brokerage fees were up $2.4 million and investment banking fees grew by $1.1 million. Customer hedging revenue decreased $2.3 million. In addition, we received recoveries from the Lehman Brothers and MF Global bankruptcies of $1.5 million during the fourth quarter of 2013. Securities trading revenue was largely unchanged compared to the prior quarter.

Transaction card revenue depends largely on the volume and amount of transactions processed, the number of TransFund automated teller machine (“ATM”) locations and the number of merchants served. Transaction card revenue for the first quarter of 2014 increased $1.4 million or 5% over the first quarter of 2013. Revenues from the processing of transactions on behalf of the members of our TransFund electronic funds transfer ("EFT") network totaled $15.1 million, up $254 thousand or 2%, due to increased transaction volumes and increased dollar amounts per transaction. Merchant services fees totaled $9.5 million, up $871 thousand or 10% on increased transaction activity. Revenue from interchange fees paid by merchants for transactions processed from debit cards issued by the Company totaled $4.5 million, an increase of $317 thousand or 8% over the first quarter of 2013.

Transaction card revenue was largely unchanged compared to the fourth quarter of 2013. Growth in merchant services fees was offset primarily by a seasonal decrease in interchange fee revenue from debit cards issued by the Company.

Effective October 1, 2011, the Federal Reserve issued its final rule to implement provisions of the Dodd-Frank Act commonly know as the Durbin Amendment. These provisions established a cap on interchange fees that larger banks can charge merchants for certain debit card transactions. A challenge of this final rule by retail merchants and merchant trade groups was overturned by an appellate court during the first quarter of 2014.

Fiduciary and asset management revenue grew by $3.4 million or 15% over the first quarter of 2013. The acquisition of Topeka, Kansas-based GTRUST Financial Corporation by BOK Financial in the first quarter of 2014 added $371 thousand of revenue and $631 million of fiduciary assets as of March 31, 2014. The remaining increase was primarily due to the growth in the fair value of fiduciary assets administered by the Company. Fiduciary assets are assets for which the Company possesses investment discretion on behalf of another or any other similar capacity. The fair value of fiduciary assets administered by the Company totaled $31.3 billion at March 31, 2014, $27.6 billion at March 31, 2013 and $30.1 billion at December 31, 2013. Fiduciary and asset management revenue increased $648 thousand over the fourth quarter of 2013.

We also earn fees as administrator to and investment adviser for the Cavanal Hill Funds, a diversified, open-ended investment company established as a business trust under the Investment Company Act of 1940. The Bank is custodian and BOSC, Inc. is distributor for the Cavanal Hill Funds. Products of the Cavanal Hill Funds are offered to customers, employee benefit plans, trusts and the general public in the ordinary course of business. We have voluntarily waived administration fees on the Cavanal Hill money market funds in order to maintain positive yields on these funds in the current low short-term interest rate environment. Waived fees totaled $2.2 million for the first quarter of 2014 compared to $1.8 million for the first quarter of 2013 and $2.2 million for the fourth quarter of 2013.

Deposit service charges and fees were $22.7 million for the first quarter of 2014 compared to $23.0 million for the first quarter of 2013. Overdraft fees totaled $11.0 million for the first quarter of 2014, a decrease of $833 thousand or 7% compared to the first quarter of 2013. Consumers are generally maintaining higher average balances and better managing their accounts to reduce overdraft fees. Commercial account service charge revenue totaled $9.8 million, an increase of $753 thousand or 8% over the prior year. Service charges on deposit accounts with a standard monthly fee were $1.8 million, a decrease of $198 thousand or 10% compared to the first quarter of 2013. Deposit service charges and fees decreased $751 thousand compared to the prior quarter primarily due to decreased overdraft fee volumes, partially offset by increased commercial account service charges.

Mortgage banking revenue decreased $17.1 million compared to the first quarter of 2013. Mortgage production revenue totaled $11.5 million, a decrease of $18.5 million compared to the first quarter of 2013. Average primary mortgage interest rates were 4.36% for the first quarter of 2014, up 86 basis points over the first quarter of 2013. This increase in interest rates reduced loan production volume. Mortgage loans funded for sale totaled $728 million in the first quarter of 2014, a decrease of $229 million compared to the first quarter of 2013. Outstanding commitments to originate mortgage loans were down $79 million or 17% compared to March 31, 2013. In addition to the effect of lower production volume, mortgage banking revenue decreased due to an overall narrowing of gain on sale margins and a shift in product mix toward loans with narrower margins. Approximately 38% of loans originated in the first quarter of 2014 were through correspondent channels, up from 21% for the first quarter of 2013. Mortgage loans funded through Home Direct Mortgage, our online loan channel increased to 7% of total originations in the first quarter of 2014. Refinanced mortgage loans decreased to 32% of loans originated in the first quarter of 2014 compared to 62% of loans originated in the first quarter of 2013.

Mortgage servicing revenue grew by $1.3 million or 13% over the first quarter of 2013. The outstanding principal balance of mortgage loans serviced for others totaled $14.0 billion, an increase of $1.8 billion or 14% over March 31, 2013.

Mortgage banking revenue increased $968 thousand over the fourth quarter of 2013. Mortgage production revenue was up $721 thousand driven by a $129 million or 50% increase in outstanding commitments to originate mortgage loans. This increase was partially offset by a $121 million decrease in loans funded for sale. Gain on sale margins also improved over the previous quarter.

Mortgage servicing revenue increased $247 thousand over the prior quarter. The outstanding balance of mortgage loans serviced for others increased $327 million over December 31, 2013.

Table 3 – Mortgage Banking Revenue
(In thousands)

	Three Months Ended Mar. 31, 2014	2013	Increase (Decrease)	% Increase (Decrease)	Three Months Ended Dec. 31, 2013	Increase (Decrease)	% Increase (Decrease)
Mortgage production revenue	$11,452	$29,910	$(18,458)	(62)%	$10,731	$721	7%
Servicing revenue	11,392	10,066	1,326	13%	11,145	247	2%
Total mortgage revenue	$22,844	$39,976	$(17,132)	(43)%	$21,876	$968	4%
Period end outstanding mortgage commitments	$387,755	$466,571	$(78,816)	(17)%	$258,873	$128,882	50%
Mortgage loans funded for sale	727,516	956,315	(228,799)	(24)%	848,870	(121,354)	(14)%
Average primary residential mortgage interest rate	4.36%	3.50%	86 bp	25%	4.29%	7 bp	2%
Mortgage loan refinances to total funded	32%	62%			29%		
Outstanding principal balance of mortgage loans serviced for others	$14,045,642	$12,272,691	$1,772,951	14%	$13,718,942	$326,700	2%

Net gains on securities, derivatives and other assets

In the first quarter of 2014, we recognized a $1.2 million net gain from sales of $531 million of available for sale securities. Securities were sold either because they had reached their expected maximum potential return or sold to reinvest those proceeds into shorter average life securities. In the first quarter of 2013, we recognized a $4.9 million net gain from sales of $728 million of available for sale securities and in the fourth quarter of 2013, we recognized a $1.6 million net gain on sales of $270 million of available for sale securities.

We also maintain a portfolio of residential mortgage-backed securities issued by U.S. government agencies and interest rate derivative contracts designated as an economic hedge of the changes in the fair value of our mortgage servicing rights. The fair value of our mortgage servicing rights fluctuate due to changes in prepayment speeds and other assumptions as more fully described in Note 6 to the Consolidated Financial Statements. As benchmark mortgage rates increase, prepayment speeds slow and the value of our mortgage servicing rights increases. As benchmark mortgage rates fall, prepayment speeds increase and the value of our mortgage servicing rights decreases.

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

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

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

	Three Months Ended		
	March 31, 2014	December 31, 2013	March 31, 2013
Gain (loss) on mortgage hedge derivative contracts, net	$968	$(931)	$(1,654)
Gain (loss) on fair value option securities, net	2,585	(3,013)	(3,232)
Gain (loss) on economic hedge of mortgage servicing rights	3,553	(3,944)	(4,886)
Gain (loss) on change in fair value of mortgage servicing rights	(4,461)	6,093	2,658
Gain (loss) on changes in fair value of mortgage servicing rights, net of economic hedges	$(908)	$2,149	$(2,228)
Net interest revenue on fair value option securities	$790	$811	$828
Primary residential mortgage interest rate at period end	4.40%	4.48%	3.57%
Secondary residential mortgage interest rate at period end	3.42%	3.61%	2.62%

Primary rates disclosed in Table 4 above represent rates generally available to borrowers on 30 year conforming mortgage loans and affect the value of our mortgage servicing rights. Secondary rates represent rates generally paid on 30 year residential mortgage-backed securities guaranteed by U.S. government agencies and affect the value of securities and derivative contracts used as an economic hedge of our mortgage servicing rights.

Gain (loss) on other assets included changes in the fair value of certain equity investments the Company holds as an economic hedge of a deferred compensation liability. During the first quarter of 2014, the value of certain of these investments was adjusted downward by $1.7 million. Gain (loss) on other assets for the first quarter of 2014 also included a $1.5 million charge against a merchant-banking investment that is accounted for by the equity method. An indirect wholly-owned subsidiary of the Company is the general partner of two private equity funds. These investments are generally illiquid and do not readily provide for redemption or transfer. The impact of regulations issued to implement the Volcker Rule resulted in a $1.4 million impairment charge in the fourth quarter of 2013 based primarily on the expectation that we will be required to divest some or all of these investments by June 30, 2015.

Other Operating Expense

Other operating expense for the first quarter of 2014 totaled $185.1 million, a decrease of $18.9 million or 9% compared to the first quarter of 2013. Personnel expenses decreased $21.2 million or 17%. The Company reversed $15.5 million accrued during 2011 through 2013 for amounts payable to certain executive officers under the 2011 True-Up Plan. Non-personnel expenses increased $2.3 million or 3% over the prior year.

Operating expenses decreased $30.3 million compared to the previous quarter. Personnel expense decreased $21.2 million. Non-personnel expense decreased $9.1 million.

Table 5 -- Other Operating Expense
(In thousands)

	Three Months Ended Mar. 31, 2014	Three Months Ended Mar. 31, 2013	Increase (Decrease)	% Increase (Decrease)	Three Months Ended Dec. 31, 2013	Increase (Decrease)	% Increase (Decrease)
Regular compensation	$72,367	$68,834	$3,533	5%	$72,007	$360	—%
Incentive compensation:							
Cash-based	24,727	26,069	(1,342)	(5)%	27,295	(2,568)	(9)%
Stock-based	(13,193)	10,700	(23,893)	(223)%	8,611	(21,804)	(253)%
Total incentive compensation	11,534	36,769	(25,235)	(69)%	35,906	(24,372)	(68)%
Employee benefits	20,532	20,051	481	2%	17,749	2,783	16%
Total personnel expense	104,433	125,654	(21,221)	(17)%	125,662	(21,229)	(17)%
Business promotion	5,841	5,453	388	7%	6,020	(179)	(3)%
Charitable contributions to BOKF Foundation	2,420	—	2,420	N/A	—	2,420	N/A
Professional fees and services	7,565	6,985	580	8%	10,003	(2,438)	(24)%
Net occupancy and equipment	16,896	16,481	415	3%	19,103	(2,207)	(12)%
Insurance	4,541	3,745	796	21%	4,394	147	3%
Data processing and communications	27,135	25,450	1,685	7%	28,196	(1,061)	(4)%
Printing, postage and supplies	3,541	3,674	(133)	(4)%	3,126	415	13%
Net losses and operating expenses of repossessed assets	1,432	1,246	186	15%	1,618	(186)	(11)%
Amortization of intangible assets	816	876	(60)	(7)%	842	(26)	(3)%
Mortgage banking costs	3,634	7,354	(3,720)	(51)%	7,071	(3,437)	(49)%
Other expense	6,850	7,064	(214)	(3)%	9,384	(2,534)	(27)%
Total other operating expense	$185,104	$203,982	$(18,878)	(9)%	$215,419	$(30,315)	(14)%
Average number of employees (full-time	4,640	4,720	(80)	(2)%	4,638	2	—%

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

Personnel expense

Regular compensation, which consists of salaries and wages, overtime pay and temporary personnel costs, increased $3.5 million or 5% over the first quarter of 2013. Although the average number of employees decreased 2% compared to the prior year, we continue to invest in higher-costing wealth management, compliance and risk management positions. Growth in these positions was partially offset by a decrease in the average number of employees in consumer banking. In addition, standard annual merit increases in regular compensation were effective for the majority of our staff March 1.

Incentive compensation decreased $25.2 million compared to the first quarter of 2013. Cash-based incentive compensation plans are either intended to provide current rewards to employees who generate long-term business opportunities for the Company based on growth in loans, deposits, customer relationships and other measurable metrics or intended to compensate employees with commissions on completed transactions. Total cash-based incentive compensation decreased $1.3 million or 5% compared to the first quarter of 2013.

The Company also provides stock-based incentive compensation plans. Stock-based compensation plans include both equity and liability awards. Compensation expense for equity awards increased $3.6 million over the first quarter of 2013. The first quarter of 2013 included a reversal of compensation costs for awards that did not vest because the performance criteria were not met. Expense for equity awards is based on the grant-date fair value of the awards and is unaffected by subsequent changes in fair value.

Stock-based compensation expense also includes deferred compensation that will ultimately be settled in cash indexed to the investment performance or changes in earnings per share. Certain executive officers are permitted to defer recognition of taxable income from their stock-based compensation. Deferred compensation may also be diversified into investments other than BOK Financial common stock. Compensation expense reflects changes in the market value of BOK Financial common stock and other investments. Expenses based on changes in the fair value of BOK Financial common stock and other investments decreased $2.9 million compared to the the first quarter of 2013. During the first quarter of 2014 a $1.7 million decrease in the fair value of investments held for deferred compensation purposes was recorded in gain / loss on other assets, net. This decrease was offset by a decrease in compensation expense. Substantially all deferred compensation will be distributed by the end of 2014.

In addition, the accrual for amounts payable to certain executive officers of the Company under the 2011 True-Up Plan was reduced by $15.5 million during the first quarter of 2014. We accrued $9.5 million for the 2011 True-Up Plan in the first quarter of 2013. Approved by shareholders on April 26, 2011, the True-Up Plan is designed to adjust annual and long-term performance-based incentive compensation for certain senior executives either upward or downward based on the earnings per share performance and compensation of comparable senior executives at peer banks for 2006 through 2013. The peer group of banks is determined based on asset size and includes an equal number of publicly-traded SEC registered bank holding companies with the Company being the median bank. Based on the annual Form 10-K and proxy statements filed by our peer banks in the first quarter of 2014, the composition of the peer group and the compensation levels of comparable senior executives used in determining the amounts payable both changed. These changes reduced the required accrual for the 2011 True-Up Plan to $54 million at March 31, 2014 which will be paid in May 2014.

