BOK FINANCIAL CORP ET AL
Form 10-Q
July 28, 2017

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

FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
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	73-1373454
(State or other jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

Bank of Oklahoma Tower Boston Avenue at Second Street Tulsa, Oklahoma	74192
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

Large accelerated filer ý Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 65,416,403 shares of common stock ($.00006 par value) as of June 30, 2017.

BOK Financial Corporation
Form 10-Q
Quarter Ended June 30, 2017

Index

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

BOK Financial Corporation (“the Company”) reported net income of $88.1 million or $1.35 per diluted share for the second quarter of 2017, compared to $65.8 million or $1.00 per diluted share for the second quarter of 2016 and $88.4 million or $1.35 per diluted share for the first quarter of 2017.

Highlights of the second quarter of 2017 included:

- Net interest revenue totaled $205.2 million for the second quarter of 2017, up from $182.6 million in the second quarter of 2016 and $201.2 million in the first quarter of 2017. The increase in net interest revenue over the prior year was driven by both improving yields and growth in average earning assets. Net interest margin was 2.89 percent for the second quarter of 2017. Net interest margin was 2.63 percent for the second quarter of 2016 and 2.81 percent for the first quarter of 2017. Average earning assets were $29.2 billion for the second quarter of 2017 and $28.8 billion for the second quarter of 2016.
- Fees and commissions revenue totaled $177.5 million for the second quarter of 2017, a $2.7 million decrease compared to the second quarter of 2016. Growth in fiduciary and asset management revenue was offset by lower brokerage and trading revenue and mortgage banking revenue. Fees and commissions revenue increased $13.1 million over the first quarter of 2017. Growth in mortgage banking revenue, fiduciary and asset management revenue and transaction card revenue were partially offset by a decrease in brokerage and trading revenue.
- Other operating expense for the second quarter of 2017 totaled $250.9 million, largely unchanged compared to the second quarter of 2016. Personnel expense increased $4.5 million, primarily due to an increase in the probability that certain performance-based equity awards will vest. Non-personnel expense decreased $5.0 million. Deposit insurance expense decreased primarily due to $5.1 million in credits received during the second quarter of 2017 related to revision of certain inputs to the assessment calculation filed in previous periods. Operating expenses increased $6.2 million over the previous quarter. Personnel expense was up $7.3 million and non-personnel expense decreased $1.1 million.
- Income tax expense was $47.7 million or 34.9 percent of net income before taxes for the second quarter of 2017, compared to $30.5 million or 31.5 percent in the second quarter of 2016 and $38.1 million or 30.1 percent in the first quarter of 2017. Excluding the effect of a new accounting standard that requires the tax effect of vested equity compensation to be recorded in income tax expense, the effective tax rate would be 33.7 percent of net income before taxes for the second quarter of 2017 and 33.2 percent for the first quarter of 2017.
- No provision for credit losses was recorded in the second quarter of 2017 or the first quarter of 2017. A $20.0 million provision for credit losses was recorded in the second quarter of 2016. Gross charge-offs were $2.9 million in the second quarter of 2017, $8.8 million in the second quarter of 2016 and $2.2 million in the first quarter of 2017. Recoveries were $1.2 million in the second quarter of 2017, compared to $1.4 million in the second quarter of 2016 and $2.9 million in the first quarter of 2017.
- The combined allowance for credit losses totaled $256 million or 1.49 percent of outstanding loans at June 30, 2017, compared to $258 million or 1.52 percent of outstanding loans at March 31, 2017.
- Nonperforming assets that are not guaranteed by U.S. government agencies totaled $276 million or 1.62 percent of outstanding loans and repossessed assets at June 30, 2017 and $240 million or 1.43 percent of outstanding loans and repossessed assets at March 31, 2017. The increase in nonperforming assets was primarily due to an increase in nonaccruing healthcare and energy loans.
- Average loans were largely unchanged compared to the previous quarter. Period-end outstanding loan balances were $17.2 billion at June 30, 2017, an increase of $192 million over March 31, 2017.
- Average deposits decreased $277 million compared to the previous quarter. Growth in demand deposit balances was offset by a decrease in interest-bearing transaction account balances and time deposits. Period-end deposits were $22.3 billion at June 30, 2017, a $259 million decrease compared to March 31, 2017.

- The Company's common equity Tier 1 ratio was 11.76% at June 30, 2017. In addition, the Company's Tier 1 capital ratio was 11.76%, total capital ratio was 13.36% and leverage ratio was 9.27% at June 30, 2017. The Company's common equity Tier 1 ratio was 11.59% at March 31, 2017. In addition, the Company's Tier 1 capital ratio was 11.59%, total capital ratio was 13.25% and leverage ratio was 8.89% at March 31, 2017.
- The Company paid a regular quarterly cash dividend of $29 million or $0.44 per common share during the second quarter of 2017. On July 25, 2017, the board of directors approved a regular quarterly cash dividend of $0.44 per common share payable on or about August 25, 2017 to shareholders of record as of August 11, 2017.

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 tax-equivalent 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 $205.2 million for the second quarter of 2017, up from $182.6 million in the second quarter of 2016 and $201.2 million in the first quarter of 2017. Net interest margin was 2.89 percent for the second quarter of 2017, 2.63 percent for the second quarter of 2016 and 2.81 percent for the first quarter of 2017.

Tax-equivalent net interest revenue increased $22.6 million over the second quarter of 2016. Table 1 shows the effect on net interest revenue from changes in average balances and interest rates for various types of earning assets and interest-bearing liabilities. Changes in interest rates and yields increased net interest revenue by $13.1 million. The benefit of an increase in short-term interest rates on the floating-rate earning assets was partially offset by higher borrowing costs. Tax-equivalent net interest revenue increased $9.4 million primarily due to the growth in average balances of loans and trading securities.

