BOK FINANCIAL CORP ET AL
Form 10-Q
November 08, 2011
As filed with the Securities and Exchange Commission on November 8, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _____________ to ______________

Commission File No. 0-19341

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

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

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 68,006,390 shares of common stock ($.00006 par value) as of September 30, 2011.

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

Performance Summary

BOK Financial Corporation ("the Company") reported net income of $85.1 million or $1.24 per diluted share for the third quarter of 2011, compared to $64.3 million or $0.94 per diluted share for the third quarter of 2010 and $69.0 million or $1.00 per diluted share for the second quarter of 2011. Net income for the nine months ended September 30, 2011 totaled $218.9 million or $3.19 per diluted share compared with net income of $187.9 million or $2.75 per diluted share for the nine months ended September 30, 2010.

Highlights of the third quarter of 2011 included:

- Net interest revenue totaled $175.4 million for the third quarter of 2011, compared to $180.7 million for the third quarter of 2010 and $174.0 million for the second quarter of 2011. Net interest margin was 3.34% for the third quarter of 2011, 3.52% for the third quarter of 2010 and 3.40% for the second quarter of 2011. The decrease in net interest revenue compared with the third quarter of 2010 was due primarily to the reinvestment of cash flows from the securities portfolio at lower rates.

- Fees and commissions revenue totaled $146.0 million for the third quarter of 2011 compared to $136.9 million for the third quarter of 2010 and $127.8 million for the second quarter of 2011. Mortgage-banking revenue was strong in both the third quarters of 2011 and 2010. Low interest rates increased mortgage loan origination activity in both quarters.

- Operating expenses, excluding changes in the fair value of mortgage servicing rights, totaled $196.1 million, up $6.8 million over the third quarter of 2010 and up $6.4 million over the previous quarter. Personnel costs were up $2.0 million over the third quarter of 2010. Non-personnel expenses were up $4.8 million over the third quarter of 2010 and up $8.7 million over the prior quarter. The Company accrued $5.0 million for exposure to on-going litigation and made a $4.0 million discretionary contribution to the BOKF Charitable Foundation during the third quarter of 2011.

- No provision for credit losses was recorded in the third quarter of 2011, compared to a provision for credit losses of $20.0 million for the third quarter of 2010 and $2.7 million for the second quarter of 2011. Net loans charged off totaled $10.2 million or 0.37% of average loans on an annualized basis for the third quarter of 2011 compared to $20.1 million or 0.74% of average loans on an annualized basis in the third quarter of 2010 and $8.5 million or 0.32% on an annualized basis in the second quarter of 2011.

- The combined allowance for credit losses totaled $287 million or 2.58% of outstanding loans at September 30, 2011, down from $297 million or 2.77% of outstanding loans at June 30, 2011. Nonperforming assets totaled $388 million or 3.45% of outstanding loans and repossessed assets at September 30, 2011 compared to $351 million or 3.23% of outstanding loans and repossessed assets at June 30, 2011.

- Outstanding loan balances were $11.1 billion at September 30, 2011, up $387 million over June 30, 2011. Commercial loan balances continued to grow in the third quarter of 2011, increasing $297 million over June 30, 2011. Commercial real estate loans increased $76 million and residential mortgage loans increased $44 million. Consumer loans decreased $30 million.

- Period-end deposits totaled $18.4 billion at September 30, 2011 compared to $17.6 billion at June 30, 2011. Demand deposit accounts increased $688 million and interest-bearing transaction accounts increased $240 million. Time deposits decreased $80 million.

- The tangible common equity ratio was 9.65% at September 30, 2011 and 9.71% at June 30, 2011. The tangible common equity ratio is a non-GAAP measure of capital strength used by the Company and investors based on shareholders' equity as defined by generally accepted accounting principles in the United States of America ("GAAP") minus intangible assets and equity that does not benefit common shareholders.

- The Company and its subsidiary bank continue to exceed the regulatory definition of well capitalized. The Company's Tier 1 capital ratios as defined by banking regulations were 13.14% at September 30, 2011 and 13.30% at June 30, 2011.
- The Company paid a cash dividend of $19 million or $0.275 per common share during the third quarter of 2011. On October 25, 2011, the board of directors declared an increase in the cash dividend to $0.33 per common share payable on or about November 30, 2011 to shareholders of record as of November 16, 2011.

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 $175.4 million for the third quarter of 2011 compared to $180.7 million for the third quarter of 2010 and $174.0 million for the second quarter of 2011. Net interest margin was 3.34% for the third quarter of 2011, 3.52% for the third quarter of 2010 and 3.40% for the second quarter of 2011. The decrease in net interest revenue and net interest margin from the third quarter of 2010 was due primarily to lower yield on our available for sale securities portfolio.

The tax-equivalent yield on earning assets was 3.91% for the third quarter of 2011, down 31 basis points from the third quarter of 2010. The available for sale securities portfolio yield decreased 44 basis points to 2.83%. Mortgage interest rates decreased during the third quarter of 2011, increasing prepayment speeds on our residential mortgage-backed securities portfolio. Cash flows from these securities were then reinvested at lower current rates. In addition, loan yields decreased 16 basis points to 4.71% due to lower interest rate indices. Loan spreads have generally remained stable. Funding costs were down 10 basis points from the third quarter of 2010. The cost of interest-bearing deposits decreased 17 basis points and the cost of other borrowed funds increased 32 basis points. The increased cost of other borrowed funds was due to an $87 million increase in our obligation to fund scheduled payments to investors for loans sold into Government National Mortgage Association ("GNMA") mortgage pools as discussed more fully in the Loans section of Management's Analysis & Discussion of Financial Condition following. We repurchased a substantial amount of these loans during the third quarter of 2011 which will reduce future funding costs by over 5.00%.

Net interest margin decreased 6 basis points from the second quarter of 2011. Yield on average earning assets decreased 10 basis points to 3.91%. Yield on the available for sale securities portfolio decreased 21 basis points. Yield on the loan portfolio increased 2 basis points. The cost of interest-bearing liabilities decreased 5 basis points compared to the previous quarter.

Average earning assets for the third quarter of 2011 increased $451 million or 2% over third quarter of 2010. The average balance of available for sale securities, which consist largely of U.S. government agency issued residential mortgage-backed securities, increased $504 million. We purchased these securities to supplement earnings, especially in a period of declining loan demand, and to manage interest rate risk. Average loans, net of allowance for loan losses, increased $34 million. Average commercial loans increased over the third quarter of 2010, partially offset by decreases in commercial real estate, residential mortgage and consumer loans.

Average deposits increased $1.7 billion over the third quarter of 2010, including a $1.3 billion increase in average demand deposit balances and a $611 million increase in average interest-bearing transaction accounts. Average time deposits decreased $156 million compared to the third quarter of 2010. Average borrowed funds decreased $1.4 billion compared to the third quarter of 2010.

Average earning assets for the third quarter of 2011 increased $393 million over the second quarter of 2011. Average outstanding loans, net of allowance for loan losses, increased $198 million. Commercial, commercial real estate and residential mortgage loan balances increased in third quarter of 2011, partially offset by a decrease in consumer loans. Average available for sale securities increased $113 million and mortgage trading securities increased $77 million. Average deposits increased by $648 million during the third quarter of 2011, including a $533 million increase in demand deposits and a $126 million increase in interest-bearing transaction accounts, partially offset by a $14 million decrease in time deposits. The average balances of borrowed funds decreased $110 million.

Our overall objective is to manage the Company's balance sheet to be relatively neutral to changes in interest rates as is further described in the Market Risk section of this report. Approximately two-thirds of our commercial and commercial real estate loan portfolios are either variable rate or fixed rate that will re-price within one year. These loans are funded primarily by deposit accounts that are either non-interest bearing, or that re-price more slowly than the loans. The result is a balance sheet that would be asset sensitive, which means that assets generally re-price more quickly than liabilities. Among the strategies that we use to manage toward a relatively rate-neutral position, we purchase fixed-rate residential mortgage-backed securities issued primarily by U.S. government agencies and fund them with market rate sensitive liabilities. The liability-sensitive nature of this strategy provides an offset to the asset-sensitive characteristics of our loan portfolio. To the extent that intermediate and longer term interest rates remain at extremely low levels, mortgage-related security prepayments may accelerate putting additional downward pressure on the securities portfolio yield and on net interest margin as discussed above. We also may use derivative instruments to manage our interest rate risk. Derivative contracts are carried on the balance sheet at fair value. Changes in fair value of these contracts are included in derivatives gains or losses in the Consolidated Statements of Earnings.

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 Sept. 30, 2011 / 2010			Nine Months Ended Sept. 30, 2011 / 2010		
		Change Due To1			Change Due To1	
	Change	Volume	Yield / Rate	Change	Volume	Yield /Rate
Tax-equivalent interest revenue:						
Funds sold and resell agreements	$1	$(2)	$3	$(8)	$(9)	$1
Trading securities	67	148	(81)	(226)	277	(503)
Investment securities:						
Taxable securities	622	661	(39)	2,979	4,172	(1,193)
Tax-exempt securities	(585)	(648)	63	(1,916)	(1,846)	(70)
Total investment securities	37	13	24	1,063	2,326	(1,263)
Available for sale securities:						
Taxable securities	(6,064)	3,893	(9,957)	(19,872)	10,727	(30,599)
Tax-exempt securities	(7)	30	(37)	(12)	132	(144)
Total available for sale securities	(6,071)	3,923	(9,994)	(19,884)	10,859	(30,743)
Mortgage trading securities	68	717	(649)	57	1,268	(1,211)
	(976)	(903)	(73)	(2,056)	(1,724)	(332)

Residential mortgage loans held for sale						
Loans	(4,263)	136	(4,399)	(19,405)	(9,502)	(9,903)
Total tax-equivalent interest revenue	(11,137)	4,032	(15,169)	(40,459)	3,495	(43,954)
Interest expense:						
Transaction deposits	(4,447)	529	(4,976)	(10,912)	2,990	(13,902)
Savings deposits	(2)	23	(25)	25	81	(56)
Time deposits	(410)	(717)	307	(679)	(1,728)	1,049
Funds purchased	(404)	(32)	(372)	(1,021)	(338)	(683)
Repurchase agreements	(974)	(2)	(972)	(2,483)	(123)	(2,360)
Other borrowings	387	(9,465)	9,852	89	(25,195)	25,284
Subordinated debentures	(37)	2	(39)	(20)	7	(27)
Total interest expense	(5,887)	(9,662)	3,775	(15,001)	(24,306)	9,305
Tax-equivalent net interest revenue	(5,250)	13,694	(18,944)	(25,458)	27,801	(53,259)
Change in tax-equivalent adjustment	81			(80)		
Net interest revenue	$(5,331)			$(25,378)		

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 $174.0 million for the third quarter of 2011 compared to $137.7 million for the third quarter of 2010 and $143.0 million for the second quarter of 2011. Fees and commissions revenue increased $9.1 million over the third quarter of 2010. Net gains on securities, derivatives and other assets increased $24.2 million. Other-than-temporary impairment charges recognized in earnings in the third quarter of 2011 were $3.0 million less than charges recognized in the third quarter of 2010.

Other operating revenue increased $31.0 million over the second quarter of 2011. Fees and commissions revenue increased $18.2 million. Net gains on securities, derivatives and other assets increased $19.3 million. Other-than-temporary impairment charges recognized in earnings were $6.5 million greater than charges recognized in the second quarter of 2011.

Table 2 – Other Operating Revenue
(In thousands)

	Three Months Ended Sept. 30, 2011	Three Months Ended Sept. 30, 2010	Increase (Decrease)	% Increase (Decrease)	Three Months Ended June 30, 2011	Increase (Decrease)	% Increase (Decrease)
Brokerage and trading revenue	$29,451	$27,072	$2,379	9 %	$23,725	$5,726	24 %
Transaction card revenue	31,328	28,852	2,476	9 %	31,024	304	1 %
Trust fees and commissions	17,853	16,774	1,079	6 %	19,150	(1,297)	(7 %)
Deposit service charges and fees	24,614	24,290	324	1 %	23,857	757	3 %
Mortgage banking revenue	29,493	29,236	257	1 %	19,356	10,137	52 %
Bank-owned life insurance	2,761	3,004	(243)	(8 %)	2,872	(111)	(4 %)
Other revenue	10,535	7,708	2,827	37 %	7,842	2,693	35 %
Total fees and commissions revenue	146,035	136,936	9,099	7 %	127,826	18,209	14 %
Gain (loss) on other assets, net	712	(1,331)	2,043	N/A	3,344	(2,632)	N/A
Gain on derivatives, net	4,048	4,626	(578)	N/A	1,225	2,823	N/A
Gain on mortgage trading securities, net	17,788	3,369	14,419	N/A	9,921	7,867	N/A
Gain on available for sale securities	16,694	8,384	8,310	N/A	5,468	11,226	N/A
Total other-than-temporary impairment	(9,467)	(4,525)	(4,942)	N/A	(74)	(9,393)	N/A
	(1,833)	(9,786)	7,953	N/A	(4,750)	2,917	N/A

Portion of loss recognized in (reclassified from) other comprehensive income							
Net impairment losses recognized in earnings	(11,300)	(14,311)	3,011	N/A	(4,824)	(6,476)	N/A
Total other operating revenue	$173,977	$137,673	$36,304	26 %	$142,960	$31,017	22 %

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

Fees and commissions revenue

Diversified sources of fees and commissions revenue are a significant part of our business strategy and represented 45% of total revenue for the third quarter of 2011, excluding provision for credit losses and gains and losses on asset sales, securities and derivatives. We believe that a variety of fee revenue sources provide an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile. We expect continued growth in other operating revenue through offering new products and services and by expanding into markets outside of Oklahoma. However, current and future economic conditions, regulatory constraints, increased competition and saturation in our existing markets could affect the rate of future increases.

Brokerage and trading revenue, which includes revenues from securities trading, retail brokerage, customer derivative and investment banking increased $2.4 million or 9−−% over the third quarter of 2010. Securities trading revenue totaled $15.7 million for the third quarter of 2011, flat with the third quarter of 2010. 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. As we understand the proposal to implement the Volcker Rule of the Dodd-Frank Act, we believe this activity is primarily market making rather than proprietary trading. Increased gains from municipal and corporate securities were largely offset by decreased gains on U.S. government securities and residential mortgage-backed securities guaranteed by U.S. government agencies.

Revenue earned from retail brokerage transactions increased $1.8 million or 31% over the third quarter of 2010 to $7.4 million. Retail brokerage revenue is primarily based on fees and commissions earned on sales of fixed income securities, annuities and mutual funds to retail customers. Revenue growth was primarily due to increased market volatility which increased customer demand.

Customer hedging revenue is based primarily on realized and unrealized changes in the fair value of derivative contracts held for customer risk management programs. As more fully discussed under Customer Derivative Programs in Note 3 of the Consolidated Financial Statements, we offer commodity, interest rate, foreign exchange and equity derivatives to our customers. Customer hedging revenue totaled $3.3 million for the third quarter of 2011, down $393 thousand or 11% compared to the third quarter of 2010. The volume of energy derivative contracts declined primarily due to relatively stable commodity pricing, partially offset by an increase in revenue from to be announced ("TBA") residential mortgage backed securities which are classified as interest rate derivative contracts sold to our mortgage banking customers.

Investment banking includes fees earned upon completion of underwriting and financial advisory service which totaled $3.0 million for the third quarter of 2011, a $931 thousand increase over the third quarter of 2010 related to the timing and volume of completed transactions.