Employee benefit expense increased $481 thousand or 2% over the first quarter of 2013 primarily due to increased employee medical costs. The Company self-insures a portion of its employee health care coverage and these costs may be volatile.
Personnel costs decreased $21.2 million compared to the fourth quarter of 2013 primarily due to the adjustment to the 2011 True-Up Plan accrual. Regular compensation expense was largely unchanged compared to the prior year. Incentive compensation expense decreased $21.8 million. Cash-based incentive compensation, which rewards employees as they generate business opportunities for the Company by growing loans, deposits, customer relationships or other measurable metrics, was largely unchanged compared to the prior quarter. We accrued $4.5 million in the fourth quarter of 2013 related to the 2011 True-Up Plan. Employee benefits expense increased $2.8 million primarily due to a $3.5 million seasonal increase in payroll taxes, partially offset by a $1.1 million decrease in employee medical costs.

Non-personnel operating expenses

Non-personnel operating expenses increased $2.3 million or 3% over the first quarter of 2013. BOK Financial made a $2.4 million discretionary contribution of appreciated stock to the BOKF Foundation during the first quarter of 2014. This contribution also resulted in a $1.2 million reduction in income tax expense. Mortgage banking costs decreased $3.7 million primarily due to lower provisions for losses related to mortgage loans sold with standard representations and warranties and losses related to repurchases of loans sold to U.S. government agencies that no longer qualify for sale accounting. The Company also finalized hold-back claims related to purchased mortgage loan servicing rights which reduced expenses by $1.3 million in the first quarter. This decrease was offset by increased data processing and communications expense, FDIC insurance expense, professional fees and services expense and occupancy costs.

Non-personnel expense decreased $9.1 million compared to the fourth quarter of 2013. Mortgage banking costs decreased $3.4 million compared to the prior quarter. Other expenses decreased $2.5 million, professional fees and services expense decreased $2.4 million and net occupancy expense decreased $2.2 million compared to the fourth quarter. The decrease was largely due to the timing of accruals for regulatory and compliance projects, recruiting and relocation commitments, and facilities repairs. There were no contributions to the BOK Foundation in the fourth quarter of 2013.

Income Taxes

Income tax expense was $37.5 million or 33% of book taxable income for the first quarter of 2014 compared to $47.1 million or 35% of book taxable income for the first quarter of 2013 and $35.3 million or 32% of book taxable income for the fourth quarter of 2013. The Company made a charitable contribution of appreciated securities to the BOKF Foundation in the first quarter of 2014, which reduced income tax expense by $1.2 million.

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

Lines of Business

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

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

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

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

The cost of funds borrowed from the Funds Management unit by the operating lines of business is transfer priced at rates that approximate market rates for funds with similar duration. Market rates are generally based on the applicable LIBOR or interest rate swap rates, adjusted for prepayment risk. This method of transfer-pricing funds that support assets of the operating lines of business tends to insulate them from interest rate risk.

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

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

As shown in Table 6, net income attributable to our lines of business decreased $7.7 million or 14% compared to the first quarter of 2013. The decrease was primarily due to lower mortgage banking revenue, partially offset by growth in other fee-based revenue and lower credit losses.

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

	Three Months Ended March 31,	
	2014	2013
Commercial Banking	$36,342	$35,137
Consumer Banking	8,381	17,884
Wealth Management	2,476	1,884
Subtotal	47,199	54,905
Funds Management and other	29,391	33,059
Total	$76,590	$87,964

Commercial Banking

Commercial Banking contributed $36.3 million to consolidated net income in the first quarter of 2014, up $1.2 million or 3% compared to the first quarter of 2013. Decreased net loans charged off was partially offset by increased operating expenses. Net interest revenue and fees and commissions grew over the prior year and corporate expense allocations decreased. The loss on financial instruments and other assets was due to a charge against a merchant banking investment accounted for by the equity method.

Table 7 -- Commercial Banking
(Dollars in thousands)

	Three Months Ended March 31,		Increase (Decrease)
	2014	2013	
Net interest revenue from external sources	$91,009	$90,882	$127
Net interest expense from internal sources	(8,857)	(9,145)	288
Total net interest revenue	82,152	81,737	415
Net loans charged off (recovered)	(3,312)	1,021	(4,333)
Net interest revenue after net loans charged off (recovered)	85,464	80,716	4,748
Fees and commissions revenue	42,165	41,432	733
Gain (loss) on financial instruments and other assets, net	(1,476)	19	(1,495)
Other operating revenue	40,689	41,451	(762)
Personnel expense	26,951	25,469	1,482
Net losses and expenses of repossessed assets	2,192	1,170	1,022
Other non-personnel expense	20,246	20,022	224
Other operating expense	49,389	46,661	2,728
Net direct contribution	76,764	75,506	1,258
Corporate expense allocations	17,285	17,999	(714)
Income before taxes	59,479	57,507	1,972
Federal and state income tax	23,137	22,370	767
Net income	$36,342	$35,137	$1,205
Average assets	$10,956,107	$10,629,342	$326,765
Average loans	10,280,418	9,579,451	700,967
Average deposits	9,599,824	9,245,666	354,158
Average invested capital	934,328	890,844	43,484
Return on average assets	1.35%	1.34%	1 bp
Return on invested capital	15.77%	16.00%	(23) bp
Efficiency ratio	39.67%	37.82%	185 bp
Net charge-offs (annualized) to average loans	(0.13)%	0.04%	(17) bp

Net interest revenue increased $415 thousand or 1% over the prior year. Growth in net interest revenue was primarily due to a $701 million increase in average loan balances and a $354 million increase in average deposits over the first quarter of 2013, partially offset by reduced yields on loans and deposits sold to our Funds Management unit. The Commercial Banking unit experienced a net recovery of $3.3 million in the first quarter of 2014 compared to net loans charged off of $1.0 million in the first quarter of 2013.

Fees and commissions revenue increased $733 thousand or 2% over the first quarter of 2013 primarily due to a $1.5 million increase in transaction card revenues from our TransFund electronic funds transfer network and a $664 thousand increase in commercial service charges and fees over the prior year. Brokerage and trading revenue decreased $940 thousand primarily due to lower customer hedging revenue compared to the first quarter of 2013.

Operating expenses increased $2.7 million or 6% over the first quarter of 2013. Personnel costs increased $1.5 million or 6% primarily due to standard annual merit increases and increased incentive compensation. Net losses and operating expenses on repossessed assets increased $1.0 million over the first quarter of 2013, primarily due to an increase in impairment charges based on regularly scheduled appraisal updates. Other non-personnel expenses were largely unchanged. Corporate expense allocations decreased $714 thousand compared to the prior year.

The average outstanding balance of loans attributed to Commercial Banking grew by $701 million during the first quarter of 2014 to $10.3 billion. See the Loans section of Management's Discussion and Analysis of Financial Condition following for additional discussion of changes in commercial and commercial real estate loans which are primarily attributed to the Commercial Banking segment.

Average deposits attributed to Commercial Banking were $9.6 billion for the first quarter of 2014, up $354 million or 4% over the first quarter of 2013. Average balances attributed to our commercial & industrial loan customers increased $471 million or 16%. Balances related to healthcare customers grew by $122 million or 33% and balances related to small business customers were up $115 million or 6%. Balances from treasury services customers increased $67 million or 4%. This growth was partially offset by a $226 million or 14% decrease in balances attributed to energy customers and a $149 million or 28% decrease in commercial real estate balances. Commercial customers continue to maintain high account balances due to continued economic uncertainty and persistently low yields available on high quality investments.

Consumer Banking

Consumer Banking provides retail banking services through five primary distribution channels: traditional branches, supermarket branches, the 24-hour ExpressBank call center, Internet banking and mobile banking. Consumer Banking also conducts mortgage banking activities through offices located outside of our consumer banking markets, through correspondent loan originators and through Home Direct Mortgage, an on-line origination channel.

Consumer Banking contributed $8.4 million to consolidated net income for the first quarter of 2014, down $9.5 million compared to the first quarter of 2013 primarily due to a decrease in mortgage banking revenue and higher corporate expense allocations, partially offset by lower mortgage banking costs.

Table 8 -- Consumer Banking
(Dollars in thousands)

	Three Months Ended March 31, 2014	2013	Increase (Decrease)
Net interest revenue from external sources	$24,657	$24,095	$562
Net interest revenue from internal sources	4,193	5,483	(1,290)
Total net interest revenue	28,850	29,578	(728)
Net loans charged off	861	930	(69)
Net interest revenue after net loans charged off	27,989	28,648	(659)
Fees and commissions revenue	46,142	63,205	(17,063)
Gain (loss) on financial instruments and other assets, net	1,730	(6,063)	7,793
Change in fair value of mortgage servicing rights	(4,461)	2,657	(7,118)
Other operating revenue	43,411	59,799	(16,388)
Personnel expense	23,438	22,456	982
Net gains and expenses of repossessed assets	(568)	(250)	(318)
Other non-personnel expense	18,974	22,802	(3,828)
Total other operating expense	41,844	45,008	(3,164)
Net direct contribution	29,556	43,439	(13,883)
Corporate expense allocations	15,839	14,169	1,670
Income before taxes	13,717	29,270	(15,553)
Federal and state income tax	5,336	11,386	(6,050)
Net income	$8,381	$17,884	$(9,503)
Average assets	$5,615,816	$5,723,956	$(108,140)
Average loans	2,406,523	2,354,479	52,044
Average deposits	5,585,123	5,642,594	(57,471)
Average invested capital	285,086	297,073	(11,987)
Return on average assets	0.61%	1.27%	(66) bp
Return on invested capital	11.92%	24.41%	(1,249) bp
Efficiency ratio	52.22%	46.58%	564 bp
Net charge-offs (annualized) to average loans	0.15%	0.16%	(1) bp
Residential mortgage loans funded for sale	$727,516	$956,315	$(228,799)

	March 31, 2014	March 31, 2013	Increase (Decrease)
Banking locations	202	190	12
Residential mortgage loan servicing portfolio[1]	$15,156,948	$13,365,991	$1,790,957

[1] Includes outstanding principal for loans serviced for affiliates

Net interest revenue from Consumer Banking activities decreased $728 thousand or 2% compared to the first quarter of 2013. Average loan balances were up $52 million or 2% over the prior year. Decreased balances of indirect automobile loans were offset by growth in other consumer loans.

Fees and commissions revenue decreased $17.1 million or 27% compared to the first quarter of 2013 primarily due to a $17.2 million decrease in mortgage banking revenue as residential mortgages funded for sale contracted and gains on sale margins narrowed compared to the prior year. The first quarter of 2013 had high mortgage refinance levels that tapered in the second half of the second quarter when long-term interest rates spiked. Deposit service charges and fees decreased $933 thousand compared to the prior year primarily due to lower overdraft fees.

Operating expenses decreased $3.2 million compared to the first quarter of 2013. Personnel expenses were up $982 thousand or 4%. Net losses and operating expenses of repossessed assets were down $318 thousand compared to the prior year. Non-personnel expense decreased $3.8 million or 17% primarily due to decreased mortgage banking expenses. Provisions for potential credit losses on loans sold to U.S. government agencies under standard representations and warranties and losses related to repurchases of loans sold to U.S. government agencies that no longer qualify for sale accounting were lower compared to the prior year. Corporate expense allocations were up $1.7 million over the first quarter of 2013.

Average consumer deposits were largely unchanged compared to the first quarter of 2013. Average demand deposit balances were unchanged. Average interest-bearing transaction accounts increased $92 million or 3%. Average time deposit balances were down $172 million or 10% compared to the prior year.

Mortgage banking activities include the origination, marketing and servicing of conventional and government-sponsored residential mortgage loans. We funded $751 million of residential mortgage loans in the first quarter of 2014 and $1.0 billion in the first quarter of 2013. Mortgage loan fundings included $728 million of mortgage loans funded for sale in the secondary market and $23 million funded for retention within the consolidated group. Approximately 18% of our mortgage loans funded were in the Oklahoma market and 16% in the Texas market. In addition, 36% of our mortgage loan fundings came from correspondent lenders compared to 20% in the first quarter of 2013 and 7% was originated from our new Home Direct Mortgage on-line sales channel launched in the fourth quarter of 2013.

At March 31, 2014, we serviced $14.0 billion of mortgage loans for others and $1.1 billion of loans retained within the consolidated group. Approximately 92% of the mortgage loans serviced were to borrowers in our primary geographical market areas. Loans past due 90 days or more totaled $71 million or 0.51% of loans serviced for others at March 31, 2014 compared to $80 million or 0.58% of loans serviced for others at December 31, 2013. Mortgage servicing revenue, including revenue on loans serviced for the consolidated group, totaled $11.8 million, up $1.0 million or 9% over the first quarter of 2013. Changes in the fair value of our mortgage servicing rights, net of economic hedge, resulted in a $555 thousand decrease in Consumer Banking net income in the first quarter of 2014, compared to a $1.4 million decrease in Consumer Banking net income in the first quarter of 2013.

Wealth Management

Wealth Management contributed $2.5 million to consolidated net income in first quarter of 2014 compared to $1.9 million in the first quarter of 2013. Increased operating expenses and lower net interest revenue were partially offset by growth in fees and commissions revenue.

Table 9 -- Wealth Management
(Dollars in thousands)

	Three Months Ended March 31, 2014	2013	Increase (Decrease)
Net interest revenue from external sources	$5,828	$6,480	$(652)
Net interest revenue from internal sources	4,683	5,295	(612)
Total net interest revenue	10,511	11,775	(1,264)
Net loans charged off	49	519	(470)
Net interest revenue after net loans charged off	10,462	11,256	(794)
Fees and commissions revenue	54,670	52,095	2,575
Loss on financial instruments and other assets, net	(409)	(605)	196
Other operating revenue	54,261	51,490	2,771
Personnel expense	39,588	38,349	1,239
Net losses and expenses of repossessed assets	327	31	296
Other non-personnel expense	9,333	8,742	591
Other operating expense	49,248	47,122	2,126
Net direct contribution	15,475	15,624	(149)
Corporate expense allocations	11,422	12,540	(1,118)
Income before taxes	4,053	3,084	969
Federal and state income tax	1,577	1,200	377
Net income	$2,476	$1,884	$592
Average assets	$4,621,817	$4,687,067	$(65,250)
Average loans	936,663	927,671	8,992
Average deposits	4,499,265	4,613,053	(113,788)
Average invested capital	202,191	202,313	(122)
Return on average assets	0.22 %	0.16 %	6 bp
Return on invested capital	4.97 %	3.78 %	119 bp
Efficiency ratio	75.42 %	73.55 %	187 bp
Net charge-offs (annualized) to average loans	0.02 %	0.23 %	(21) bp

	March 31, 2014	March 31, 2013	Increase (Decrease)
Fiduciary assets in custody for which BOKF has sole or joint discretionary authority	$13,467,695	$11,608,502	$1,859,193
Fiduciary assets not in custody for which BOKF has sole or joint discretionary authority	1,746,634	1,955,313	(208,679)
Non-managed trust assets in custody	16,082,236	14,042,365	2,039,871
Total fiduciary assets	31,296,565	27,606,180	3,690,385

Assets held in safekeeping	22,779,187	21,562,010	1,217,177
Brokerage accounts under BOKF administration	5,012,365	4,528,168	484,197
Assets under management or in custody	$59,088,117	$53,696,358	$5,391,759

Net interest revenue for the first quarter of 2014 was down $1.3 million or 11% compared to the first quarter of 2013. Average deposit balances were $114 million or 2% lower than in the first quarter of 2013 and yields on funds sold to the Funds Management unit were down compared to the prior year. Interest-bearing transaction account balances decreased $32 million and non-interest bearing demand deposits decreased $22 million. Higher-costing time deposit balances decreased $66 million. Average loan balances were largely unchanged compared to the prior year. Residential mortgage loans previously originated by our Wealth Management division decreased, offset by growth in lower yielding consumer loan balances. Net loans charged off decreased $470 thousand compared to the first quarter of 2013 to $49 thousand or 0.02% of average loans on an annualized basis.