The tax-equivalent yield on earning assets was 3.30 percent for the second quarter of 2017, up 39 basis points over the second quarter of 2016, primarily due to increases in short-term interest rates resulting from three 25 basis point increases in the federal funds rate by the Federal Reserve since the second quarter of 2016. Loan yields increased 45 basis points to 4.03 percent. The yield on interest-bearing cash and cash equivalents increased 53 basis points. The available for sale securities portfolio yield was up 7 basis points to 2.11 percent. Funding costs were up 22 basis points over the second quarter of 2016. Growth in the cost of interest-bearing deposits was limited to 7 basis points by a lack of market pricing pressure. The cost of other borrowed funds increased 50 basis points. The cost of the subordinated debt was up 403 basis points as lower variable rate debt was replaced in the second quarter of 2016 by higher fixed rate debt. The benefit to net interest margin from earning assets funded by non-interest bearing liabilities was 22 basis points for the second quarter of 2017, up 9 basis points over the second quarter of 2016. Average non-interest bearing deposits comprised 29% of total liabilities and equity for the second quarter of 2017, up from 26% for the second quarter of 2016.

Average earning assets for the second quarter of 2017 increased $424 million or 1 percent over the second quarter of 2016, including $495 million related to the Mobank acquisition. Average loans, net of allowance for loan losses, increased $860 million due primarily to growth in commercial, consumer and commercial real estate loans and included $495 million related to the Mobank acquisition. The average balance of trading securities increased $218 million primarily due to the addition of a new group in the third quarter of 2016 that trades in U.S. agency residential mortgage-backed securities. The average balance of fair value option securities held as an economic hedge of our mortgage servicing rights increased $108 million. The average balance of available for sale securities decreased $506 million. The average balance of residential mortgage loans held for sale decreased $156 million and the investment securities portfolio balance decreased $63 million.

Average deposits increased $1.6 billion over the second quarter of 2016, including $547 million from the Mobank acquisition in the fourth quarter of 2016. Demand deposit balances grew by $1.2 billion, including $265 million from Mobank. Interest-bearing transaction account balances increased $497 million, including $282 million from Mobank. This growth was partially offset by a $93 million decrease in average time deposits. Savings account balances also grew over the prior year. Average borrowed funds decreased $695 million compared to the second quarter of 2016, primarily due to decreased borrowings from the Federal Home Loan Banks and lower average repurchase agreement balances. The average balance of subordinated debentures decreased $88 million.

Net interest margin increased 8 basis points over the first quarter of 2017. The yield on average earning assets increased 15 basis points. The loan portfolio yield increased by 15 basis points primarily due to increases in the 30 day and 90 day LIBOR. The yield on the available for sale securities portfolio increased 6 basis points. The yield on interest-bearing cash and cash equivalents increased 22 basis points. Funding costs were 0.63 percent, up 11 basis points over the prior quarter. The benefit to net interest margin from earning assets funded by non-interest bearing liabilities increased 4 basis points over the prior quarter.
Average earning assets decreased $359 million compared to the first quarter of 2017. The average balance of the available for sale securities portfolio decreased $183 million. The average balance of fair value option securities held as an economic hedge of our mortgage servicing rights increased $60 million. Average trading securities portfolio balances decreased $124 million and interest-bearing cash and cash equivalents balances decreased $80 million.
Average deposits decreased $277 million compared to the previous quarter. Interest-bearing transaction account balances decreased $480 million and time deposit balances decreased $55 million, partially offset by a $237 million increase in demand deposit balances. The average balance of borrowed funds decreased $254 million compared to the first quarter of 2017 primarily due to decreased borrowings from the Federal Home Loan Banks and lower average repurchase agreement balances.

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 81% of our commercial and commercial real estate loan portfolios are either variable rate or fixed rate that will reprice within one year. These loans are funded primarily by deposit accounts that are either non-interest bearing, or that reprice more slowly than the loans. The result is a balance sheet that would be asset sensitive, which means that assets generally reprice more quickly than liabilities. One of the strategies that we use to manage toward a relative rate-neutral position is to purchase fixed-rate residential mortgage-backed securities issued primarily by U.S. government agencies and fund them with market-rate-sensitive liabilities. The liability-sensitive nature of this strategy provides an offset to the asset-sensitive characteristics of our loan portfolio. We also may use derivative instruments to manage our interest rate risk.

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

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

	Three Months Ended June 30, 2017 / 2016			Six Months Ended June 30, 2017 / 2016		
		Change Due To[1]			Change Due To[1]	
	Change	Volume	Yield/Rate	Change	Volume	Yield/Rate
Tax-equivalent interest revenue:						
Interest-bearing cash and cash equivalents	$2,629	$(31)	$ 2,660	$4,167	$21	$ 4,146
Trading securities	2,742	3,098	(356)	7,384	8,346	(962)
Investment securities:						
Taxable securities	(138)	(101)	(37)	(300)	(212)	(88)
Tax-exempt securities	(121)	(322)	201	(212)	(604)	392
Total investment securities	(259)	(423)	164	(512)	(816)	304
Available for sale securities:						
Taxable securities	(425)	(2,078)	1,653	(2,430)	(3,284)	854
Tax-exempt securities	(137)	(285)	148	(285)	(492)	207
Total available for sale securities	(562)	(2,363)	1,801	(2,715)	(3,776)	1,061
Fair value option securities	1,477	689	788	1,268	562	706
Restricted equity securities	536	(424)	960	534	(115)	649
Residential mortgage loans held for sale	(1,122)	(1,434)	312	(1,986)	(2,014)	28
Loans	27,431	8,459	18,972	49,369	17,945	31,424
Total tax-equivalent interest revenue	32,872	7,571	25,301	57,509	20,153	37,356
Interest expense:						
Transaction deposits	3,177	241	2,936	5,074	607	4,467
Savings deposits	(7)	12	(19)	(13)	25	(38)
Time deposits	(545)	(264)	(281)	(1,624)	(584)	(1,040)
Funds purchased	63	(7)	70	51	(61)	112
Repurchase agreements	(4)	(21)	17	(61)	(35)	(26)
Other borrowings	6,513	(1,040)	7,553	10,439	(675)	11,114
Subordinated debentures	1,125	(774)	1,899	2,440	(1,507)	3,947
Total interest expense	10,322	(1,853)	12,175	16,306	(2,230)	18,536
Tax-equivalent net interest revenue	22,550	9,424	13,126	41,203	22,383	18,820
Change in tax-equivalent adjustment	(42)			1		
Net interest revenue	$22,592			$41,202		