Brokerage and trading revenue increased $5.7 million over the second quarter of 2011. Securities trading revenue increased $2.4 million over the second quarter of 2011. Greater market volatility in the third quarter of 2011 and historically low interest rates increased volumes of U.S. Treasury, residential mortgage-backed securities, corporate debt securities and municipal securities. Derivative revenue increased $2.2 million primarily due to increased revenue from TBA securities sold to our mortgage banking customers. Investment banking fees were up $1.0 million over the second quarter of 2011. Retail brokerage fees were flat compared to the second quarter of 2011.

We continue to monitor the on-going development of rules to implement the Volcker Rule in Title VI of the Dodd-Frank Act which prohibits banking entities from engaging in proprietary trading as defined by the Dodd-Frank Act and restricts sponsorship of or investment in private equity funds and hedge funds, subject to limited exceptions. On October 11, 2011 regulators of financial institutions released a proposal for implementation of the Volcker Rule scheduled to take effect by July 21, 2012, subject in some cases to phase-in over time thereafter. The ultimate impact of the implementation of the Volcker Rule remains uncertain. Final regulations possibly could impose additional operational or compliance costs or restrict certain trading activities on behalf of our customers.

Title VII of the Dodd-Frank Act subjects nearly all derivative transactions to Commodity Futures Trading Commission ("CFTC") or Securities and Exchange Commission ("SEC") regulations. Title VII, among other things, imposes registration, recordkeeping, reporting, capital and margin, as well as business conduction requirements on major swap dealers and major swap participants. The CFTC and SEC have recently delayed the effective dates of a large portion of the proposed regulations under Title VII until December 31, 2012. The Company currently anticipates that one or more of its subsidiaries may be required to register as a "swap dealer" with the CFTC. The ultimate impact of Title VII is uncertain, but may pose higher operational and compliance costs on the Company.

Transaction card revenue depends largely on the volume and amount of transactions processed, the number of TransFund automated teller machine ("ATM") locations and the number of merchants served. Transaction card revenue for the third quarter of 2011 increased $2.5 million or 9% over the third quarter of 2010. Revenues from the processing of transactions on behalf of the members of our TransFund ATM network totaled $12.9 million, up $532 thousand or 4% over the third quarter of 2010, due primarily to increased ATM transaction volumes. Merchant services fees paid by customers for account management and electronic processing of transactions totaled $9.2 million, a $1.1 million or 13% increase over the prior year primarily as a result of cross-selling opportunities throughout our geographical footprint. Check card revenue from interchange fees paid by merchant banks for transactions processed from cards issued by the Company increased $865 thousand or 10% to $9.3 million due primarily to an increase in the number of transactions processed.

Transaction card revenue increased $304 thousand over the second quarter of 2011. ATM network revenue increased $381 thousand. Merchant services fees and check card revenue were flat compared to the prior quarter.

On June 29, 2011, the Federal Reserve Board issued a final rule establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions as required by the Dodd-Frank Act. Under the final rule, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction will be the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. The rule was effective on October 1, 2011. In addition, the Federal Reserve Board approved an interim rule that allows for an upward adjustment up to 1 cent to an issuer's debit card interchange fee for fraud prevention as outlined in the interim final rule. Issuers meeting these standards must certify as to their eligibility to receive this adjustment. We would expect a decline of $20 million to $25 million in our transaction card revenue annually based on the final rule.

Trust fees and commissions increased $1.1 million or 6% over the third quarter of 2010 primarily due to an increase in the fair value of trust assets. In addition, we continue to voluntarily waive administration fees on the Cavanal Hill money market funds in order to maintain positive yields on these funds in the current low short-term interest rate environment. Waived fees totaled $2.1 million for the third quarter of 2011, $858 thousand for the third quarter of 2010 and $1.6 million for the second quarter of 2011. The fair value of trust assets administered by the Company totaled $31.8 billion at September 30, 2011, $31.5 billion at September 30, 2010 and $33.1 billion at June 30, 2011. Trust fees and commissions decreased $1.3 million compared to the second quarter of 2011 primarily due to a decrease in the fair value of trust assets and the timing of fees.

Deposit service charges and fees increased modestly over the third quarter of 2010. Overdraft fees totaled $15.2 million for the third quarter, up $287 thousand or 2% over the third quarter of 2010. Commercial account service charge revenue totaled $7.4 million, up $193 thousand or 3% over the prior year. Customers continue to maintain high commercial account balances resulting in a high level of earnings credit, a non-cash method for commercial customers to avoid incurring charges for deposit services based on account balances. Service charges on retail deposit accounts also increased, totaling $1.4 million for the third quarter of 2011.

Deposit service charges and fees increased $757 thousand over the prior quarter. Overdraft fees increased $578 thousand and commercial account service charges increased $140 thousand.

Mortgage banking revenue was notably strong for both the third quarter of 2011 and 2010. Low interest rates increased mortgage loan origination activity in both quarters. Revenue from originating and marketing mortgage loans totaled $19.7 million, up $633 thousand or 3% over the third quarter of 2010. Mortgage loans funded for sale totaled $637 million in the third quarter of 2011 and $756 million in the third quarter of 2010. Mortgage servicing revenue decreased $375 thousand or 4% compared to the third quarter of 2010. The outstanding principal balance of mortgage loans serviced for others decreased $34 million during the third quarter of 2011 to $11.2 billion.

Mortgage banking revenue increased $10.1 million over the second quarter of 2011 primarily due to a $10.3 million increase in revenue from originating and marketing residential mortgage loans. Residential mortgage loans funded for sale increased $153 million over the previous quarter.

Table 3 – Mortgage Banking Revenue
(In thousands)

	Three Months Ended Sept. 30, 2011	Three Months Ended Sept. 30, 2010	Increase (Decrease)	% Increase (Decrease)	Three Months Ended June 30, 2011	Increase (Decrease)	% Increase (Decrease)
Originating and marketing revenue	$19,703	$19,069	$634	3 %	$9,409	$10,294	109 %
Servicing revenue	9,790	10,167	(377)	(4 %)	9,947	(157)	(2 %)
Total mortgage revenue	$29,493	$29,236	$257	1 %	$19,356	$10,137	52 %
Mortgage loans funded for sale	$637,127	$756,060	$(118,933)	(16 %)	$483,808	$153,319	32 %
Mortgage loan refinances to total funded	54 %	64 %			36 %		

	Sept. 30, 2011	Sept. 30, 2010	Increase	% Increase	June 30, 2011	Increase	% Increase
Outstanding principal balance of mortgage loans serviced for others	$11,249,503	$11,190,802	$58,701	1 %	$11,283,442	$(33,939)	– %

Net gains on securities, derivatives and other assets

We recognized $16.7 million of net gains on sales of $715 million of available for sale securities in the third quarter of 2011. Securities were sold either because they had reached their expected maximum potential return or to mitigate exposure to prepayment risk. We recognized $8.4 million of gains on sales of $596 million of available for sale securities in the third quarter of 2010 and $5.5 million of net gains on sales of $654 million of available for sale securities in the second quarter of 2011.

We also maintain a portfolio of residential mortgage backed securities issued by U.S. government agencies and interest rate derivative contracts designated as an economic hedge of the changes in the fair value of our mortgage servicing rights. The fair value of our mortgage servicing rights fluctuate due to changes in prepayment speeds and other assumptions as more fully described in Note 5 to the Consolidated Financial Statements.

Lower mortgage interest rates which increased loan origination volumes also increased prepayment speeds which decreased the value of our mortgage servicing rights. Table 4 shows the relationship between changes in the fair value of mortgage servicing rights and financial instruments designated as an economic hedge.

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

	Three Months Ended		
	Sept. 30, 2011	June 30, 2011	Sept. 30, 2010
Gain on mortgage hedge derivative contracts, net	$4,048	$1,224	$4,676
Gain on mortgage trading securities, net	17,788	9,921	3,369
Gain on economic hedge of mortgage servicing rights	21,836	11,145	8,045
Loss on change in fair value of mortgage servicing rights	(24,822)	(13,493)	(15,924)
Loss on changes in fair value of mortgage servicing rights, net of economic hedges	$(2,986)	$(2,348)	$(7,879)
Net interest revenue on mortgage trading securities	$5,036	$5,121	$5,710

As more fully discussed in Note 2 to the Consolidated Financial Statements, we recognized other-than-temporary impairment losses on certain private-label residential mortgage-backed securities of $11.3 million in earnings during the third quarter of 2011. These losses primarily related to additional declines in projected cash flows of private-label mortgage backed securities as a result of increased home price depreciation. We recognized other-than-temporary impairment losses in earnings of $14.3 million in the third quarter of 2010 and $4.8 million in the second quarter of 2011.

Other Operating Expense

Other operating expense for the third quarter of 2011 totaled $220.9 million, up $15.7 million or 8% over the third quarter of 2010. Changes in the fair value of mortgage servicing rights increased operating expense $24.8 million in the third quarter of 2011 and $15.9 million in the third quarter of 2010. Excluding changes in the fair value of mortgage servicing rights, operating expenses were up $6.8 million or 4% over the third quarter of 2010. Personnel expenses increased $2.0 million or 2%. Non-personnel expenses increased $4.8 million or 5%.

Excluding changes in the fair value of mortgage servicing rights, operating expenses were up $6.4 million over the previous quarter. Personnel expenses decreased $2.3 million and non-personnel expenses increased $8.7 million.

Table 5 – Other Operating Expense
(In thousands)

	Three Months Ended Sept. 30, 2011	Three Months Ended Sept. 30, 2010	Increase (Decrease)	% Increase (Decrease)	Three Months Ended June 30, 2011	Increase (Decrease)	% Increase (Decrease)
Regular compensation	$62,002	$60,339	$1,663	3 %	$61,380	$622	1 %
Incentive compensation:							
Cash-based	26,256	23,910	2,346	10 %	23,530	2,726	12 %
Stock-based	(594)	2,927	(3,521)	(120%)	3,122	(3,716)	(119%)
Total incentive compensation	25,662	26,837	(1,175)	(4%)	26,652	(990)	(4%)
Employee benefits	15,596	14,040	1,556	11 %	17,571	(1,975)	(11%)
Total personnel expense	103,260	101,216	2,044	2 %	105,603	(2,343)	(2%)
Business promotion	5,280	4,426	854	19 %	4,777	503	11 %
Contribution to BOKF Charitable Foundation	4,000	–	4,000	N/A		4,000	N/A
Professional fees and services	7,418	7,621	(203)	(3%)	6,258	1,160	19 %
Net occupancy and equipment	16,627	16,436	191	1 %	15,554	1,073	7 %
Insurance	2,206	6,052	(3,846)	(64%)	4,771	(2,565)	(54%)
Data processing & communications	24,446	21,601	2,845	13 %	24,428	18	– %
Printing, postage and supplies	3,780	3,648	132	4 %	3,586	194	5 %
Net losses & operating expenses of	5,939	7,230	(1,291)	N/A	5,859	80	N/A

repossessed assets							
Amortization of intangible assets	896	1,324	(428)	(32%)	896	–	– %
Mortgage banking costs	9,349	9,093	256	3 %	8,968	381	4 %
Change in fair value of mortgage servicing rights	24,822	15,924	8,898	N/A	13,493	11,329	N/A
Visa retrospective responsibility obligation	–	1,103	(1,103)	N/A	–	–	N/A
Other expense	12,873	9,491	3,382	36 %	9,016	3,857	43 %
Total other operating expense	$220,896	$205,165	$15,731	8 %	$203,209	$17,687	9 %
Number of employees (full-time equivalent)	4,454	4,516	(62)	(1%)	4,530	(76)	(2%)

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

Personnel expense

Regular compensation, which consists of salaries and wages, overtime pay and temporary personnel costs increased $1.7 million or 3% over the third quarter of 2010 primarily due to standard annual merit increases which were effective in the second quarter of 2011. The Company generally awards annual merit increases effective April 1st for a majority of its staff.

Incentive compensation decreased $1.2 million or 4% compared to the third quarter of 2010. Cash-based incentive compensation plans are either intended to provide current rewards to employees who generate long-term business opportunities for the Company based on growth in loans, deposits, customer relationships and other measurable metrics or intended to compensate employees with commissions on completed transactions. Total cash-based incentive compensation increased $2.3 million or 10% over the third quarter of 2010. Cash-based incentive compensation related to brokerage and trading revenue was up $1.0 million over the third quarter of 2010 and cash-based incentive compensation for other business lines increased $1.3 million, primarily related to increased mortgage revenue.

The Company also provides stock-based incentive compensation plans. Stock-based compensation plans include both equity and liability awards. Compensation expense related to liability awards decreased $4.0 million compared to the third quarter of 2010 due to changes in the market value of BOK Financial common stock and other investments. The market value of BOK Financial common stock decreased $7.88 per share in the third quarter of 2011 and decreased $2.34 per share in the third quarter of 2010. Compensation expense for equity awards increased $442 thousand compared with the third quarter of 2010. Expense for equity awards is based on the grant-date fair value of the awards and is unaffected by subsequent changes in fair value.

Employee benefit expense increased $1.6 million or 11% over the third quarter of 2010 primarily due to increased expenses related to employee medical insurance costs, employee retirement plans and payroll taxes.

Personnel expense decreased $2.3 million compared to the second quarter of 2011. Employee benefit expenses decreased $2.0 million compared to the second quarter of 2011 due to seasonal decreases in payroll tax expense. Employee medical insurance costs and retirement plan expenses were also down compared to the second quarter of 2011. Incentive compensation decreased $990 thousand compared to the second quarter of 2011. Stock-based compensation decreased $3.7 million partially offset by a $2.7 million increase in cash-based incentive compensation. Regular compensation expense increased $622 thousand over the second quarter of 2011.

Non-personnel operating expenses

Non-personnel operating expenses, excluding changes in the fair value of mortgage servicing rights, increased $4.8 million over the third quarter of 2010. During the third quarter of 2011, the Company accrued $5.0 million for exposure to on-going litigation and made a $4.0 million discretionary contribution to the BOKF Charitable Foundation. The BOKF Charitable Foundation partners with charitable organizations to support needs within our communities. Data processing and communication expenses increased $2.8 million due primarily to increased transaction card activity. FDIC insurance expense decreased $3.8 million due to the impact of a change to a risk-sensitive assessment based on assets rather than deposits. Net losses and operating expenses of repossessed assets decreased $1.3 million compared to the third quarter of 2010.

The Company recorded a $1.1 million contingent liability in the third quarter of 2010 for the Company's share of Visa's covered litigation liabilities as a member of Visa. This charge was offset in the fourth quarter of 2010 when Visa deposited $800 million into the litigation escrow account for payment of this liability, further diluting the Company's Class B shares.

Excluding changes in the fair value of mortgage servicing rights, non-personnel operating expenses increased $8.7 million over the second quarter of 2011. The litigation accrual and discretionary contribution to the BOKF Charitable Foundation was partially offset by decreased FDIC expense due to the change to a risk-sensitive assessment based on assets.

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Income Taxes

Income tax expense was $43.0 million or 33% of book taxable income for the third quarter of 2011 compared to $29.9 million or 32% of book taxable income for the third quarter of 2010 and $39.4 million or 36% of book taxable income for the second quarter of 2011. The increase in the effective tax rate over the third quarter of 2010 was due to higher book taxable income, state income taxes, and reduced utilization of income tax credits. The statute of limitations expired on uncertain income tax positions and the Company adjusted its current income tax liability to amounts on filed tax returns for 2010 during the third quarter of 2011. These adjustments reduced income tax expense by $1.8 million in the third quarter of 2011 and $2.2 million in the third quarter of 2010. Excluding these adjustments, income tax expense would have been 35% of book taxable income for both the third quarter of 2011 and 2010.

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 September 30, 2011, $12 million at December 31, 2010 and $11 million at September 30, 2010.