Fees and commissions revenue was up $2.6 million or 5% over the first quarter of 2013. Fiduciary and asset management revenue grew by $3.4 million or 15%. The increase was primarily due to the growth in the fair value of fiduciary assets administered by the Company. In addition, the acquisition of The GTrust Financial Corporation, a Topeka, Kansas based independent trust and asset management company in the first quarter of 2014 added $371 thousand of revenue. Brokerage and trading revenue decreased $929 thousand or 3%. Growth in retail brokerage revenue was offset by the effect of decreased securities trading and hedging activity by mortgage banking customers.

Other operating revenue includes fees earned from state and municipal bond underwriting and financial advisory services, primarily in the Oklahoma and Texas markets. In the first quarter of 2014, the Wealth Management division participated in 76 underwritings that totaled $872 million. As a participant, the Wealth Management division was responsible for facilitating the sale of approximately $461 million of these underwritings. In the first quarter of 2013, the Wealth Management division participated in 88 underwritings that totaled approximately $1.3 billion. Our interest in these underwritings totaled approximately $537 million.

Operating expenses increased $2.1 million or 5% over the first quarter of 2013. Personnel expenses increased $1.2 million, including a $1.4 million increase in regular compensation and a $358 thousand increase in employee benefits primarily related to investments in Wealth Management talent, partially offset by a $497 thousand decrease in incentive compensation. Non-personnel expenses increased $591 thousand, including increased business promotion and amortization of identifiable intangible assets. Corporate expense allocations decreased $1.1 million compared to the prior year.

Financial Condition
Securities

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

At March 31, 2014, the carrying value of investment (held-to-maturity) securities was $669 million and the fair value was $685 million. Investment securities consist primarily of long-term, fixed rate Oklahoma municipal bonds, taxable Texas school construction bonds and residential mortgage-backed securities issued by U.S. government agencies. The investment security portfolio is diversified among issuers. The largest obligation of any single issuer is $30 million. Substantially all of these bonds are general obligations of the issuers. Approximately $80 million of the Texas school construction bonds are also guaranteed by the Texas Permanent School Fund Guarantee Program supervised by the State Board of Education for the State of Texas.

Available for sale securities, which may be sold prior to maturity, are carried at fair value. Unrealized gains or losses, net of deferred taxes, are recorded as accumulated other comprehensive income in shareholders' equity. The amortized cost of available for sale securities totaled $9.9 billion at March 31, 2014, a decrease of $267 million from December 31, 2013. The decrease was primarily in U.S. government agency residential mortgage-backed securities partially offset by an increase in U.S. government agency commercial mortgage-backed securities. Commercial mortgage-backed securities have prepayment penalties similar to commercial loans. At March 31, 2014, residential mortgage-backed securities represented 77% of total available for sale securities.

A primary risk of holding residential mortgage-backed securities comes from extension during periods of rising interest rates or prepayment during periods of falling interest rates. We evaluate this risk through extensive modeling of risk both before making an investment and throughout the life of the security. Our best estimate of the duration of the combined residential mortgage-backed securities portfolio held in investment and available for sale securities at March 31, 2014 is 3.2 years. Management estimates the duration extends to 3.4 years assuming an immediate 200 basis point upward shock. The estimated duration contracts to 3.1 years assuming a 50 basis point decline in the current rate environment.

Residential mortgage-backed securities also have credit risk from delinquency or default of the underlying loans. We mitigate this risk by primarily investing in securities issued by U.S. government agencies. Principal and interest payments on the underlying loans are fully guaranteed. At March 31, 2014, approximately $7.4 billion of the amortized cost of the Company's residential mortgage-backed securities were issued by U.S. government agencies. The fair value of these residential mortgage-backed securities totaled $7.5 billion at March 31, 2014.

We also hold amortized cost of $180 million in residential mortgage-backed securities privately issued by publicly-owned financial institutions, a decrease of $35 million from December 31, 2013. The decrease was due to the sale of approximately $28 million in amortized cost during the first quarter and cash payments received. The fair value of our portfolio of privately issued residential mortgage-backed securities totaled $189 million at March 31, 2014.

The amortized cost of our portfolio of privately issued residential mortgage-backed securities included $106 million of Jumbo-A residential mortgage loans and $73 million of Alt-A residential mortgage loans. Jumbo-A residential mortgage loans generally meet government underwriting standards, but have loan balances that exceed agency maximums. Alt-A mortgage loans generally do not have sufficient documentation to meet government agency underwriting standards. Credit risk on residential mortgage-backed securities originated by private issuers is mitigated by investment in senior tranches with additional collateral support. All of our Alt-A residential mortgage-backed securities were issued with credit support from additional layers of loss-absorbing subordinated tranches, including all Alt-A residential mortgage-backed securities held that were originated in 2007 and 2006. The weighted average original credit enhancement of the Alt-A residential mortgage-backed securities was 9.5% and has been fully absorbed as of March 31, 2014. The Jumbo-A residential mortgage-backed securities had original credit enhancement of 9.7% and the current level is 3.5%. Approximately 91% of our Alt-A mortgage-backed securities represent pools of fixed rate residential mortgage loans. None of the adjustable rate mortgages are payment option adjustable rate mortgages ("ARMs"). Approximately 33% of our Jumbo-A residential mortgage-backed securities represent pools of fixed rate residential mortgage loans and none of the adjustable rate mortgages are payment option ARMs.

The aggregate gross amount of unrealized losses on available for sale securities totaled $102 million at March 31, 2014, compared to $158 million at December 31, 2013. On a quarterly basis, we perform separate evaluations on debt and equity securities to determine if the unrealized losses are temporary as more fully described in Note 2 of the Consolidated Financial Statements. No other-than-temporary impairment charges were recognized in earnings in the first quarter of 2014.

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

BOK Financial is required to hold stock as members of the Federal Reserve system and the Federal Home Loan Banks ("FHLB"). These restricted equity securities are carried at cost as these securities do not have a readily determined fair value because the ownership of these shares are restricted and they lack a market. Federal Reserve Bank stock totaled $34 million and holdings of FHLB stock totaled $52 million at March 31, 2014.

Bank-Owned Life Insurance

We have approximately $287 million of bank-owned life insurance at March 31, 2014. This investment is expected to provide a long-term source of earnings to support existing employee benefit programs. Approximately $255 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, 2014, the cash surrender value represented by the underlying fair value of investments held in separate accounts was approximately $267 million. As the underlying fair value of the investments held in a separate account at March 31, 2014 exceeded the net book value of the investments, no cash surrender value was supported by the stable value wrap. The stable value wrap is provided by a domestic financial institution. The remaining cash surrender value of $32 million primarily represents the cash surrender value of policies held in general accounts and other amounts due from various insurance companies.

Loans

The aggregate loan portfolio before allowance for loan losses totaled $13.1 billion at March 31, 2014, an increase of $286 million over December 31, 2013. Outstanding commercial loans grew by $108 million over December 31, 2013, largely due to growth in healthcare sector loans. Commercial real estate loan balances were up $216 million with growth in nearly all sectors of the portfolio, partially offset by a decrease in residential construction and land development loans. Residential mortgage loans decreased $33 million and consumer loans decreased $5.6 million compared to December 31, 2013.

Table 10 -- Loans
(In thousands)

	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Commercial:					
Energy	$2,344,072	$2,351,760	$2,311,991	$2,384,746	$2,349,432
Services	2,232,471	2,282,210	2,148,551	2,204,253	2,114,799
Wholesale/retail	1,225,990	1,201,364	1,181,806	1,175,543	1,085,000
Manufacturing	444,215	391,751	382,460	386,133	399,818
Healthcare	1,396,562	1,274,246	1,160,212	1,118,810	1,081,636
Integrated food services	126,514	150,494	141,440	163,551	173,800
Other commercial and industrial	281,882	291,396	244,615	275,084	213,820
Total commercial	8,051,706	7,943,221	7,571,075	7,708,120	7,418,305
Commercial real estate:					
Residential construction and land development	184,820	206,258	216,456	225,654	237,829
Retail	640,506	586,047	556,918	553,412	584,279
Office	436,264	411,499	422,043	459,558	420,644
Multifamily	662,674	576,502	520,454	500,452	460,474
Industrial	305,207	243,877	245,022	253,990	237,049
Other commercial real estate	401,936	391,170	388,336	324,030	344,885
Total commercial real estate	2,631,407	2,415,353	2,349,229	2,317,096	2,285,160
Residential mortgage:					
Permanent mortgage	1,033,572	1,062,744	1,078,661	1,095,871	1,091,575
Permanent mortgages guaranteed by U.S. government agencies	184,822	181,598	163,919	156,887	162,419
Home equity	800,281	807,684	792,185	787,027	758,456
Total residential mortgage	2,018,675	2,052,026	2,034,765	2,039,785	2,012,450
Consumer	376,066	381,664	395,031	375,781	377,649
Total	$13,077,854	$12,792,264	$12,350,100	$12,440,782	$12,093,564

Commercial

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

Commercial loans totaled $8.1 billion or 62% of the loan portfolio at March 31, 2014, an increase of $108 million over December 31, 2013. Healthcare sector loans grew by $122 million over December 31, 2013. Manufacturing sector loans were up $52 million and wholesale/retail sector loans were up $25 million. This growth was partially offset by a $50 million decrease in service sector loans and a $24 million decrease in integrated food service sector loans.

Table 11 presents the commercial sector of our loan portfolio distributed primarily by collateral location. Loans for which collateral location is less relevant, such as unsecured loans and reserve-based energy loans, are distributed by the borrower's primary operating location. The majority of the collateral securing our commercial loan portfolio is located within our geographical footprint with 36% concentrated in the Texas market and 22% concentrated in the Oklahoma market. The Other category is primarily composed of two states, California and Louisiana, which represent $191 million or 2% of the commercial loan portfolio and $147 million or 2% of the commercial loan portfolio, respectively, at March 31, 2014. All other states individually represent less than one percent of total commercial loans.

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/Missouri	Other	Total
Energy	$471,953	$1,118,691	$61,789	$8,175	$309,065	$16,397	$86,374	$271,628	$2,344,072
Services	547,194	734,932	183,903	19,340	195,898	161,521	121,759	267,924	2,232,471
Wholesale/retail	323,614	517,395	26,592	61,903	46,253	52,372	60,410	137,451	1,225,990
Manufacturing	124,782	121,992	5,717	6,358	15,498	36,737	55,758	77,373	444,215
Healthcare	228,404	263,365	107,615	79,099	116,366	77,635	198,606	325,472	1,396,562
Integrated food services	5,003	7,565	—	—	31,090	—	13,519	69,337	126,514
Other commercial and industrial	69,058	99,031	12,625	11,100	3,437	1,566	35,305	49,760	281,882
Total commercial loans	$1,770,008	$2,862,971	$398,241	$185,975	$717,607	$346,228	$571,731	$1,198,945	$8,051,706

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

Outstanding energy loans totaled $2.3 billion or 18% of total loans at March 31, 2014. Unfunded energy loan commitments increased by $117 million to $2.6 billion at March 31, 2014. Approximately $2.1 billion of energy loans were to oil and gas producers, up $35 million over December 31, 2013. Approximately 59% of the committed production loans are secured by properties primarily producing oil and 41% of the committed production loans are secured by properties primarily producing natural gas. Loans to midstream oil and gas companies totaled $81 million at March 31, 2014. Loans to borrowers engaged in wholesale or retail energy sales decreased $107 million from December 31, 2013 to $96 million. Loans to borrowers that provide services to the energy industry decreased $6.5 million to $79 million. At March 31, 2014, loans to borrowers that manufacture equipment primarily for the energy industry totaled $21 million, down $3.6 million compared to the prior quarter.

The services sector of the loan portfolio totaled $2.2 billion or 17% of total loans and consists of a large number of loans to a variety of businesses, including gaming, utilities, governmental, insurance and not-for-profit entities. Service sector loans decreased $50 million from December 31, 2013. Approximately $1.2 billion of the services category is made up of loans with individual balances of less than $10 million. Service sector loans are generally secured by the assets of the borrower with repayment coming from the cash flows of ongoing operations of the customer’s business.

We participate in shared national credits when appropriate to obtain or maintain business relationships with local customers. Shared national credits are defined by banking regulators as credits of more than $20 million and with three or more non-affiliated banks as participants. At March 31, 2014, the outstanding principal balance of these loans totaled $2.5 billion. Substantially all of these loans are to borrowers with local market relationships. We serve as the agent lender in approximately 14% of our shared national credits, based on dollars committed. We hold shared credits to the same standard of analysis and perform the same level of review as internally originated credits. Our lending policies generally avoid loans in which we do not have the opportunity to maintain or achieve other business relationships with the customer. In addition to management’s quarterly assessment of credit risk, banking regulators annually review a sample of shared national credits for proper risk grading.

Commercial Real Estate

Commercial real estate represents loans for the construction of buildings or other improvements to real estate and property held by borrowers for investment purposes generally within our geographical footprint, with larger concentrations in Texas and Oklahoma which represent 32% and 17% of the total commercial real estate portfolio at March 31, 2014, respectively. We require collateral values in excess of the loan amounts, demonstrated cash flows in excess of expected debt service requirements, equity investment in the project and a portion of the project already sold, leased or permanent financing already secured. The expected cash flows from all significant new or renewed income producing property commitments are stress tested to reflect the risks in varying interest rates, vacancy rates and rental rates. As with commercial loans, inherent lending risks are centrally monitored on a continuous basis from underwriting throughout the life of the loan for compliance with applicable lending policies.

Commercial real estate loans totaled $2.6 billion or 20% of the loan portfolio at March 31, 2014. The outstanding balance of commercial real estate loans increased $216 million during the first quarter of 2014. Loans secured by multifamily residential properties grew by $86 million. Loans secured by industrial facilities increased $61 million. Retail sector loans grew by $54 million and loans secured by office buildings increased $25 million over the prior quarter. Residential construction and land development loan balances decreased $21 million. The commercial real estate loan balance as a percentage of our total loan portfolio has ranged from 18% to 22% over the past five years. The commercial real estate sector of our loan portfolio distributed by collateral location follows in Table 12.