[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 $182.3 million for the second quarter of 2017, a $3.3 million decrease compared to the second quarter of 2016 and a $12.0 million increase over the first quarter of 2017. Fees and commissions revenue decreased $2.7 million compared to the second quarter of 2016 and increased $13.1 million over the prior quarter. The change in the fair value of mortgage servicing rights, net of economic hedges, decreased other operating revenue by $1.7 million in the second quarter of 2017, decreased other operating revenue by $1.2 million in the second quarter of 2016 and increased other operating revenue $266 thousand in the first quarter of 2017.

Table 2 – Other Operating Revenue
(In thousands)

	Three Months Ended June 30, 2017	2016	Increase (Decrease)	% Increase (Decrease)	Three Months Ended Mar. 31, 2017	Increase (Decrease)	% Increase (Decrease)
Brokerage and trading revenue	$31,764	$39,530	$(7,766)	(20)%	$33,623	$(1,859)	(6)%
Transaction card revenue	35,296	34,950	346	1 %	32,127	3,169	10 %
Fiduciary and asset management revenue	41,808	34,813	6,995	20 %	38,631	3,177	8 %
Deposit service charges and fees	23,354	22,618	736	3 %	23,030	324	1 %
Mortgage banking revenue	30,276	34,884	(4,608)	(13)%	25,191	5,085	20 %
Other revenue	14,984	13,352	1,632	12 %	11,752	3,232	28 %
Total fees and commissions revenue	177,482	180,147	(2,665)	(1)%	164,354	13,128	8 %
Other gains, net	6,108	1,307	4,801	N/A	3,627	2,481	N/A
Gain (loss) on derivatives, net	3,241	10,766	(7,525)	N/A	(450)	3,691	N/A
Gain (loss) on fair value option securities, net	1,984	4,279	(2,295)	N/A	(1,140)	3,124	N/A
Change in fair value of mortgage servicing rights	(6,943)	(16,283)	9,340	N/A	1,856	(8,799)	N/A
Gain on available for sale securities, net	380	5,326	(4,946)	N/A	2,049	(1,669)	N/A
Total other operating revenue	$182,252	$185,542	$(3,290)	(2)%	$170,296	$11,956	7 %

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

Fees and commissions revenue

Diversified sources of fees and commissions revenue are a significant part of our business strategy and represented 46 percent of total revenue for the second quarter of 2017, excluding provision for credit losses and gains and losses on other assets, securities and derivatives and the change in the fair value of mortgage servicing rights. We believe that a variety of fee revenue sources provides an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile. As an example of this strength, many of the economic factors that cause net interest revenue compression such as falling interest rates may also drive growth in our mortgage banking revenue. We expect growth in other operating revenue to come through offering new products and services and by further development of our presence in other markets. However, current and future economic conditions, regulatory constraints, increased competition and saturation in our existing markets could affect the rate of future increases.

Brokerage and trading revenue, which includes revenues from trading, customer hedging, retail brokerage and investment banking, decreased $7.8 million or 20 percent compared to the second quarter of 2016.

Trading revenue includes 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 and related derivative instruments. Trading revenue was $10.1 million for the second quarter of 2017, a $2.2 million or 18 percent decrease compared to the second quarter of 2016. Lower volumes of U.S. agency residential mortgage-backed and municipal securities sold to our institutional customers due to anticipation of future interest increase, was offset by the addition of a new group in the third quarter of 2016 that trades in U.S. government agency residential mortgage-backed securities and related to-be-announced derivatives. The addition of this group added $1.4 million of net interest revenue and $2.1 million of trading revenue in the second quarter. This new group increased our trading securities portfolio by $359 million and receivable for unsettled trades by $111 million at June 30, 2017.

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 $11.6 million for the second quarter of 2017, a $1.9 million or 14 percent decrease compared to the second quarter of 2016 primarily attributed to energy and mortgage banking customers.

Revenue earned from retail brokerage transactions decreased $740 thousand or 11 percent compared to the second quarter of 2016 to $6.0 million. Retail brokerage revenue includes fees and commissions earned on sales of fixed income securities, annuities, mutual funds and other financial instruments to retail customers. Revenue is primarily based on the volume of customer transactions and applicable commission rate for each product type. Trading volume decreased in the second quarter of 2017, primarily due to the impact of the implementation of the new Department of Labor ("DOL") fiduciary rule. New regulation issued by the DOL amended the definition of investment advice under the Employee Retirement Income Security Act ("ERISA"). The new rule is designed to provide better protection to plans, participants, beneficiaries and individual retirement account ("IRA") owners against conflicts of interest, imprudence and disloyalty.

Investment banking revenue, which includes fees earned upon completion of underwriting and financial advisory services and loan syndication fees, totaled $4.0 million for the second quarter of 2017, a $2.9 million or 42 percent decrease compared to the second quarter of 2016. Investment banking revenue is primarily related to the timing and volume of completed transactions.

Brokerage and trading revenue decreased $1.9 million compared to the first quarter of 2017, primarily due to a $1.0 million decrease in trading revenue and an $862 thousand decrease in retail brokerage fees. Customer hedging revenue was unchanged compared to the prior quarter. Increased hedging activity from our mortgage banking customers was offset by a decreased volume of energy contracts.