Lines of Business

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

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

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

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

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

As shown in Table 6, net income attributable to our lines of business increased $12.0 million over the third quarter of 2010. The increase in net income attributed to our lines of business was due primarily to a decrease in net loans charged off compared to the third quarter of 2010. Net loans charged off totaled $10.2 million for the third quarter of 2011 and $20.1 million for the third quarter of 2010. Net income attributed to funds management and other increased compared to the third quarter of 2010 primarily due increased gains on securities in excess of other-than-temporary charges and a decrease in operating expenses attributed to the funds management unit. Decreased provision for credit losses in excess of net charge-offs was partially offset by a decline in net interest revenue due to lower interest rates.

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Commercial banking	$ 33,648	$ 27,990	$ 94,826	$ 53,441
Consumer banking	14,707	10,281	28,322	35,128
Wealth management	3,711	1,786	11,131	8,267
Subtotal	52,066	40,057	134,279	96,836
Funds management and other	33,035	24,210	84,603	91,086
Total	$ 85,101	$ 64,267	$ 218,882	$ 187,922

Commercial Banking

Commercial banking contributed $33.6 million to consolidated net income in the third quarter of 2011, up $5.7 million over the third quarter of 2010. Net interest revenue increased $4.6 million primarily due to a $1.9 billion increase in average deposits sold to the funds management unit. Net loans charged-off decreased by $4.4 million. Fees and commissions revenue increased $7.2 million mostly offset by a $3.6 million increase in non-personnel operating expenses and $3.1 million increase in net losses and operating expenses on repossessed assets.

Table 7 – Commercial Banking
(Dollars in thousands)

	Three Months Ended Sept. 30, 2011	Three Months Ended Sept. 30, 2010	Increase (Decrease)	Nine Months Ended Sept. 30, 2011	Nine Months Ended Sept. 30, 2010	Increase (Decrease)
Net interest revenue from external sources	$86,513	$87,492	$(979)	$257,152	$258,211	$(1,059)
Net interest expense from internal sources	(6,467)	(11,997)	5,530	(22,922)	(37,215)	14,293
Total net interest revenue	80,046	75,495	4,551	234,230	220,996	13,234
Net loans charged off	5,141	9,508	(4,367)	16,746	60,361	(43,615)
Net interest revenue after net loans charged off	74,905	65,987	8,918	217,484	160,635	56,849
Fees and commissions revenue	40,108	32,917	7,191	111,717	97,780	13,937
Gain (loss) on financial instruments and other assets, net	–	–	–	9	(1,638)	1,647
Other operating revenue	40,108	32,917	7,191	111,726	96,142	15,584
Personnel expense	23,615	23,447	168	70,618	68,821	1,797
Net losses and expenses of repossessed assets	5,165	2,070	3,095	14,354	21,042	(6,688)
Other non-personnel expense	31,162	27,577	3,585	89,040	79,449	9,591
Total other operating expense	59,942	53,094	6,848	174,012	169,312	4,700
Income before taxes	55,071	45,810	9,261	155,198	87,465	67,733
Federal and state income tax	21,423	17,820	3,603	60,372	34,024	26,348
Net income	$33,648	$27,990	$5,658	$94,826	$53,441	$41,385
Average assets	$9,788,982	$8,940,812	$848,170	$9,459,367	$9,053,645	$405,722
Average loans	8,431,218	8,241,212	190,006	8,291,631	8,305,288	(13,657)
Average deposits	8,089,497	6,211,258	1,878,239	7,870,715	5,955,547	1,915,168
Average invested capital	886,538	889,282	(2,744)	874,259	908,618	(34,359)
Return on average assets	1.36%	1.24%	12 bp	1.34%	0.79%	55 bp
Return on invested capital	15.06%	12.49%	257 bp	14.50%	7.86%	664 bp

Efficiency ratio	49.89	%	48.97	%	92	bp	50.30	%	53.11	%	(281	) bp
Net charge-offs (annualized) to average loans	0.24	%	0.46	%	(22	) bp	0.27	%	0.97	%	(70	) bp

The Company has focused on development of banking services for small business. As part of this initiative, small business banking activities were transferred to the Commercial Banking segment from the Consumer Banking segment in the second quarter of 2011. This transfer increased Commercial Banking net income by $2.4 million in the third quarter of 2011 compared to the third quarter of 2010. Net interest revenue increased $4.2 million. Average deposits increased $708 million and average loans increased $21 million primarily due to the transfer of these balances from the Consumer Banking segment. Other operating revenue increased $2.1 million fully offset by increased operating expenses.

Net interest revenue increased $4.6 million or 6% over the third quarter of 2010 primarily due to a $1.9 billion increase in average deposits attributed to commercial banking, including small business banking deposits transferred from the Consumer Banking segment. Additionally, loan yields improved over the third quarter of 2010.

Other operating revenue increased $7.2 million or 22% over the third quarter of 2010 primarily related to additional service charge revenue from the transfer of the small business banking activities. Transaction card revenue increased due to increased customer activity. Interest rate derivative revenue, loan syndication fees and other revenue also increased over the third quarter of 2010.

Operating expenses increased $6.8 million or 13% over the third quarter of 2010. Personnel cost were essentially flat compared to the third quarter of 2010. Net losses and operating expenses on repossessed assets increased $3.1 million over the third quarter of 2010, primarily due to increased operating expenses on repossessed assets. Losses on repossessed assets were flat compared to the third quarter of 2010. Other non-personnel expenses increased $3.6 million primarily due to increased data processing costs related to higher transaction card volumes and higher corporate expense allocations related to the transfer of small business banking operations.

The average outstanding balance of loans attributed to commercial banking was $8.4 billion for the third quarter of 2011, up $190 million over the third quarter of 2010. See the Loans section of Management's Analysis and Discussion of Financial Condition following for additional discussion of changes in commercial and commercial real estate loans which are primarily attributed to the commercial banking segment. Net commercial banking loans charged off decreased $4.4 million compared to the third quarter of 2010 to $5.1 million or 0.24% of average loans attributed to this line of business on an annualized basis. The decrease in net loans charged off was primarily due to a decrease in losses on commercial real estate loans.

Average deposits attributed to commercial banking were $8.1 billion for the third quarter of 2011, up $1.9 billion or 30% over the third quarter of 2010, including $425 million related to the transfer of small business banking activities. Average balances attributed to our commercial & industrial loan customers increased $690 million or 32%, and average balances attributed to our energy customers increased $218 million or 30%. We believe that commercial customers continue to retain large cash reserves primarily due to continued economic uncertainty. Small business banking also grew an additional $690 million, primarily related to the transfer of small business banking activities. Average balances held by states and local municipalities also increased $323 million over the third quarter of 2010.

Consumer Banking

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

Consumer banking contributed $14.7 million to consolidated net income for the third quarter of 2011, up $4.4 million over the third quarter of 2010. Changes in fair value of our mortgage servicing rights, net of economic hedge decreased net income attributed to consumer banking by $1.8 million in the third quarter of 2011 and $4.8 million in the third quarter of 2010. Excluding changes in the net fair value of mortgage servicing rights, net income provided by consumer banking services grew by $1.4 million or 9% over the third quarter of 2010. Decreased net loan charge-offs were partially offset by a decrease in net interest revenue, primarily due to the transfer of small business banking activities to the Commercial Banking segment. Fees and commissions revenue and other operating expense were largely flat compared to the third quarter of 2010.

Table 8 – Consumer Banking
(Dollars in thousands)

	Three Months Ended Sept. 30, 2011	2010	Increase (Decrease)	Nine Months Ended Sept. 30, 2011	2010	Increase (Decrease)
Net interest revenue from external sources	$24,553	$22,816	$1,737	$64,574	$63,809	$765
Net interest revenue from internal sources	8,108	12,044	(3,936)	25,188	35,367	(10,179)
Total net interest revenue	32,661	34,860	(2,199)	89,762	99,176	(9,414)
Net loans charged off	3,837	6,967	(3,130)	9,568	20,975	(11,407)
Net interest revenue after net loans charged off	28,824	27,893	931	80,194	78,201	1,993
Fees and commissions revenue	58,605	57,315	1,290	148,322	151,264	(2,942)
Gain on financial instruments and other assets, net	21,836	8,051	13,785	27,086	29,983	(2,897)
Other operating revenue	80,441	65,366	15,075	175,408	181,247	(5,839)
Personnel expense	22,166	20,522	1,644	64,101	59,276	4,825
Net losses and expenses of repossessed assets	524	1,375	(851)	2,181	2,537	(356)
Change in fair value of mortgage servicing rights	24,822	15,924	8,898	35,186	21,450	13,736
Other non-personnel expense	37,683	38,612	(929)	107,781	118,693	(10,912)
Total other operating expense	85,195	76,433	8,762	209,249	201,956	7,293
Income before taxes	24,070	16,826	7,244	46,353	57,492	(11,139)
Federal and state income tax	9,363	6,545	2,818	18,031	22,364	(4,333)
Net income	$14,707	$10,281	$4,426	$28,322	$35,128	$(6,806)
Average assets	$5,914,337	$6,302,934	$(388,597)	$5,965,955	$6,220,522	$(254,567)
Average loans	2,086,135	2,106,254	(20,119)	2,040,375	2,124,853	(84,478)
Average deposits	5,706,676	6,177,587	(470,911)	5,761,204	6,112,731	(351,527)
Average invested capital	273,143	243,059	30,084	272,167	278,626	(6,459)
Return on average assets	0.99 %	0.65 %	34 bp	0.63 %	0.76 %	(13) bp

Return on invested capital	21.36 %	16.78 %	458 bp	13.91 %	16.86 %	(295) bp
Efficiency ratio	66.15 %	65.65 %	50 bp	73.11 %	72.08 %	103 bp
Net charge-offs (annualized) to average loans	0.73 %	1.31 %	(58) bp	0.63 %	1.32 %	(69) bp
Mortgage loans funded for sale	$637,127	$756,060	$(118,933)	$1,540,619	$1,680,369	$(139,750)

	Sept. 30, 2011	Sept. 30, 2010	Increase (Decrease)
Banking locations	209	198	11
Mortgage loans servicing portfolio1	$ 12,281,346	$ 12,003,326	$ 278,020

1 Includes outstanding principal for loans serviced for affiliates

Net interest revenue from consumer banking activities decreased $2.2 million or 6% compared to the third quarter of 2010 primarily due to the transfer of certain small business demand deposit balances to the Commercial Banking segment. Average loan balances also decreased $20 million primarily due to the continued paydown of indirect automobile loans. The Company previously disclosed its decision to exit the indirect automobile loan business in the first quarter of 2009.

Fees and commissions revenue increased $1.3 million over the third quarter of 2010. Deposit service charges decreased $1.7 million primarily related to service fees on small business deposits transferred to the Commercial Banking segment. This decrease was largely offset by a $914 thousand increase in transaction card revenues on higher transaction volume and increased other revenues. Mortgage loan origination volume was high in both the third quarter of 2011 and 2010 due to low interest rates. As such, mortgage banking revenue was even compared to the third quarter of 2010.

Excluding the change in the fair value of mortgage servicing rights, operating expenses were flat compared to the third quarter of 2010. Decreased corporate expense allocations related to the transfer of small business banking operations to the commercial banking segment were mostly offset by increased personnel costs related to increased mortgage activity.

Net loans charged off by the consumer banking unit decreased $3.1 million compared to the third quarter of 2010. Net consumer banking charge-offs include residential mortgage loans, indirect automobile loans, overdrawn deposit accounts and other direct consumer loans.

Average consumer deposits decreased $471 million or 8% compared to the third quarter of 2010 primarily due to the transfer of small business banking to the Commercial Banking segment, offset by some growth in consumer banking deposits. Average demand deposits decreased $265 million or 29%, average time deposits decreased $160 million or 7% and average interest-bearing transaction accounts decreased $68 million or 2%.

Our Consumer Banking division originates, markets and services conventional and government-sponsored mortgage loans for all of our geographical markets. We funded $722 million of mortgage loans in the third quarter of 2011 and $830 million in the third quarter of 2010. Approximately 40% of our mortgage loans funded were in the Oklahoma market, 15% in the Colorado market, 13% in the New Mexico market and 12% in the Texas market

Mortgage loans fundings included $637 million of mortgage loans funded for sale in the secondary market and $85 million funded for retention within the consolidated group. At September 30, 2011, the Consumer Banking division services $11.2 billion of mortgage loans serviced for others and $1.0 billion of loans retained within the consolidated group. Approximately 97% of the mortgage loans serviced was to borrowers in our primary geographical market areas. Mortgage servicing revenue decreased $375 thousand or 4% compared to the third quarter of 2010 to $9.8 million.

Wealth Management

Wealth Management contributed $3.7 million to consolidated net income in third quarter of 2011 compared to $1.8 million in third quarter of 2010.

Table 9 – Wealth Management
(Dollars in thousands)

	Three Months Ended Sept. 30,		Increase	Nine Months Ended Sept. 30,		Increase
	2011	2010	(Decrease)	2011	2010	(Decrease)
Net interest revenue from external sources	$6159	$7,154	$(995)	$20,254	$23,448	$(3,194)
Net interest revenue from internal sources	4,447	3,310	1,137	10,850	8,925	1,925
Total net interest revenue	10,606	10,464	142	31,104	32,373	(1,269)
Net loans charged off	1,147	4,042	(2,895)	2,208	9,945	(7,737)
Net interest revenue after net loans charged off	9,459	6,422	3,037	28,896	22,428	6,468
Fees and commissions revenue	45,901	42,206	3,695	127,904	121,135	6,769
Gain on financial instruments and other assets, net	109	201	(92)	674	616	58
Other operating revenue	46,010	42,407	3,603	128,578	121,751	6,827
Personnel expense	33,746	31,308	2,438	93,424	88,141	5,283
Net losses and expenses of repossessed assets	–	41	(41)	(4)	44	(48)
Other non-personnel expense	15,650	14,557	1,093	45,836	42,464	3,372
Other operating expense	49,396	45,906	3,490	139,256	130,649	8,607
Income before taxes	6,073	2,923	3,150	18,218	13,530	4,688
Federal and state income tax	2,362	1,137	1,225	7,087	5,263	1,824
Net income	$3,711	$1,786	$1,925	$11,131	$8,267	$2,864
Average assets	$3,992,965	$3,591,901	$401,064	$3,758,570	$3,409,149	$349,421
Average loans	915,444	1,030,691	(115,247)	929,892	1,045,047	(115,155)
Average deposits	3,848,779	3,448,583	400,196	3,614,569	3,271,853	342,716
Average invested capital	175,478	170,918	4,560	175,478	168,686	6,792

Return on average assets	0.37 %	0.20 %	17 bp	0.40 %	0.32 %	8 bp
Return on invested capital	8.39 %	4.15 %	424 bp	8.48 %	6.55 %	193 bp
Efficiency ratio	87.42 %	87.16 %	26 bp	87.58 %	85.11 %	247 bp
Net charge-offs (annualized) to average loans	0.50 %	1.56 %	(106) bp	0.32 %	1.27 %	(95) bp

	Sept. 30, 2011	Sept. 30, 2010	Increase (Decrease)
Trust assets	$ 31,750,636	$ 31,460,021	$ 290,615
Trust assets for which BOKF has sole or joint discretionary authority	9,167,946	8,462,126	705,820
Non-managed trust assets	11,757,170	12,917,216	(1,160,046)
Assets held in safekeeping	10,825,520	10,080,679	744,841

Net interest revenue for the third quarter of 2011 was flat with the third quarter of 2010. Average loan balances were down $115 million. Net loans charged off decreased $2.9 million from the third quarter of 2010 to $1.1 million or 0.50% of average loans on an annualized basis. Average deposit balances were up $400 million. Loan yields decreased compared to the third quarter of 2010, largely offset by decreased funding costs related to deposits.

