BOK FINANCIAL CORP ET AL
Form 10-Q
November 01, 2010

As filed with the Securities and Exchange Commission on November 1, 2010

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, 2010

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)
[Missing Graphic Reference]

Oklahoma	73-1373454
(State or other jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
Bank of Oklahoma Tower P.O. Box 2300 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 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: 68,091,126 shares of common stock ($.00006 par value) as of September 30, 2010.

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

Performance Summary

BOK Financial Corporation ("the Company") reported net income of $64.3 million or $0.94 per diluted share for the third quarter of 2010, compared to $63.5 million or $0.93 per diluted share for the second quarter of 2010 and $50.7 million or $0.75 per share for the third quarter of 2009. Net income for the nine months ended September 30, 2010 totaled $187.9 million or $2.75 per diluted share compared with net income of $157.8 million or $2.33 per diluted share for the nine months ended September 30, 2009.

Net income for the first quarter of 2010 included a $6.5 million or $0.10 per diluted share day-one gain from the purchase of the rights to service $4.2 billion of residential mortgage loans on favorable terms. Net income for the second quarter of 2009, included a $7.7 million or $0.11 per share special assessment by the Federal Deposit Insurance Corporation ("FDIC").

Highlights of the third quarter of 2010 included:

- Net interest revenue totaled $180.7 million for the third quarter of 2010 compared to $180.5 million for the third quarter of 2009 and $182.1 million for the second quarter of 2010. Net interest margin was 3.50% for the third quarter of 2010, 3.63% for the third quarter of 2009 and 3.63% for the second quarter of 2010. Net interest margin narrowed during the third quarter of 2010 as cash flows from our securities portfolio are reinvested at lower rates.

- Fees and commissions revenue totaled $136.9 million for the third quarter of 2010, up $17.0 million over the third quarter of 2009 and up $8.8 million over the previous quarter. Mortgage banking increased $16.0 million over the third quarter of 2009 and $10.9 million over the second quarter of 2010 due to increased loan production volume. Deposit service charges decreased by $6.2 million compared to the third quarter of 2009 and $4.5 million compared to the second quarter of 2010 primarily as a result of changes in federal regulations concerning overdraft fees.

- Increased prepayment speeds adversely affected the value of our mortgage servicing rights in the third quarter of 2010. Changes in the fair value of mortgage servicing rights, net of economic hedge, decreased pre-tax net income for the third quarter of 2010 by $7.9 million, compared to an increase in pre-tax net income for the third quarter of 2009 of $579 thousand and an increase in pre-tax net income of $3.0 million in the second quarter of 2010.

- Operating expenses, excluding changes in the fair value of mortgage servicing rights, totaled $189.2 million, up $13.5 million over the third quarter of 2009 and up $2.8 million from the previous quarter. Net losses and operating expenses on repossessed assets increased $3.7 million over the third quarter of 2009 and decreased $5.8 million compared to the prior quarter. Personnel expenses increased $3.2 million over the third quarter of 2009 and $4.2 million over the second quarter 2010, primarily due to higher incentive compensation expense.

- Combined reserves for credit losses totaled $314 million or 2.91% of outstanding loans at September 30, 2010 and $315 million or 2.89% of outstanding loans at June 30, 2010. Net loans charged off and provision for credit losses were $20.1 million and $20.0 million, respectively, for the third quarter of 2010 compared to $36.0 million and $55.1 million, respectively for the third quarter of 2009 and $35.6 million and $36.0 million, respectively, for the second quarter of 2010.

- Nonperforming assets totaled $421 million or 3.85% of outstanding loans and repossessed assets at September 30, 2010, down from $461 million or 4.19% of outstanding loans and repossessed assets at June 30, 2010. Newly identified nonaccruing loans totaled $30 million for the third quarter of 2010 and $58 million for the second quarter of 2010.

- Available for sale securities totaled $9.6 billion at September 30, 2010, up $333 million since June 30, 2010. Other-than-temporary impairment charges on certain privately-issued residential mortgage-backed and municipal debt securities reduced pre-tax income by $14.3 million in the third quarter of 2010, $3.4 million during the third quarter of 2009 and $2.6 million during the second quarter of 2010. Our loss estimates on these securities were adversely affected by an expectation of a more prolonged period of relatively high unemployment and increased loss severity.

- Outstanding loan balances were $10.8 billion at September 30, 2010, down $77 million since June 30, 2010. Commercial loans decreased $40 million, commercial real estate loans decreased $18 million and consumer loans decreased $69 million, partially offset by a $50 million increase in residential mortgage loans. Unfunded commercial loan commitments were largely unchanged for the quarter.

- Total period-end deposits increased $735 million during the third quarter of 2010 to $16.8 billion due primarily to growth in interest-bearing transaction and demand deposits.

- Tangible common equity ratio increased to 8.96% at September 30, 2010 from 8.88% at June 30, 2010 due to an increase in the fair value of the securities portfolio and retained earnings growth. The tangible common equity ratio is a non-GAAP measure of capital strength used by the Company and investors based on shareholders' equity as defined by generally accepted accounting principles in the United States of America ("GAAP") minus intangible assets and equity that does not benefit common shareholders such as preferred equity and equity provided by the U.S. Treasury's Troubled Asset Relief Program ("TARP") Capital Purchase Program. BOK Financial chose not to participate in the TARP Capital Purchase Program. The Company and each of its subsidiary banks exceeded the regulatory definition of well capitalized. The Company's Tier 1 capital ratios as defined by banking regulations were 12.30% at September 30, 2010 and 11.90% at June 30, 2010.

- The Company paid a cash dividend of $16.9 million or $0.25 per common share during the third quarter of 2010. On October 26, 2010, the board of directors declared a cash dividend of $0.25 per common share payable on or about December 1, 2010 to shareholders of record as of November 17, 2010.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Dodd-Frank Act" or "the Act") was signed into law, giving federal banking agencies authority to increase the minimum deposit insurance fund ratio, increase regulatory capital requirements, impose additional rules and regulations over consumer financial products and services and limit the amount of interchange fee that may be charged in an electronic debit transaction. In addition, the Act makes permanent the $250,000 limit for federal deposit insurance and provides unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand deposit accounts. It also repeals prohibitions on payment of interest on demand deposits, which could impact how interest is paid on business transactions and other accounts. We continue to assess the impact of the complex provisions of the Dodd-Frank Act and will work with our applicable regulatory agencies as they undertake the extensive process of developing detailed regulation to implement the Act in the coming months or years. The effect of this legislation on fee income and operating expenses could be significant but cannot be accurately quantified at this time.

On September 12, 2010 the Group of Governors and Head of Supervision ("GHOS"), the oversight body of the Basel Committee on Banking Supervision announced changes to strengthen existing capital and liquidity requirements of internationally active banking organizations. The Basel Committee on Banking Supervision provides an international forum for regular cooperation on banking supervisory matters by its members, including the United States and other large developed countries and the GHOS is composed of central bank governors and heads of supervision from its member countries. The GHOS agreement calls for national jurisdictions to implement the new requirements beginning January 1, 2013. The timing and extent to which these changes will be effective for banking organizations that are not internationally active, like BOK Financial Corporation, has not been determined. Our current capital appears to be well in excess of the preliminary standards.

Results of Operations

Net Interest Revenue and Net Interest Margin

Net interest revenue totaled $180.7 million for the third quarter of 2010, compared to $180.5 million for the third quarter of 2009 and $182.1 million for the second quarter of 2010. The increase in net interest revenue compared to the third quarter of 2009 was due primarily to growth in average earning assets largely offset by a decrease in net interest margin. The decrease in net interest revenue from the second quarter of 2010 was due primarily to a decrease in net interest margin primarily due to lower securities portfolio yield.

Average earning assets for the third quarter of 2010 increased $893 million or 4% compared to the third quarter of 2009. Available for sale securities, which consist largely of U.S. government agency issued residential mortgage-backed securities, increased $1.5 billion. We purchased these securities to supplement earnings, especially in a period of declining loan demand, and to manage interest rate risk. Loans, net of allowances for loan losses, decreased $1.1 billion compared to the third quarter of 2009.   With exception of residential mortgage loans, all other major loan categories decreased largely due to reduced customer demand and normal repayment trends.

Growth in average earning assets was funded by a $1.4 billion increase in average deposits. Interest-bearing transaction accounts increased $1.5 billion and demand deposits were up $439 million over the third quarter of 2009. Time deposits decreased $631 million as we continued to decrease brokered deposits and other higher costing time deposits. Borrowed funds decreased $765 million.