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. Excluding the impact of a customer early termination fee received in the second quarter of 2016, transaction card revenue for the second quarter of 2017 increased $1.5 million or 5 percent over the second quarter of 2016. Revenues from the processing of transactions on behalf of the members of our TransFund electronic funds transfer ("EFT") network totaled $18.1 million, up $1.0 million or 6% over the prior year. Merchant services fees totaled $12.1 million, a $373 thousand or 3 percent increase from increased transaction activity. Revenue from interchange fees paid by merchants for transactions processed from debit cards issued by the Company totaled $5.1 million, an increase of $133 thousand or 3 percent over the second quarter of 2016.
Transaction card revenue increased $3.2 million over the prior quarter, primarily due to a seasonal increase in transaction volumes on our TransFund EFT network and a full quarter's impact of expansion into the Arizona market.

Revenue from processing transactions on behalf of merchants and check card revenue also increased over the prior quarter.

Fiduciary and asset management revenue is earned through managing or holding of assets for customers and executing transactions or providing related services. Approximately 80 percent of fiduciary and asset management revenue is primarily based on the fair value of assets. Rates applied to asset values vary based on the nature of the relationship. Fiduciary relationships and managed asset relationships generally have higher fee rates than non-fiduciary and/or managed relationships.

Fiduciary and asset management revenue grew by $7.0 million or 20 percent over the second quarter of 2016, primarily due to growth in assets under management, improved pricing discipline and decreased fee waivers. We earn fees as administrator to and investment adviser for the Cavanal Hill Funds, a diversified, open-ended investment company established as a business trust under the Investment Company Act of 1940. The Bank is custodian and Cavanal Hill Distributors, Inc. is distributor for the Cavanal Hill Funds. Products of the Cavanal Hill Funds are offered to customers, employee benefit plans, trusts and the general public in the ordinary course of business. Prior to the recent increases in short-term market interest rates as a result of the Federal Reserve's federal funds rate increases, we voluntarily waived $1.8 million of administration fees on the Cavanal Hill money market funds in order to maintain positive yields on these funds in the second quarter of 2016. We waived $445 thousand of fees in the first quarter of 2017. No fees were waived in the second quarter of 2017.

Fiduciary and asset management revenue increased $3.2 million over the first quarter of 2017, primarily due to an annual assessment of tax preparation fees, growth in assets under management and decreased fee waivers.

A distribution of assets under management or administration and related fiduciary and asset management revenue follows:

Table 3 -- Assets Under Management or Administration

	Three Months Ended June 30,					
	2017			2016		
	Balance	Revenue[1]	Margin[2]	Balance	Revenue[1]	Margin[2]
Managed fiduciary assets:						
Personal	$7,581,555	$ 21,698	1.14 %	$6,696,329	$ 19,561	1.17 %
Institutional	12,265,037	5,475	0.18 %	11,423,563	4,498	0.16 %
Total managed fiduciary assets	19,846,592	27,173	0.55 %	18,119,892	24,059	0.53 %
Non-managed assets:						
Fiduciary	25,242,561	14,049	0.22 %	22,376,691	10,287	0.18 %
Non-fiduciary	16,579,586	586	0.01 %	16,863,508	467	0.01 %
Safekeeping and brokerage assets under administration	16,143,023	—	— %	15,641,425	—	— %
Total non-managed assets	57,965,170	14,635	0.10 %	54,881,624	10,754	0.08 %
Total assets under management or administration	$77,811,762	$ 41,808	0.21 %	$73,001,516	$ 34,813	0.19 %

1 Fiduciary and asset management revenue includes asset-based and other fees associated with the assets.

2 Annualized revenue divided by period-end balance.

A summary of changes in assets under management or administration for the three months ended June 30, 2017 and 2016 follows:

Table 4 -- Changes in Assets Under Management or Administration

	Three Months Ended June 30,	
	2017	2016
Beginning balance	$77,418,956	$71,869,013
Net inflows (outflows)	(918,076)	377,244
Net change in fair value	1,310,882	755,259

Ending balance	$77,811,762	$73,001,516

Deposit service charges and fees were $23.4 million for the second quarter of 2017, an increase of $736 thousand or 3 percent over the second quarter of 2016. Commercial account service charge revenue totaled $11.8 million, up $705 thousand or 6 percent. Overdraft fees were $9.8 million, largely unchanged compared to the second quarter of 2016. Service charges on deposit accounts with a standard monthly fee were $1.7 million, an increase of $109 thousand or 7 percent. Deposit service charges and fees increased $324 thousand over the prior quarter primarily due to an increase in commercial account service charge revenue and a seasonal increase in overdraft fee volumes.

Mortgage banking revenue decreased $4.6 million or 13 percent compared to the second quarter of 2016. Mortgage production revenue decreased $5.2 million. Mortgage loan production volumes decreased $998 million, including a $581 million decrease related to the Company's strategic decision to exit the correspondent lending channel during the third quarter of 2016. Production volumes in the Home Direct online and retail channel both decreased compared to the prior year as average primary mortgage interest rates were up 39 basis points over the second quarter of 2016. Gains on sale margins increased 56 basis points over the prior year. The margin increase was primarily due to exiting the correspondent lending channel, the lowest margin of our three sales channels, partially offset by a decrease in margins from our Home Direct online origination channel. Mortgage servicing revenue was up $638 thousand or 4 percent over the second quarter of 2016. The outstanding principal balance of mortgage loans serviced for others totaled $22.1 billion, an increase of $917 million or 4 percent.
Mortgage banking revenue increased $5.1 million over the first quarter of 2017. Mortgage production revenue increased $5.3 million. Production volume increased $109 million in response to lower average primary mortgage interest rates and normal seasonality. Gains on sale margin improved due to increased retail margins and improved hedging performance. Revenue from mortgage loan servicing decreased $212 thousand compared to the prior quarter.