Other operating revenue was up $3.6 million or 8% over the third quarter of 2010, primarily due to a $2.1 million or 9% increase in brokerage and trading revenues and a $1.0 million or 6% increase in trust fees primarily due to increases in the fair value of trust assets.

Other operating revenue includes fees earned from state and municipal bond underwriting and financial advisory services, primarily in the Oklahoma and Texas markets. In the third quarter of 2011, the Wealth Management division participated in 97 underwritings that totaled $1.1 billion. As a participant, the Wealth Management division was responsible for facilitating the sale of approximately $448 million of these underwritings. In the third quarter of 2010, the Wealth Management division participated in 70 underwritings that totaled approximately $1.5 billion. Our interest in these underwritings totaled approximately $456 million.

Operating expenses increased $3.5 million or 8% over the third quarter of 2010. Personnel expenses increased $2.4 million. Incentive compensation increased $1.3 million over the prior year and regular compensation costs increased $968 thousand primarily due to increased headcount and annual merit increases. Non-personnel expenses increased $1.1 million due primarily to additional expenses incurred related to expansion of the Wealth Management business line.

Growth in average assets was largely due to funds sold to the funds management unit. Average deposits attributed to the Wealth Management division increased $400 million or 12% over the third quarter of 2010 including a $214 million increase in average demand deposits accounts, $168 million increase in interest-bearing transaction accounts and a $17 million increase in average time deposit balances.

Geographical Market Distribution

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

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Oklahoma	$ 32,434	$ 27,314	$ 85,301	$ 82,630
Texas	10,600	8,132	30,923	20,838
New Mexico	3,520	1,688	9,284	4,776
Arkansas	2,643	1,612	3,493	2,059
Colorado	2,551	1,233	6,422	2,114
Arizona	(2,109)	(1,291)	(6,079)	(18,521)
Kansas / Missouri	1,467	1,625	3,393	3,493
Subtotal	51,106	40,313	132,737	97,389
Funds management and other	33,995	23,954	86,145	90,533
Total	$ 85,101	$ 64,267	$ 218,882	$ 187,922

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Oklahoma Market

Our Oklahoma offices are located primarily in the Tulsa and Oklahoma City metropolitan areas. Oklahoma is a significant market to the Company, representing 48% of our average loans, 55% of our average deposits and 38% of our consolidated net income in the third quarter of 2011. In addition, all of our mortgage servicing activity, TransFund network and 73% of our trust assets are attributed to the Oklahoma market.

Table 11 – Oklahoma
(Dollars in thousands)

	Three Months Ended Sept. 30, 2011	2010	Increase (Decrease)	Nine Months Ended Sept. 30, 2011	2010	Increase (Decrease)
Net interest revenue	$62,658	$62,625	$33	$176,961	$181,195	$(4,234)
Net loans charged off	6,446	7,432	(986)	14,691	38,336	(23,645)
Net interest revenue after net loans charged off	56,212	55,193	1,019	162,270	142,859	19,411
Fees and commissions revenue	90,410	83,533	6,877	245,130	240,658	4,472
Gain on financial instruments and other assets, net	21,945	8,252	13,693	27,849	28,975	(1,126)
Other operating revenue	112,355	91,785	20,570	272,979	269,633	3,346
Personnel expense	42,474	38,692	3,782	120,003	112,021	7,982
Net losses and expenses of repossessed assets	48	2,257	(2,209)	2,966	3,179	(213)
Change in fair value of mortgage servicing rights	24,821	15,924	8,897	35,186	21,450	13,736
Other non-personnel expense	48,140	45,402	2,738	137,485	140,604	(3,119)
Total other operating expense	115,483	102,275	13,208	295,640	277,254	18,386
Income before taxes	53,084	44,703	8,381	139,609	135,238	4,371
Federal and state income tax	20,650	17,389	3,261	54,308	52,608	1,700
Net income	$32,434	$27,314	$5,120	$85,301	$82,630	$2,671
Average assets	$11,236,934	$9,845,152	$1,391,782	$10,793,211	$9,576,165	$1,217,046

Average loans	5,261,183	5,481,478	(220,295)	5,202,248	5,499,212	(296,964)
Average deposits	10,078,755	8,873,278	1,205,477	9,710,938	8,599,841	1,111,097
Average invested capital	543,632	514,818	28,814	874,259	908,618	(34,359)
Return on average assets	1.15 %	1.10 %	5 bp	1.06 %	1.15 %	(9) bp
Return on invested capital	23.67 %	21.05 %	262 bp	13.05 %	12.16 %	89 bp
Efficiency ratio	59.23 %	59.08 %	15 bp	61.71 %	60.64 %	107 bp
Net charge-offs (annualized) to average loans	0.49 %	0.54 %	(5) bp	0.38 %	0.93 %	(55) bp

Net income generated in the Oklahoma market in the second quarter of 2011 increased $5.1 million or 19% over the third quarter of 2010. Change in the fair value of the mortgage servicing rights, net of economic hedge, decreased net income by $1.8 million for the third quarter of 2011 and decreased pre-tax net income by $4.8 million in the third quarter of 2010. Increased fees and commission revenue was partially offset by increased operating expenses, excluding changes in the fair value of mortgage servicing rights. Net loans charged off decreased $986 thousand.

Net interest revenue was flat with the third quarter of 2010. Average loan balances decreased $220 million. The favorable net interest impact of the $1.2 billion increase in average deposit balances was partially offset by lower yield on funds sold to the funds management unit.

Fees and commission revenue increased $6.9 million over the third quarter of 2010. Mortgage banking revenue increased $2.5 million over the third quarter of 2010 primarily due to increased gain on mortgages sold in the secondary market. Brokerage and trading revenue was up $2.5 million over the third quarter of 2010 and transaction card revenue increased $1.8 million due to increased transaction volume.

Excluding the change in the fair value of mortgage servicing rights, other operating expenses increased $4.3 million or 5% over the prior year. Personnel expenses increased $3.8 million or 10% primarily due to increased incentive compensation on increased trading and mortgage transaction activity and annual merit increases. Non-personnel expenses increased $2.7 million or 6% primarily due increased data processing and communications expenses related to increased transaction card activity.

Net loans charged off decreased to $6.4 million or 0.49% of average loans on an annualized basis for third quarter of 2011 compared with $7.4 million or 0.54% of average loans on an annualized basis for the third quarter of 2010.

Average deposits in the Oklahoma market for the third quarter of 2011 increased $1.2 billion over the third quarter of 2010, primarily due to an increase in average commercial deposit balances. Deposits related to commercial and industrial customers, treasury services and energy customers all increased over the prior year. Wealth management deposits increased over the prior year in the private banking division, broker/dealer division and in trust. Consumer banking deposits decreased and commercial deposits increased compared to the prior year primarily due to the transfer of small business banking activities from the Consumer Banking segment to the Commercial banking segment.

Texas Market

Our Texas offices are located primarily in the Dallas, Fort Worth and Houston metropolitan areas. Texas is our second largest market with 32% of our average loans, 24% of our average deposits and 12% of our consolidated net income in the third quarter of 2011.

Table 12 – Texas
(Dollars in thousands)

	Three Months Ended Sept. 30, 2011	Three Months Ended Sept. 30, 2010	Increase (Decrease)	Nine Months Ended Sept. 30, 2011	Nine Months Ended Sept. 30, 2010	Increase (Decrease)
Net interest revenue	$34,632	$33,686	$946	$101,572	$99,684	$1,888
Net loans charged off	1,195	3,444	(2,249)	2,838	14,837	(11,999)
Net interest revenue after net loans charged off	33,437	30,242	3,195	98,734	84,847	13,887
Fees and commissions revenue	16,265	15,795	470	47,373	45,102	2,271
Gain on financial instruments and other assets, net	–	–	–	(70)	(7)	(63)
Other operating revenue	16,265	15,795	470	47,303	45,095	2,208
Personnel expense	16,670	16,251	419	49,550	48,447	1,103
Net losses and expenses of repossessed assets	602	1,452	(850)	1,878	4,255	(2.377)
Other non-personnel expense	15,868	15,628	240	46,292	44,680	1,612
Total other operating expense	33,140	33,331	(191)	97,720	97,382	338
Income before taxes	16,562	12,706	3,856	48,317	32,560	15,757
Federal and state income tax	5,962	4,574	1,388	17,394	11,722	5,672
Net income	$10,600	$8,132	$2,468	$30,923	$20,838	$10,085
Average assets	$4,924,959	$4,518,980	$405,979	$4,870,261	$4,397,521	$472,740
Average loans	3,466,036	3,301,559	164,477	3,372,419	3,327,071	45,348
Average deposits	4,349,738	3,939,103	410,635	4,305,556	3,825,173	480,383
Average invested capital	472,392	475,825	(3,433)	468,800	482,684	(13,884)
Return on average assets	0.85%	0.71%	14 bp	0.85%	0.63%	22 bp
Return on invested capital	8.90%	6.78%	212 bp	8.82%	5.77%	305 bp
Efficiency ratio	65.11%	67.36%	(225) bp	65.61%	67.26%	(165) bp

Net charge-offs (annualized) to average loans	0.14	%	0.41	%	(27	) bp	0.11	%	0.60	%	(49	) bp

Net income in the Texas market increased $2.5 million or 30% over the third quarter of 2010 primarily due to a decrease in net loans charged off and net losses and operating expenses of repossessed assets.

Net interest revenue increased $946 thousand or 3% over the third quarter of 2010. Average assets increased due primarily to a $411 million or 10% increase in deposits which were sold to the funds management unit. Average outstanding loans grew by $164 million or 5% over the third quarter of 2010.

Other operating revenue increased $470 thousand or 3% over the third quarter of 2010. Trust fees and commissions, brokerage and trading revenue and transaction card revenue all increased over the prior year. Deposit service charges were flat compared to the prior year and mortgage banking revenue decreased.

Operating expenses decreased $191 thousand or 1% compared to the third quarter of 2010. Personnel costs increased primarily due to annual merit increases and non-personnel costs increased modestly.

Net loans charged off totaled $1.2 million or 0.14% of average loans for the third quarter of 2011 on an annualized basis, down from $3.4 million or 0.41% of average loans for the third quarter of 2010 on an annualized basis.

Other Markets

Net income attributable to our New Mexico market totaled $3.5 million or 4% of consolidated net income, an increase of $1.8 million or 109% over the third quarter of 2010. Net charge-offs declined by $1.4 million to $707 thousand or 0.39% of average loans on an annualized basis in the third quarter of 2011 compared to $2.1 million or 1.18% of average loans on an annualized basis in the third quarter of 2010. Net interest income increased $343 thousand or 4% over the third quarter of 2010. Average loan balances increased $5.7 million over the third quarter of 2010. Average demand deposit balances increased $61 million or 26% over the prior year, offset by a $34 million decrease in interest-bearing transaction account balances and a $34 million decrease in time deposit balances. Operating revenues increased $776 thousand or 11% over the third quarter of 2010 primarily due to increased brokerage and trading revenue and transaction card revenues, partially offset by lower mortgage banking revenue.

Net income attributable to our Arkansas market increased $1.0 million or 64% over the third quarter of 2010 to $2.6 million. Net interest revenue decreased $553 thousand primarily due to a $51 million decrease in average loans. Loans in the Arkansas market continued to decrease due to the run-off of indirect automobile loans. Average deposits in our Arkansas market were down $1.1 million or 1% compared to the third quarter of 2010. Higher costing time deposits decreased $28 million, offset by a $27 million increase in interest-bearing transaction deposits. Other operating revenue decreased $754 thousand primarily due to decreased securities trading revenue at our Little Rock office. Transaction card revenue also increased over the third quarter of 2010. Other operating expenses decreased $1.8 million compared to the third quarter of 2010 primarily due to decreased incentive compensation costs related to trading activity. Net loans charged off totaled $159 thousand or 0.24% of average loans on an annualized basis compared to $1.3 million or 1.64% on an annualized basis in the third quarter of 2010.

Net income attributed to our Colorado market increased $1.3 million or 107% over the third quarter of 2010 to $2.6 million. Net loans charged off decreased $2.1 million compared to the third quarter of 2010 to $372 thousand or 0.19% on an annualized basis. Net loans charged off in the third quarter of 2010 totaled $2.4 million or 1.28% of loans on an annualized basis. Net interest revenue increased $286 thousand due primarily to a $33 million or 4% increase in average loans outstanding. Other operating revenue was down $273 thousand compared to the third quarter of 2010, primarily due to decreased mortgage banking revenue partially offset by increased trust fees and commissions. Operating expenses were flat with the prior year. Decreased net losses and operating expenses of repossessed assets was partially offset by increased personnel costs. Average deposits attributable to the Colorado market increased $150 million or 13% over the third quarter of 2010 primarily related to an increase in commercial and wealth management deposits, partially offset by a decrease in consumer deposits.

The Arizona market incurred a net loss of $2.1 million for the third quarter of 2011 compared to a net loss of $1.3 million in the third quarter of 2010 due primarily to a $2.0 million increase in net loans charged off and losses and operating expenses on repossessed assets. Excluding these credit costs, we continue to see improvement in the Arizona market. Net interest revenue increased $946 thousand or 28% over the prior year. Average loan balances grew $62 million or 12% over the prior year and average deposits increased $26 million or 11%. Growth was primarily related to commercial loans and deposits. Other operating revenue was down $551 thousand compared to the third quarter of 2010 primarily due to decreased mortgage banking revenue. Personnel and non-personnel expenses were down $282 thousand compared to the third quarter of 2010.

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

Net income attributed to the Kansas / Missouri market decreased by $158 thousand compared to the third quarter of 2010. Net interest revenue increased $492 thousand or 20%. Average loan balances increased $61 million or 21% over the third quarter of 2010 and average deposits balances were up $26 million or 10%. Operating revenue increased $1.6 million or 30% primarily due to increased brokerage and trading revenue and trust fees and commissions. Personnel costs were up $1.2 million primarily due to increased incentive compensation related to brokerage and trading activity and increased headcount. Non-personnel expense increased $1.1 million primarily due to increased corporate expense allocations based on increased transaction activity.