Average earning assets increased $507 million compared to the previous quarter. Average securities increased $546 million due to a $379 million increase in available for sale securities and a $166 million increase in mortgage trading securities which we use as an economic hedge of our mortgage servicing rights. Average outstanding loans, net of allowance for loan losses, decreased $105 million. Commercial, commercial real estate and consumer loan categories each decreased in the third quarter of 2010. Residential mortgage loans increased $44 million over the second quarter of 2010. Average deposits increased $661 million, including a $412 million increase in interest-bearing transaction accounts, a $171 million increase in demand deposits and a $73 million increase in time deposits. Average balances of borrowed funds decreased $415 million.

Net interest margin was 3.50% for the third quarter of 2010 and 3.63% for both the third quarter of 2009 and second quarter of 2010. The decrease in net interest margin was due largely to lower yield on our securities portfolio. The securities portfolio yield was 3.32% for the third quarter of 2010, 4.21% for the third quarter of 2009 and 3.60% for the second quarter of 2010. Current low interest rates have increased the prepayment speed of our mortgage-backed securities. Cash flows from this portfolio are reinvested at lower rates. During the third quarter of 2010, approximately $600 million previously invested in securities that yielded 3.80% were reinvested in securities that yield 2.30%. We expect this trend to continue.

The tax-equivalent yield on earning assets was 4.19% for the third quarter of 2010, down 35 basis points from the third quarter of 2009. Securities portfolio yields were down 89 basis points. Loan yields increased 23 basis points to 5.01%. Funding costs were down 23 basis points from the third quarter of 2009. The cost of interest-bearing deposits decreased 23 basis points and the cost of other borrowed funds increased 1 basis point.

The tax-equivalent yield on earning assets for the third quarter of 2010 was down 14 basis points from the second quarter of 2010. Yield on the securities portfolio dropped by 28 basis points. Loan portfolio yields were up 4 basis points. The cost of interest-bearing liabilities was down 1 basis point from the previous quarter.

The benefit to net interest margin from earning assets funded by non-interest bearing liabilities was 17 basis points for the third quarter of 2010 compared with 18 basis points for the third quarter of 2009 and 15 basis points for the preceding quarter of 2010.

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 use derivative instruments to manage our interest rate risk. Interest rate swaps with a combined notional amount of $30 million convert fixed rate liabilities to floating rate based on LIBOR. Net interest revenue increased $1.1 million for the third quarter of 2010, $2.7 million for the third quarter of 2009 and $1.0 million for the second quarter of 2010 from periodic settlements of these contracts. This increase in net interest revenue contributed 2 basis points to net interest margin in the third quarter of 2010, 5 basis points in the third quarter of 2009 and 2 basis points in the second quarter of 2010. Derivative contracts are carried on the balance sheet at fair value. Changes in fair value of these contracts are reported in income as derivatives gains or losses in the Consolidated Statements of Earnings.

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 September 30, 2010 / 2009			Nine Months Ended September 30, 2010 / 2009		
		Change Due To (1)			Change Due To (1)	
	Change	Volume	Yield / Rate	Change	Volume	Yield /Rate
Tax-equivalent interest revenue:						
Securities	$(2,741)	$17,093	$(19,834)	$(4,115)	$107,007	$(111,122)
Trading securities	(201)	46	(247)	(750)	(1,297)	547
Loans	(6,153)	(11,526)	5,373	(30,301)	(75,468)	45,167
Funds sold and resell agreements	(14)	(12)	(2)	(42)	(29)	(13)
Total	(9,109)	5,601	(14,710)	(35,208)	30,213	(65,421)
Interest expense:						
Transaction deposits	(1,801)	2,137	(3,938)	(10,401)	16,351	(26,752)
Savings deposits	(18)	24	(42)	133	30	103
Time deposits	(7,255)	(3,180)	(4,075)	(41,927)	(17,042)	(24,885)
Federal funds purchased and repurchase agreements	191	(49)	240	(413)	369	(782)
Other borrowings	(756)	(654)	(102)	(3,141)	(470)	(2,671)
Subordinated debentures	106	2	104	9	7	2
Total	(9,533)	(1,720)	(7,813)	(55,740)	(755)	(54,985)
Tax-equivalent net interest revenue	424	7,321	(6,897)	20,532	30,968	(10,436)
Change in tax-equivalent adjustment	(170)			(1,016)		
Net interest revenue	$254			$19,516		

(1) Changes attributable to both volume and yield/rate are allocated to both volume and yield/rate on an equal basis.

Other Operating Revenue

Other operating revenue was $137.7 million for the third quarter of 2010 compared to $131.8 million for the third quarter of 2009 and $157.4 million for the second quarter of 2010.

Fees and commissions revenue increased $17.0 million or 14% compared with the third quarter of 2009. Net gains on securities, derivatives and other assets decreased $147 thousand. Other-than-temporary impairment charges recognized in earnings were $10.9 million greater compared to the third quarter of 2009.

Other operating revenue decreased $19.8 million compared to the second quarter of 2010. Fees and commissions revenue increased $8.8 million. Net gains on securities, derivatives and other assets decreased $16.9 million compared to the second quarter of 2010, including $14.4 million decrease on net gain (loss) on securities and derivatives held as an economic hedge of mortgage servicing rights. Other-than-temporary impairment charges recognized in earnings were $11.7 million greater compared to the second quarter of 2010.

Table 2 – Other Operating Revenue
(In thousands)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase (Decrease)	% Increase (Decrease)	Three Months Ended June 30, 2010	Increase (Decrease)	% Increase (Decrease)
Brokerage and trading revenue	$27,072	$24,944	$2,128	9 %	$24,754	$2,318	9 %
Transaction card revenue	28,852	26,264	2,588	10 %	28,263	589	2 %
Trust fees and commissions	16,774	16,315	459	3 %	17,737	(963)	(5 %)
Deposit service charges and fees	24,290	30,464	(6,174)	(20 %)	28,797	(4,507)	(16 %)
Mortgage banking revenue	29,236	13,197	16,039	122 %	18,335	10,901	59 %
Bank-owned life insurance	3,004	2,634	370	14 %	2,908	96	3 %
Other revenue	7,708	6,138	1,570	26 %	7,374	334	5 %
Total fees and commissions revenue	136,936	119,956	16,980	14 %	128,168	8,768	7 %
Gain (loss) on other assets, net	(1,331)	3,223	(4,554)	N/A	1,545	(2,876)	N/A
Gain (loss) on derivatives, net	4,626	(294)	4,920	N/A	7,272	(2,646)	N/A
Gain on available for sale securities	8,384	8,706	(322)	N/A	8,469	(85)	N/A
Gain on mortgage trading securities, net	3,369	3,560	(191)	N/A	14,631	(11,262)	N/A

Gain on securities, net	11,753	12,266	(513)	N/A	23,100	(11,347)	N/A
Total other-than-temporary impairment	(4,525)	(6,133)	1,608	N/A	(10,959)	6,434	N/A
Portion of loss recognized in other comprehensive income	9,786	(2,752)	12,538	N/A	(8,313)	18,099	N/A
Net impairment losses recognized in earnings	(14,311)	(3,381)	(10,930)	N/A	(2,646)	(11,665)	N/A
Total other operating revenue	$137,673	$131,770	$5,903	4%	$157,439	$(19,766)	(13%)

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

Fees and commissions revenue

Diversified sources of fees and commission revenue are a significant part of our business strategy and represented 43% of total revenue for the third quarter of 2010, excluding provision for credit losses and gains and losses on asset sales, securities and derivatives. We believe that a variety of fee revenue sources provide an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile. We expect continued growth in other operating revenue through offering new products and services and by expanding into markets outside of Oklahoma. However, current and future economic conditions, regulatory constraints, increased competition and saturation in our existing markets could affect the rate of future increases.

Brokerage and trading revenue increased $2.1 million or 9−−% compared to the third quarter of 2009. Securities trading revenue totaled $15.7 million for the third quarter of 2010, up $620 thousand or 4%. Higher lending activity by our mortgage banking customers increased securities transaction volume in the third quarter of 2010. Customer hedging revenue totaled $3.7 million for the third quarter of 2010, up $2.2 million or 148% over the third quarter of 2009 on greater energy price and interest rate volatility. Retail brokerage revenue increased $72 thousand or 1% over the third quarter of 2009 to $5.6 million. Investment banking revenue was $2.1 million for the third quarter of 2010, a $786 thousand decrease due to a decrease in the timing of investment banking activity compared to the third quarter of 2009.