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/Missouri	Other	Total
Residential construction and land development	$51,543	$36,859	$34,038	$13,423	$39,107	$5,376	$ 3,773	$701	$184,820
Retail	103,960	201,958	62,536	10,548	26,335	59,350	26,185	149,634	640,506
Office	83,453	175,708	40,162	5,330	51,055	35,619	12,891	32,046	436,264
Multifamily	83,708	266,905	44,417	25,467	61,149	54,943	62,037	64,048	662,674
Industrial	53,134	68,279	35,407	354	6,395	8,862	42,411	90,365	305,207
Other real estate	71,755	99,204	44,774	16,631	31,590	47,501	24,485	65,996	401,936
Total commercial real estate loans	$447,553	$848,913	$261,334	$71,753	$215,631	$211,651	$ 171,782	$402,790	$2,631,407

Residential Mortgage and Consumer

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

Residential mortgage loans totaled $2.0 billion, a $33 million decrease compared to December 31, 2013. In general, we sell the majority of our conforming fixed rate loan originations in the secondary market and retain the majority of our non-conforming and adjustable-rate mortgage loans. We have no concentration in sub-prime residential mortgage loans. Our mortgage loan portfolio does not include payment option adjustable rate mortgage loans or adjustable rate mortgage loans with initial rates that are below market. Collateral for 98% of our residential mortgage loan portfolio is located within our geographical footprint.

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

At March 31, 2014, $185 million of permanent residential mortgage loans are guaranteed by U.S. government agencies. We have minimal credit exposure on loans guaranteed by the agencies. This amount includes residential mortgage loans previously sold into GNMA mortgage pools that the Company may repurchase when certain defined delinquency criteria are met. Because of this repurchase right, the Company is deemed to have regained effective control over these loans and must include them on the Consolidated Balance Sheet. Permanent residential mortgage loans guaranteed by U.S. government agencies increased $3.2 million over December 31, 2013.

Home equity loans totaled $800 million at March 31, 2014, a $7.4 million decrease from December 31, 2013. Our home equity loan portfolio is primarily composed of first-lien, fully amortizing home equity loans. Home equity loans generally require a minimum FICO score of 700 and a maximum DTI of 40%. The maximum loan amount available for our home equity loan products is generally $400 thousand. Revolving loans have a 5 year revolving period followed by a 15 year term of amortizing repayment. Interest-only home equity loans may not be extended for any additional revolving time. All other home equity loans may be extended at management's discretion for an additional 5 year revolving term subject to an update of certain credit information. A summary of our home equity loan portfolio at March 31, 2014 by lien position and amortizing status follows in Table 13.

Table 13 -- Home Equity Loans
(In thousands)

	Revolving	Amortizing	Total
First lien	$39,044	$518,462	$557,506
Junior lien	64,291	178,484	242,775
Total home equity	$103,335	$696,946	$800,281

The distribution of residential mortgage and consumer loans at March 31, 2014 is as follows in Table 14. Residential mortgage loans are distributed by collateral location. Consumer loans are generally distributed by borrower location.

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/Missouri	Other	Total
Residential mortgage:									
Permanent mortgage	$232,561	$387,409	$43,516	$20,573	$161,444	$100,108	$60,526	$27,435	$1,033,572
Permanent mortgages guaranteed by U.S. government agencies	61,097	20,068	64,443	6,875	9,397	2,826	13,410	6,706	184,822
Home equity	476,219	142,272	125,893	4,658	32,668	9,986	8,029	556	800,281
Total residential mortgage	$769,877	$549,749	$233,852	$32,106	$203,509	$112,920	$81,965	$34,697	$2,018,675
Consumer	$182,471	$134,836	$13,084	$2,698	$21,953	$7,996	$10,300	$2,728	$376,066

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

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

	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Bank of Oklahoma:					
Commercial	$2,782,997	$2,902,140	$2,801,979	$2,993,247	$2,853,608
Commercial real estate	593,282	602,010	564,141	569,780	568,500
Residential mortgage	1,505,702	1,524,212	1,497,027	1,503,457	1,468,434
Consumer	179,733	192,283	207,360	211,744	207,662
Total Bank of Oklahoma	5,061,714	5,220,645	5,070,507	5,278,228	5,098,204
Bank of Texas:					
Commercial	3,161,203	3,052,274	2,858,970	2,849,888	2,718,050
Commercial real estate	969,804	816,574	853,857	813,659	800,577
Residential mortgage	256,332	260,544	263,945	263,916	272,406
Consumer	136,782	131,297	129,144	105,390	110,060
Total Bank of Texas	4,524,121	4,260,689	4,105,916	4,032,853	3,901,093
Bank of Albuquerque:					
Commercial	351,454	342,336	325,542	296,036	271,075
Commercial real estate	305,080	308,829	306,914	314,871	332,928
Residential mortgage	131,932	133,900	131,756	133,058	129,727
Consumer	12,972	13,842	14,583	14,364	14,403
Total Bank of Albuquerque	801,438	798,907	778,795	758,329	748,133
Bank of Arkansas:					
Commercial	73,804	81,556	73,063	61,414	54,191
Commercial real estate	81,181	78,264	84,364	85,546	88,264
Residential mortgage	7,898	7,922	10,466	10,691	11,285
Consumer	6,881	8,023	9,426	11,819	13,943
Total Bank of Arkansas	169,764	175,765	177,319	169,470	167,683
Colorado State Bank & Trust:					
Commercial	825,315	735,626	748,331	786,262	822,942
Commercial real estate	213,850	190,355	158,320	146,137	171,251
Residential mortgage	57,345	62,821	66,475	62,490	56,052
Consumer	22,095	22,686	22,592	23,148	20,990
Total Colorado State Bank & Trust	1,118,605	1,011,488	995,718	1,018,037	1,071,235
Bank of Arizona:					
Commercial	453,799	417,702	379,817	355,698	326,266
Commercial real estate	301,266	257,477	250,129	258,938	229,020
Residential mortgage	42,899	47,111	49,109	51,774	54,285
Consumer	7,145	7,887	7,059	4,947	5,664

Total Bank of Arizona	805,109	730,177	686,114	671,357	615,235
Bank of Kansas City:					
Commercial	403,134	411,587	383,373	365,575	372,173
Commercial real estate	166,944	161,844	131,504	128,165	94,620
Residential mortgage	16,567	15,516	15,987	14,399	20,261
Consumer	10,458	5,646	4,867	4,369	4,927
Total Bank of Kansas City	597,103	594,593	535,731	512,508	491,981
Total BOK Financial loans	$13,077,854	$12,792,264	$12,350,100	$12,440,782	$12,093,564

Loan Commitments

We enter into certain off-balance sheet arrangements in the normal course of business. These arrangements included unfunded loan commitments which totaled $7.1 billion and standby letters of credit which totaled $440 million at March 31, 2014. Loan commitments may be unconditional obligations to provide financing or conditional obligations that depend on the borrower’s financial condition, collateral value or other factors. Standby letters of credit are unconditional commitments to guarantee the performance of our customer to a third party. Since some of these commitments are expected to expire before being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Approximately $624 thousand of the outstanding standby letters of credit were issued on behalf of customers whose loans are nonperforming at March 31, 2014.

As more fully described in Note 6 to the Consolidated Financial Statements, we have off-balance sheet commitments related to certain residential mortgage loans originated under community development loan programs that were sold to a U.S. government agency with full recourse. These mortgage loans were underwritten to standards approved by the agencies, including full documentation and originated under programs available only for owner-occupied properties. The Company no longer sells residential mortgage loans with recourse other than obligations under standard representations and warranties. We are obligated to repurchase these loans for the life of these loans in the event of foreclosure for the unpaid principal and interest at the time of foreclosure. At March 31, 2014, the principal balance of residential mortgage loans sold subject to recourse obligations totaled $187 million, down from $191 million at December 31, 2013. Substantially all of these loans are to borrowers in our primary markets including $129 million to borrowers in Oklahoma, $20 million to borrowers in Arkansas, $13 million to borrowers in New Mexico and $2 million to borrowers in the Kansas/Missouri market.

We also have an off-balance sheet obligation to repurchase residential mortgage loans sold to government sponsored entities through our mortgage banking activities due to standard representations and warranties made under contractual agreements as described further in Note 6 to the Consolidated Financial Statements. For the period from 2010 through the first quarter of 2014 combined, approximately 14% of repurchase requests have currently resulted in actual repurchases or indemnification by the Company. The accrual for credit losses related to potential loan repurchases under representations and warranties totaled $7.9 million at March 31, 2014 and $8.8 million at December 31, 2013.

Customer Derivative Programs

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

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

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

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

Derivative contracts are carried at fair value. At March 31, 2014, the net fair values of derivative contracts, before consideration of cash margin, reported as assets under these programs totaled $222 million compared to $274 million at December 31, 2013. Derivative contracts carried as assets included to-be-announced residential mortgage-backed securities sold to our mortgage banking customers considered interest rate derivative contracts. At March 31, 2014, the fair value of our derivative contracts included $11 million related to these to-be-announced residential mortgage-backed securities, $41 million for interest rate swaps, $26 million for energy contracts, and $123 million for foreign exchange contracts. The aggregate net fair value of derivative contracts, before consideration of cash margin, held under these programs reported as liabilities totaled $217 million at March 31, 2014 and $268 million at December 31, 2013.

At March 31, 2014, total derivative assets were reduced by $3.4 million of cash collateral received from counterparties and total derivative liabilities were reduced by $34 million of cash collateral paid to counterparties related to instruments executed with the same counterparty under a master netting agreement.

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

The fair value of derivative contracts reported as assets under these programs, net of cash margin held by the Company, by category of debtor at March 31, 2014 follows in Table 16.

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

Customers	$115,146
Banks and other financial institutions	99,790
Exchanges and clearing organizations	3,571
Fair value of customer risk management program asset derivative contracts, net	$218,507

At March 31, 2014, our largest exposure was to an internationally active domestic financial institution for equity option contracts which totaled $12 million. At March 31, 2014, our aggregate gross exposure to internationally active domestic financial institutions was approximately $210 million comprised of $196 million of cash and securities positions and $14 million of gross derivative positions. We have no direct exposure to European sovereign debt and our aggregate gross exposure to European financial institutions totaled $6.2 million at March 31, 2014.

Our customer derivative program also introduces liquidity and capital risk. We are required to provide cash margin to certain counterparties when the net negative fair value of the contracts exceeds established limits. Also, changes in commodity prices affect the amount of regulatory capital we are required to hold as support for the fair value of our derivative assets. These risks are modeled as part of the management of these programs. Based on current prices, a decrease in market prices equivalent to $31.07 per barrel of oil would decrease the fair value of derivative assets by $3.1 million. An increase in prices equivalent to $165.41 per barrel of oil would increase the fair value of derivative assets by $403 million as current prices move away from the fixed prices embedded in our existing contracts. Liquidity requirements of this program are also affected by our credit rating. A decrease in our credit rating to below investment grade would increase our obligation to post cash margin on existing contracts by approximately $26 million. The fair value of our to-be-announced residential mortgage-backed securities and interest rate swap derivative contracts is affected by changes in interest rates. Based on our assessment as of March 31, 2014, changes in interest rates would not materially impact regulatory capital or liquidity needed to support this portion of our customer derivative program.

Summary of Loan Loss Experience

We maintain an allowance for loan losses and an accrual for off-balance sheet credit risk. The combined allowance for loan losses and off-balance sheet credit losses totaled $190 million or 1.45% of outstanding loans and 181% of nonaccruing loans at March 31, 2014. The allowance for loans losses was $188 million and the accrual for off-balance sheet credit losses was $1.7 million. At December 31, 2013, the combined allowance for credit losses was $187 million or 1.47% of outstanding loans and 185% of nonaccruing loans. The allowance for loan losses was $185 million and the accrual for off-balance sheet credit losses was $2.1 million.

The provision for credit losses is the amount necessary to maintain the allowance for loan losses and an accrual for off-balance sheet credit risk at an amount determined by management to be appropriate based on its evaluation. The provision includes the combined charge to expense for both the allowance for loan losses and the accrual for off-balance sheet credit risk. All losses incurred from lending activities will ultimately be reflected in charge-offs against the allowance for loan losses following funds advanced against outstanding commitments. After evaluating all credit factors, the Company determined that no provision for credit losses was necessary during the first quarter of 2014. An $11.4 million negative provision for credit losses was recorded in the fourth quarter of 2013 and an $8.0 million negative provision for credit losses was recorded in the first quarter of 2013.

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

	Three Months Ended				
	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Allowance for loan losses:					
Beginning balance	$185,396	$194,325	$203,124	$205,965	$215,507
Loans charged off:					
Commercial	(144)	(145)	(1,354)	(4,538)	(298)
Commercial real estate	(220)	(176)	(419)	(450)	(4,800)
Residential mortgage	(996)	(956)	(961)	(2,057)	(1,779)
Consumer	(1,488)	(1,836)	(1,974)	(1,507)	(2,032)
Total	(2,848)	(3,113)	(4,708)	(8,552)	(8,909)
Recoveries of loans previously charged off:					
Commercial	1,985	1,291	864	1,940	3,393
Commercial real estate	1,827	3,496	2,073	2,727	1,124
Residential mortgage	354	354	188	444	572
Consumer	1,194	927	1,284	1,099	1,468
Total	5,360	6,068	4,409	6,210	6,557
Net loans recovered (charged off)	2,512	2,955	(299)	(2,342)	(2,352)
Provision for loan losses	410	(11,884)	(8,500)	(499)	(7,190)
Ending balance	$188,318	$185,396	$194,325	$203,124	$205,965
Accrual for off-balance sheet credit losses:					
Beginning balance	$2,088	$1,604	$1,604	$1,105	$1,915
Provision for off-balance sheet credit losses	(410)	484	—	499	(810)
Ending balance	$1,678	$2,088	$1,604	$1,604	$1,105
Total combined provision for credit losses	$—	$(11,400)	$(8,500)	$—	$(8,000)

Allowance for loan losses to loans outstanding at period-end	1.44 %	1.45 %	1.57 %	1.63 %	1.70 %
Net charge-offs (annualized) to average loans	(0.08)%	(0.09)%	0.01 %	0.08 %	0.08 %
Total provision for credit losses (annualized) to average loans	— %	(0.37)%	(0.27)%	— %	(0.26)%
Recoveries to gross charge-offs	188.20 %	194.92 %	93.65 %	72.61 %	73.60 %
Accrual for off-balance sheet credit losses to off-balance sheet credit commitments	0.02 %	0.03 %	0.02 %	0.02 %	0.02 %
Combined allowance for credit losses to loans outstanding at period-end	1.45 %	1.47 %	1.59 %	1.65 %	1.71 %

Allowance for Loan Losses

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

Loans are considered to be impaired when it is probable that we will not collect all amounts due according to the contractual terms of the loan agreement. This includes all nonaccruing loans, all loans modified in troubled debt restructurings and all government guaranteed loans repurchased from GNMA pools. At March 31, 2014, impaired loans totaled $288 million, including $5.5 million with specific allowances of $4.2 million and $282 million with no specific allowances because the loan balances represent the amounts we expect to recover. At December 31, 2013, impaired loans totaled $282 million, including $2.1 million of impaired loans with specific allowances of $1.0 million and $280 million with no specific allowances.

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

The aggregate amount of general allowances for all unimpaired loans totaled $157 million at March 31, 2014 compared to $156 million at December 31, 2013. The general allowance related to commercial loans increased $3.2 million primarily due to a shift in mix from loan classes with lower historic loss rates such as energy to loan classes with higher historic loss rates such as healthcare. The general allowance related to residential mortgage loans decreased $1.5 million and the general allowance related to consumer loans decreased $754 thousand.