Table 13 – New Mexico
(Dollars in thousands)

	Three Months Ended Sept. 30, 2011	Three Months Ended Sept. 30, 2010	Increase (Decrease)	Nine Months Ended Sept. 30, 2011	Nine Months Ended Sept. 30, 2010	Increase (Decrease)
Net interest revenue	$8,426	$8,083	$343	$25,080	$23,719	$1,361
Net loans charged off	707	2,102	(1,395)	1,707	5,300	(3,593)
Net interest revenue after net loans charged off	7,719	5,981	1,738	23,373	18,419	4,954
Other operating revenue – fees and commission	7,704	6,928	776	21,447	19,014	2,433
Personnel expense	3,396	3,354	42	10,132	9,714	418
Net losses and expenses of repossessed assets	60	43	17	1,424	2,736	(1.312)
Other non-personnel expense	6,206	6,749	(543)	18,069	17,167	902
Total other operating expense	9,662	10,146	(484)	29,625	29,617	8
Income before taxes	5,761	2,763	2,998	15,195	7,816	7,379
Federal and state income tax	2,241	1,075	1,166	5,911	3,040	2,871
Net income	$3,520	$1,688	$1,832	$9,284	$4,776	$4,508
Average assets	$1,401,640	$1,345,716	$55,924	$1,386,561	$1,302,086	$84,475
Average loans	711,735	706,021	5,714	706,764	722,650	(15,886)
Average deposits	1,236,172	1,245,864	(9,692)	1,243,415	1,215,905	27,510
Average invested capital	82,159	82,142	17	81,967	83,453	(1,486)
Return on average assets	1.00%	0.50%	50 bp	0.90%	0.49%	41 bp
Return on invested capital	17.00%	8.15%	885 bp	15.14%	7.65%	749 bp
Efficiency ratio	59.90%	67.59%	(769) bp	63.67%	69.31%	(564) bp
Net charge-offs (annualized) to average loans	0.39%	1.18%	(79) bp	0.32%	0.98%	(66) bp

Table 14 – Arkansas
(Dollars in thousands)

	Three Months Ended Sept. 30, 2011	Three Months Ended Sept. 30, 2010	Increase (Decrease)	Nine Months Ended Sept. 30, 2011	Nine Months Ended Sept. 30, 2010	Increase (Decrease)
Net interest revenue	$1,967	$2,520	$(553)	$6,191	$7,797	$(1,606)
Net loans charged off	159	1,308	(1,149)	2,648	5,514	(2,866)
Net interest revenue after net loans charged off	1,808	1,212	596	3,543	2,283	1,260
Other operating revenue – fees and commissions	11,098	11,852	(754)	27,738	29,372	(1,634)
Personnel expense	4,609	6,140	(1,531)	13,588	15,500	(1,912)
Net losses (gains) and expenses of repossessed assets	(16)	489	(505)	480	1,082	(602)
Other non-personnel expense	3,988	3,796	192	11,496	11,703	(207)
Total other operating expense	8,581	10,425	(1,844)	25,564	28,285	(2,721)
Income before taxes	4,325	2,639	1,686	5,717	3,370	2,347
Federal and state income tax	1,682	1,027	655	2,224	1,311	913
Net income	$2,643	$1,612	$1,031	$3,493	$2,059	$1,434
Average assets	$286,337	$344,826	$(58,489)	$292,164	$362,166	$(70,002)
Average loans	265,536	316,978	(51,442)	274,645	339,249	(64,604)
Average deposits	214,330	215,459	(1,129)	208,190	187,126	21,064
Average invested capital	24,374	22,487	1,887	23,473	23,279	194
Return on average assets	3.66 %	1.85 %	181 bp	1.60 %	0.76 %	84 bp
Return on invested capital	43.02 %	28.44 %	1,458 bp	19.90 %	11.83 %	807 bp
Efficiency ratio	65.68 %	72.54 %	(686) bp	75.35 %	76.10 %	(75) bp
Net charge-offs (annualized) to average loans	0.24 %	1.64 %	(140) bp	1.29 %	2.17 %	(88) bp

Table 15 – Colorado

(Dollars in thousands)

	Three Months Ended Sept. 30, 2011	Three Months Ended Sept. 30, 2010	Increase (Decrease)	Nine Months Ended Sept. 30, 2011	Nine Months Ended Sept. 30, 2010	Increase (Decrease)
Net interest revenue	$8,440	$8,154	$286	$24,839	$24,731	$108
Net loans charged off	372	2,430	(2,058)	2,026	8,498	(6,472)
Net interest revenue after net loans charged off	8,068	5,724	2,344	22,813	16,233	6,580
Fees and commissions revenue	5,156	5,429	(273)	15,367	15,362	5
Loss on financial instruments and other assets, net	–	–	–	–	(7)	7
Other operating revenue	5,156	5,429	(273)	15,367	15,355	12
Personnel expense	4,614	4,286	328	13,500	12,666	834
Net losses (gains) and expenses of repossessed assets	(448)	75	(523)	(170)	1,158	(1,328)
Other non-personnel expense	4,883	4,774	109	14,339	14,304	35
Total other operating expense	9,049	9,135	(86)	27,669	28,128	(459)
Income before taxes	4,175	2,018	2,157	10,511	3,460	7,051
Federal and state income tax	1,624	785	839	4,089	1,346	2,743
Net income	$2,551	$1,233	$1,318	$6,422	$2,114	$4,308
Average assets	$1,346,750	$1,199,133	$147,617	$1,332,971	$1,200,940	$132,031
Average loans	786,846	753,480	33,366	775,110	782,248	(7,138)
Average deposits	1,274,667	1,124,821	149,846	1,264,000	1,128,937	135,063
Average invested capital	118,486	121,411	(2,925)	117,865	125,597	(7,732)
Return on average assets	0.75 %	0.41 %	34 bp	0.64 %	0.24 %	40 bp
Return on invested capital	8.54 %	4.03 %	451 bp	7.28 %	2.25 %	503 bp
Efficiency ratio	66.56 %	67.25 %	(69) bp	68.82 %	70.16 %	(134) bp
Net charge-offs (annualized) to average loans	0.19 %	1.28 %	(109) bp	0.35 %	1.45 %	(110) bp

Table 16 – Arizona
(Dollars in thousands)

	Three Months Ended Sept. 30, 2011	Three Months Ended Sept. 30, 2010	Increase (Decrease)	Nine Months Ended Sept. 30, 2011	Nine Months Ended Sept. 30, 2010	Increase (Decrease)
Net interest revenue	$4,295	$3,349	$946	$12,003	$8,653	$3,350
Net loans charged off	1,229	3,339	(2,110)	4,613	18,368	(13,755)
Net interest revenue (expense) after net loans charged off	3,066	10	3,056	7,390	(9,715)	17,105
Other operating revenue – fees and commissions	1,173	1,724	(551)	4,053	3,544	509
Personnel expense	2,272	2,487	(215)	7,221	7,155	66
Net losses (gains) and expenses of repossessed assets	3,354	(772)	4,126	7,737	11,366	(3,629)
Other non-personnel expense	2,065	2,132	(67)	6,434	5,621	813
Total other operating expense	7,691	3,847	3,844	21,392	24,142	(2,750)
Loss before taxes	(3,452)	(2,113)	(1,339)	(9,949)	(30,313)	20,364
Federal and state income tax	(1,343)	(822)	(521)	(3,870)	(11,792)	7,922
Net loss	$(2,109)	$(1,291)	$(818)	$(6,079)	$(18,521)	$12,442
Average assets	$656,604	$621,571	$35,033	$642,239	$604,005	$38,234
Average loans	590,615	529,053	61,562	574,902	517,397	57,505
Average deposits	259,613	233,276	26,337	256,444	215,145	41,299
Average invested capital	65,628	64,667	961	65,158	65,677	(519)
Return on average assets	(1.27%)	(0.82%)	(45) bp	(1.27%)	(4.10%)	283 bp
Return on invested capital	(12.75%)	(7.92%)	(483) bp	(12.47%)	(37.70%)	2,523 bp
Efficiency ratio	140.65%	75.83%	6,482 bp	133.23%	197.93%	(6,470) bp
Net charge-offs (annualized) to average loans	0.83%	2.50%	(167) bp	1.07%	4.75%	368 bp

Table 17 – Kansas / Missouri
(Dollars in thousands)

	Three Months Ended Sept. 30, 2011	Three Months Ended Sept. 30, 2010	Increase (Decrease)	Nine Months Ended Sept. 30, 2011	Nine Months Ended Sept. 30, 2010	Increase (Decrease)
Net interest revenue	$2,903	$2,411	$492	$8,484	$6,774	$1,710
Net loans charged off (recovered)	6	(3)	9	237	(51)	288
Net interest revenue after net loans charged off (recovered)	2,897	2,414	483	8,247	6,825	1,422
Other operating revenue – fees and commission	7,005	5,387	1,618	16,263	14,060	2,203
Personnel expense	4,373	3,205	1,168	10,835	9,432	1,403
Net losses (gains) and expenses of repossessed assets	1	(57)	58	132	(154)	286
Other non-personnel expense	3,127	1,994	1,133	7,989	5,890	2,099
Total other operating expense	7,501	5,142	2,359	18,956	15,168	3,788
Income before taxes	2,401	2,659	(258)	5,554	5,717	(163)
Federal and state income tax	934	1,034	(100)	2,161	2,224	(63)
Net income	$1,467	$1,625	$(158)	$3,393	$3,493	$(100)
Average assets	$363,633	$300,809	$62,824	$366,310	$298,379	$67,931
Average loans	350,847	289,595	61,252	355,806	287,362	68,444
Average deposits	281,939	255,530	26,409	308,102	218,086	90,016
Average invested capital	27,892	21,519	6,373	26,607	22,138	4,469
Return on average assets	1.60 %	2.14 %	(54) bp	1.24 %	1.57 %	(33) bp
Return on invested capital	20.87 %	29.96 %	(909) bp	17.05 %	21.10 %	(405) bp
Efficiency ratio	75.71 %	65.94 %	977 bp	76.60 %	72.80 %	380 bp
Net charge-offs (annualized) to average loans	0.01 %	– %	1 bp	0.09 %	(0.02 %)	11 bp

Financial Condition

Securities

We maintain a securities portfolio to enhance profitability, support customer transactions, manage interest rate risk, provide liquidity and comply with regulatory requirements. Securities are classified as trading, held for investment, or available for sale. See Note 2 to the consolidated financial statements for the composition of the securities portfolio as of September 30, 2011.

We intend to sell trading securities to our customers for a profit. Trading securities are carried at fair value. Changes in fair value are recognized in current period income.

At September 30, 2011, the carrying value of investment (held-to-maturity) securities was $453 million and the fair value was $483 million. Investment securities consist primarily of Oklahoma municipal bonds and Texas school construction bonds. Substantially all of these bonds are general obligations of the issuers. The investment security portfolio is diversified among issuers. The largest obligation of any single issuer is $30 million. Approximately $93 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. As discussed in greater detail in Note 2 to the Consolidated Financial Statements, we transferred $120 million of U.S. government agency residential mortgage-backed securities to the investment portfolio during the third quarter of 2011.

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 $9.3 billion at September 30, 2011, an increase of $37 million over June 30, 2011. At September 30, 2011, residential mortgage-backed securities represented 99% of total available for sale securities.

A primary risk of holding residential mortgage-backed securities comes from extension during periods of rising interest rates or prepayment during periods of falling interest rates. We evaluate this risk through extensive modeling of risk both before making an investment and throughout the life of the security. Current interest rates are historically low and prices for residential mortgage-backed securities are historically high resulting in low effective durations. Our best estimate of the duration of the residential mortgage-backed securities portfolio at September 30, 2011 is 1.4 years. Management estimates the duration extends to 3.1 years assuming an immediate 200 basis point upward shock. The estimated duration contracts to 0.8 years assuming a 50 basis point decline in the current low rate environment.

Residential mortgage-backed securities also have credit risk from delinquency or default of the underlying loans. We mitigate this risk by primarily investing in securities issued by U.S. government agencies. Principal and interest payments on the underlying loans are fully guaranteed. At September 30, 2011, approximately $8.7 billion of the amortized cost of the Company's residential mortgage-backed securities were issued by U.S. government agencies. The fair value of these residential mortgage-backed securities totaled $9.0 billion at September 30, 2011.

We also hold amortized cost of $525 million in residential mortgage-backed securities privately issued by publicly-owned financial institutions, a decrease of $57 million from June 30, 2011. The decline was primarily due to $46 million of cash received and $11 million of other-than-temporary impairment losses charged against earnings during the third quarter of 2011. The fair value of our portfolio of privately issued residential mortgage-backed securities totaled $457 million at September 30, 2011.

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The amortized cost of our portfolio of privately issued residential mortgage-backed securities included $350 million of Jumbo-A residential mortgage loans and $174 million of Alt-A residential mortgage loans. Jumbo-A residential mortgage loans generally meet government underwriting standards, but have loan balances that exceed agency maximums. Alt-A mortgage loans generally do not have sufficient documentation to meet government agency underwriting standards. Credit risk on residential mortgage-backed securities originated by private issuers is mitigated by investment in senior tranches with additional collateral support. All of our Alt-A residential mortgage-backed securities were issued with credit support from additional layers of loss-absorbing subordinated tranches, including all Alt-A residential mortgage backed securities held that were originated in 2007 and 2006. The weighted average original credit enhancement of the Alt-A residential mortgage-backed securities was 10.5% and currently stands at 4.5%. The Jumbo-A residential mortgage-backed securities had original credit enhancement of 8.7% and the current level is 8.0%. Approximately 81% of our Alt-A mortgage-backed securities represents pools of fixed-rate residential mortgage loans. None of the adjustable rate mortgages are payment option adjustable rate mortgages ("ARMs"). Approximately 24% of our Jumbo-A residential mortgage-backed securities represent pools of fixed rate residential mortgage loans and none of the adjustable rate mortgages are payment option ARMs.

Privately issued residential mortgage-backed securities with a total amortized cost of $481 million were rated below investment grade at September 30, 2011 by at least one of the nationally-recognized rating agencies. Net unrealized losses on below investment grade residential mortgage-backed securities totaled $64 million at September 30, 2011. Net unrealized losses on these same below investment grade securities were $66 million at June 30, 2011.

The aggregate gross amount of unrealized losses on available for sale securities totaled $69 million at September 30, 2011. On a quarterly basis, we perform separate evaluations on debt and equity securities to determine if the unrealized losses are temporary as more fully described in Note 2 of the Consolidated Financial Statements. Other-than-temporary impairment charges of $11 million were recognized in earnings in the third quarter of 2011 related to certain privately issued residential mortgage-backed securities that we do not intend to sell.

Certain U.S. government agency issued residential mortgage-backed securities, identified as mortgage trading securities, 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.

Bank-Owned Life Insurance

We have approximately $260 million of bank-owned life insurance at September 30, 2011. This investment is expected to provide a long-term source of earnings to support existing employee benefit programs. Approximately $230 million is held in separate accounts. Our separate account holdings are invested in diversified portfolios of investment-grade fixed income securities and cash equivalents, including U.S. Treasury and Agency securities, residential mortgage-backed securities, corporate debt, asset-backed and commercial mortgage-backed securities. The portfolios are managed by unaffiliated professional managers within parameters established in the portfolio's investment guidelines. The cash surrender value of certain life insurance policies is further supported by a stable value wrap, which protects against changes in the fair value of the investments. At September 30, 2011, the cash surrender value represented by the underlying fair value of investments held in separate accounts was approximately $252 million. As the underlying fair value of the investments held in a separate account at September 30, 2011 exceeded the net book value of the investments, no cash surrender value was supported by the stable value wrap. The stable value wrap is provided by a domestic financial institution. The remaining cash surrender value of $30 million primarily represents the cash surrender value of policies held in general accounts and other amounts due from various insurance companies.

Loans

The aggregate loan portfolio before allowance for loan losses totaled $11.1 billion at September 30, 2011, a $387 million increase since June 30, 2011.

Table 18 – Loans
(In thousands)

	Sept. 30, 2011	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010
Commercial:					
Energy	$1,797,609	$1,682,842	$1,759,452	$1,711,409	$1,761,926
Services	1,857,478	1,713,057	1,586,785	1,580,921	1,594,215
Wholesale/retail	1,026,229	1,068,186	984,273	1,010,246	1,041,004
Manufacturing	370,729	367,151	380,043	325,191	347,478
Healthcare	907,147	869,308	840,809	809,625	814,456
Integrated food services	199,852	195,774	211,637	204,283	169,956
Other commercial and industrial	316,645	282,278	285,258	292,321	242,973
Total commercial	6,475,689	6,178,596	6,048,257	5,933,996	5,972,008
Commercial real estate:					
Construction and land development	355,215	367,092	394,337	447,864	502,465
Retail	445,794	438,494	420,193	405,540	399,500
Office	425,743	482,505	488,515	457,450	490,429
Multifamily	387,468	335,662	355,240	369,242	352,200
Industrial	225,353	162,167	177,807	182,093	176,594
Other real estate	420,329	397,795	386,890	415,161	401,934
Total commercial real estate	2,259,902	2,183,715	2,222,982	2,277,350	2,323,122
Residential mortgage:					
Permanent mortgage	1,151,168	1,151,176	1,153,269	1,202,559	1,283,389
Permanent mortgages guaranteed by U.S. government agencies	168,690	134,458	63,552	72,385	72,880
Home equity	592,038	582,363	560,500	553,304	527,639
Total residential mortgage	1,911,896	1,867,997	1,777,321	1,828,248	1,883,908
Consumer:					
Indirect automobile	130,296	162,500	198,663	239,576	284,920
Other consumer	346,786	344,736	342,612	363,866	341,886
Total consumer	477,082	507,236	541,275	603,442	626,806
Total	$11,124,569	$10,737,544	$10,589,835	$10,643,036	$10,805,844

Outstanding commercial loan balances continued to grow in most geographic regions, increasing $297 million over June 30, 2011. Commercial real estate loans increased $76 million during the third quarter of 2011. Residential mortgage loans increased $44 million over June 30, 2011 due primarily to a $34 million increase in loans guaranteed by U.S. government agencies. These loans represent loans previously sold to GNMA mortgage pools that are reacquired when certain delinquency criteria are met. Consumer loans decreased $30 million from June 30, 2011 primarily related to the continued runoff of indirect automobile loans related to the previously announced decision to curtail that business in favor of a customer-focused direct approach to consumer lending. A breakdown of geographical market follows on Table 19 with discussion of changes in the balance by portfolio and geography.