Brokerage and trading revenue increased $2.3 million over the second quarter 2010 primarily on higher securities trading revenue and derivative fee income partially offset by decreased investment banking activity. Interest rate volatility during the third quarter of 2010 increased trading volumes in mortgage-backed securities and interest rate derivative activities. Retail brokerage fees also increased over the prior quarter.

Transaction card revenue depends largely on the volume and amount of transactions processed, the number of ATM locations and the number of merchants served. Transaction card revenue totaled $28.9 million for the third quarter of 2010, up $2.6 million or 10% over the third quarter of 2009. Check card revenue increased $1.0 million or 14% to $8.4 million and merchant discounts increased $1.0 million or 15% to $8.1 million on higher transaction volumes. ATM network revenue increased $551 thousand or 5% over the third quarter of 2009. Increased ATM transaction volumes were partially offset by a decrease in the average rate charged per transaction. Transaction card revenue increased $589 thousand over the second quarter of 2010 primarily due to a higher volume of merchant discount fees and ATM network revenue. Check card fees were also up.

Trust fees and commissions increased $459 thousand or 3% over the third quarter of 2009 to $16.8 million. The revenue increase was due to increases in the fair value of trust assets and timing of fees related to our oil & gas property services, partially offset by lower balances in our proprietary mutual funds. We continue to voluntarily waive administration fees on the Cavanal Hill money market funds in order to maintain positive yields on these funds in the current low short-term interest rate environment. Waived fees totaled $858 thousand for the third quarter of 2010, $816 thousand for the second quarter of 2010 and $876 thousand for the third quarter of 2009. The fair value of trust assets administered by the Company totaled $31.4 billion at September 30, 2010 compared to $29.9 billion at September 30, 2009 and $29.8 billion at June 30, 2010. Trust fees and commissions decreased $963 thousand compared to the second quarter of 2010 due primarily to the seasonal nature of tax service fees.

Deposit service charges and fees decreased $6.2 million or 20% compared to the third quarter of 2009. Overdraft fees decreased $4.9 million or 25% to $14.9 million. The decrease in overdraft fees was primarily due to changes in federal regulations concerning overdraft charges which were effective July 1, 2010. Commercial account service charge revenue also decreased $1.4 million or 16% to $7.2 million. Customers kept greater commercial account balances which increased the earnings credit, a non-cash method for commercial customers to avoid incurring charges for deposit services based on account balances. Deposit service charges and fees decreased $4.5 million compared to the prior quarter primarily due to federal regulations concerning overdraft charges. This performance is consistent with our previously disclosed expectation that changes in overdraft regulations would decrease fee income by $10 million to $15 million over the second half of 2010.

Mortgage banking revenue more than doubled compared to the third quarter of 2009, increasing to $29.2 million for the third quarter of 2010 from $13.2 million for the third quarter of 2009. Mortgage origination and marketing revenue increased $11.1 million or 139% over the third quarter of 2009. Mortgage loans funded increased $341 million and net gains on mortgages sold in the secondary market increased. Mortgage servicing revenue increased $5.0 million or 95% over the third quarter of 2009. The outstanding principal balance of mortgage loans serviced for others increased $4.9 million primarily due to the purchase of the rights to service $4.2 billion of residential mortgage loans in the first quarter of 2010. This purchase added servicing fee revenue of $3.5 million to both the second and third quarters of 2010.

Mortgage banking revenue was up $10.9 million or 59% over the second quarter of 2010 based on a $9.5 million increase in revenue from originating and marketing mortgage loans and a $1.4 million increase in mortgage servicing revenue. Mortgage loans funding increased $337 million over the second quarter of 2010 and the outstanding principle balance of mortgage loans serviced for others increased $133 million.

Table 3 – Mortgage Banking Revenue
(In thousands)

	Three Months Ended September 30,				Three Months Ended		
	2010	2009	Increase	% Increase	June 30, 2010	Increase	% Increase
Originating and marketing revenue	$19,070	$7,985	$11,085	139 %	$8,764	$10,306	118 %
Servicing revenue	10,166	5,213	4,953	95 %	9,571	595	6 %
Total mortgage revenue	$29,236	$13,198	$16,038	122 %	$18,335	$10,901	59 %
Mortgage loans funded during the quarter	$877,371	$536,173	$341,198	64 %	$540,741	$336,630	62 %
Mortgage loan refinances to total funded	64 %	49 %	N/A	N/A	34 %	N/A	N/A
	September 30,						
	2010	2009	Increase	% Increase	June 30, 2010	Increase	% Increase
Outstanding principal balance of mortgage loans serviced for other	$11,190,802	$6,339,764	$4,851,038	77 %	$11,057,385	$133,417	12 %

Net gains on securities, derivatives and other assets

We recognized $8.4 million of gains on sales of $596 million of available for sale securities in the third quarter of 2010, excluding securities held as an economic hedge of mortgage servicing rights. Securities were sold either because they had reached their expected maximum potential return or to mitigate exposure from rising interest rates. We recognized $8.7 million of gains on sales of $377 million of available for sale securities in the third quarter of 2009 and $8.5 million of gains on sales of $595 million of available for sale securities in the second quarter of 2010.

As more fully discussed in Note 2 to the Consolidated Financial Statements, we recognized other-than-temporary impairment losses on certain private-label residential mortgage-backed securities of $13.4 million in earnings during the third quarter of 2010 related to additional declines in projected cash flows as a result of expectations of a more prolonged period of relatively high unemployment and increased loss severity.

Mortgage trading securities and derivative contracts are held as an economic hedge of the changes in fair value of mortgage servicing rights that fluctuates due to changes in prepayment speeds and other assumptions as more fully described in Note 6 to the Consolidated Financial Statements. Increased prepayment speeds as a result of the benchmark mortgage rate falling 40 basis points during the quarter, decreased the value of our mortgage servicing rights in the third quarter of 2010.

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

	Three Months Ended		
	Sept. 30, 2010	June 30, 2010	Sept. 30, 2009
Gain on mortgage hedge derivative contracts	$4,676	$7,800	$–
Gain on mortgage trading securities	3,369	14,631	3,560
Total gain on financial instruments held as an economic hedge of mortgage servicing rights	8,045	22,431	3,560
Loss on change in fair value of mortgage servicing rights	(15,924)	(19,458)	(2,981)
Gain (loss) on changes in fair value of mortgage servicing rights, net of gain on financial instruments held as an economic hedge	$(7,879)	$2,973	$579
Net interest revenue on mortgage trading securities	$5,710	$4,880	$2,695

In addition to the gain on mortgage hedge derivative contracts, net gains on derivatives includes fair value adjustments of derivatives used to manage interest rate risk and certain liabilities we have elected to carry at fair value. Derivative instruments generally consist of interest rate swaps where we pay a variable rate based on LIBOR and receive a fixed rate. The fair value of these swaps generally decrease in value resulting in a loss to the Company as interest rates rise and increase in value resulting in a gain to the Company as interest rates fall. Certain certificates of deposit have been designated as reported at fair value. This determination is made when the certificates of deposit are issued based on our intent to swap the interest rate on the certificates from a fixed rate to a LIBOR-based variable rate. As interest rates fall, the fair value of these fixed-rate certificates of deposit generally increases and we recognize a loss. Conversely, as interest rates rise, the fair value of these fixed-rate certificates of deposit generally decreases and we recognize a gain.

Other Operating Expense

Other operating expense for the third quarter of 2010 totaled $205.2 million, up $26.4 million or 15% over the third quarter of 2009. Changes in the fair value of mortgage servicing rights increased operating expense $15.9 million in the third quarter of 2010 and $3.0 million in the third quarter of 2009. Excluding changes in the fair value of mortgage servicing rights, operating expenses were up $13.5 million or 8%. Personnel expenses increased $3.2 million or 3%. Net losses and operating expenses related to repossessed assets were up $3.7 million over the third quarter of 2009. Remaining non-personnel operating expenses increased $6.6 million over the prior year.

Other operating expenses decreased $747 thousand compared to the second quarter of 2010. Changes in the fair value of mortgage servicing rights increased operating expense $15.9 million in the third quarter of 2010 compared to $19.5 million in the second quarter of 2010. Excluding changes in the fair value of mortgage servicing rights, operating expenses were up $2.8 million or 1% over the previous quarter. Personnel expenses increased $4.2 million over the second quarter of 2010 primarily due to higher incentive compensation expense. Non-personnel expenses decreased $1.4 million compared to the previous quarter.