Nonspecific allowances are maintained for risks beyond factors specific to a particular portfolio segment or loan class. These factors include trends in the economy in our primary lending areas, concentrations in loans with large balances and other relevant factors. Nonspecific allowances totaled $27 million at March 31, 2014, a decrease of $1.2 million compared to December 31, 2013. The nonspecific allowance also considers the possible impact of the European debt crisis and similar economic factors on our loan portfolio. Risks related to the European debt crisis and domestic economic risks remain stable compared to the previous quarter.

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

Our loan monitoring process also identified loans that possess more than the normal amount of risk due to deterioration in the financial condition of the borrower or the value of the collateral. Because the borrowers are still performing in accordance with the original terms of the loan agreements, and no loss of principal or interest is anticipated, these loans were not included in nonperforming assets. Known information does, however, cause management concern as to the borrowers’ ability to comply with current repayment terms. The potential problem loans totaled $74 million at March 31, 2014, primarily composed of $14 million of residential construction and land development loans, $14 million of service sector loans, $14 million of loans secured by multifamily residential properties and $11 million of manufacturing sector loans. Potential problem loans totaled $74 million at December 31, 2013.

Net Loans Charged Off

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

BOK Financial had a net recovery of $2.5 million in the first quarter of 2014 compared to a net recovery of $3.0 million in the fourth quarter of 2013 and net charge-offs of $2.4 million in the first quarter of 2013. The ratio of net loans charged off to average loans on an annualized basis was (0.08)% for the first quarter of 2014 compared with (0.09)% for the fourth quarter of 2013 and 0.08% for the first quarter of 2013. The net recovery in the first quarter of 2014 was $443 thousand less than the previous quarter.

Net commercial loans recoveries totaled $1.8 million in the first quarter of 2014 compared to a net commercial loan recoveries of $1.1 million in the fourth quarter of 2013. Net commercial real estate loan recoveries were $1.6 million in the first quarter and $3.3 million in the fourth quarter. Residential mortgage net charge-offs were $642 thousand and consumer net charge-offs were $294 thousand for the first quarter. Consumer loan net charge-offs include indirect auto loan and deposit account overdraft losses.

Nonperforming Assets

Table 18 -- Nonperforming Assets
(In thousands)

	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Nonaccruing loans:					
Commercial	$19,047	$16,760	$19,522	$20,869	$19,861
Commercial real estate	39,305	40,850	52,502	58,693	65,175
Residential mortgage	45,380	42,320	39,256	40,534	45,426
Consumer	974	1,219	1,624	2,037	2,171
Total nonaccruing loans	104,706	101,149	112,904	122,133	132,633
Accruing renegotiated loans guaranteed by U.S. government agencies	55,507	54,322	50,099	48,733	47,942
Total nonperforming loans	160,213	155,471	163,003	170,866	180,575
Real estate and other repossessed assets:					
Guaranteed by U.S. government agencies	45,638	37,431	37,906	32,155	27,864
Other	49,877	54,841	70,216	77,957	74,837
Real estate and other repossessed assets	95,515	92,272	108,122	110,112	102,701
Total nonperforming assets	$255,728	$247,743	$271,125	$280,978	$283,276
Total nonperforming assets excluding those guaranteed by U.S. government agencies	$153,011	$155,213	$182,543	$200,007	$207,256
Nonaccruing loans by loan portfolio segment and class:					
Commercial:					
Energy	$1,759	$1,860	$1,953	$2,277	$2,377
Services	4,581	4,922	6,927	7,448	9,474
Wholesale / retail	6,854	6,969	7,223	6,700	2,239
Manufacturing	3,565	592	843	876	1,848
Healthcare	1,443	1,586	1,733	2,670	2,962
Integrated food services	—	—	—	—	—
Other commercial and industrial	845	831	843	898	961
Total commercial	19,047	16,760	19,522	20,869	19,861
Commercial real estate:					
Residential construction and land development	16,547	17,377	20,784	21,135	23,462
Retail	4,626	4,857	7,914	8,406	8,921
Office	6,301	6,391	6,838	7,828	12,851
Multifamily	—	7	4,350	6,447	4,501
Industrial	886	252	—	—	2,198

Other commercial real estate	10,945	11,966	12,616	14,877	13,242
Total commercial real estate	39,305	40,850	52,502	58,693	65,175

	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Residential mortgage:					
Permanent mortgage	36,342	34,279	31,797	32,747	38,153
Permanent mortgage guaranteed by U.S. government agencies	1,572	777	577	83	214
Home equity	7,466	7,264	6,882	7,704	7,059
Total residential mortgage	45,380	42,320	39,256	40,534	45,426
Consumer	974	1,219	1,624	2,037	2,171
Total nonaccruing loans	$104,706	$101,149	$112,904	$122,133	$132,633
Nonaccruing loans as % of outstanding balance for class:					
Commercial:					
Energy	0.08 %	0.08 %	0.08 %	0.10 %	0.10 %
Services	0.21 %	0.22 %	0.32 %	0.34 %	0.45 %
Wholesale / retail	0.56 %	0.58 %	0.61 %	0.57 %	0.21 %
Manufacturing	0.80 %	0.15 %	0.22 %	0.23 %	0.46 %
Healthcare	0.10 %	0.12 %	0.15 %	0.24 %	0.27 %
Integrated food services	— %	— %	— %	— %	— %
Other commercial and industrial	0.30 %	0.29 %	0.34 %	0.33 %	0.45 %
Total commercial	0.24 %	0.21 %	0.26 %	0.27 %	0.27 %
Commercial real estate:					
Residential construction and land development	8.95 %	8.42 %	9.60 %	9.37 %	9.87 %
Retail	0.72 %	0.83 %	1.42 %	1.52 %	1.53 %
Office	1.44 %	1.55 %	1.62 %	1.70 %	3.06 %
Multifamily	— %	— %	0.84 %	1.29 %	0.98 %
Industrial	0.29 %	0.10 %	— %	— %	0.93 %
Other commercial real estate	2.72 %	3.06 %	3.25 %	4.59 %	3.84 %
Total commercial real estate	1.49 %	1.69 %	2.23 %	2.53 %	2.85 %
Residential mortgage:					
Permanent mortgage	3.52 %	3.23 %	2.95 %	2.99 %	3.50 %
Permanent mortgage guaranteed by U.S. government agencies	0.85 %	0.43 %	0.35 %	0.05 %	0.13 %
Home equity	0.93 %	0.90 %	0.87 %	0.98 %	0.93 %
Total residential mortgage	2.25 %	2.06 %	1.93 %	1.99 %	2.26 %
Consumer	0.26 %	0.32 %	0.41 %	0.54 %	0.57 %
Total nonaccruing loans	0.80 %	0.79 %	0.91 %	0.98 %	1.10 %
Ratios:					
Allowance for loan losses to nonaccruing loans	179.86 %	183.29 %	172.12 %	166.31 %	155.29 %
Nonaccruing loans to period-end loans	0.80 %	0.79 %	0.91 %	0.98 %	1.10 %
Accruing loans 90 days or more past due[1]	$1,991	$1,415	$188	$2,460	$4,229

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

Nonperforming assets totaled $256 million or 1.94% of outstanding loans and repossessed assets at March 31, 2014. Nonaccruing loans totaled $105 million, accruing renegotiated residential mortgage loans totaled $56 million and real estate and other repossessed assets totaled $96 million. All accruing renegotiated residential mortgage loans, $1.6 million of nonaccruing loans and $46 million of real estate and other repossessed assets are guaranteed by U.S. government agencies. Excluding assets guaranteed by U.S. government agencies, nonperforming assets decreased $2.2 million during the first quarter. The Company generally retains nonperforming assets to maximize potential recovery which may cause future nonperforming assets to decrease more slowly.

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

At March 31, 2014, renegotiated loans consist solely of accruing residential mortgage loans guaranteed by U.S. government agencies that have been modified in troubled debt restructurings. See Note 4 to the Consolidated Financial Statements for additional discussion of troubled debt restructurings. Generally, we modify residential mortgage loans primarily by reducing interest rates and extending the number of payments in accordance with U.S. government agency guidelines. Generally, no unpaid principal or interest is forgiven. Interest continues to accrue based on the modified terms of the loan. Modified loans guaranteed by U.S. government agencies under residential mortgage loan programs may be sold once they become eligible according to U.S. government agency guidelines.

A rollforward of nonperforming assets for the first quarter of 2014 follows in Table 19.

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

	Three Months Ended March 31, 2014			
	Nonaccruing Loans	Renegotiated Loans	Real Estate and Other Repossessed Assets	Total Nonperforming Assets
Balance, December 31, 2013	$101,149	$54,322	$92,272	$247,743
Additions	16,220	12,819	—	29,039
Payments	(7,548)	(329)	—	(7,877)
Charge-offs	(2,848)	—	—	(2,848)
Net gains and write-downs	—	—	(85)	(85)
Foreclosure of nonperforming loans	(2,270)	—	2,270	—
Foreclosure of loans guaranteed by U.S. government agencies	—	(3,189)	17,307	14,118
Proceeds from sales	—	(7,893)	(7,110)	(15,003)
Conveyance to U.S. government agencies	—	—	(9,100)	(9,100)

Net transfers to nonaccruing loans	—	—	—	—
Return to accrual status	—	—	—	—
Other, net	3	(223)	(39)	(259)
Balance, March 31, 2014	$104,706	$55,507	$95,515	$255,728

We foreclose on loans guaranteed by U.S. government agencies in accordance with agency guidelines. Generally these loans are not eligible for modification programs or have failed to comply with modified loan terms. Principal is guaranteed by agencies of the U.S. government, subject to limitations and credit risk is minimal. These properties will be conveyed to the agencies once applicable criteria have been met. During the first quarter of 2014, $17 million of properties guaranteed by U.S. government agencies were foreclosed on and $9.1 million of properties were conveyed to the applicable U.S. government agencies.

Nonaccruing loans totaled $105 million or 0.80% of outstanding loans at March 31, 2014 and $101 million or 0.79% of outstanding loans at December 31, 2013. Nonaccruing loans increased $3.6 million over December 31, 2013. Newly identified nonaccruing loans totaled $16 million for the first quarter of 2014, partially offset by $7.5 million of payments, $2.8 million of charge-offs and $2.3 million of foreclosures.

Commercial

Nonaccruing commercial loans totaled $19 million or 0.24% of total commercial loans at March 31, 2014, compared to $17 million or 0.21% of total commercial loans at December 31, 2013. Nonaccruing commercial loans increased $2.3 million in the first quarter of 2014. Newly identified nonaccruing commercial loans of $3.3 million were partially offset by $909 thousand in payments and $144 thousand of charge-offs during the first quarter.

Nonaccruing commercial loans at March 31, 2014 were primarily composed of $6.9 million or 0.56% of wholesale/retail sector loans and $4.6 million or 0.21% of total services sector loans. Over half of the balance of nonaccruing wholesale/retail sector loans was comprised of a single customer in the New Mexico market.

Commercial Real Estate

Nonaccruing commercial real estate loans totaled $39 million or 1.49% of outstanding commercial real estate loans at March 31, 2014 compared to $41 million or 1.69% of outstanding commercial real estate loans at December 31, 2013. Newly identified nonaccruing commercial real estate loans totaled $1.3 million, offset by $3.0 million of cash payments received and $220 thousand of charge-offs.

Nonaccruing commercial real estate loans continue to be largely concentrated in residential construction and land development loans, totaling $17 million or 8.95% of residential construction and land development loans. Other commercial real estate loans totaled $11 million or 2.72% of other commercial real estate loans and $6.3 million or 1.44% of commercial real estate loans secured by office buildings.

Residential Mortgage and Consumer

Nonaccruing residential mortgage loans totaled $45 million or 2.25% of outstanding residential mortgage loans at March 31, 2014 compared to $42 million or 2.06% of outstanding residential mortgage loans at December 31, 2013. Newly identified nonaccruing residential mortgage loans totaled $9.2 million, offset by $3.3 million of payments, $1.9 million of foreclosures and $1.0 million of loans charged off during the quarter.

Nonaccruing residential mortgage loans primarily consist of non-guaranteed permanent residential mortgage loans which totaled $36 million or 3.52% of outstanding non-guaranteed permanent residential mortgage loans at March 31, 2014. Nonaccruing home equity loans totaled $7.5 million or 0.93% of total home equity loans.

Payments of accruing residential mortgage loans and consumer loans may be delinquent. The composition of residential mortgage loans and consumer loans past due but still accruing is included in the following Table 20. Substantially all non-guaranteed residential loans past due 90 days or more are nonaccruing. Residential mortgage loans 30 to 89 days past due decreased $3.6 million in the first quarter to $9.3 million at March 31, 2014. Consumer loans past due 30 to 89 days decreased $454 thousand from December 31, 2013.

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

	March 31, 2014		December 31, 2013	
	90 Days or More	30 to 89 Days	90 Days or More	30 to 89 Days
Residential mortgage:				
Permanent mortgage[1]	$12	$5,732	$—	$9,795
Home equity	25	3,556	34	3,087
Total residential mortgage	$37	$9,288	34	$12,882
Consumer	$1	$573	$1	$1,027

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

Real Estate and Other Repossessed Assets

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

Real estate and other repossessed assets totaled $96 million at March 31, 2014, an increase of $3.2 million over December 31, 2013. The distribution of real estate and other repossessed assets attributed by geographical market is included in Table 21 following.

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

	Oklahoma	Texas	Colorado	Arkansas	New Mexico	Arizona	Kansas/ Missouri	Other	Total
1-4 family residential properties guaranteed by U.S. government agencies	$14,100	$2,134	$1,549	$1,276	$22,830	$360	$2,841	$549	$45,639
Developed commercial real estate properties	2,287	242	1,109	1,050	4,076	595	731	5,073	15,163
1-4 family residential properties	5,046	957	161	775	1,915	4,782	401	262	14,299
Undeveloped land	272	3,698	2,635	57	—	5,691	1,114	—	13,467
Residential land development properties	260	30	1,556	1,283	—	3,243	136	—	6,508
Oil and gas properties	—	66	—	—	—	—	—	—	66
Vehicles	5	—	—	—	—	—	—	—	5
Other	—	—	—	—	—	324	—	44	368
Total real estate and other	$21,970	$7,127	$7,010	$4,441	$28,821	$14,995	$5,223	$5,928	$95,515

repossessed assets

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

Liquidity and Capital
Subsidiary Bank

Deposits and borrowed funds are the primary sources of liquidity for the subsidiary bank. Based on the average balances for the first quarter of 2014, approximately 74% of our funding was provided by deposit accounts, 10% from borrowed funds, 1% from long-term subordinated debt and 11% from equity. Our funding sources, which primarily include deposits and borrowings from the Federal Home Loan Banks and other banks, provide adequate liquidity to meet our operating needs.