A breakdown of our loan portfolio by primary market based on where we manage the account follows on Table 19. This breakdown may not always represent the location of the borrower or the collateral.

Table 19 – Loans by Principal Market
(In thousands)

	Sept. 30, 2011	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010
Oklahoma:					
Commercial	$2,807,979	$2,594,502	$2,618,045	$2,581,082	$2,662,347
Commercial real estate	624,990	619,201	661,254	726,409	748,501
Residential mortgage	1,366,953	1,309,110	1,219,237	1,253,466	1,293,334
Consumer	248,851	267,550	291,412	336,492	349,720
Total Oklahoma	5,048,773	4,790,363	4,789,948	4,897,449	5,053,902
Texas:					
Commercial	2,069,117	2,003,847	1,916,270	1,888,635	1,876,994
Commercial real estate	741,984	711,906	687,817	686,956	715,859
Residential mortgage	273,025	282,934	283,925	297,027	309,815
Consumer	133,286	140,044	141,199	146,986	151,434
Total Texas	3,217,412	3,138,731	3,029,211	3,019,604	3,054,102
New Mexico:					
Commercial	269,690	280,306	262,597	279,432	289,368
Commercial real estate	314,701	311,565	326,104	314,781	314,957
Residential mortgage	93,444	95,021	90,466	88,392	87,851
Consumer	18,142	18,536	19,242	19,583	20,153
Total New Mexico	695,977	705,428	698,409	702,188	712,329
Arkansas:					
Commercial	89,262	74,677	75,889	84,775	91,752
Commercial real estate	124,393	121,286	124,875	116,989	117,137
Residential mortgage	14,428	13,939	14,114	13,155	14,937
Consumer	44,163	52,439	61,746	72,787	84,869
Total Arkansas	272,246	262,341	276,624	287,706	308,695
Colorado:					
Commercial	508,222	515,829	514,100	470,500	457,421
Commercial real estate	188,659	167,414	172,416	197,180	203,866
Residential mortgage	65,327	66,985	67,975	72,310	75,152
Consumer	22,024	19,507	20,145	21,409	15,402
Total Colorado	784,232	769,735	774,636	761,399	751,841
Arizona:					
Commercial	283,867	291,515	251,390	231,117	234,739
Commercial real estate	222,249	205,269	213,442	201,018	188,943
Residential mortgage	85,243	86,415	89,384	89,245	85,184
Consumer	6,625	6,772	5,266	3,445	3,061
Total Arizona	597,984	589,971	559,482	524,825	511,927
Kansas / Missouri:					
Commercial	447,552	417,920	409,966	398,455	359,387

Commercial real estate	42,926	47,074	37,074	34,017	33,859
Residential mortgage	13,476	13,593	12,220	14,653	17,635
Consumer	3,991	2,388	2,265	2,740	2,167
Total Kansas / Missouri	507,945	480,975	461,525	449,865	413,048
Total BOK Financial loans	$11,124,569	$10,737,544	$10,589,835	$10,643,036	$10,805,844

Commercial

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

The commercial loan portfolio grew by $297 million during the third quarter of 2011. Service sector loans increased $144 million primarily in the Oklahoma and Texas markets. Energy sector loans increased $115 million from June 30, 2011 primarily in the Texas and Oklahoma markets, partially offset by a decrease in the Colorado market. Healthcare sector loans increased $38 million primarily in the Oklahoma and Colorado markets. Wholesale/retail sector loans decreased $42 million primarily due to a decrease in loans attributed to the Texas market, partially offset by an increase in loans attributed to the Oklahoma and Arizona markets.

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

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Services	$587,890	$611,520	$166,891	$14,352	$204,076	$121,118	$151,631	$1,857,478
Energy	927,707	672,558	–	262	197,08219	–	–	1,797,609
Wholesale/retail	443,673	387,526	52,371	33,593	14,013	77,635	17,418	1,026,229
Manufacturing	198,471	84,181	16,217	1,228	22,157	22,378	26,097	370,729
Healthcare	544,769	215,635	8,808	5,834	64,408	45,461	22,232	907,147
Integrated food services	18,065	8,248	–	27	1,910	–	171,602	199,852
Other commercial and industrial	87,404	89,449	25,403	33,966	4,576	17,275	58,572	316,645
Total commercial loans	$2,807,979	$2,069,117	$269,690	$89,262	$508,222	$283,867	$447,552	$6,475,689

The services sector of the loan portfolio totaled $1.9 billion or 17% of total loans and consists of a large number of loans to a variety of businesses, including community foundations, communications, educational, gaming and transportation services. Service sector loans increased $144 million over June 30, 2011. Approximately $1.0 billion of the services category is made up of loans with individual balances of less than $10 million. Service sector loans are generally secured by the assets of the borrower with repayment coming from the cash flows of ongoing operations of the customer's business. Loans in this sector may also be secured by personal guarantees of the owners or related parties.

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.

Energy loans totaled $1.8 billion or 16% of total loans. Outstanding energy loans increased $115 million during the third quarter of 2011. Unfunded energy loan commitments increased by $113 million to $2.2 billion at September 30, 2011.

Approximately $1.5 billion of energy loans were to oil and gas producers, up $98 million over June 30, 2011. Approximately 51% of the committed production loans are secured by properties primarily producing natural gas and 49% of the committed production loans are secured by properties primarily producing oil. Loans to borrowers engaged in wholesale or retail energy sales increased $3.2 million to $195 million. Loans to borrowers that provide services to the energy industry increased $3.5 million during the third quarter of 2011 to $57 million and loans to borrowers that manufacture equipment primarily for the energy industry increased $3.1 million during the third quarter of 2011 to $10 million.

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 September 30, 2011, the outstanding principal balance of these loans totaled $1.7 billion. Substantially all of these loans are to borrowers with local market relationships. We serve as the agent lender in approximately 19% of our shared national credits, based on dollars committed. We hold shared credits to the same standard of analysis and perform the same level of review as internally originated credits. Our lending policies generally avoid loans in which we do not have the opportunity to maintain or achieve other business relationships with the customer. In addition to management’s quarterly assessment of credit risk, grading of shared national credits is provided annually by banking regulators. Risk grading provided by the regulators in the third quarter of 2011 did not differ significantly from management’s assessment.

Commercial Real Estate

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

Commercial real estate loans totaled $2.3 billion or 20% of the loan portfolio at September 30, 2011. Over the past five years, the percentage of commercial real estate loans to our total loan portfolio ranged from 20% to 23%. The outstanding balance of commercial real estate loans increased $76 million over the second quarter of 2011. The commercial real estate sector of our loan portfolio is distributed as follows in Table 21.

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Construction and land development	$ 107,623	$67,282	$60,700	$13,684	$69,636	$29,509	$6,781	$355,215
Retail	113,490	184,739	55,010	11,891	7,859	63,059	9,746	445,794
Office	74,376	168,113	80,569	12,063	50,739	39,817	66	425,743
Multifamily	133,532	115,756	20,431	56,931	8,072	43,817	8,929	387,468
Industrial	71,241	105,970	29,551	288	1,034	9,164	8,105	225,353
Other real estate	124,728	100,124	68,440	29,536	51,319	36,883	9,299	420,329
Total commercial real estate loans	$ 624,990	$741,984	$314,701	$124,393	$188,659	$222,249	$42,926	$2,259,902

Construction and land development loans, which consist primarily of residential construction properties and developed building lots, decreased $12 million from June 30, 2011 to $355 million at September 30, 2011 primarily due to payments. In addition, $2.3 million of construction and land development loans were charged-off and $1.4 million were transferred to other real estate owned in the third quarter of 2011. This sector of the loan portfolio is expected to continue to decrease as construction projects currently in process are completed.

Loans secured by industrial properties increased $63 million from June 30, 2011, primarily in the Texas and New Mexico markets. Loans secured by multifamily residential properties increased $52 million, primarily concentrated in the Oklahoma market. Loans secured by offices increased $57 million during the third quarter, primarily in the Texas, New Mexico and Oklahoma markets.

Residential Mortgage and Consumer

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

Residential mortgage loans totaled $1.9 billion, up $44 million over June 30, 2011. In general, we sell the majority of our conforming fixed-rate loan originations in the secondary market and retain the majority of our non-conforming and adjustable-rate mortgage loans. We have no concentration in sub-prime residential mortgage loans. Our mortgage loan portfolio does not include payment option adjustable rate mortgage loans or adjustable rate mortgage loans with initial rates that are below market.

The majority of our permanent mortgage loan portfolio is primarily composed of various non-conforming mortgage programs to support customer relationships including jumbo mortgage loans, non-builder construction loans and special loan programs for high net worth individuals or certain professionals. The aggregate outstanding balance of loans in these programs is $1.0 billion. Jumbo loans may be fixed or variable rate and are fully amortizing. The size of jumbo loans exceed maximums set under government sponsored entity standards, but otherwise generally conform to those standards. These loans generally require a minimum FICO score of 720 and a maximum debt-to-income ratio ("DTI") of 38%. Loan-to-value ratios ("LTV") are tiered from 60% to 100%, depending on the market. Special mortgage programs include fixed and variable rate fully amortizing loans tailored to the needs of certain healthcare professionals. Variable rate loans are fully indexed at origination and may have fixed rates for three to ten years, then adjust annually thereafter.

Approximately $87 million or 8% of the non-guaranteed portion of the permanent mortgage loans consist of first lien, fixed rate residential mortgage loans originated under various community development programs. The outstanding balance of these loans is down from $91 million at June 30, 2011. These loans were underwritten to standards approved by various U.S. government agencies under these programs and include full documentation. However, these loans do have a higher risk of delinquency and losses in the event of default than traditional residential mortgage loans. The initial maximum LTV of loans in these programs was 103%.

At September 30, 2011, $169 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 $36 million of residential mortgage loans previously sold into GNMA mortgage pools. The Company may repurchase these loans when certain defined delinquency criteria are met. Because of this repurchase right, the Company is deemed to have regained effective control over these loans and must include them on the Consolidated Balance Sheet. The remaining amount represents loans that the Company has repurchased from GNMA mortgage pools. The increase in guaranteed residential mortgage loans is due to a growing volume of delinquent loans and time requirements to either modify or foreclose. We do not initiate foreclosure on loans with pending modification requests.

Home equity loans totaled $592 million at September 30, 2011, a $9.7 million increase over June 30, 2011. These loans are generally first or second lien loans with a maximum LTV of 100%, including consideration of any superior liens. These loans require a minimum FICO score of 700 and a maximum DTI of 40%. The maximum loan amount available for our home equity loan products is generally $400 thousand.

Indirect automobile loans decreased $32 million from June 30, 2011, primarily due to the previously-disclosed decision by the Company to exit the business in the first quarter of 2009 in favor of a customer-focused direct lending approach. Other consumer loans increased $2.1 million during the third quarter of 2011.

The composition of residential mortgage and consumer loans at September 30, 2011 is as follows in Table 22. All permanent residential mortgage loans originated and serviced by our mortgage banking unit are attributed to the Oklahoma market. Other permanent residential mortgage loans originated by the Bank are attributed to their respective principal market.

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Residential mortgage:								
Permanent mortgage	$836,727	$173,857	$10,403	$9,679	$43,300	$69,477	$7,725	$1,151,168
Permanent mortgages guaranteed by U.S. government agencies	168,690	–	–	–	–	–	–	168,690
Home equity	361,536	99,168	83,041	4,749	22,027	15,766	5,751	592,038
Total residential mortgage	$1,366,953	$273,025	$93,444	$14,428	$65,327	$85,243	$13,476	$1,911,896
Consumer:								
Indirect automobile	$71,256	$21,616	$–	$37,424	$–	$–	$–	$130,296
Other consumer	177,595	111,670	18,142	6,739	22,024	6,625	3,991	346,786
Total consumer	$248,851	$133,286	$18,142	$44,163	$22,024	$6,625	$3,991	$477,082

Loan Commitments

We enter into certain off-balance sheet arrangements in the normal course of business. These arrangements included unfunded loan commitments which totaled $5.7 billion and standby letters of credit which totaled $509 million at September 30, 2011. Loan commitments may be unconditional obligations to provide financing or conditional obligations that depend on the borrower's financial condition, collateral value or other factors. Standby letters of credit are unconditional commitments to guarantee the performance of our customer to a third party. Since some of these commitments are expected to expire before being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Approximately $1.5 million of the outstanding standby letters of credit were issued on behalf of customers whose loans are nonperforming at September 30, 2011.

As more fully described in Note 5 to the Consolidated Financial Statements, we have off-balance sheet commitments related to certain residential mortgage loans originated under community development loan programs that were sold to a U.S. government agency with full recourse. These mortgage loans were underwritten to standards approved by the agencies, including full documentation and originated under programs available only for owner-occupied properties. The Company no longer sells residential mortgage loans with recourse other than obligations under standard representations and warranties. We are obligated to repurchase these loans for the life of these loans in the event of foreclosure for the unpaid principal and interest at the time of foreclosure. At September 30, 2011, the principal balance of residential mortgage loans sold subject to recourse obligations totaled $262 million, down from $274 million at June 30, 2011. Substantially all of these loans are to borrowers in our primary markets including $185 million to borrowers in Oklahoma, $26 million to borrowers in Arkansas, $16 million to borrowers in New Mexico, $14 million to borrowers in the Kansas/Missouri area and $12 million to borrowers in Texas.

Under certain conditions, we also have an off-balance sheet obligation to repurchase residential mortgage loans sold to government sponsored entities through our mortgage banking activities due to standard representations and warranties made under contractual agreements. As of September 30, 2011, less than 10% of purchase requests made in 2010 and 2011 have resulted in actual repurchases or indemnification by the Company. For the nine months ended September 30, 2011, we have repurchased 6 loans for $593 thousand from the agencies and recognized $135 thousand of losses. At September 30, 2011, we have unresolved deficiency requests from the agencies on 203 loans with an aggregate outstanding balance of $33 million. During 2010, the Company established an accrual for credit losses related to potential loan repurchases under representations and warranties which is included in Other liabilities in the Consolidated Balance Sheets and in Mortgage banking costs in the Consolidated Statement of Earnings. This accrual totaled $2.1 million at September 30, 2011.

Customer Derivative Programs

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

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

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

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

Derivative contracts are carried at fair value. At September 30, 2011, the net fair values of derivative contracts reported as assets under these programs totaled $364 million, up from $227 million at June 30, 2011. Derivative contracts carried as assets included interest rate contracts with fair values of $220 million, energy contracts with fair values of $103 million and foreign exchange contracts with fair values of $66 million. The aggregate net fair values of derivative contracts held under these programs reported as liabilities totaled $342 million.