Table 5 – Other Operating Expense
(In thousands)

	Three Months Ended September 30, 2010	2009	Increase (Decrease)	% Increase (Decrease)	Three Months Ended June 30, 2010	Increase (Decrease)	% Increase (Decrease)
Regular compensation	$60,339	$59,227	1,112	2 %	$58,932	$1,407	2 %
Incentive compensation:							
Cash-based	23,910	20,835	3,075	15 %	22,148	1,762	8 %
Stock-based	2,927	3,808	(881)	(23 %)	390	2,537	N/A
Total incentive compensation	26,837	24,643	2,194	9 %	22,538	4,299	19 %
Employee benefits	14,040	14,142	(102)	(1 %)	15,584	(1,544)	(10 %)
Total personnel expense	101,216	98,012	3,204	3 %	97,054	4,162	4 %
Business promotion	4,426	4,827	(401)	(8 %)	4,945	(519)	(10 %)
Professional fees and services	7,621	7,555	66	1 %	6,668	953	14 %

Net occupancy and equipment	16,436	15,884	552	3 %	15,691	745	5 %
Insurance	6,052	6,092	(40)	(1 %)	5,596	456	8 %
Data processing & communications	21,601	20,413	1,188	6 %	21,940	(339)	(2 %)
Printing, postage and supplies	3,648	3,716	(68)	(2 %)	3,525	123	3 %
Net losses & operating expenses of repossessed assets	7,230	3,497	3,733	N/A	13,067	(5,837)	N/A
Amortization of intangible assets	1,324	1,686	(362)	(21 %)	1,323	1	– %
Mortgage banking costs	9,093	8,065	1,028	13 %	10,380	(1,287)	(12 %)
Change in fair value of mortgage servicing rights	15,924	2,981	12,943	N/A	19,458	(3,534)	N/A
Visa retrospective responsibility obligation	1,103	–	1,103	N/A	–	1,103	N/A
Other expense	9,491	6,004	3,487	58 %	6,265	3,226	51 %
Total other operating expense	$205,165	$178,732	26,433	15 %	$205,912	$(747)	– %
Number of employees (full-time equivalent)	4,516	4,422	94	2 %	4,428	88	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 $1.1 million or 2% over the third quarter of 2009 primarily due to standard annual merit increases which were effective in the second quarter of 2010. The Company generally awards annual merit increases effective April 1st for a majority of its staff.

Incentive compensation increased $2.2 million or 9% compared to the third quarter of 2009. Cash-based incentive compensation plans are either intended to provide current rewards to employees who generate long-term business opportunities to the Company based on growth in loans, deposits, customer relationships and other measurable metrics or intended to compensate employees with commissions on completed transactions. The $3.1 million increase in cash-based incentive compensation from the third quarter of 2009 included a $1.6 million increase in commissions related to brokerage and trading 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 $1.4 million compared with the third quarter of 2009 due to changes in the market value of BOK Financial common stock and other investments. The market value of BOK Financial common stock decreased $2.34 per share in the third quarter of 2010 and increased $8.83 per share in the third quarter of 2009. Compensation expense for equity awards increased $524 thousand compared with the third quarter of 2009. 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 decreased $102 thousand or 1% compared to the third quarter of 2009 primarily due to decreased expenses related to employee retirement plans, payroll taxes and other benefits costs, mostly offset by an increase in medical insurance costs. The Company self-insures a portion of its employee health care coverage and these costs may be volatile.

Personnel expense increased $4.2 million over the second quarter of 2010 primarily due to higher incentive compensation expense. Regular compensation expense increased $1.4 million offset by a $1.5 million decrease in employee benefits expense. Incentive compensation increased $4.3 million over the second quarter of 2010. Stock-based compensation increased $2.5 million in the second quarter primarily due to changes in the market value of BOK Financial common stock and other investments. Cash-based incentive compensation increased $1.8 million, including $610 thousand from commissions related to brokerage and trading revenue.

Non-personnel operating expenses

Non-personnel operating expenses, excluding changes in the fair value of mortgage servicing rights, increased $10.3 million over the third quarter of 2009. Net losses and operating expenses of repossessed assets increased $3.7 million. Net losses from sales and write-downs of repossessed property increased $3.3 million based on our quarterly review of carrying values. Operating expenses on repossessed assets increased $445 thousand. Net losses on repossessed assets in the third quarter of 2010 included $3.6 million to write down properties in Texas and Colorado previously held for branch expansion. Data processing and communications expense and mortgage banking costs increased on higher transaction volume. All other operating expenses increased $3.2 million.

Non-personnel operating expenses, excluding changes in the fair value of mortgage servicing rights, decreased $1.4 million over the second quarter of 2010. Net losses from sales and write-downs of repossessed property decreased $5.8 million based on our quarterly review of carrying values and operating expenses on repossessed assets decreased $728 thousand. All other non-personnel operating expenses increased $4.4 million over the prior quarter.

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 is expected to be offset in the fourth quarter of 2010. On October 8, 2010, Visa deposited $800 million into the litigation escrow account for payment of this liability, further diluting the Company’s Class B shares.

Income Taxes

Income tax expense was $29.9 million or 32% of book taxable income for the third quarter of 2010 compared to $24.8 million or 32% of book taxable income for the third quarter of 2009 and $32.0 million or 33% of book taxable income for the second quarter of 2010. During the third quarter of 2010, the statute of limitations expired on an uncertain income tax position and the Company adjusted its current income tax liability to amounts on filed tax returns for 2009. Excluding these adjustments, income tax expense for the third quarter of 2010 would have been $32.2 million or 34% of book taxable income.

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 approximately $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 to small businesses, middle market and larger commercial customers. Commercial banking also includes the TransFund network. Consumer banking includes retail lending and deposit services and all mortgage banking activities. Wealth management provides fiduciary services, brokerage and trading, private bank services and investment advisory services in all markets. Wealth management also originates loans for high net worth clients.

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

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

The value of funds provided by the operating lines of business to the funds management unit is based on applicable Federal Home Loan Bank advance rates. Deposit accounts with indeterminate maturities, such as demand deposit accounts and interest-bearing transaction accounts, are transfer-priced at a rolling average based on expected duration of the accounts. 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 $24 million over the third quarter of 2009. The increase in net income attributed to our lines of business was due primarily to a decrease in net loans charged off and an increase in other operating revenue compared to the third quarter of 2010, partially offset by an increase in operating expenses attributed to the lines of business. Net interest revenue attributed to our lines of business improved due to continued growth in average deposits generated by our lines of business and sold to our funds management unit. Net income attributed to funds management and other decreased compared to the third quarter of 2009 due to a decrease in the allocation of operating expenses to our lines of business as a result of a decline in transaction volumes and an increase in other-than-temporary impairment charges, partially offset by a decrease in the loan loss provision.

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

	Three Months Ended Sept. 30,		Nine Month Ended Sept. 30,	
	2010	2009	2010	2009
Commercial banking	$27,484	$10,449	$52,272	$43,295
Consumer banking	10,441	2,427	37,037	18,476
Wealth management	2,018	3,047	8,702	10,266
Subtotal	39,943	15,923	98,011	72,037
Funds management and other	24,324	34,737	89,911	85,770
Total	$64,267	$50,660	$187,922	$157,807

Commercial Banking

Commercial banking contributed $27.5 million to consolidated net income in the third quarter of 2010, up $17.0 million from the third quarter of 2009. The increase in commercial banking net income was primarily due to an $18.1 decrease in net loans charged off and lower operating expenses.