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

Average deposits for the first quarter of 2014 totaled $20.2 billion and represented approximately 74% of total liabilities and capital compared with $19.9 billion and 73% of total liabilities and capital for the fourth quarter of 2013. Average deposits increased $360 million over the fourth quarter of 2013. Interest-bearing transaction deposit accounts increased $415 million, demand deposits decreased $44 million and average time deposits decreased $24 million.

Average Commercial Banking deposit balances increased $283 million over the fourth quarter of 2013. Balances related to commercial & industrial customers increased $220 million, balances related to our treasury services customers increased $117 million and balances related to energy customers increased $28 million over the fourth quarter of 2013. Healthcare customer balances decreased $51 million and commercial real estate customer balances decreased $37 million compared to the fourth quarter. Commercial customers continue to retain large cash reserves primarily due to low yields available on other high quality investment alternatives and to minimize deposit service charges through the earnings credit. The earnings credit is a non-cash method that enables commercial customers to offset deposit service charges based on account balances. Average Consumer Banking deposit balances increased $30 million. Interest-bearing transaction deposits grew by $33 million, demand deposit balances grew by $18 million, and savings account balances were up $14 million. This growth was partially offset by a $36 million decrease in time deposits. Average Wealth Management deposits increased $78 million over the fourth quarter of 2013 primarily due to an increase in interest-bearing transaction deposit account balances, partially offset by a decrease in demand deposit balances.

Brokered deposits included in time deposits averaged $194 million for the first quarter of 2014, an increase of $19 million over the fourth quarter of 2013. Average interest-bearing transaction accounts for the first quarter include $215 million of brokered deposits, a decrease of $21 million compared to the fourth quarter of 2013.

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

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

	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Bank of Oklahoma:					
Demand	$3,476,876	$3,432,940	$3,442,831	$3,552,328	$3,591,661
Interest-bearing:					
Transaction	6,148,712	6,318,045	5,565,462	5,644,959	6,132,736
Savings	211,770	191,880	189,186	185,345	185,363
Time	1,209,002	1,214,507	1,197,617	1,179,869	1,264,365
Total interest-bearing	7,569,484	7,724,432	6,952,265	7,010,173	7,582,464
Total Bank of Oklahoma	11,046,360	11,157,372	10,395,096	10,562,501	11,174,125
Bank of Texas:					
Demand	2,513,729	2,481,603	2,498,668	2,299,632	2,098,891
Interest-bearing:					
Transaction	1,967,107	1,966,580	1,853,586	1,931,758	1,979,318
Savings	70,890	64,632	63,368	63,745	63,218
Time	621,925	638,465	667,873	692,888	717,974
Total interest-bearing	2,659,922	2,669,677	2,584,827	2,688,391	2,760,510
Total Bank of Texas	5,173,651	5,151,280	5,083,495	4,988,023	4,859,401
Bank of Albuquerque:					
Demand	524,191	502,395	491,894	455,580	446,841
Interest-bearing:					
Transaction	516,734	529,140	541,565	525,481	513,774
Savings	37,481	33,944	34,003	34,096	35,560
Time	320,352	327,281	334,946	346,506	354,303
Total interest-bearing	874,567	890,365	910,514	906,083	903,637
Total Bank of Albuquerque	1,398,758	1,392,760	1,402,408	1,361,663	1,350,478
Bank of Arkansas:					
Demand	40,026	38,566	33,378	31,778	32,761
Interest-bearing:					
Transaction	212,144	144,018	205,891	187,223	156,079
Savings	2,264	1,986	1,919	1,974	2,642
Time	32,312	32,949	35,184	37,272	41,613
Total interest-bearing	246,720	178,953	242,994	226,469	200,334
Total Bank of Arkansas	286,746	217,519	276,372	258,247	233,095
Colorado State Bank & Trust:					
Demand	399,820	409,942	375,060	367,407	298,470
Interest-bearing:					
Transaction	536,438	541,675	536,734	519,584	528,060
Savings	28,973	26,880	27,782	27,948	27,187
Time	399,948	407,088	424,225	451,168	461,496
Total interest-bearing	965,359	975,643	988,741	998,700	1,016,743

Total Colorado State Bank & Trust	1,365,179	1,385,585	1,363,801	1,366,107	1,315,213

	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Bank of Arizona:					
Demand	265,149	204,092	188,365	186,382	157,754
Interest-bearing:					
Transaction	409,200	364,736	339,158	376,305	378,420
Savings	2,711	2,432	2,511	2,238	2,122
Time	37,989	34,391	36,285	35,490	34,690
Total interest-bearing	449,900	401,559	377,954	414,033	415,232
Total Bank of Arizona	715,049	605,651	566,319	600,415	572,986
Bank of Kansas City:					
Demand	252,496	246,739	301,780	252,216	274,482
Interest-bearing:					
Transaction	109,321	69,857	77,414	81,250	53,915
Savings	1,507	1,252	1,080	1,029	983
Time	40,646	41,312	23,890	24,779	25,613
Total interest-bearing	151,474	112,421	102,384	107,058	80,511
Total Bank of Kansas City	403,970	359,160	404,164	359,274	354,993
Total BOK Financial deposits	$20,389,713	$20,269,327	$19,491,655	$19,496,230	$19,860,291

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 $325 million at March 31, 2014. Securities repurchase agreements generally mature within 90 days and are secured by certain available for sale securities. Federal Home Loan Bank borrowings are generally short term and are secured by a blanket pledge of eligible collateral (generally unencumbered U.S. Treasury and mortgage-backed securities, 1-4 family residential mortgage loans, multifamily and other qualifying commercial real estate loans). Amounts borrowed from the Federal Home Loan Bank of Topeka averaged $1.0 billion during the quarter, unchanged compared to the fourth quarter of 2013.

At March 31, 2014, the estimated unused credit available to the subsidiary bank from collateralized sources was approximately $8.8 billion.

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

Table 23 -- Borrowed Funds
(In thousands)

		Three Months Ended March 31, 2014				Three Months Ended December 31, 2013		
	March 31, 2014	Average Balance During the Quarter	Rate	Maximum Outstanding At Any Month End During the Quarter	December 31, 2013	Average Balance During the Quarter	Rate	Maximum Outstanding At Any Month End During the Quarter
Subsidiary Bank:								
Funds purchased	1,166,178	1,021,755	0.06 %	1,548,676	868,081	748,074	0.08 %	914,008
Repurchase agreements	777,108	773,127	0.08 %	800,802	813,454	752,286	0.06 %	813,623
Other borrowings:								
Federal Home Loan Bank advances	1,002,500	1,005,370	0.20 %	1,005,650	1,005,650	1,517,013	0.20 %	2,006,622
GNMA repurchase liability	12,834	17,082	5.37 %	17,721	18,113	17,891	5.39 %	19,522
Other	16,359	16,295	3.29 %	16,159	16,590	16,687	2.84 %	17,092
Total other borrowings	1,031,693	1,038,747	0.34 %		1,040,353	1,551,591	0.29 %	
Subordinated debentures	347,846	347,824	2.52 %	347,846	347,802	347,781	2.48 %	347,802
Total Subsidiary Bank	3,322,825	3,181,453	0.44 %		3,069,690	3,399,732	0.42 %	
Total Borrowed Funds	$3,322,825	$3,181,453	0.44 %		$3,069,690	$3,399,732	0.40 %	

In 2007, the Company issued $250 million of subordinated debt due May 15, 2017 to fund the Worth National Bank and First United Bank acquisitions and fund continued asset growth. Interest on this debt was based on a fixed rate of 5.75% through May 14, 2012 which then converted to a floating rate of three-month LIBOR plus 0.69%. At March 31, 2014, $227 million of this subordinated debt remains outstanding.

In 2005, the Bank issued $150 million of 10-year, fixed rate subordinated debt. The cost of this subordinated debt, including issuance discounts and hedge loss is 5.56%. The proceeds of this debt were used to repay $95 million of BOK Financial's unsecured revolving line of credit and to provide additional capital to support assets growth. At March 31, 2014, $122 million of this subordinated debt remains outstanding.

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

Parent Company

The primary sources of liquidity for BOK Financial are cash on hand and dividends from the subsidiary bank. Dividends from the subsidiary bank are limited by various banking regulations to net profits, as defined, for the year plus retained profits for the two preceding years. Dividends are further restricted by minimum capital requirements. At March 31, 2014, based on the most restrictive limitations as well as management’s internal capital policy, the subsidiary bank could declare up to $209 million of dividends without regulatory approval. Future losses or increases in required regulatory capital at the subsidiary bank could affect its ability to pay dividends to the parent company.

The Company has a $100 million senior unsecured 364 day revolving credit facility with Wells Fargo Bank, National Association, administrative agent and other commercial banks (“the Credit Facility”). Interest on amounts outstanding under the Credit Facility is to be paid at a defined base rate minus 1.25% or LIBOR plus 1.00% based upon the Company’s option. Interest on amounts borrowed for certain acquisitions converted to a term loan at the Company's option is to be paid at a defined base rate minus 1.25% or LIBOR plus 1.25%. A commitment fee equal to 0.20% shall be paid quarterly on the unused portion of the credit commitment under the Credit Facility and there are no prepayment penalties. Any amounts outstanding at the end of the Credit Facility term shall be converted into a term loan which, except for amounts borrowed for certain acquisitions, shall be payable June 5, 2014. The Credit Agreement contains customary representations and warranties, as well as affirmative and negative covenants including limits on the Company’s ability to borrow additional funds, make investments and sell assets. These covenants also require BOKF to maintain minimum capital levels. No amounts were outstanding under the Credit Facility at March 31, 2014 and the Company met all of the covenants.

Our equity capital at March 31, 2014 was $3.1 billion, an increase of $90 million over December 31, 2013. Net income less cash dividends paid increased equity $49 million during the first quarter of 2014 and accumulated other comprehensive income increased $32 million primarily related to the change in unrealized gains on available for sale securities. Capital is managed to maximize long-term value to the shareholders. Factors considered in managing capital include projections of future earnings, asset growth and acquisition strategies, and regulatory and debt covenant requirements. Capital management may include subordinated debt issuance, share repurchase and stock and cash dividends.

On April 24, 2012, the Board of Directors authorized the Company to purchase up to two million shares of our common stock. The specific timing and amount of shares repurchased will vary based on market conditions, regulatory limitations and other factors. Repurchases may be made over time in open market or privately negotiated transactions. The repurchase program may be suspended or discontinued at any time without prior notice. As of March 31, 2014, the Company has repurchased 39,496 shares for $2.1 million under this program. No shares were repurchased in the first quarter of 2014.

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

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

Table 24 -- Capital Ratios

	Well Capitalized Minimums		March 31, 2014		December 31, 2013		September 30, 2013		June 30, 2013		March 31, 2013	
Average total equity to average assets	—		11.40	%	11.27	%	10.88	%	10.95	%	10.90	%
Tangible common equity ratio	—		10.06	%	9.90	%	9.73	%	9.38	%	9.70	%
Tier 1 common equity ratio	—		13.59	%	13.59	%	13.33	%	13.19	%	13.16	%
Risk-based capital:												
Tier 1 capital	6.00	%	13.77	%	13.77	%	13.51	%	13.37	%	13.35	%
Total capital	10.00	%	15.55	%	15.56	%	15.35	%	15.28	%	15.68	%

Leverage	5.00 %	10.17 %	10.05 %	9.80 %	9.43 %	9.28 %

In July 2013, banking regulators issued the final rule revising regulatory capital rules for substantially all U.S. banking organizations. The new capital rule will be effective for BOK Financial on January 1, 2015 and components of the rule will phase in through January 1, 2019. The new capital rule establishes a 7% threshold for the Tier 1 common equity ratio consisting of a minimum level plus capital conservation buffer. The Company expects to exclude unrealized gains and losses from available for sale securities from its calculation of Tier 1 capital, consistent with the treatment under current capital rules. BOK Financial's Tier 1 common equity ratio based on the existing Basel I standards was 13.59% as of March 31, 2014. Based on our interpretation of the new capital rule, our estimated Tier 1 common equity ratio is approximately 12.60%, nearly 560 basis points above the 7% regulatory threshold.

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

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

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

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

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

	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Tangible common equity ratio:					
Total shareholders' equity	$3,109,925	$3,020,049	$2,991,244	$2,957,637	$3,011,958
Less: Goodwill and intangible assets, net	396,131	384,323	385,166	386,001	386,876
Tangible common equity	2,713,794	2,635,726	2,606,078	2,571,636	2,625,082
Total assets	27,364,711	27,015,432	27,166,367	27,808,200	27,447,158
Less: Goodwill and intangible assets, net	396,131	384,323	385,166	386,001	386,876
Tangible assets	$26,968,580	$26,631,109	$26,781,201	$27,422,199	$27,060,282
Tangible common equity ratio	10.06 %	9.90 %	9.73 %	9.38 %	9.70 %

Off-Balance Sheet Arrangements

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

Market Risk

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

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

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

Interest Rate Risk – Other than Trading

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

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

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

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

	200 bp Increase		50 bp Decrease	
	2014	2013	2014	2013
Anticipated impact over the next twelve months on net interest revenue	$(11,626)	$(528)	$(13,161)	$(17,420)
	(1.66)%	(0.08)%	(1.88)%	(2.50)%

Trading Activities

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

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

Management uses a Value at Risk ("VaR") methodology to measure market risk due to changes in interest rates inherent in its trading activities. VaR is calculated based upon historical simulations over the past five years using a variance/covariance matrix of interest rate changes, a 10 business day holding period and a 99% confidence interval. It represents an amount of market loss that is likely to be exceeded in only one out of every 100 two-week periods. Trading positions are managed within guidelines approved by the Board of Directors. These guidelines limit the VaR to $7.3 million. There were no instances of VaR being exceeded during the three months ended March 31, 2014 and 2013. At March 31, 2014, there were no trading positions for the purposes of enhancing returns on the Company's securities portfolio.

The average, high and low VaR amounts for three months ended March 31, 2014 and March 31, 2013 are as follows in Table 27.