At September 30, 2011, total derivative assets were reduced by $37 million of cash collateral received from counterparties and total derivative liabilities were reduced by $56 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 September 30, 2011 follows in Table 23.

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

Customers	$156,693
Banks and other financial institutions	148,814
Exchanges	66,930

Energy companies	9,973
Other	3,546
Fair value of customer hedge asset derivative contracts, net	$385,956

At September 30, 2011, the largest exposure to a single counterparty, a large domestic financial institution, totaled $14 million and our aggregate gross exposure to all European banks totaled $4.9 million. In addition, we had exposure to an exchange whose parent filed bankruptcy on October 31, 2011. Based on currently available information, we expect that any loss that may be experienced would be immaterial to the consolidated financial statements of the Company.

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 $13 per barrel of oil would increase the fair value of derivative assets by $87 million. An increase in prices equivalent to $147 per barrel of oil would increase the fair value of derivative assets by $246 million as current prices move away from the fixed prices embedded in our existing contracts. Liquidity requirements of this program are also affected by our credit rating. A decrease in credit rating from A1 to below investment grade would increase our obligation to post cash margin on existing contracts by approximately $41 million.

Summary of Loan Loss Experience

We maintain separate allowances for loan losses and off-balance sheet credit risk. The combined allowance for loan losses and off-balance sheet credit losses totaled $287 million or 2.58% of outstanding loans and 125.16% of nonaccruing loans at September 30, 2011. The allowance for loans losses was $271 million and the allowance for off-balance sheet credit losses was $16 million. At June 30, 2011, the combined allowance for credit losses was $297 million or 2.77% of outstanding loans and 148.55% of nonaccruing loans at June 30, 2011. The allowance for loan losses was $287 million and the allowance for off-balance sheet credit losses was $10 million. The increase in allowance for off-balance sheet credit losses is due to a recent Oklahoma Supreme Court ruling that reversed a $7.1 million loan settlement agreement between the Company and the City of Tulsa. The refund of this settlement will increase future net charge-offs.

The provision for credit losses is the amount necessary to maintain the allowances for loan losses and 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 allowance for off-balance sheet credit losses. All losses incurred from lending activities will ultimately be reflected in charge-offs against the allowance for loan losses following funds advanced against outstanding commitments. Over the most recent five quarters, the general trend of net charge-offs has stabilized form their elevated levels. After considering all credit factors, no provision for credit losses was recorded in the third quarter of 2011. The provision for credit losses totaled $2.7 million for the second quarter of 2011 and $20.0 million for the third quarter of 2010.

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

	Three Months Ended				
	Sept. 30, 2011	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010
Allowance for loan losses:					
Beginning balance	$286,611	$289,549	$292,971	$299,154	$299,489
Loans charged off:					
Commercial	5,083	3,302	2,352	4,802	5,435
Commercial real estate	2,335	3,380	6,893	9,462	8,704
Residential mortgage	3,403	3,381	2,948	2,030	7,380
Consumer	3,202	2,711	3,039	3,859	3,820
Total	14,023	12,774	15,232	20,153	25,339
Recoveries of loans previously charged off:					
Commercial	1,404	2,187	1,571	2,933	2,309
Commercial real estate	911	306	343	1,327	1,086
Residential mortgage	283	254	1,082	338	316
Consumer	1,271	1,509	1,918	1,342	1,493
Total	3,869	4,256	4,914	5,940	5,204
Net loans charged off	10,154	8,518	10,318	14,213	20,135
Provision for loan losses	(5,001)	5,580	6,896	8,030	19,800
Ending balance	$271,456	$286,611	$289,549	$292,971	$299,154
Allowance for off-balance sheet credit losses:					
Beginning balance	$10,745	$13,625	$14,271	$15,302	$15,102
Provision for off-balance sheet credit losses	5,001	(2,880)	(646)	(1,031)	200
Ending balance	$15,746	$10,745	$13,625	$14,271	$15,302
Total provision for credit losses	$–	$2,700	$6,250	$6,999	$20,000
Allowance for loan losses to loans outstanding at period-end	2.44 %	2.67 %	2.73 %	2.75 %	2.77 %
Net charge-offs (annualized) to average loans	0.37	0.32	0.39	0.53	0.74
Total provision for credit losses (annualized) to average loans	–	0.10	0.23	0.26	0.74
Recoveries to gross charge-offs	27.59	33.32	32.26	29.47	20.54
Allowance for off-balance sheet credit losses to off-balance sheet credit commitments	0.25	0.18	0.24	0.25	0.28
Combined allowance for credit losses to loans outstanding at period-end	2.58	2.77	2.86	2.89	2.91

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 risk concentration and non-specific allowances based on general economic and related factors. An independent Credit Administration department is responsible for performing this evaluation for the entire company to ensure that the methodology is applied consistently. For the nine months ended September 30, 2011, there have been no material changes in the approach or techniques utilized in developing the allowance for the loan losses.

Specific allowances for impaired loans are measured by an evaluation of estimated future cash flows discounted at the loan's initial effective interest rate or the fair value of collateral for certain collateral-dependent loans. Historical statistics may be used in limited situations to assist in estimating future cash flows or collateral values, such as when a collateral dependent impaired loan is identified at the end of the reporting period. We use historical statistics as a practical way to estimate impairment until an updated appraisal of collateral value is received or a full assessment of future cash flows is completed. Estimates of future cash flows and collateral values require significant judgments and are subject to volatility.

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

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

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

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

Impaired loans totaled $204 million at September 30, 2011 and $176 million at June 30, 2011. At September 30, 2011, $30 million of impaired loans had specific allowances of $6.7 million and $174 million had no specific allowances because the loans balances represent amounts we expect to recover. At June 30, 2011, $30 million of impaired loans had specific allowances of $6.7 million and $146 million of impaired loans had no specific allowances because the loan balances represent amounts we expect to recover.

General allowances for unimpaired loans were based on migration models. Separate migration models are used to determine general allowances for commercial and commercial real estate loans, residential mortgage loans and consumer loans. Substantially all commercial and commercial real estate loans and certain residential mortgage and consumer loans are risk-graded based on an evaluation of the borrowers' ability to repay the loans. Migration factors are determined for each risk grade to determine the inherent loss based on historical trends using an eight-quarter aggregate accumulation of net losses as the basis for the migration factors. Losses incurred in more recent periods are more heavily weighted by a sum-of-periods-digits formula. The greater of the loss factors based on migration trends or a minimum migration factor based on long-term history is assigned to each risk grade. The resulting general allowances may be adjusted upward or downward by management to account for the limitations in migration models which were based entirely on historical data, such as their limited accuracy at the beginning and ending of credit cycles.

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

The aggregate amount of general allowances for all unimpaired loans totaled $243 million at September 30, 2011 and $253 million at June 30, 2011.

Nonspecific allowances are maintained for risks beyond factors specific to a particular loan or loan class. These factors include trends in the economy in our primary lending areas and overall growth in the loan portfolio. Nonspecific allowances may also be utilized to make adjustments to loss rates determined based on historical information, including consideration of the duration of the business cycle on loss rates. Nonspecific factors also consider current economic conditions and other relevant factors. Nonspecific allowances totaled $22 million at September 30, 2011 and $27 million at June 30, 2011.

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 loans 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 $172 million and September 30, 2011 and $171 million at June 30, 2011. The current composition of potential problem loans by primary industry included wholesale / retail - $37 million, services - $34 million, construction and land development - $30 million, other commercial real estate - $17 million, residential mortgage - $15 million and commercial real estate secured by office buildings - $14 million.

Net Loans Charged Off

Loans are charged off against the allowance for loan losses when the loan balance or a portion of the loan balance is no longer covered by the paying capacity of the borrower based on an evaluation of available cash resources and collateral value. Loans are evaluated quarterly and charge-offs are taken in the quarter in which the loss is identified.

Net loans charged off during the third quarter of 2011 totaled $10.2 million compared to $8.5 million in the previous quarter and $20.1 million in the third quarter of 2010. The ratio of net loans charged off (annualized) to average outstanding loans was 0.37% for the third quarter of 2011 compared with 0.32% for the second quarter of 2011 and 0.74% for the third quarter of 2010. Net loans charged off in the third quarter of 2011 increased $1.6 million over the previous quarter.

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

Table 25 – Net Loans Charged Off
(In thousands)

	Oklahoma	Texas	Colorado	Arkansas	New Mexico	Arizona	Kansas/ Missouri	Total
Commercial	$ 2,253	$ 842	$ (3)	$ (1)	$ 136	$ 457	$ (5)	$ 3,679
Commercial real estate	716	(284)	349	49	(39)	633	–	1,424
Residential mortgage	2,495	96	(2)	(3)	472	62	–	3,120
Consumer	1,083	565	23	85	166	(1)	10	1,931
Total net loans charged off	$ 6,547	$ 1,219	$ 367	$ 130	$ 735	$ 1,151	$ 5	$ 10,154

Net commercial loans charged off during the third quarter of 2011 increased $2.6 million over the prior quarter and composed primarily of $2.0 million from the Services sector of the loan portfolio primarily in the Oklahoma market.

Net charge-offs of commercial real estate loans decreased $1.7 million from the second quarter of 2011 and included $847 thousand of land and residential construction sector loans primarily in the Colorado and Arizona markets and $625 million of loans secured by multifamily properties primarily in the Oklahoma market.

Residential mortgage net charge-offs were flat compared to the previous quarter and consumer loan net charge-offs, which includes indirect auto loan and deposit account overdraft losses, increased $729 thousand over the previous quarter. All residential mortgage net charge-offs related to loans serviced by our mortgage company across our geographical footprint are attributed to the Oklahoma market.

Nonperforming Assets

Table 26 – Nonperforming Assets
(In thousands)

	Sept. 30, 2011	June 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sept. 30, 2010
Nonaccrual loans:					
Commercial	$83,736	$53,365	$57,449	$38,455	$49,361
Commercial real estate	110,048	110,363	125,504	150,366	177,709
Residential mortgage	31,731	31,693	37,824	37,426	38,898
Consumer	3,960	4,749	5,185	4,567	2,784
Total nonaccrual loans	229,475	200,170	225,962	230,814	268,752
Renegotiated loans2	30,477	22,261	21,705	22,261	25,252
Total nonperforming loans	259,952	222,431	247,667	253,075	294,004
Other nonperforming assets	127,943	129,026	131,420	141,394	126,859
Total nonperforming assets	$387,895	$351,457	$379,087	$394,469	$420,863
Nonaccrual loans by principal market:					
Oklahoma	$73,794	$41,411	$49,585	$60,805	$72,264
Texas	29,783	32,385	34,404	33,157	36,979
New Mexico	17,242	17,244	17,510	19,283	23,792
Arkansas	26,831	24,842	29,769	7,914	9,990
Colorado	36,854	37,472	40,629	49,416	55,631
Arizona	44,929	43,307	54,065	60,239	70,038
Kansas / Missouri	42	3,509	–	–	58
Total nonaccrual loans	$229,475	$200,170	$225,962	$230,814	$268,752
Nonaccrual loans by loan portfolio sector:					
Commercial:					
Energy	$3,900	$345	$415	$465	$8,189
Manufacturing	27,691	4,366	4,545	2,116	2,454
Wholesale / retail	27,088	25,138	30,411	8,486	5,584
Integrated food services	–	–	6	13	58
Services	18,181	16,254	15,720	19,262	23,925
Healthcare	5,715	5,962	2,574	3,534	2,608
Other	1,161	1,300	3,778	4,579	6,543
Total commercial	83,736	53,365	57,449	38,455	49,361
Commercial real estate:					
Land development and construction	72,207	76,265	90,707	99,579	116,252
Retail	6,492	4,642	5,276	4,978	8,041
Office	11,967	11,473	14,628	19,654	24,942
Multifamily	4,036	4,717	1,900	6,725	6,924
Industrial	–	–	–	4,087	4,151
Other commercial real estate	15,346	13,266	12,993	15,343	17,399
Total commercial real estate	110,048	110,363	125,504	150,366	177,709
Residential mortgage:					
Permanent mortgage	27,486	27,991	33,466	32,111	36,654
Home equity	4,245	3,702	4,358	5,315	2,244
Total residential mortgage	31,731	31,693	37,824	37,426	38,898
Consumer	3,960	4,749	5,185	4,567	2,784
Total nonaccrual loans	$229,475	$200,170	$225,962	$230,814	$268,752

Ratios:										
Allowance for loan losses to nonaccruing loans	118.29	%	143.18	%	128.14	%	129.75	%	111.31	%
Nonaccruing loans to period-end loans	2.06	%	1.86	%	2.13	%	2.17	%	2.49	%
Accruing loans 90 days or more past due1	$1,401		$2,341		$8,043		$7,966		$5,579	
1Excludes residential mortgages guaranteed by agencies of the U.S. Government.										
2Includes residential mortgages guaranteed by agencies of the U.S. Government. These loans have been modified to extend payment terms and/or reduce interest rates.	26,670		18,716		18,304		18,551		21,706	

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Nonperforming assets increased $36 million during the third quarter of 2011 to $388 million or 3.45% of outstanding loans and repossessed assets at September 30, 2011. Nonaccruing loans totaled $229 million, renegotiated residential mortgage loans totaled $30 million (composed primarily of $27 million of residential mortgage loans guaranteed by U.S. government agencies) and real estate and other repossessed assets totaled $128 million. The Company generally retains nonperforming assets to maximize potential recovery which may cause future nonperforming assets to increase.

Loans are classified as nonaccruing when it becomes probable that we will not collect the full contractual principal and interest. As more fully discussed in Note 4 to the Consolidated Financial Statements, we may modify nonaccruing commercial and commercial real estate loans in troubled debt restructuring. Modifications include extension of payment terms and renewal of matured nonaccruing loans. We may grant interest rate concessions. We generally do no forgive principal or accrued but unpaid interst. Renewed or modified nonaccruing loans 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. Renewed or modified nonperforming loans generally remain on nonaccrual status until full collection of principal and interest in accordance with the original terms, including principal previously charged off, is probable.

We generally do not modify consumer loans to troubled borrowers.

Renegotiated loans represent accruing residential mortgage loans modified in troubled debt restructurings. See Note 4 to the Consolidated Financial Statement for additional discussion of troubled debt restructurings. Generally, we modify residential mortgage loans primarily by reducing interest rates and extending the number of payments in accordance with U.S. government agency guidelines. No unpaid principal or interest is forgiven. Interest continues to accrue based on the modified terms of the loan. If it becomes probable that we will not be able to collect all amounts due according to the modified loan terms, the loan is placed on nonaccrual status and included in nonaccrual loans. Loans guaranteed by U.S. government agencies under residential mortgage loan programs may be sold once they become eligible according to U.S. agency guidelines.