Table 5 – Mortgage Banking Revenue
(In thousands)

	Three Months Ended June 30, 2017	2016	Increase (Decrease)	% Increase (Decrease)	Three Months Ended Mar. 31, 2017	Increase (Decrease)	% Increase (Decrease)
Mortgage production revenue	$13,840	$19,086	$(5,246)	(27)%	$8,543	$5,297	62%
Mortgage loans funded for sale	$902,978	$1,818,844			$711,019		
Add: Current period end outstanding commitments	362,088	965,631			381,732		
Less: Prior period end outstanding commitments	381,732	902,986			318,359		
Total mortgage production volume	$883,334	$1,881,489	$(998,155)	(53)%	$774,392	$108,942	14%
Mortgage loan refinances to mortgage loans funded for sale	33%	44%	(11) bps		44%	(11) bps	
Gains on sale margin	1.57%	1.01%	56 bps		1.10%	47 bps	
Primary mortgage interest rates:							

Average	3.98 %	3.59 %	39 bps			4.17 %	(19) bps		
Period end	3.88 %	3.48 %	40 bps			4.14 %	(26) bps		
Mortgage servicing revenue	$16,436	$15,798	$638	4	%	$16,648	$(212)	(1	)%
Average outstanding principal balance of mortgage loans serviced for others	22,055,127	20,736,525	1,318,602	6	%	22,006,295	48,832	—	%
Average mortgage servicing revenue rates	0.30 %	0.31 %	(1) bp			0.31 %	(1) bp		

[1] Actual interest earned on fair value option securities less internal transfer-priced cost of funds.

Primary rates disclosed in Table 5 above represent rates generally available to borrowers on 30 year conforming mortgage loans.

Net gains on other assets, securities and derivatives

Other net gains totaled $6.1 million in the second quarter of 2017, due to the sale of a merchant banking investment. Other net gains totaled $3.6 million in the first quarter of 2017 related to holdings of two consolidated private equity funds and the sale of certain merchant banking investments. The sales of merchant banking investments included a consolidated entity that reduced goodwill by $2.7 million, identifiable intangible assets by $4.6 million and other assets by $5.6 million.

As discussed in the Market Risk section following, the fair value of our mortgage servicing rights ("MSRs") changes in response to changes in primary mortgage loan rates and other assumptions. We attempt to mitigate the earnings volatility caused by changes in the fair value of MSRs by designating certain financial instruments as an economic hedge. Changes in the fair value of these instruments are generally expected to partially offset changes in the fair value of MSRs.
The net economic benefit of the changes in fair value of mortgage servicing rights and related economic hedges was $247 thousand in the second quarter of 2017, including a $6.9 million decrease in the fair value of the mortgage servicing rights, a $5.2 million increase in the fair value of securities and derivative contracts held as an economic hedge and $2.0 million of related net interest revenue.

The net economic benefit of changes in the fair value of mortgage servicing rights and related economic hedges was $110 thousand for the second quarter of 2016. The fair value of mortgage servicing rights decreased $16.3 million.The fair value of securities and interest rate derivative contracts held as an economic hedge increased $15.0 million. Net interest earned on securities held as an economic hedge was $1.3 million.

The net economic benefit of changes in the fair value of mortgage servicing rights and related economic hedges was $1.5 million for the first quarter of 2017. The fair value of mortgage servicing rights increased by $1.9 million. The fair value of securities and interest rate derivative contracts held as an economic hedge decreased by $1.6 million.

Table 6 - Gain (Loss) on Mortgage Servicing Rights
(In thousands)

	Three Months Ended		
	June 30, 2017	Mar. 31, 2017	June 30, 2016
Gain (loss) on mortgage hedge derivative contracts, net	$3,241	$(450)	$10,766
Gain (loss) on fair value option securities, net	1,984	(1,140)	4,279
Gain (loss) on economic hedge of mortgage servicing rights, net	5,225	(1,590)	15,045
Gain (loss) on change in fair value of mortgage servicing rights	(6,943)	1,856	(16,283)
Loss on changes in fair value of mortgage servicing rights, net of economic hedges included in other operating revenue	(1,718)	266	(1,238)
Net interest revenue on fair value option securities[1]	1,965	1,271	1,348
Total economic benefit (cost) of changes in the fair value of mortgage servicing rights, net of economic hedges	$247	$1,537	$110

Other Operating Expense

Other operating expense for the second quarter of 2017 totaled $250.9 million, largely unchanged compared to the second quarter of 2016. Personnel expense increased $4.5 million or 3 percent. Non-personnel expense decreased $5.0 million or 4 percent compared to the prior year.

Other operating expense increased $6.2 million over previous quarter. Personnel expense was up $7.3 million, primarily due to changes in assumptions for the vesting of certain performance-based equity awards. Non-personnel expense decreased $1.1 million. Deposit insurance expense decreased primarily due to $5.1 million in credits received during the second quarter of 2017 related to the revision of certain inputs to the assessment calculation filed in previous periods. Data processing and communication expense increased $1.4 million and net losses and operating expenses of repossessed assets increased $1.3 million.

The discussion following excludes the impact of these items.