Table 7 – Commercial Banking
(Dollars in thousands)

	Three Months Ended September 30,		Increase	Nine Months Ended September 30,		Increase
	2010	2009	(Decrease)	2010	2009	(Decrease)
NIR (expense) from external sources	$87,094	$87,067	$27	$257,120	$259,682	$(2,562)
NIR (expense) from internal sources	(11,942)	(15,219)	3,277	(37,110)	(41,169)	4,059
Total net interest revenue	75,152	71,848	3,304	220,010	218,513	1,497
Other operating revenue	32,999	32,789	210	96,461	100,051	(3,590)
Operating expense	52,170	56,697	(4,526)	153,301	166,728	(13,427)
Net loans charged off	9,716	27,819	(18,103)	60,572	76,832	(16,260)
Loss on repossessed assets, net	(1,283)	(3,020)	1,737	(17,046)	(4,145)	(12,901)
Income before taxes	44,982	17,101	27,880	85,552	70,859	14,693
Federal and state income tax	17,498	6,652	10,845	33,280	27,564	5,716
Net income	$27,484	$10,449	$17,035	$52,272	$43,295	$8,977
Average assets	$8,912,840	$9,847,655	$(934,815)	$9,027,723	$10,324,426	$(1,296,703)
Average loans	8,205,542	8,932,705	(727,163)	8,271,726	9,387,126	(1,115,400)

Average deposits	6,201,764	5,663,757	538,006	5,946,021	5,219,096	726,925
Average invested capital	1,048,239	1,075,226	(26,987)	1,010,839	1,063,994	(53,155)
Return on average assets	1.22 %	0.42 %	80 bp	0.77 %	0.56 %	21 bp
Return on invested capital	10.40 %	3.86 %	654 bp	6.91 %	5.44 %	147 bp
Efficiency ratio	48.24 %	54.18 %	(594) bp	48.44 %	52.34 %	(390) bp
Net charge-offs (annualized) to average loans	0.47 %	1.24 %	(77) bp	0.98 %	1.09 %	(11) bp

Net interest revenue increased $3.3 million or 5% over the third quarter of 2009, primarily on increased average deposit balances attributed to our commercial banking unit. Average loan balances attributed to commercial banking decreased $727 million due to reduced customer demand and normal repayment trends, which decreased net interest revenue by $1.6 million. This was offset by an improvement in loan spreads on loans attributable to commercial banking.

Other operating revenue was largely unchanged increasing 1% over the third quarter of 2009. Transaction card revenue increased $1.7 million. Service charges on commercial deposit accounts were down $1.5 million compared to the third quarter of 2009 as customers kept greater commercial deposit balances to increase their earnings credit, which provides a non-cash method for commercial customers to avoid incurring charges for deposit services based on account balance.

Operating expenses were down $4.5 million or 8% compared to the third quarter of 2009. The decrease was primarily due to a $7.2 million decrease in costs allocated to the commercial banking segment primarily as a result of reduced lending activities, partially offset by $1.5 million of increased data processing costs related to higher transaction card volumes.

The average outstanding balance of loans attributed to commercial banking was $8.2 billion for the third quarter of 2010, down $727 million or 8% compared to the third quarter of 2009. See Loans section following for additional discussion of changes in commercial and commercial real estate loans which are primarily attributed to the commercial banking segment. Net commercial banking loans charged off decreased $18.1 million compared to the third quarter of 2009 to $9.7 million or 0.47% of average loans attributed to this line of business on an annualized basis.

Average deposits attributed to commercial banking were $6.2 billion for the third quarter of 2010, up $538 million or 9% over the third quarter of 2009. Average balances attributed to our energy customers increased $255 million or 54%, average treasury services deposit balances increased $179 million or 13%, average deposit balances attributable to our small business customers increased $151 million or 13% over the third quarter of 2009.

Consumer Banking

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

Consumer banking contributed $10.4 million to consolidated net income for the third quarter of 2010, up $8.0 million compared to the third quarter of 2009. Growth in net income was largely due to mortgage banking performance. Net income from mortgage banking grew $4.9 million due to increased production and servicing revenue, partially offset by a decrease in the fair value of the mortgage servicing rights, net of economic hedge. Net income from all other consumer banking activities increased $3.1 million. Reduced operating expenses attributed to consumer banking offset a decrease in service charge income.

Table 8 – Consumer Banking
(Dollars in thousands)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase (Decrease)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Increase (Decrease)
NIR (expense) from external sources	$22,887	$15,064	$7,823	$64,058	$40,263	$23,795
NIR (expense) from internal sources	12,097	14,892	(2,795)	35,409	61,000	(25,591)
Total net interest revenue	34,984	29,956	5,028	99,467	101,263	(1,796)
Other operating revenue	57,342	43,578	13,764	151,051	138,495	12,556
Operating expense	60,012	63,755	(3,743)	178,215	190,143	(11,928)
Net loans charged off	6,583	7,079	(496)	19,859	18,316	1,543
Increase (decrease) in fair value of mortgage servicing rights	(15,924)	(2,981)	(12,943)	(21,450)	6,839	(28,289)
Gain (loss) on financial instruments, net	8,045	3,560	4,485	30,265	(8,758)	39,023
Gain (loss) on repossessed assets, net	(763)	693	(1,456)	(642)	859	(1,501)
Income before taxes	17,089	3,972	13,117	60,617	30,239	30,378
Federal and state income tax	6,648	1,545	5,103	23,580	11,763	11,817
Net income	$10,441	$2,427	$8,014	$37,037	$18,476	$18,561
Average assets	$6,304,499	$6,190,573	$113,926	$6,221,464	$6,164,170	$57,294
Average loans	2,114,019	2,303,654	(189,635)	2,133,966	2,524,782	(390,816)
Average deposits	6,177,740	6,089,389	88,352	6,112,910	6,064,533	48,377
Average invested capital	179,182	237,477	(58,295)	199,448	239,790	(40,342)
Return on average assets	0.66 %	0.16 %	50 bp	0.80 %	0.40 %	40 bp

Return on invested capital	23.12 %	4.05 %	1,907 bp	24.83 %	10.30 %	1,453 bp
Efficiency ratio	65.00 %	86.70 %	(2,170) bp	71.14 %	79.31 %	(817) bp
Net charge-offs (annualized) to average loans	1.24 %	1.22 %	2 bp	1.24 %	0.97 %	27 bp
Mortgage loans funded for resale	$830,050	$536,173	293,877	$1,752,819	$2,268,006	$(515,187)

	September 30, 2010	September 30, 2009	Increase (Decrease)
Branch locations	198	195	3
Mortgage loans serviced for others	$ 11,190,802	$ 6,339,764	$ 4,851,038

Net interest revenue from consumer banking activities increased $5.0 million or 17% over the third quarter of 2009 primarily due to an $88 million increase in average deposit balances. Average earning assets were up 2% over the third quarter of 2009, including a $334 million increase in the mortgage trading securities portfolio which increased net interest revenue by $3.0 million. Net interest revenue decreased $1.2 million related primarily to a $190 million decrease in average loan balances attributed to the consumer banking division due to continued pay-downs of indirect automobile loans. The Company previously disclosed its decision to exit the indirect automobile loan business in the first quarter of 2009.

Other operating revenue increased $13.8 million or 32% over the third quarter of 2009 primarily due to a $16 million increase in mortgage banking revenue. Revenue from originating and marketing mortgage loans increased $11 million on increased lending volumes and mortgage servicing revenue increased $5 million primarily due to the purchase of $4.2 billion of residential mortgage loan servicing rights in the first quarter of 2010. Deposit service charges decreased $4.6 million primarily due to lower overdraft fees as a result of changes in banking regulations that became effective in the third quarter.

Operating expenses decreased $3.7 million or 6% compared to the third quarter of 2009, primarily due to a $5.5 million decrease in corporate expenses allocated to the consumer banking division, offset by increases in other operating expenses.

Net loans charged off by the consumer banking unit totaled $6.6 million in the third quarter of 2010 down from $7.1 million in the third quarter of 2009. Net consumer banking charge-offs include residential mortgage loans, indirect automobile loans, overdrawn deposit accounts and other direct consumer loans.

Average consumer deposits increased $88 million or 1% over the third quarter of 2009. Average interest-bearing transaction accounts were up $318 million or 13% and average demand deposit accounts increased $111 million or 14% over the third quarter of 2009. Higher-costing average time deposits decreased $357 million or 13% compared to the third quarter of 2009. Movement of funds among the various types of consumer deposits was largely based on interest rates and product features offered.

Our Consumer Banking division originates, markets and services conventional and government-sponsored mortgage loans for all of our geographical markets. During the third quarter of 2010, $831 million of mortgage loans were funded compared with $536 million funded in the third quarter of 2009. Approximately 42% of our mortgage loans funded was in the Oklahoma market, 14% in the Colorado market, 14% in the New Mexico market and 13% in the Texas market. In addition to the $11 billion of mortgage loans serviced for others, the Consumer banking division also services $813 million of loans for affiliated entities. Approximately 95% of the mortgage loans serviced was to borrowers in our primary geographical market areas. Mortgage servicing revenue increased to $10.2 million in the third quarter of 2010 from $5.2 million in the third quarter of 2009, primarily due to mortgage servicing rights purchased in the first quarter of 2010.