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

Table 27 – Rollforward of Nonperforming Assets
(In thousands)

	For the Three Months Ended Sept. 30, 2011			
	Nonaccruing Loans	Renegotiated Loans	Real Estate and Other Repossessed Assets	Total Nonperforming Assets
Balance, June 30, 2011	$ 200,170	$ 22,261	$ 129,026	$ 351,457
Additions	61,836	14,230	–	76,066
Payments	(10,224)	(999)	–	(12,080)
Charge-offs	(14,023)	–	–	(14,023)
Net writedowns and losses	–	–	(1,415)	(1,415)
Foreclosure of nonaccruing loans	(7,413)	–	7,413	–
Foreclosure of loans guaranteed by U.S. government agencies	–	–	16,344	16,344
Proceeds from sales	–	(5,417)	(22,857)	(28,274)
	116	(116)	–	–

Net transfers to nonaccruing loans				
Other, net	(987)	518	(568)	(180)
Balance, Sept. 30, 2011	$ 229,475	$ 30,477	$ 127,943	$ 387,895

For the Nine Months Ended Sept. 30, 2011

	Nonaccruing Loans	Renegotiated Loans	Real Estate and Other Repossessed Assets	Total Nonperforming Assets
Balance, December 31, 2010	$ 230,814	$ 22,261	$ 141,394	$ 394,469
Additions	143,321	24,145	–	167,466
Payments	(62,139)	(1,596)	–	(64,592)
Charge-offs	(42,029)	–	–	(42,029)
Net writedowns and losses	–	–	(9,144)	(9,144)
Foreclosure of nonaccruing loans	(41,307)	–	41,307	–
Foreclosure of loans guaranteed by U.S. government agencies	–	–	16,344	16,344
Proceeds from sales	–	(13,332)	(49,811)	(63,143)
Net transfers to nonaccruing loans	499	(499)	–	–
Transfers to available for sale securities1	–	–	(11,723)	(11,723)
Other, net	316	(502)	(424)	247
Balance, Sept. 30, 2011	$ 229,475	$ 30,477	$ 127,943	$ 387,895

1 During the first quarter of 2011, $12 million of cost basis shares of an entity in which we hold an equity interest were transferred to the available for sales portfolio as the shares are listed for trading on a national stock exchange.

We foreclose on loans guaranteed by U.S. government agencies in accordance with agency guidelines. Generally these loans are not eligible for modification programs. Principal is guaranteed by agencies of the U.S. government, subject to limitations and credit risk is minimal. These properties will be conveyed to the agencies once applicable criteria have been met. During the third quarter of 2011, government guaranteed real estate increased $16.3 million as loans repurchased from GNMA pools continued through the foreclosure process.

Nonaccruing loans totaled $229 million or 2.06% of outstanding loans at September 30, 2011 and $200 million or 1.86% of outstanding loans at June 30, 2011. Nonaccruing loans increased $29 million from June 30, 2011 primarily due to a $32 million increase in the Oklahoma market. A single credit in the manufacturing sector represents $24 million of the increase in nonaccruing loans.

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

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

	Sept. 30, 2011		June 30, 2011		Change	
	Amount	% of outstanding loans	Amount	% of outstanding loans	Amount	% of outstanding loans
Oklahoma	$73,794	1.46 %	$41,411	0.86 %	$32,383	60 bp
Texas	29,783	0.93	32,385	1.03	(2,602)	(10)
New Mexico	17,242	2.48	17,244	2.44	(2)	4

Arkansas	26,831	9.86	24,842	9.47	1,989	39
Colorado	36,854	4.70	37,472	4.87	(618)	(17)
Arizona	44,929	7.51	43,307	7.34	1,622	17
Kansas / Missouri	42	0.01	3,509	0.73	(3,467)	(72)
Total	$229,475	2.06 %	$200,170	1.86 %	$29,305	20 bp

The majority of nonaccruing loans are concentrated primarily in Oklahoma, Arizona, Colorado and Texas markets. Nonaccruing loans in the Arizona and Colorado markets consisted primarily of commercial real estate loans. Nonaccruing loans in the Oklahoma market are primarily composed of $26 million of manufacturing sector loans, $20 million of permanent residential mortgage loans and $13 million of commercial real estate loans. All residential loans originated and serviced by our mortgage company across our geographical footprint are attributed to the Oklahoma market.

Commercial

Nonaccruing commercial loans totaled $84 million or 1.29% of total commercial loans at September 30, 2011 and $53 million or 0.86% of total commercial loans at June 30, 2011. At September 30, 2011, nonaccruing commercial loans were primarily composed of $28 million or 7.47% of total manufacturing sector loans, $27 million or 2.64% of total wholesale/retail sector loans and $18 million or 0.98% of total services sector loans. Nonaccruing wholesale/retail sector loans are primarily composed of a single customer relationship in the Arkansas market totaling $20 million at September 30, 2011 and $18 million at June 30, 2011.

Nonaccruing loans increased $29 million in the third quarter of 2011 due largely to a single manufacturing customer identified as nonaccruing during the quarter. Newly identified nonaccruing commercial loans totaled $40 million, partially offset by $5.1 million of charge-offs and $4.2 million of payments.

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

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

	Sept. 30, 2011		June 30, 2011		Change	
	Amount	% of outstanding loans	Amount	% of outstanding loans	Amount	% of outstanding loans
Oklahoma	$36,525	1.30 %	$7,716	0.30 %	$28,809	100 bp
Texas	11,258	0.54	12,290	0.61	(1,032)	(7)
New Mexico	3,166	1.17	3,483	1.24	(317)	(7)
Arkansas	20,048	22.46	17,778	23.81	2,270	(135)
Colorado	4,952	0.97	4,714	0.91	238	6
Arizona	7,787	2.74	7,384	2.53	403	21
Kansas / Missouri	–	–	–	–	–	–
Total commercial	$83,736	1.29 %	$53,365	0.86 %	$30,371	43 bp

Commercial Real Estate

Nonaccruing commercial real estate loans totaled $110 million or 4.87% of outstanding commercial real estate loans at September 30, 2011 compared to $110 million or 5.05% of outstanding commercial real estate loans at June 30, 2011. Nonaccruing commercial real estate loans continue to be largely concentrated in land development and residential construction loans. Nonaccruing commercial real estate loans were flat compared to the prior quarter. Newly identified nonaccruing commercial real estate loans totaled $8.9 million, offset by $5.6 million of cash payments received, $2.3 million of charge-offs and $1.4 million of foreclosures. The distribution of our nonaccruing commercial real estate loans among our geographic markets follows in Table 30.

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

	Sept. 30, 2011		June 30, 2011		Change	
	Amount	% of outstanding loans	Amount	% of outstanding loans	Amount	% of outstanding loans
Oklahoma	$13,337	2.13 %	$11,032	1.78 %	$2,305	35 bp
Texas	13,795	1.86	13,965	1.96	(170)	(10)
New Mexico	12,254	3.89	12,088	3.88	166	1

Arkansas	5,638	4.53		5,840	4.82		(202	)	(29	)
Colorado	30,508	16.17		31,251	18.67		(743	)	(250	)
Arizona	34,516	15.53		32,724	15.94		1,792		(41	)
Kansas / Missouri	–	–		3,463	7.36		(3,463	)	(736	)
Total commercial real estate	$110,048	4.87	%	$110,363	5.05	%	$(315	)	(18	) bp

Nonaccruing commercial real estate loans are primarily concentrated in the Arizona and Colorado markets. Approximately $34 million or 15% of commercial real estate loans in Arizona are nonaccruing and primarily consist of $16 million nonaccruing residential construction and land development loans, $9.8 million of other commercial real estate loans and $6.0 million of loans secured by office buildings. Approximately $31 million or 16% of commercial real estate loans in the Colorado market are nonaccruing and consist primarily of nonaccruing residential construction and land development loans.

Residential Mortgage and Consumer

Nonaccruing residential mortgage loans totaled $32 million or 1.66% of outstanding residential mortgage loans at September 30, 2011 compared to $32 million or 1.70% of outstanding residential mortgage loans at June 30, 2011. Newly identified nonaccrual residential mortgage loans totaled $7.7 million, offset by $3.4 million of loans charged off and $2.4 million of foreclosures during the quarter. Nonaccruing residential mortgage loans primarily consist of permanent residential mortgage loans which totaled $27 million or 2.08% of outstanding permanent residential mortgage loans at September 30, 2011. Nonaccruing home equity loans continued to perform well with only $4.2 million or 0.72% of total home equity loans in nonaccrual status.

In addition to being on nonaccrual status, residential mortgage and consumer loans, payments of residential mortgage loans and consumer loans may be delinquent. The composition of residential mortgage loans, excluding loans guaranteed by U.S. government agencies, and past due consumer loans is included in the following Table 31. Principally all non-guaranteed residential loans past due 90 days or more are nonaccruing. Residential mortgage loans 30 to 89 days past due increased $3.1 million to $24 million at September 30, 2011. Consumer loans past due 30 to 89 days decreased $2.6 million from June 30, 2011 due primarily to a $2.5 million decrease in indirect automobile loans. Consumer loans past due 90 days or more increased $61 thousand in the third quarter of 2011.

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

	Sept. 30, 2011		June 30, 2011	
	90 Days or More	30 to 89 Days	90 Days or More	30 to 89 Days
Residential mortgage:				
Permanent mortgage1	$ 130	$ 22,127	$ –	$ 18,735
Home equity	–	2,150	8	2,450
Total residential mortgage	$ 130	$ 24,277	8	$ 21,185
Consumer:				
Indirect automobile	$ –	$ 4,718	$ 19	$ 7,256
Other consumer	82	951	2	1,031
Total consumer	$ 82	$ 5,669	$ 21	$ 8,287

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

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

Real estate and other repossessed assets totaled $128 million at September 30, 2011, a $1.1 million decrease from June 30, 2011. The distribution of real estate and other repossessed assets attributed by geographical market is included in Table 32 following.

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

	Oklahoma	Texas	Colorado	Arkansas	New Mexico	Arizona	Kansas/ Missouri	Other	Total
1-4 family residential properties and residential land development properties	$ 8,580	$16,036	$4,776	$4,422	$942	$11,950	$499	$2,222	$49,427
1-4 family residential properties and residential land development properties guaranteed by U.S. government agencies	2,741	2,107	633	731	7,707	414	1,931	79	16,343
Developed commercial real estate properties	1,769	3,337	3,879	1,612	5,221	20,341	–	3,332	39,491
Undeveloped land	298	6,971	2,992	64	242	4,138	4,515	–	19,220
Oil and gas properties	–	1,994	–	–	–	–	–	–	1,994
Construction equipment	–	–	–	–	–	–	821	–	821
Vehicles	253	90	–	151	17	–	–	–	511
Other	–	–	136	–	–	–	–	–	272
Total real estate and other repossessed assets	$ 13,641	$30,535	$12,416	$6,980	$14,129	$36,843	$7,766	$5,633	$127,943

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 third quarter of 2011, approximately 74% of our funding was provided by deposit accounts, 9% from borrowed funds, 2% from long-term subordinated debt and 11% from equity. Our funding sources, which primarily include deposits and borrowings from the Federal Home Loan Banks and other banks, provide adequate liquidity to meet our operating needs.

Deposit accounts represent our largest funding source. We compete for retail and commercial deposits by offering a broad range of products and services and focusing on customer convenience. Retail deposit growth is supported through our Perfect Banking sales and customer service program, free checking, 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 third quarter of 2011 totaled $18.2 billion and represented approximately 74% of total liabilities and capital compared with $17.6 billion and 73% of total liabilities and capital for the second quarter of 2011. Average deposits increased $648 million over the second quarter of 2011. Average demand deposits increased $533 million, including a $379 million increase in commercial deposits, $100 million increase in wealth management deposits and a $60 million increase in consumer banking deposits. Average interest-bearing transaction deposit accounts increased $126 million, including a $218 million increase in wealth management deposits and a $26 million increase in consumer banking deposits, partially offset by a $124 million decrease in commercial deposits. Average time deposits decreased $14 million compared to the second quarter of 2011. The increase in average commercial deposit balances is primarily due to a $127 million increase in average deposits attributable to our energy customers and a $118 million increase in average deposits attributable to our commercial and industrial customers. Commercial customers continue to retain large cash reserves primarily due to continued economic uncertainty.

Brokered deposits, which are included in time deposits, averaged $243 million for the third quarter of 2011, a $12 million increase over the second quarter of 2011.

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

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

	Sept. 30, 2011	June 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sept. 30, 2010
Oklahoma:					
Demand	$2,953,410	$2,486,671	$2,420,210	$2,271,375	$2,238,303
Interest-bearing:					
Transaction	6,038,770	5,916,784	6,068,304	6,061,626	5,609,811
Savings	122,829	120,278	120,020	106,411	103,524
Time	1,489,486	1,462,137	1,465,506	1,373,307	1,497,344
Total interest-bearing	7,651,085	7,499,199	7,653,830	7,541,344	7,210,679
Total Oklahoma	10,604,495	9,985,870	10,074,040	9,812,719	9,448,982
Texas:					
Demand	1,710,315	1,528,772	1,405,892	1,389,876	1,238,103
Interest-bearing:					
Transaction	1,820,116	1,741,176	1,977,850	1,791,810	1,786,979
Savings	42,272	42,185	40,313	36,429	35,614
Time	938,200	992,366	1,015,754	966,116	1,031,877
Total interest-bearing	2,800,588	2,775,727	3,033,917	2,794,355	2,854,470
Total Texas	4,510,903	4,304,499	4,439,809	4,184,231	4,092,573
New Mexico:					
Demand	325,612	299,305	282,708	270,916	262,567
Interest-bearing:					
Transaction	480,816	483,026	498,355	530,244	535,012
Savings	26,127	24,613	24,455	28,342	27,906
Time	431,436	449,618	453,580	450,177	469,493
Total interest-bearing	938,379	957,257	976,390	1,008,763	1,032,411
Total New Mexico	1,263,991	1,256,562	1,259,098	1,279,679	1,294,978
Arkansas:					
Demand	21,809	17,452	15,144	15,310	17,604
Interest-bearing:					
Transaction	181,486	138,954	130,613	129,580	137,797
Savings	1,735	1,673	1,514	1,266	1,522
Time	74,163	82,112	94,889	100,998	116,536
Total interest-bearing	257,384	222,739	227,016	231,844	255,855
Total Arkansas	279,193	240,191	242,160	247,154	273,459
Colorado:					
Demand	217,394	196,915	197,579	157,742	156,685
Interest-bearing:					
Transaction	520,743	509,738	528,948	522,207	501,405
Savings	22,599	21,406	21,655	20,310	19,681
Time	547,481	563,642	546,586	502,889	495,899
Total interest-bearing	1,090,823	1,094,786	1,097,189	1,045,406	1,016,985
Total Colorado	1,308,217	1,291,701	1,294,768	1,203,148	1,173,670

Arizona:					
Demand	138,971	150,194	106,880	74,887	97,384
Interest-bearing:					
Transaction	101,933	107,961	102,089	95,890	94,108
Savings	1,366	1,364	984	809	812
Time	40,007	44,619	50,060	52,227	59,678
Total interest-bearing	143,306	153,944	153,133	148,926	154,598
Total Arizona	282,277	304,138	260,013	223,813	251,982
Kansas / Missouri:					
Demand	46,773	46,668	28,774	40,658	35,869
Interest-bearing:					
Transaction	108,973	115,684	222,705	124,005	180,273
Savings	503	358	323	200	132
Time	33,697	40,206	51,236	63,454	70,673
Total interest-bearing	143,173	156,248	274,264	187,659	251,078
Total Kansas / Missouri	189,946	202,916	303,038	228,317	286,947
Total BOK Financial deposits	$18,439,022	$17,585,877	$17,872,926	$17,179,061	$16,822,591

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 $335 million at September 30, 2011. Securities repurchase agreements generally mature within 90 days and are secured by certain available for sale securities. Federal Home Loan Bank borrowings are generally short term and are secured by a blanket pledge of eligible collateral (generally unencumbered U.S. Treasury and mortgage-backed securities, 1-4 family residential mortgage loans, multifamily and other qualifying commercial real estate loans). Amounts borrowed from the Federal Home Loan Banks of Topeka and Dallas averaged $3.2 million during the quarter, a $60 million decrease from the second quarter of 2011.

At September 30, 2011, the estimated unused credit available to the subsidiary bank from collateralized sources was approximately $7.7 billion.

Table 34 – Other borrowings
(In thousands)

	For the three months ended September 30, 2011		For the three months ended June 30, 2011
		Maximum	