Table 7 – Other Operating Expense
(In thousands)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Increase (Decrease)	% Increase (Decrease)	Three Months Ended Mar. 31, 2017	Increase (Decrease)	% Increase (Decrease)
Regular compensation	$83,630	$81,730	$ 1,900	2 %	$83,228	$ 402	— %
Incentive compensation:							
Cash-based	29,954	32,595	(2,641)	(8)%	28,836	1,118	4 %
Share-based	7,380	3,701	3,679	99 %	1,603	5,777	360 %
Deferred compensation	1,000	211	789	N/A	792	208	N/A
Total incentive compensation	38,334	36,507	1,827	5 %	31,231	7,103	23 %
Employee benefits	21,780	20,976	804	4 %	21,966	(186)	(1)%
Total personnel expense	143,744	139,213	4,531	3 %	136,425	7,319	5 %
Business promotion	7,738	6,703	1,035	15 %	6,717	1,021	15 %
Professional fees and services	12,419	14,158	(1,739)	(12)%	11,417	1,002	9 %
Net occupancy and equipment	21,125	19,677	1,448	7 %	21,624	(499)	(2)%
Insurance	689	7,129	(6,440)	(90)%	6,404	(5,715)	(89)%
Data processing and communications	36,330	32,802	3,528	11 %	34,902	1,428	4 %
Printing, postage and supplies	4,140	3,889	251	6 %	3,851	289	8 %
Net losses (gains) and operating expenses of repossessed assets	2,267	1,588	679	43 %	1,009	1,258	125 %
Amortization of intangible assets	1,803	2,624	(821)	(31)%	1,802	1	— %
Mortgage banking costs	12,072	15,746	(3,674)	(23)%	13,003	(931)	(7)%
Other expense	8,558	7,856	702	9 %	7,557	1,001	13 %
Total other operating expense	$250,885	$251,385	$ (500)	— %	$244,711	$ 6,174	3 %
Average number of employees (full-time equivalent)	4,910	4,893	17	— %	4,910	—	— %

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 1.9 million or 2 percent over the second quarter of 2016. The average number of employees was relatively unchanged compared to the prior year. Recent additions from the Mobank acquisition and in mortgage and technology were offset by the impact of staff reductions in the fourth quarter of 2016. In addition, standard annual merit increases in regular compensation were effective for the majority of our staff on March 1.

Incentive compensation increased $1.8 million or 5 percent over the second quarter of 2016, primarily due to increased share-based compensation expense, partially offset by lower cash-based incentive compensation expense.

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. Cash-based incentive compensation expense decreased $2.6 million or 8 percent compared to the second quarter of 2016.

Share-based compensation expense represents expense for equity awards based on grant-date fair value. Non-vested shares generally cliff vest in 3 years and are subject to a two year holding period after vesting. The number of shares that will ultimately vest is determined by BOKF's change in earnings per share relative to a defined group of peer banks. In addition, compensation costs related to certain shares is variable based on changes in the the fair value of BOK Financial common shares. Share-based compensation expense increased $3.7 million or 99% over the prior year, primarily due to changes in the vesting assumptions for performance-based awards that were granted in January 2015 and a $21.43 per share increase in the fair value of BOK Financial common shares.

Employee benefits expense increased $804 thousand or 4 percent over the the second quarter of 2016, primarily due to an increase in employee medical costs.
Personnel expense increased $7.3 million over the first quarter of 2017. Regular compensation expense was largely unchanged compared to the prior quarter. Incentive compensation expense increased $7.1 million, primarily due to a $5.8 million increase in share-based compensation expense and a $1.1 million increase in cash-based incentive compensation expense. A $2.6 million increase in employee healthcare costs was offset by a $2.2 million seasonal decrease in payroll tax expense.

Non-personnel operating expense

Non-personnel operating expense decreased $5.0 million or 4% compared to the second quarter of 2016.

Deposit insurance expense decreased $6.4 million. The company received $5.1 million in credits during the second quarter of 2017 related to the revision of certain inputs to the assessment calculation filed for years 2013 through 2016. In conjunction with ongoing cost reduction efforts, management performed a comprehensive review of inputs into the deposit insurance assessment calculation. We were able to support eligibility for the custodial bank adjustment, which allows for the deduction of certain qualifying low-risk assets from the deposit insurance assessment base for depository institutions with greater than $50 billion in trust assets. The remaining decrease was primarily due to the benefit of decreased criticized and classified assets levels related to the stabilization of energy prices, partially offset by a new surcharge for banks with more than $10 billion in assets that became effective in the third quarter of 2016.

Mortgage banking expense decreased $3.7 million, primarily due to improvement in the estimated loss rates on servicing certain defaulted residential mortgage loans serviced for U.S. government agencies and lower prepayments as average mortgage interest rates trended upward over the prior year. Professional fees and servicing expense was $1.7 million lower, primarily due to costs incurred in the second quarter of 2016 related to the Mobank acquisition and lower legal fees. Data processing and communications expense increased $3.5 million. Occupancy and equipment expense increased $1.4 million. Increases in these expense categories were primarily due to information technology infrastructure and cybersecurity project costs and increased data processing transaction activity. Business promotion expense was up $1.0 million primarily related to the timing of advertising spending.

Non-personnel expense decreased $1.1 million compared to the first quarter of 2017. Deposit insurance expense decreased $5.7 million. Data processing and communication expense increased $1.4 million primarily due to increased transaction activity. Net losses and operating expenses of repossessed assets increased $1.3 million primarily due to increased operating expenses related to repossessed oil and gas properties. This increased expense was offset by revenue from these properties included in other revenues.

Income Taxes

The Company's income tax expense was $47.7 million or 34.9 percent of net income before taxes for the second quarter of 2017 compared to $30.5 million or 31.5 percent of net income before taxes for the second quarter of 2016 and $38.1 million or 30.1 percent of net income before taxes for the first quarter of 2017.

The Company implemented a new accounting standard in the first quarter of 2017 that includes the tax effect of equity compensation in income tax expense that previously was included in stockholders' equity. The accounting standard was adopted prospectively without restatement of prior periods. Excluding this change, tax expense would have been 33.7 percent of net income before taxes for the second quarter of 2017 and 33.2 percent of net income before taxes for the first quarter of 2017.

The Company's effective tax rate is affected by recurring items such as amortization related to its investments in affordable housing investments net of affordable housing tax credits and other tax benefits, bank-owned life insurance and tax-exempt income. The effective tax rate is also affected by items that may occur in any given period but are not consistent from period to period. Accordingly, the comparability of the effective tax rate from period to period may be impacted.

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 $17 million at June 30, 2017, $17 million at March 31, 2017 and $13 million at June 30, 2016.