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

	Three Months Ended Mar. 31,	
	2014	2013
Average	$1,480	$3,569
High	3,731	5,453
Low	984	2,525

Controls and Procedures

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

Forward-Looking Statements

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

Consolidated Statements of Earnings (Unaudited)

(In thousands, except share and per share data)	Three Months Ended March 31,	
Interest revenue	2014	2013
Loans	$122,471	$125,113
Residential mortgage loans held for sale	1,590	1,792
Trading securities	411	478
Taxable securities	3,282	3,798
Tax-exempt securities	1,504	1,028
Total investment securities	4,786	4,826
Taxable securities	47,255	55,007
Tax-exempt securities	494	604
Total available for sale securities	47,749	55,611
Fair value option securities	851	1,177
Restricted equity securities	997	865
Interest-bearing cash and cash equivalents	265	184
Total interest revenue	179,120	190,046
Interest expense		
Deposits	12,986	14,881
Borrowed funds	1,334	1,554
Subordinated debentures	2,158	2,159
Total interest expense	16,478	18,594
Net interest revenue	162,642	171,452
Provision for credit losses	—	(8,000)
Net interest revenue after provision for credit losses	162,642	179,452
Other operating revenue		
Brokerage and trading revenue	29,516	31,751
Transaction card revenue	29,134	27,692
Fiduciary and asset management revenue	25,722	22,313
Deposit service charges and fees	22,689	22,966
Mortgage banking revenue	22,844	39,976
Bank-owned life insurance	2,106	3,226
Other revenue	8,852	9,140
Total fees and commissions	140,863	157,064
Gain (loss) on assets, net	(4,264)	467
Gain (loss) on derivatives, net	968	(941)
Gain (loss) on fair value option securities, net	2,660	(3,171)
Change in fair value of mortgage servicing rights	(4,461)	2,658
Gain on available for sale securities, net	1,240	4,855
Total other-than-temporary impairment losses	—	—
Portion of loss recognized in (reclassified from) other comprehensive income	—	(247)
Net impairment losses recognized in earnings	—	(247)
Total other operating revenue	137,006	160,685
Other operating expense		
Personnel	104,433	125,654
Business promotion	5,841	5,453
Charitable contributions to BOKF Foundation	2,420	—
Professional fees and services	7,565	6,985

Net occupancy and equipment	16,896	16,481
Insurance	4,541	3,745
Data processing and communications	27,135	25,450
Printing, postage and supplies	3,541	3,674
Net losses and operating expenses of repossessed assets	1,432	1,246
Amortization of intangible assets	816	876
Mortgage banking costs	3,634	7,354
Other expense	6,850	7,064
Total other operating expense	185,104	203,982
Net income before taxes	114,544	136,155
Federal and state income taxes	37,501	47,096
Net income	77,043	89,059
Net income attributable to non-controlling interest	453	1,095
Net income attributable to BOK Financial Corporation shareholders	$76,590	$87,964
Earnings per share:		
Basic	$1.11	$1.28
Diluted	$1.11	$1.28
Average shares used in computation:		
Basic	68,273,685	67,814,550
Diluted	68,436,478	68,040,180
Dividends declared per share	$0.40	$0.38

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Net income	$77,043	$89,059
Other comprehensive income before income taxes:		
Net change in unrealized gain (loss)	54,613	(21,359)
Reclassification adjustments included in earnings:		
Interest revenue, Investments securities, Taxable securities	(403)	(1,148)
Interest expense, Subordinated debentures	83	52
Net impairment losses recognized in earnings	—	247
Gain on available for sale securities, net	(1,240)	(4,855)
Other comprehensive income (loss) before income taxes	53,053	(27,063)
Federal and state income taxes	(20,635)	10,526
Other comprehensive income (loss), net of income taxes	32,418	(16,537)
Comprehensive income	109,461	72,522
Comprehensive income attributable to non-controlling interests	453	1,095
Comprehensive income attributed to BOK Financial Corp. shareholders	$109,008	$71,427

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets
(In thousands, except share data)

	March 31, 2014 (Unaudited)	Dec 31, 2013 (Footnote 1)	March 31, 2013 (Unaudited)
Assets			
Cash and due from banks	$645,435	$512,931	$458,471
Interest-bearing cash and cash equivalents	708,571	574,282	487,146
Trading securities	86,571	91,616	206,598
Investment securities (fair value: Mar. 31, 2014 – $685,063; December 31, 2013 – $687,127 ; Mar. 31, 2013 – $615,194)	668,976	677,878	589,271
Available for sale securities	9,933,723	10,147,162	11,059,145
Fair value option securities	160,884	167,125	210,192
Restricted Equity Securities	85,643	85,240	119,988
Residential mortgage loans held for sale	226,512	200,546	286,211
Loans	13,077,854	12,792,264	12,093,564
Allowance for loan losses	(188,318)	(185,396)	(205,965)
Loans, net of allowance	12,889,536	12,606,868	11,887,599
Premises and equipment, net	279,257	277,849	270,130
Receivables	114,437	117,126	116,028
Goodwill	364,570	359,759	359,759
Intangible assets, net	31,561	24,564	27,117
Mortgage servicing rights, net	153,774	153,333	109,840
Real estate and other repossessed assets, net of allowance (Mar. 31, 2014 – $23,555; December 31, 2013 – $24,195; Mar. 31, 2013 – $36,004)	95,515	92,272	102,701
Derivative contracts	218,507	265,012	320,473
Cash surrender value of bank-owned life insurance	286,932	284,801	277,776
Receivable on unsettled securities sales	18,199	17,174	190,688
Other assets	396,111	359,894	368,025
Total assets	$27,364,714	$27,015,432	$27,447,158
Liabilities and Equity			
Liabilities:			
Noninterest-bearing demand deposits	$7,472,287	$7,316,277	$6,900,860
Interest-bearing deposits:			
Transaction	9,899,656	9,934,051	9,742,302
Savings	355,596	323,006	317,075
Time	2,662,174	2,695,993	2,900,054
Total deposits	20,389,713	20,269,327	19,860,291
Funds purchased	1,166,178	868,081	853,843
Repurchase agreements	777,108	813,454	806,526
Other borrowings	1,031,693	1,040,353	1,733,047
Subordinated debentures	347,846	347,802	347,674
Accrued interest, taxes and expense	160,351	194,870	192,358
Derivative contracts	185,499	247,185	251,836
Due on unsettled securities purchases	39,641	45,740	158,984
Other liabilities	122,086	133,647	194,707
Total liabilities	24,220,115	23,960,459	24,399,266
Shareholders' equity:			

Common stock ($.00006 par value; 2,500,000,000 shares authorized; shares issued and outstanding: Mar. 31, 2014 – 73,547,801 ; December 31, 2013 – 73,163,275; Mar. 31, 2013 – 72,945,798)	4	4	4
Capital surplus	913,642	898,586	876,368
Retained earnings	2,398,636	2,349,428	2,199,722
Treasury stock (shares at cost: Mar. 31, 2014 – 4,407,591 ; December 31, 2013 – 4,304,782; Mar. 31, 2013 – 4,258,080)	(209,152)	(202,346)	(197,519)
Accumulated other comprehensive income (loss)	6,795	(25,623)	133,383
Total shareholders' equity	3,109,925	3,020,049	3,011,958
Non-controlling interests	34,674	34,924	35,934
Total equity	3,144,599	3,054,973	3,047,892
Total liabilities and equity	$27,364,714	$27,015,432	$27,447,158

See accompanying notes to consolidated financial statements.

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

	Common Stock		Capital Surplus	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Non-Controlling Interests	Total Equity
	Shares	Amount			Shares	Amount				
Balance, December 31, 2012	72,415	$4	$859,278	$2,137,541	4,088	$(188,883)	$149,920	$2,957,860	$35,821	$2,993,681
Net income	—	—	—	87,964	—	—	—	87,964	1,095	89,059
Other comprehensive loss	—	—	—	—	—	—	(16,537)	(16,537)	—	(16,537)
Issuance of shares for equity compensation	531	—	18,178	—	170	(8,636)	—	9,542	—	9,542
Tax effect from equity compensation, net	—	—	(337)	—	—	—	—	(337)	—	(337)
Stock-based compensation	—	—	(751)	—	—	—	—	(751)	—	(751)
Cash dividends on common stock	—	—	—	(25,783)	—	—	—	(25,783)	—	(25,783)
Capital calls and distributions, net	—	—	—	—	—	—	—	—	(982)	(982)
Balance, March 31, 2013	72,946	$4	$876,368	$2,199,722	4,258	$(197,519)	$133,383	$3,011,958	$35,934	$3,047,892
Balances at December 31, 2013	73,163	$4	$898,586	$2,349,428	4,305	$(202,346)	$(25,623)	$3,020,049	$34,924	$3,054,973
Net income	—	—	—	76,590	—	—	—	76,590	453	77,043
Other comprehensive income	—	—	—	—	—	—	32,418	32,418	—	32,418
Issuance of shares for equity compensation	385	—	10,461	—	103	(6,806)	—	3,655	—	3,655
Tax effect from equity	—	—	1,732	—	—	—	—	1,732	—	1,732

compensation, net										
Stock-based compensation	—	—	2,863	—	—	—	—	2,863	—	2,863
Cash dividends on common stock	—	—	—	(27,382)	—	—	—	(27,382)	—	(27,382)
Capital calls and distributions, net	—	—	—	—	—	—	—	—	(703)	(703)
Balance, March 31, 2014	73,548	$4	$913,642	$2,398,636	4,408	$(209,152)	$6,795	$3,109,925	$34,674	$3,144,599

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2014	2013
Cash Flows From Operating Activities:		
Net income	$77,043	$89,059
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	—	(8,000)
Change in fair value of mortgage servicing rights	4,461	(2,658)
Unrealized losses from derivative contracts	563	9,334
Tax effect from equity compensation, net	(1,732)	337
Change in bank-owned life insurance	(2,106)	(3,226)
Stock-based compensation	2,863	(751)
Depreciation and amortization	12,362	13,392
Net amortization of securities discounts and premiums	14,560	16,507
Net realized gains on financial instruments and other assets	(1,202)	(5,436)
Net gain on mortgage loans held for sale	(11,968)	(30,235)
Mortgage loans originated for sale	(727,516)	(956,315)
Proceeds from sale of mortgage loans held for sale	713,002	993,776
Capitalized mortgage servicing rights	(8,644)	(11,433)
Change in trading and fair value option securities	10,890	81,022
Change in receivables	3,246	(2,554)
Change in other assets	14,111	7,376
Change in accrued interest, taxes and expense	(41,114)	15,680
Change in other liabilities	1,555	33,543
Net cash provided by operating activities	60,374	239,418
Cash Flows From Investing Activities:		
Proceeds from maturities or redemptions of investment securities	13,019	20,485
Proceeds from maturities or redemptions of available for sale securities	403,191	991,514
Purchases of investment securities	(5,834)	(110,957)
Purchases of available for sale securities	(679,171)	(1,529,068)
Proceeds from sales of available for sale securities	531,385	728,424
Change in amount receivable on unsettled securities transactions	(1,025)	20,364
Loans originated net of principal collected	(271,214)	221,433
Net payments on derivative asset contracts	40,220	17,454
Acquisitions, net of cash acquired	(12,624)	—
Proceeds from disposition of assets	20,071	26,870
Purchases of assets	(20,945)	(73,612)
Net cash provided by investing activities	17,073	312,907
Cash Flows From Financing Activities:		
Net change in demand deposits, transaction deposits and savings accounts	154,205	(1,250,831)
Net change in time deposits	(33,819)	(67,938)
Net change in other borrowed funds	221,650	659,003
Net proceeds on derivative liability contracts	(40,228)	(20,893)
Net change in derivative margin accounts	(84,368)	(57,241)
Change in amount due on unsettled security transactions	(6,099)	(138,469)
Issuance of common and treasury stock, net	3,655	9,542
Tax effect from equity compensation, net	1,732	(337)

Dividends paid	(27,382)	(25,783)
Net cash provided by (used in) financing activities	189,346	(892,947)
Net increase (decrease) in cash and cash equivalents	266,793	(340,622)
Cash and cash equivalents at beginning of period	1,087,213	1,286,239
Cash and cash equivalents at end of period	$1,354,006	$945,617
Cash paid for interest	$14,394	$16,390
Cash paid for taxes	$56	$5,953
Net loans and bank premises transferred to repossessed real estate and other assets	$19,577	$22,299
Residential mortgage loans guaranteed by U.S. government agencies that became eligible for repurchase during the period	$31,441	$28,192
Conveyance of other real estate owned guaranteed by U.S. government agencies	$9,100	$11,155

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

(1) Significant Accounting Policies

Basis of Presentation

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

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

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

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

Newly Adopted and Pending Accounting Policies

Financial Accounting Standards Board ("FASB")

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

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

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

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

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

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

(2) Securities
Trading Securities

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

	March 31, 2014		December 31, 2013		March 31, 2013	
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)
U.S. Government agency debentures	$28,588	$14	$34,120	$77	$55,358	$48
U.S. agency residential mortgage-backed securities	23,595	83	21,011	123	33,106	160
Municipal and other tax-exempt securities	27,280	58	27,350	(182)	90,710	(10)
Other trading securities	7,108	(19)	9,135	(7)	27,424	41
Total	$86,571	$136	$91,616	$11	$206,598	$239

Investment Securities

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

	March 31, 2014				
	Amortized Cost	Carrying Value[1]	Fair Value	Gross Unrealized[2] Gain	Loss
Municipal and other tax-exempt	$440,303	$440,303	$441,532	$3,182	$(1,953)
U.S. agency residential mortgage-backed securities – Other	44,489	45,917	47,834	1,957	(40)
Other debt securities	182,756	182,756	195,697	13,114	(173)
Total	$667,548	$668,976	$685,063	$18,253	$(2,166)

1 Carrying value includes $1.4 million of net unrealized gain which remains in Accumulated other comprehensive income (“AOCI”) in the Consolidated Balance Sheets related to certain securities transferred from the Available for Sale securities portfolio to the Investment securities portfolio as discussed in greater detail following.

2 Gross unrealized gains and losses are not recognized in AOCI in the Consolidated Balance Sheets.

	December 31, 2013				
	Amortized	Carrying	Fair	Gross Unrealized[2]	
	Cost	Value[1]	Value	Gain	Loss
Municipal and other tax-exempt	$440,187	$440,187	$439,870	$2,452	$(2,769)
U.S. agency residential mortgage-backed securities – Other	48,351	50,182	51,864	1,738	(56)
Other debt securities	187,509	187,509	195,393	8,497	(613)
Total	$676,047	$677,878	$687,127	$12,687	$(3,438)

[1] Carrying value includes $1.8 million of net unrealized gain which remains in Accumulated other comprehensive income ("AOCI") in the Consolidated Balance Sheets related to certain securities transferred from the Available for Sale securities portfolio to the Investment securities portfolio as discussed in greater detail following.

[2] Gross unrealized gains and losses are not recognized in AOCI in the Consolidated Balance Sheets.

	March 31, 2013				
	Amortized	Carrying	Fair	Gross Unrealized[2]	
	Cost	Value[1]	Value	Gain	Loss
Municipal and other tax-exempt	$339,003	$339,003	$341,940	$3,518	$(581)
U.S. agency residential mortgage-backed securities – Other	69,075	72,968	76,851	3,883	—
Other debt securities	177,300	177,300	196,403	19,153	(50)
Total	$585,378	$589,271	$615,194	$26,554	$(631)

[1] Carrying value includes $3.9 million of net unrealized gain which remains in Accumulated other comprehensive income ("AOCI") in the Consolidated Balance Sheets related to certain securities transferred from the Available for Sale securities portfolio to the Investment securities portfolio as discussed in greater detail following.

[2] Gross unrealized gains and losses are not recognized in AOCI in the Consolidated Balance Sheets.

During the three months ended September 30, 2011, the Company transferred certain U.S. government agency residential mortgage-backed securities from the available for sale portfolio to the investment securities (held-to-maturity) portfolio as the Company has the positive intent and ability to hold these securities to maturity. No gains or losses were recognized in the Consolidated Statement of Earnings at the time of the transfer. Transfers of debt securities into the investment securities portfolio (held-to-maturity) are made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer is retained in accumulated other comprehensive income and in the carrying value of the investment securities portfolio. Such amounts are amortized over the estimated remaining life of the security as an adjustment to yield, offsetting the related amortization of the premium or accretion of the discount on the transferred securities. At the time of transfer, the fair value totaled $131 million, amortized cost totaled $118 million and the pretax unrealized gain totaled $13 million.