Changes in fair value of our mortgage loan servicing rights, net of economic hedge, decreased consumer banking pre-tax net income by $7.9 million in the third quarter of 2010 compared to an increase in pre-tax net income of $579 thousand in the third quarter of 2009. Changes in the fair value of mortgage servicing rights and securities held as an economic hedge are due to movements in interest rates, actual and anticipated loan prepayment speeds and related factors. Net interest revenue on mortgage trading securities totaled $5.7 million for the third quarter of 2010 and $2.7 million for the third quarter of 2009.

Wealth Management

Wealth Management contributed consolidated net income of $2.0 million, down $1.0 million or 34% compared to the third quarter 2009. The decrease in net income was primarily due to an increase in net loans charged off and increased operating expenses, partially offset by an increase in retail brokerage fees.

Table 9 – Wealth Management
(Dollars in thousands)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase (Decrease)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Increase (Decrease)
NIR (expense) from external sources	$7,533	$7,774	$(241)	$24,505	$17,319	$7,186
NIR (expense) from internal sources	3,178	2,026	1,152	8,590	15,352	(6,762)
Total net interest revenue	10,711	9,800	911	33,095	32,671	424
Other operating revenue	42,145	40,847	1,298	121,485	120,676	809
Operating expense	45,985	44,571	1,414	130,886	128,898	1,988
Net loans charged off	3,834	1,089	2,745	9,734	7,647	2,087
Gain on financial instruments, net	266	–	266	282	–	282
Income before taxes	3,303	4,987	(1,684)	14,242	16,802	(2,560)
Federal and state income tax	1,285	1,940	(655)	5,540	6,536	(996)
Net income	$2,018	$3,047	$(1,029)	$8,702	$10,266	$(1,564)
Average assets	$3,593,863	$2,833,228	$760,635	$3,413,492	$2,976,690	$436,802
Average loans	1,066,361	1,067,375	(1,014)	1,078,609	1,048,421	30,188
Average deposits	3,458,296	2,717,049	741,247	3,331,613	2,906,428	425,185
Average invested capital	173,870	200,015	(26,145)	183,351	196,358	(13,007)
Return on assets	0.22%	0.43%	(21) bp	0.34%	0.46%	(12) bp
Return on invested capital	4.60%	6.04%	(144) bp	6.35%	6.99%	(64) bp
Efficiency ratio	87.00%	88.00%	(100) bp	84.67%	84.06%	61 bp
Net charge-offs (annualized) to average loans	1.43%	0.40%	103 bp	1.21%	0.98%	23 bp

	September 30, 2010	September 30, 2009	Increase (Decrease)
Trust assets	$ 31,460,021	$ 29,945,585	$ 1,514,436
Trust assets for which BOKF has sole or joint discretionary authority	10,848,068	10,886,389	(38,321)
Non-managed trust assets	11,796,253	11,027,840	768,413

Assets held in safekeeping	8,815,700	8,031,356	784,344

Net interest revenue for the third quarter of 2010 increased $911 thousand or 9% over the third quarter of 2009 primarily due to a $741 million increase in average deposits partially offset by a decrease in the yield on securities and loans.

Other operating revenue increased $1.3 million or 3% over the third quarter of 2009, primarily due to a $2.6 million increase in retail brokerage fees partially offset by a decrease in other fee income. Trust fees were up 3% primarily due to increases in the fair value trust assets.

The Wealth Management division provides state and municipal bond underwriting and financial advisory services, primarily in the Oklahoma and Texas markets. The division participated in 19 underwritings that totaled approximately $1.2 billion during the third quarter of 2010. Our interest in these underwritings totaled approximately $344 million.

Operating expenses increased $1.4 million or 3% over the third quarter of 2009 primarily due to a $1.6 million increase in commissions related to brokerage and trading revenue.

Growth in average assets was largely due to funds sold to the funds management unit. Funds provided by wealth management deposits, which are largely sold to the funds management unit, increased primarily due to an increase in interest bearing transaction accounts and demand deposits, offset by a decrease in higher costing time deposits. The continued growth in wealth management deposits reflect continued movement of customer funds from managed money market products that were not on the Company's balance sheet to deposits as well as customer relationship growth. Average deposits provided by the wealth management division in the third quarter of 2010 increased $741 million compared over the third quarter of 2009. Interest-bearing transaction accounts averaged $2.4 billion for the third quarter of 2010, an increase of $790 million or 47% over the third quarter of 2009. Average time deposits were $705 million, down $108 million or 13% compared to last year.

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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Oklahoma	$27,727	$18,678	$85,038	$70,754
Texas	7,845	3,930	19,997	13,316
New Mexico	1,724	873	4,849	4,923
Arkansas	1,613	2,154	2,058	8,479
Colorado	1,264	(6,666)	2,227	(8,138)
Arizona	(1,292)	(4,702)	(18,521)	(22,338)
Kansas / Missouri	1,624	1,698	3,491	5,073
Subtotal	40,505	15,965	99,139	72,069
Funds management and other	23,762	34,695	88,783	85,738
Total	$64,267	$50,660	$187,922	$157,807

Oklahoma Market

Oklahoma is a significant market to the Company. Our Oklahoma offices are located primarily in the Tulsa and Oklahoma City metropolitan areas. Approximately 51% of our average loans, 54% of our average deposits and 43% of our consolidated net income is attributed to the Oklahoma market. In addition, all of our mortgage servicing activity, TransFund network and 76% of our trust assets are attributed to the Oklahoma market.

Table 11 – Oklahoma
(Dollars in thousands)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase (Decrease)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Increase (Decrease)
Net interest revenue	$62,626	$56,313	$6,313	$181,211	$178,023	$3,188
Other operating revenue	84,080	78,874	5,206	240,422	242,660	(2,238)
Operating expense	84,826	93,883	(9,057)	252,250	278,466	(26,216)
Net loans charged off	7,203	11,652	(4,449)	37,765	25,041	12,724
Increase (decrease) in fair value of mortgage service rights	(15,924)	(2,981)	(12,943)	(21,450)	6,839	(28,289)
Gain (loss) on financial instruments, net	8,311	3,560	4,751	30,547	(8,758)	39,305
Gain (loss) on repossessed assets, net	(1,684)	339	(2,023)	(1,537)	544	(2,081)
Income before taxes	45,380	30,570	14,810	139,178	115,801	23,377
Federal and state income tax	17,653	11,892	5,761	54,140	45,047	9,093
Net income	$27,727	$18,678	$9,049	$85,038	$70,754	$14,284
Average assets	$9,838,481	$8,682,705	$1,155,776	$9,571,475	$8,794,899	$776,576
Average loans	5,486,572	5,888,614	(402,042)	5,505,572	6,222,843	(717,271)
Average deposits	8,873,662	7,889,417	984,245	8,599,994	7,799,795	800,199
Average invested capital	563,069	573,617	(10,548)	537,064	570,560	(33,496)
Return on average assets	1.12 %	0.85 %	27 bp	1.19 %	1.08 %	11 bp
Return on invested capital	19.54 %	12.92 %	662 bp	21.17 %	16.58 %	459 bp
Efficiency ratio	57.82 %	69.45 %	(1,163) bp	59.83 %	66.19 %	(636) bp
Net charge-offs (annualized) to average loans	0.52 %	0.79 %	(27) bp	0.92 %	0.54 %	38 bp

Net income generated in the Oklahoma market in the third quarter of 2010 increased $9.0 million or 48% over the third quarter of 2009. Net interest revenue increased $6.3 million and other operating revenue increased $5.2 million. Other operating expense decreased $9.1 million and net loans charged off decreased $4.4 million. Change in the fair value of the mortgage servicing rights, net of economic hedge decreased pre-tax net income by $7.9 million for the third quarter of 2010 and increased pre-tax net income by $579 thousand in the third quarter of 2009.

Net interest revenue increased $6.3 million over the third quarter of 2009. Net interest revenue increased from improved loan spreads and a $984 million increase in average deposits attributed to the Oklahoma market. Average loans attributed to the Oklahoma market decreased $402 million.