Lines of Business

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

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

We allocate resources and evaluate the performance of our lines of business using the net direct contribution, which includes the allocation of funds, actual net credit losses and capital costs. In addition, we measure the performance of our business lines after allocation of certain indirect expenses and taxes based on statutory rates.

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 repricing and cash flow characteristics. Market rates are generally based on the applicable LIBOR or interest rate swap rates, adjusted for prepayment and liquidity 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 that approximate wholesale market rates for funds with similar repricing and cash flow 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 repricing characteristics reflected in a combination of the short-term LIBOR rate and a moving average of an intermediate-term swap rate, with an appropriate spread applied to both. Shorter duration products are weighted towards the short-term LIBOR rate and longer duration products are weighted towards the intermediate-term swap rates. The expected duration ranges from 30 days for certain rate-sensitive deposits to five years.

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

As shown in Table 8, net income attributable to our lines of business increased $23.7 million or 35 percent over the second quarter of 2016. Net interest revenue grew by $31.4 million over the prior year. Other operating revenue decreased $1.3 million while operating expenses decreased $1.4 million and net charge-offs were down $5.9 million.

Table 8 -- Net Income by Line of Business
(In thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Commercial Banking	$68,299	$52,836	$132,215	$89,890
Consumer Banking	7,422	4,231	12,166	4,342
Wealth Management	15,824	10,780	30,108	17,758
Subtotal	91,545	67,847	174,489	111,990
Funds Management and other	(3,398)	(2,046)	2,014	(3,625)
Total	$88,147	$65,801	$176,503	$108,365

Commercial Banking

Commercial Banking contributed $68.3 million to consolidated net income in the second quarter of 2017, an increase of $15.5 million or 29 percent over the second quarter of 2016. The increase in Commercial Banking's contribution was largely due to net interest revenue.

Table 9 -- Commercial Banking
(Dollars in thousands)

	Three Months Ended June 30, 2017	2016	Increase (Decrease)	Six Months Ended June 30, 2017	2016	Increase (Decrease)
Net interest revenue from external sources	$144,164	$118,480	$25,684	$278,868	$235,116	$43,752
Net interest expense from internal sources	(20,347)	(14,575)	(5,772)	(37,140)	(29,208)	(7,932)
Total net interest revenue	123,817	103,905	19,912	241,728	205,908	35,820
Net loans charged off (recovered)	1,228	6,852	(5,624)	(234)	28,423	(28,657)
Net interest revenue after net loans charged off (recovered)	122,589	97,053	25,536	241,962	177,485	64,477
Fees and commissions revenue	49,792	51,028	(1,236)	94,265	96,504	(2,239)
Other gains, net	5,986	469	5,517	7,783	101	7,682
Other operating revenue	55,778	51,497	4,281	102,048	96,605	5,443
Personnel expense	28,005	27,520	485	55,033	54,147	886
Non-personnel expense	31,123	25,074	6,049	56,532	54,516	2,016
Other operating expense	59,128	52,594	6,534	111,565	108,663	2,902
Net direct contribution	119,239	95,956	23,283	232,445	165,427	67,018
Gain on financial instruments, net	3	—	3	41	—	41
Gain (loss) on repossessed assets, net	1,403	(598)	2,001	1,398	(680)	2,078
Corporate expense allocations	8,862	8,883	(21)	17,493	17,627	(134)
Income before taxes	111,783	86,475	25,308	216,391	147,120	69,271
Federal and state income tax	43,484	33,639	9,845	84,176	57,230	26,946
Net income	$68,299	$52,836	$15,463	$132,215	$89,890	$42,325
Average assets	$17,596,273	$16,973,663	$622,610	$17,517,960	$16,971,339	$546,621
Average loans	14,177,635	13,571,602	606,033	14,097,588	13,444,470	653,118
Average deposits	8,652,811	8,403,408	249,403	8,642,326	8,430,579	211,747
Average invested capital	1,239,492	1,167,840	71,652	1,226,041	1,160,485	65,556

Net interest revenue increased $19.9 million or 19 percent over the prior year. Growth in net interest revenue was primarily due to a $606 million or 4 percent increase in average loan balances and increased yields on commercial loans due to rising short-term interest rates. Average deposit balances increased $249 million or 3 percent. Yields on deposits sold to the funds management unit also went up due to the increase in short-term interest rates from the Federal Reserve increase in the federal funds rate.

Fees and commissions revenue decreased $1.2 million or 2 percent compared to the second quarter of 2016, primarily due to a $1.4 million decline in customer energy derivatives trading and a $1.3 million decline in loan syndication fees. This decline was partially offset by increases in deposit service fees and transaction card revenue from our TransFund electronic fund transfer network and other revenue from the operation of repossessed oil and gas properties.

Operating expenses increased $6.5 million or 12 percent compared to the second quarter of 2016. Personnel expense increased $485 thousand or 2 percent. Non-personnel expense increased $6.0 million or 24 percent. Net repossession expense increased $2.7 million related mainly to the repossession of oil and gas properties. Deposit insurance expense increased $1.7 million due to increased granularity in the allocation to the segments.

The average outstanding balance of loans attributed to Commercial Banking grew by $606 million or 4 percent over the second quarter of 2016 to $14.2 billion. See the Loans section of Management's Discussion and Analysis of Financial Condition following for additional discussion of changes in commercial and commercial real estate loans which are primarily attributed to the Commercial Banking segment.

Average deposits attributed to Commercial Banking were $8.7 billion for the second quarter of 2017, an increase of $249 million or 3 percent compared to the second quarter of 2016. See Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital for further discussion of change.

Consumer Banking

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

Consumer Banking contributed $7.4 million to consolidated net income for the second quarter of 2017, up $3.2 million over the second quarter of 2016. Growth in net interest revenue of $4.1 million was offset by a decrease in other operating revenue of $5.3 million while non-personnel expense decreased by $6.4 million.