The amortized cost and fair values of investment securities at March 31, 2014, 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:											
Carrying value	$39,986		$311,019		$50,118		$39,180		$440,303		4.21
Fair value	40,099		311,262		49,968		40,203		441,532		
Nominal yield[1]	2.61	%	1.72	%	2.91	%	5.35	%	2.26	%	
Other debt securities:											
Carrying value	13,360		32,359		47,576		89,461		182,756		8.56
Fair value	13,416		33,002		49,626		99,653		195,697		
Nominal yield	3.41	%	4.85	%	5.37	%	6.32	%	5.60	%	
Total fixed maturity securities:											
Carrying value	$53,346		$343,378		$97,694		$128,641		$623,059		5.48
Fair value	53,515		344,264		99,594		139,856		637,229		
Nominal yield	2.81	%	2.01	%	4.11	%	6.02	%	3.24	%	
Residential mortgage-backed securities:											
Carrying value									$45,917		[3]
Fair value									47,834		
Nominal yield[4]									2.73	%	
Total investment securities:											
Carrying value									$668,976		
Fair value									685,063		
Nominal yield									3.20	%	

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.

3 The average expected lives of residential mortgage-backed securities were 3.0 years based upon current prepayment assumptions.

4 The nominal yield on residential mortgage-backed securities is based upon prepayment assumptions at the purchase date. Actual yields earned may differ significantly based upon actual prepayments. See Quarterly Financial Summary - Unaudited for current yields on the investment securities portfolio.

Available for Sale Securities

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

	March 31, 2014				
	Amortized	Fair	Gross Unrealized[1]		
	Cost	Value	Gain	Loss	OTTI[2]
U.S. Treasury	$1,033	$1,034	$1	$—	$—
Municipal and other tax-exempt	69,434	70,065	1,548	(917)	—
Residential mortgage-backed securities:					
U. S. government agencies:					
FNMA	4,380,066	4,409,566	65,393	(35,893)	—
FHLMC	2,158,750	2,162,580	25,644	(21,814)	—
GNMA	885,058	888,989	9,612	(5,681)	—
Other	13,426	14,434	1,008	—	—
Total U.S. government agencies	7,437,300	7,475,569	101,657	(63,388)	—
Private issue:					
Alt-A loans	73,244	77,557	4,597	—	(284)
Jumbo-A loans	106,258	111,691	5,741	—	(308)
Total private issue	179,502	189,248	10,338	—	(592)
Total residential mortgage-backed securities	7,616,802	7,664,817	111,995	(63,388)	(592)
Commercial mortgage-backed securities guaranteed by U.S. government agencies	2,159,704	2,123,762	1,329	(37,271)	—
Other debt securities	35,031	35,119	275	(187)	—
Perpetual preferred stock	22,171	24,281	2,110	—	—
Equity securities and mutual funds	14,102	14,645	602	(59)	—
Total	$9,918,277	$9,933,723	$117,860	$(101,822)	$(592)

[1] Gross unrealized gain/loss recognized in AOCI in the consolidated balance sheet.

[2] Amounts represent unrealized loss that remains in AOCI after an other-than-temporary credit loss has been recognized in income.

	December 31, 2013				
	Amortized	Fair	Gross Unrealized[1]		
	Cost	Value	Gain	Loss	OTTI[2]
U.S. Treasury	$1,042	$1,042	$—	$—	$—
Municipal and other tax-exempt	73,232	73,775	1,606	(1,063)	—
Residential mortgage-backed securities:					
U. S. government agencies:					
FNMA	4,224,327	4,232,332	68,154	(60,149)	—
FHLMC	2,308,341	2,293,943	25,813	(40,211)	—
GNMA	1,151,225	1,152,128	9,435	(8,532)	—
Other	36,296	37,607	1,311	—	—
Total U.S. government agencies	7,720,189	7,716,010	104,713	(108,892)	—
Private issue:					
Alt-A loans	104,559	107,212	4,386	—	(1,733)
Jumbo-A loans	109,622	113,887	4,974	—	(709)
Total private issue	214,181	221,099	9,360	—	(2,442)
Total residential mortgage-backed securities	7,934,370	7,937,109	114,073	(108,892)	(2,442)
Commercial mortgage-backed securities guaranteed by U.S. government agencies	2,100,146	2,055,804	1,042	(45,384)	—
Other debt securities	35,061	35,241	368	(188)	—
Perpetual preferred stock	22,171	22,863	705	(13)	—
Equity securities and mutual funds	19,069	21,328	2,326	(67)	—
Total	$10,185,091	$10,147,162	$120,120	$(155,607)	$(2,442)

[1] Gross unrealized gain/loss recognized in AOCI in the consolidated balance sheet.

[2] Amounts represent unrealized loss that remains in AOCI after an other-than-temporary credit loss has been recognized in income.

	March 31, 2013				
	Amortized	Fair	Gross Unrealized[1]		
	Cost	Value	Gain	Loss	OTTI[2]
U.S. Treasury	$1,000	$1,000	$—	$—	$—
Municipal and other tax-exempt	84,831	85,447	2,377	(1,263)	(498)
Residential mortgage-backed securities:					
U. S. government agencies:					
FNMA	5,036,888	5,161,971	127,362	(2,279)	—
FHLMC	2,747,896	2,809,286	61,390	—	—
GNMA	1,044,086	1,060,870	16,784	—	—
Other	128,519	133,085	4,566	—	—
Total U.S. government agencies	8,957,389	9,165,212	210,102	(2,279)	—
Private issue:					
Alt-A loans	119,373	124,164	5,198	—	(407)
Jumbo-A loans	188,065	192,044	6,032	(139)	(1,914)
Total private issue	307,438	316,208	11,230	(139)	(2,321)
Total residential mortgage-backed securities	9,264,827	9,481,420	221,332	(2,418)	(2,321)
Commercial mortgage-backed securities guaranteed by U.S. government agencies	1,402,594	1,405,346	4,693	(1,941)	—
Other debt securities	35,650	36,079	635	(206)	—
Perpetual preferred stock	22,171	26,832	4,661	—	—
Equity securities and mutual funds	19,452	23,021	3,574	(5)	—

Total	$10,830,525	$11,059,145	$237,272	$(5,833)	$(2,819)

[1] Gross unrealized gain/loss recognized in AOCI in the consolidated balance sheet

[2] Amounts represent unrealized loss that remains in AOCI after an other-than-temporary credit loss has been recognized in income.

The amortized cost and fair values of available for sale securities at March 31, 2014, 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[5]
U.S. Treasuries:											
Amortized cost	$1,033		$—		$—		$—		$1,033		0.88
Fair value	1,034		—		—		—		1,034		
Nominal yield	0.24	%	—	%	—	%	—	%	0.24	%	
Municipal and other tax-exempt:											
Amortized cost	$3,204		$33,928		$2,751		$29,551		$69,434		9.85
Fair value	3,245		35,096		2,967		28,757		70,065		
Nominal yield[1]	4.11	%	3.97	%	6.26	%	1.59	%[6]	3.05	%	
Commercial mortgage-backed securities:											
Amortized cost	$—		$738,616		$1,059,505		$361,583		$2,159,704		9.02
Fair value	—		731,428		1,036,404		355,930		2,123,762		
Nominal yield	—	%	1.25	%	1.47	%	1.26	%	1.36	%	
Other debt securities:											
Amortized cost	$24,994		$5,137		$—		$4,900		$35,031		5.07
Fair value	25,194		5,213		—		4,712		35,119		
Nominal yield	1.74	%	2.12	%	—	%	1.64	%[6]	1.78	%	
Total fixed maturity securities:											
Amortized cost	$29,231		$777,681		$1,062,256		$396,034		$2,265,202		8.98
Fair value	29,473		771,737		1,039,371		389,399		2,229,980		
Nominal yield	2.01	%	1.37	%	1.48	%	1.29	%	1.42	%	
Residential mortgage-backed securities:											
Amortized cost									$7,616,802		[2]
Fair value									7,664,817		
Nominal yield[4]									1.87	%	
Equity securities and mutual funds:											
Amortized cost									$36,273		[3]
Fair value									38,926		
Nominal yield									1.44	%	
Total available-for-sale securities:											
Amortized cost									$9,918,277		
Fair value									9,933,723		
Nominal yield									1.76	%	

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

[2] The average expected lives of mortgage-backed securities were 3.5 years based upon current prepayment assumptions.

[3] Primarily common stock and preferred stock of corporate issuers with no stated maturity.

[4]

The nominal yield on mortgage-backed securities is based upon prepayment assumptions at the purchase date. Actual yields earned may differ significantly based upon actual prepayments. See Quarterly Financial Summary — Unaudited following for current yields on available for sale securities portfolio.

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

[6] Nominal yield on municipal and other tax-exempt securities and other debt securities with contractual maturity dates over ten years are based on variable rates which generally are reset within 35 days.

Sales of available for sale securities resulted in gains and losses as follows (in thousands):

	Three Months Ended March 31, 2014	2013
Proceeds	$531,385	$728,424
Gross realized gains	6,433	5,792
Gross realized losses	(5,193)	(936)
Related federal and state income tax expense	482	1,889

A summary of investment and available for sale securities that have been pledged as collateral for repurchase agreements, public trust funds on deposit and for other purposes, as required by law was as follows (in thousands):

	March 31, 2014	December 31, 2013	March 31, 2013
Investment:			
Carrying value	$87,757	$89,087	$112,990
Fair value	90,765	91,804	118,054
Available for sale:			
Amortized cost	5,177,411	5,171,782	4,415,455
Fair value	5,169,432	5,133,530	4,524,553

The secured parties do not have the right to sell or re-pledge these securities. In addition, securities may be pledged as collateral on a line of credit for the trading activities of BOSC, Inc. Under the terms of the credit agreement, the creditor has the right to sell or repledge the collateral. There were no securities pledged under this line of credit at March 31, 2014, December 31, 2013 or March 31, 2013.

Temporarily Impaired Securities as of March 31, 2014
(in thousands):

	Number of Securities	Less Than 12 Months Fair Value	Unrealized Loss	12 Months or Longer Fair Value	Unrealized Loss	Total Fair Value	Unrealized Loss
Investment:							
Municipal and other tax-exempt	96	$78,833	$601	$117,909	$1,352	$196,742	$1,953
U.S. Agency residential mortgage-backed securities – Other	1	9,645	40	—	—	9,645	40
Other debt securities	31	12,516	130	798	43	13,314	173
Total investment	128	$100,994	$771	$118,707	$1,395	$219,701	$2,166

	Number of Securities	Less Than 12 Months Fair Value	Unrealized Loss	12 Months or Longer Fair Value	Unrealized Loss	Total Fair Value	Unrealized Loss
Available for sale:							
Municipal and other tax-exempt	29	$13,750	$198	$16,601	$719	$30,351	$917
Residential mortgage-backed securities:							
U. S. agencies:							
FNMA	77	2,075,587	35,893	—	—	2,075,587	35,893
FHLMC	45	1,236,653	21,814	—	—	1,236,653	21,814
GNMA	14	423,725	5,681	—	—	423,725	5,681
Total U.S. agencies	136	3,735,965	63,388	—	—	3,735,965	63,388
Private issue[1]:							
Alt-A loans	5	—	—	15,725	284	15,725	284
Jumbo-A loans	8	11,744	308	—	—	11,744	308
Total private issue	13	11,744	308	15,725	284	27,469	592
Total residential mortgage-backed securities	149	3,747,709	63,696	15,725	284	3,763,434	63,980
Commercial mortgage-backed securities guaranteed by U.S. government agencies	128	1,545,035	30,151	207,246	7,120	1,752,281	37,271
Other debt securities	3	481	19	4,231	168	4,712	187
Perpetual preferred stocks	—	—	—	—	—	—	—
Equity securities and mutual funds	106	1,778	48	172	11	1,950	59
Total available for sale	415	$5,308,753	$94,112	$243,975	$8,302	$5,552,728	$102,414

[1]Includes the following securities for which an unrealized loss remains in AOCI after an other-than-temporary credit loss has been recognized in income:

Alt-A loans	5	—	—	15,725	284	15,725	284
Jumbo-A loans	8	11,744	308	—	—	11,744	308

Temporarily Impaired Securities as of December 31, 2013
(In thousands)

	Number of Securities	Less Than 12 Months		12 Months or Longer		Total	
		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Investment:							
Municipal and other tax-exempt	107	$166,382	$1,921	$53,073	$848	$219,455	$2,769
U.S. Agency residential mortgage-backed securities – Other	2	15,224	56	—	—	15,224	56
Other debt securities	30	10,932	549	777	64	11,709	613
Total investment	139	$192,538	$2,526	$53,850	$912	$246,388	$3,438

	Number of Securities	Less Than 12 Months		12 Months or Longer		Total	
		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for sale:							
Municipal and other tax-exempt	27	$13,286	$245	$17,805	$818	$31,091	$1,063
Residential mortgage-backed securities:							
U. S. agencies:							
FNMA	81	2,281,491	60,149	—	—	2,281,491	60,149
FHLMC	50	1,450,588	40,211	—	—	1,450,588	40,211
GNMA	27	647,058	8,532	—	—	647,058	8,532
Total U.S. agencies	158	4,379,137	108,892	—	—	4,379,137	108,892
Private issue[1]:							
Alt-A loans	7	11,043	756	30,774	977	41,817	1,733
Jumbo-A loans	9	14,642	709	—	—	14,642	709
Total private issue	16	25,685	1,465	30,774	977	56,459	2,442
Total residential mortgage-backed securities	174	4,404,822	110,357	30,774	977	4,435,596	111,334
Commercial mortgage-backed securities guaranteed by U.S. government agencies	123	1,800,717	45,302	2,286	82	1,803,003	45,384
Other debt securities	3	4,712	188	—	—	4,712	188
Perpetual preferred stocks	1	4,988	13	—	—	4,988	13
Equity securities and mutual funds	118	2,070	67	—	—	2,070	67
Total available for sale	446	$6,230,595	$156,172	$50,865	$1,877	$6,281,460	$158,049

1 Includes the following securities for which an unrealized loss remains in AOCI after an other-than-temporary credit loss has been recognized in income:

Alt-A loans	7	$11,043	$756	$30,774	$977	$41,817	$1,733
Jumbo-A loans	9	14,642	709	—	—	14,642	709

Temporarily Impaired Securities as of March 31, 2013
(In thousands)

	Number of Securities	Less Than 12 Months		12 Months or Longer		Total	
		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Investment:							
Municipal and other tax-exempt	63	$141,778	$581	$—	$—	$141,778	$581
U.S. Agency residential mortgage-backed securities – Other	—	—	—	—	—	—	—
Other debt securities	14	852	50	—	—	852	50
Total investment	77	$142,630	$631	$—	$—	$142,630	$631

Number of Securities	Less Than 12 Months		12 Months or Longer		Total
	Fair Value	Unrealized Loss	Fair Value	Unrealized	