Other operating revenue increased $5.2 million or 7% compared to the third quarter of 2009. Mortgage banking revenue increased $10.2 million over the third quarter of 2009. Revenue from originating and marketing mortgages increased $5.2 million on increased funding volumes. Mortgage servicing revenue increased $5.0 million primarily due to the purchase of mortgage servicing rights in the first quarter of 2010. Deposit service charges decreased $4.3 million primarily due to a decline in overdraft fees as a result of changes in banking regulations that became effective in the third quarter of 2010.

Other operating expenses decreased $9.1 million compared to the prior year, primarily due to a decrease in corporate expenses allocated to the Oklahoma market, partially offset by an increase in personnel expenses and data processing expenses on higher transaction volumes.

Net loans charged off totaled $7.2 million or 0.52% of average loans on an annualized basis for third quarter of 2010 compared with $11.7 million or 0.79% of average loans on an annualized basis for the third quarter of 2009.

Average deposits in the Oklahoma market for the third quarter of 2010 increased $984 million over the third quarter of 2009. Commercial and wealth management units, including trust, broker/dealer and private banking increased over the prior year, partially offset by a decrease in consumer banking deposits.

Texas Market

Texas is our second largest market. Our Texas offices are located primarily in the Dallas, Fort Worth and Houston metropolitan areas. Approximately 30% of our average loans, 23% of our average deposits and 12% of our consolidated net income is attributed to the Texas market.

Table 12 – Texas
(Dollars in thousands)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase (Decrease)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Increase (Decrease)
Net interest revenue	$33,603	$31,829	$1,774	$99,460	$100,377	$(917)
Other operating revenue	15,883	13,684	2,199	45,376	37,276	8,100
Operating expense	33,004	34,616	(1,612)	97,169	100,301	(3,132)
Net loans charged off	3,310	4,021	(711)	14,435	15,743	(1,308)
Loss on repossessed assets, net	(914)	(736)	(178)	(1,986)	(803)	(1,183)
Income before taxes	12,258	6,140	6,118	31,246	20,806	10,440
Federal and state income tax	4,413	2,210	2,203	11,249	7,490	3,759
Net income	$7,845	$3,930	$3,915	$19,997	$13,316	$6,681
Average assets	$4,520,503	$4,237,482	$283,021	$4,398,830	$4,069,445	$329,385
Average loans	3,302,591	3,504,839	(202,248)	3,328,363	3,679,562	(351,199)
Average deposits	3,939,111	3,791,236	147,875	3,825,178	3,602,594	222,584
Average invested capital	558,519	549,006	9,513	540,486	540,914	(428)
Return on average assets	0.69%	0.37%	32 bp	0.61%	0.44%	17 bp
Return on invested capital	5.57%	2.84%	273 bp	4.95%	3.29%	166 bp
Efficiency ratio	66.69%	76.06%	(937) bp	67.09%	72.87%	(578) bp
Net charge-offs (annualized) to average loans	0.40%	0.46%	(6) bp	0.58%	0.57%	1 bp

Net income in the Texas market increased $3.9 million over the third quarter of 2009 primarily due to increased operating revenue and net interest revenue and decreased operating expenses and net loans charged off.

Net interest revenue increased $1.8 million or 6% over the third quarter of 2009 primarily due to a $148 million increase in average deposits attributed to the Texas market. Average outstanding loans decreased $202 million or 6% compared to the third quarter of 2009.

Other operating revenue increased $2.2 million or 16% over the third quarter of 2009 primarily due to a $1.3 million increase in mortgage revenue on higher mortgage funding volumes. Deposit service charges decreased $1.1 million due primarily to lower overdraft fees as a result of changes in banking regulation that became effective in the third quarter. All other fee income categories increased over the third quarter 2009.

Operating expenses were down $1.6 million compared to the prior year primarily due to a decrease in corporate expenses allocated to the Texas market. Personnel expenses were up 2% over the third quarter of 2009.

Net loans charged off totaled $3.3 million or 0.40% of average loans for third quarter of 2010 on an annualized basis, down from $4.0 million or 0.46% of average loans for the third quarter of 2009 on an annualized basis.

Other Markets

Net income attributable to our New Mexico market increased $851 thousand over the third quarter of 2009 to $1.7 million or 3% of consolidated net income. Net interest income increased due to increased average deposits balances and other operating revenues increased over the prior year due to increased mortgage revenue on higher funding volumes, partially offset by lower overdraft fees. Although we attribute all mortgage servicing to the Oklahoma market, the purchase of the rights to service $4.2 billion of residential mortgage loans in the first quarter of 2010 gives us the ability to further develop relationships with approximately 34 thousand additional customers, primarily located in the New Mexico market. Other operating expenses decreased due to lower corporate cost allocations.

For the third quarter of 2010, net income in the Arkansas market decreased $541 thousand compared to 2009. Net interest revenue decreased $378 thousand primarily due to an $80 million decrease in average loans. Average deposits in our Arkansas market were up $43 million or 25% over the third quarter of 2009 due primarily to commercial banking deposits. Wealth management and consumer deposits also increased over the third quarter of 2009. Funds transfer pricing improved over the third quarter of 2009 for funds sold to the funds management unit. Other operating revenue increased $3.4 million primarily on increased mortgage securities trading revenue at our Little Rock office. Other operating expenses increased $2.9 million on higher incentive compensation costs related to trading activity and increased corporate cost allocations. Net loans charged off increased to $1.3 million or 1.64% of average loans on an annualized basis from $733 thousand or 0.73% on an annualized basis in the third quarter of 2009. Losses on repossessed assets increased $405 thousand compared to the third quarter of 2009.

Net income attributed to our Colorado market increased $7.9 million to $1.3 million compared to a net loss of $6.7 million in the third quarter of 2009. Net loans charged off decreased $9.8 million compared to the third quarter of 2009. Other operating revenue increased $1.7 million primarily on higher mortgage origination revenue. Net interest income increased and operating expenses decreased.

Arizona market performance improved to a $1.3 million net loss in the third quarter of 2010 compared with a $4.7 million net loss in the third quarter of 2009. Losses on repossessed assets and net loans charged off decreased $3.9 million compared to the third quarter of 2009. Net interest revenue and operating revenue increased and operating expenses decreased from last year. Average deposits continue to grow, increasing $33 million or 16% over the third quarter of 2009. Average loans decreased $30 million or 5% compared to the prior year.

Consistent with plans when we first acquired Valley Commerce Bank in Phoenix in 2005, our objective is to focus on growth in commercial and small business lending in the Arizona market. We expanded our commercial lending staff in this market and opened three new banking locations during 2009. We have significantly scaled back commercial real estate lending activities which were not contemplated in our initial expansion into this market and exited the Tucson market in the first quarter of 2009 which we first entered in 2006. Losses incurred during the first nine months of 2010 and all of 2009 are largely due to commercial real estate lending. Outstanding loans attributed to the Arizona market increased $62 million or 14% from June 30, 2010. Assets attributable to the Arizona market included $16 million of goodwill that may be impaired in future periods if these commercial and small business lending growth plans are unsuccessful.

Net income attributed to the Kansas / Missouri market was flat with the prior year. Increased operating expenses compared to the prior year were mostly offset by increased net interest and other operating revenues. Total average deposits increased $85 million or 50% over the third quarter of 2009. Average loans were down $1.5 million or 1% compared to the prior year.

Table 13 – New Mexico
(Dollars in thousands)

	Three Months Ended September 30, 2010	2009	Increase (Decrease)	Nine Months Ended September 30, 2010	2009	Increase (Decrease)
Net interest revenue	$8,138	$7,924	$214	$23,822	$24,690	$(868)
Other operating revenue	6,931	6,070	861	19,025	17,989	1,036
Operating expense	10,117	9,834	283	26,967	29,016	(2,049)
Net loans charged off	2,088	2,731	(643)	5,210	4,680	530
Loss on repossessed assets, net	(43)	–	(43)	(2,734)	(925)	(1,809)
Income before taxes	2,821	1,429	1,392	7,936	8,058	(122)
Federal and state income tax	1,097	556	541	3,087	3,135	(48)
Net income	$1,724	$873	$851	$4,849	$4,923	$(74)
Average assets	$1,345,908	$1,271,339	$74,569	$1,302,189	$1,252,910	$49,279
Average loans	707,256	807,407	(100,151)	723,823	822,493	(98,670)
Average deposits	1,245,864	1,169,220	76,644	1,215,905	1,145,099	70,806
Average invested capital	77,027	95,193	(18,166)	81,753	98,001	(16,248)
Return on average assets	0.51 %	0.27 %	24 bp	0.50 %	0.53 %	(3) bp
Return on invested capital	8.88 %	3.64 %	524 bp	7.93 %	6.72 %	121 bp
Efficiency ratio	67.14 %	70.27 %	(313) bp	62.94 %	67.99 %	(505) bp
Net charge-offs (annualized) to average loans	1.17 %	1.34 %	(17) bp	0.96 %	0.76 %	20 bp