Table 10 -- Consumer Banking
(Dollars in thousands)

	Three Months Ended June 30, 2017	2016	Increase (Decrease)	Six Months Ended June 30, 2017	2016	Increase (Decrease)
Net interest revenue from external sources	$23,503	$22,349	$ 1,154	$44,632	$43,799	$ 833
Net interest revenue from internal sources	11,837	8,876	2,961	22,789	18,229	4,560
Total net interest revenue	35,340	31,225	4,115	67,421	62,028	5,393
Net loans charged off	926	1,318	(392)	2,198	3,020	(822)
Net interest revenue after net loans charged off	34,414	29,907	4,507	65,223	59,008	6,215
Fees and commissions revenue	52,081	57,170	(5,089)	99,472	111,341	(11,869)
Other gains (losses), net	21	270	(249)	(64)	128	(192)
Other operating revenue	52,102	57,440	(5,338)	99,408	111,469	(12,061)
Personnel expense	25,545	26,228	(683)	50,944	51,072	(128)
Non-personnel expense	30,164	36,578	(6,414)	58,298	67,452	(9,154)
Total other operating expense	55,709	62,806	(7,097)	109,242	118,524	(9,282)
Net direct contribution	30,807	24,541	6,266	55,389	51,953	3,436
Gain on financial instruments, net	5,224	15,045	(9,821)	3,557	31,626	(28,069)
Change in fair value of mortgage servicing rights	(6,943)	(16,283)	9,340	(5,087)	(44,271)	39,184
Gain (loss) on repossessed assets, net	98	252	(154)	(39)	406	(445)
Corporate expense allocations	17,039	16,630	409	33,908	32,608	1,300
Income before taxes	12,147	6,925	5,222	19,912	7,106	12,806
Federal and state income tax	4,725	2,694	2,031	7,746	2,764	4,982
Net income	$7,422	$4,231	$ 3,191	$12,166	$4,342	$ 7,824
Average assets	$8,845,398	$8,774,881	$ 70,517	$8,747,524	$8,731,085	$ 16,439
Average loans	1,945,981	1,888,692	57,289	1,936,916	1,886,298	50,618
Average deposits	6,662,838	6,634,362	28,476	6,622,367	6,605,127	17,240
Average invested capital	282,932	266,561	16,371	280,454	262,762	17,692

Net interest revenue from Consumer Banking activities grew by $4.1 million or 13 percent over the the second quarter of 2016 primarily due to increased rates received on deposit balances sold to the Funds Management unit. Average loan balances grew by $57 million or 3 percent and average deposits were largely unchanged from prior year.

Fees and commissions revenue decreased $5.1 million or 9 percent compared to the second quarter of 2016, primarily due to a $4.6 million decrease in mortgage banking revenue. Mortgage loan production volumes decreased $998 million. Revenue from interchange fees paid by merchants for transactions processed from debit cards issued by the Company and deposit service charges and fees were relatively unchanged compared to the prior year.

Operating expenses decreased $7.1 million or 11 percent compared to the second quarter of 2016. Personnel expenses decreased $683 thousand or 3 percent. Non-personnel expense decreased $6.4 million or 18 percent compared to the prior year. Mortgage banking costs were down $3.7 million primarily due to improvement in the estimated loss rates on outstanding claims on servicing certain defaulted residential mortgage loans guaranteed by U.S. government agencies as well as lower prepayments of loans serviced for others. Other expense decreased $1.3 million primarily due to a legal settlement in the second quarter of 2016. Professional fees and services were down $1.4 million.

Changes in the fair value of our mortgage servicing rights, net of economic hedge, resulted in a $1.1 million decrease in Consumer Banking net income in the second quarter of 2017 compared to a $756 thousand decrease in Consumer Banking net income in the second quarter of 2016.

Corporate expense allocations increased $409 thousand or 3% over the second quarter of 2016.

Average consumer deposits were largely unchanged compared to the second quarter of 2016. Higher-costing time deposit balances decreased $135 million or 12 percent, offset by a $95 million or 6 percent increase in demand deposit balances, a $37 million or 9 percent increase in savings account balances and a $32 million or 1 percent increase in interest-bearing transaction accounts.

Wealth Management

Wealth Management contributed $15.8 million to consolidated net income in the second quarter of 2017, up $5.0 million or 47 percent over the second quarter of 2016 largely due to growth in net interest revenue.

Table 11 -- Wealth Management
(Dollars in thousands)

	Three Months Ended June 30,		Increase (Decrease)	Six Months Ended June 30,		Increase (Decrease)
	2017	2016		2017	2016	
Net interest revenue from external sources	$10,474	$6,271	$ 4,203	$21,960	$12,349	$ 9,611
Net interest revenue from internal sources	10,325	7,193	3,132	19,181	14,857	4,324
Total net interest revenue	20,799	13,464	7,335	41,141	27,206	13,935
Net loans charged off (recovered)	(93)	(239)	146	(53)	(390)	337
Net interest revenue after net loans charged off (recovered)	20,892	13,703	7,189	41,194	27,596	13,598
Fees and commissions revenue	75,553	75,467	86	149,474	144,187	5,287
Other gains, net	16	305	(289)	253	331	(78)
Other operating revenue	75,569	75,772	(203)	149,727	144,518	5,209
Personnel expense	45,477	48,147	(2,670)	90,264	93,266	(3,002)
Non-personnel expense	15,138	13,267	1,871	30,761	28,832	1,929
Other operating expense	60,615	61,414	(799)	121,025	122,098	(1,073)
Net direct contribution	35,846	28,061	7,785	69,896	50,016	19,880
Corporate expense allocations	9,947	10,417	(470)	20,619	20,952	(333)
Income before taxes	25,899	17,644	8,255	49,277	29,064	20,213
Federal and state income tax	10,075	6,864	3,211	19,169	11,306	7,863
Net income						