Table 14 – Arkansas
(Dollars in thousands)

	Three Months Ended September 30, 2010	2009	Increase (Decrease)	Nine Months Ended September 30, 2010	2009	Increase (Decrease)
Net interest revenue	$2,521	$2,899	$(378)	$7,798	$8,856	$(1,058)
Other operating revenue	11,852	8,464	3,388	29,372	28,660	712
Operating expense	9,985	7,070	2,915	27,412	21,039	6,373
Net loans charged off	1,308	733	575	5,514	2,564	2,950
	(440)	(35)	(405)	(876)	(36)	(840)

Loss on repossessed assets, net												
Income before taxes	2,640		3,525		(885	)	3,368		13,877		(10,509	)
Federal and state income tax	1,027		1,371		(344	)	1,310		5,398		(4,088	)
Net income	$1,613		$2,154		$(541	)	$2,058		$8,479		$(6,421	)
Average assets	$344,938		$415,735		$(70,797	)	$362,226		$431,771		$(69,545	)
Average loans	317,081		397,159		(80,078	)	339,305		418,322		(79,017	)
Average deposits	215,459		172,086		43,373		187,126		152,657		34,469	
Average invested capital	19,062		34,145		(15,083	)	24,986		34,400		(9,414	)
Return on average assets	1.86	%	2.06	%	(20	) bp	0.76	%	2.63	%	(187	) bp
Return on invested capital	33.57	%	25.03	%	854	bp	11.01	%	32.95	%	(2,194	) bp
Efficiency ratio	69.47	%	62.22	%	725	bp	73.75	%	56.08	%	1,767	bp
Net charge-offs (annualized) to average loans	1.64	%	0.73	%	91	bp	2.17	%	0.82	%	135	bp

Table 15 – Colorado
(Dollars in thousands)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase (Decrease)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	(Decrease)
Net interest revenue	$8,212	$7,850	$362	$24,864	$26,247	$(1,383)
Other operating revenue	5,430	3,780	1,650	15,425	13,042	2,383
Operating expense	9,190	10,085	(895)	27,619	29,321	(1,702)
Net loans charged off	2,426	12,197	(9,771)	8,469	23,086	(14,617)
Gain (loss) on repossessed assets, net	43	(258)	301	(556)	(201)	(355)
Income (loss) before taxes	2,069	(10,910)	12,979	3,645	(13,319)	16,964
Federal and state income tax	805	(4,244)	5,049	1,418	(5,181)	6,599
Net income (loss)	$1,264	$(6,666)	$7,930	$2,227	$(8,138)	$10,365
Average assets	$1,199,648	$1,207,493	$(7,845)	$1,201,258	$1,221,616	$(20,358)
Average loans	753,723	855,358	(101,635)	782,451	931,253	(148,802)
Average deposits	1,124,962	1,127,381	(2,419)	1,129,109	1,146,062	(16,953)
Average invested capital	110,909	157,342	(46,433)	125,298	148,644	(23,346)
Return on average assets	0.42%	(2.19)%	261 bp	0.25%	(0.89)%	114 bp
Return on invested capital	4.52%	(16.81)%	2,133 bp	2.38%	(7.32)%	970 bp
Efficiency ratio	67.37%	86.72%	(1,935) bp	68.55%	74.63%	(608) bp
Net charge-offs (annualized) to average loans	1.28%	5.66%	(438) bp	1.45%	3.31%	(186) bp

Table 16 – Arizona
(Dollars in thousands)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase (Decrease)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	(Increase) (Decrease)
Net interest revenue	$3,349	$2,544	$805	$8,653	$8,301	$352
Other operating revenue	1,724	1,027	697	3,544	2,176	1,368
Operating expense	4,844	4,977	(133)	14,173	14,223	(50)
Net loans charged off	3,337	4,654	(1,317)	18,359	30,949	(12,590)

Gain (loss) on repossessed assets, net	994	(1,636)	2,630	(9,978)	(1,865)	(8,113)
Loss before taxes	(2,114)	(7,696)	5,582	(30,313)	(36,560)	6,247
Federal and state income tax	(822)	(2,994)	2,172	(11,792)	(14,222)	2,430
Net loss	$(1,292)	$(4,702)	$3,410	$(18,521)	$(22,338)	$3,817
Average assets	$621,609	$644,061	$(22,452)	$604,023	$629,943	$(25,920)
Average loans	529,099	559,227	(30,128)	517,421	574,612	(57,191)
Average deposits	233,276	200,484	32,792	215,145	176,653	38,492
Average invested capital	51,232	79,325	(28,093)	62,031	83,306	(21,275)
Return on average assets	(0.82)%	(2.90)%	208 bp	(4.10)%	(4.74)%	64 bp
Return on invested capital	(10.01)%	(23.52)%	1,351 bp	(39.92)%	(35.85)%	(407) bp
Efficiency ratio	95.49 %	139.37 %	(4,388) bp	116.20 %	135.75 %	(1,955) bp
Net charge-offs (annualized) to average loans	2.50 %	3.30 %	(80) bp	4.74 %	7.20 %	(246) bp

Table 17 – Kansas / Missouri
(Dollars in thousands)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase (Decrease)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	(Increase) (Decrease)
Net interest revenue	$2,411	$2,245	$166	$6,774	$5,902	$872
Other operating revenue	5,387	4,825	562	14,060	15,372	(1,312)
Operating expense	5,144	4,291	853	15,151	12,239	2,912
Net loans charged off (recovered)	(4)	–	(4)	(52)	733	(785)
Loss on repossessed assets, net	–	–	–	(21)	–	(21)
Income before taxes	2,658	2,779	(121)	5,714	8,302	(2,588)
Federal and state income tax	1,034	1,081	(47)	2,223	3,229	(1,006)
Net income	$1,624	$1,698	$(74)	$3,491	$5,073	$(1,582)
Average assets	$300,822	$310,941	$(10,119)	$298,385	$317,499	$(19,114)
Average loans	289,600	291,127	(1,527)	287,365	309,202	(21,837)
Average deposits	255,530	170,458	85,072	218,086	167,193	50,893
Average invested capital	21,220	24,090	(2,870)	22,020	24,328	(2,308)
Return on average assets	2.14%	2.17%	(3) bp	1.56%	2.14%	(58) bp
Return on invested capital	30.36%	27.96%	240 bp	21.20%	27.88%	(668) bp
Efficiency ratio	65.97%	60.69%	528 bp	72.72%	57.53%	1,519 bp
Net charge-offs (annualized) to average loans	(0.01%)	–%	(1) bp	(0.02%)	0.32%	(34) bp

Financial Condition

Securities

We maintain a securities portfolio to enhance profitability, support interest rate risk management strategies, provide liquidity and comply with regulatory requirements. Securities are classified as held for investment, available for sale or trading. See Note 2 to the consolidated financial statements for the composition of the securities portfolio as of September 30, 2010.

Investment (held-to-maturity) securities, which consist primarily of Oklahoma municipal bonds and Texas school construction bonds, are carried at cost and adjusted for amortization of premiums or accretion of discounts. At September 30, 2010, investment securities were carried at $344 million and had a fair value of $358 million.

Available for sale securities, which may be sold prior to maturity, are carried at fair value. Unrealized gains or losses, less deferred taxes, are recorded as accumulated other comprehensive income in shareholders’ equity. The amortized cost of available for sale securities totaled $9.3 billion at September 30, 2010, up $294 million over June 30, 2010. At September 30, 2010, residential mortgage-backed securities represented 97% of total available for sale securities. We hold no securities backed by sub-prime mortgage loans, collateralized debt obligations or collateralized commercial real estate loans.

A primary risk of holding mortgage-backed securities comes from extension during periods of rising interest rates or prepayment during periods of falling interest rates. We evaluate this risk through extensive modeling of risk both before making an investment and throughout the life of the security. Current interest rates are historically low and prices for mortgage-backed securities are historically high resulting in very low effective durations. Our best estimate of the duration of the residential mortgage-backed securities portfolio is 1.8 years. The estimated duration extends to 4.0 years assuming an immediate 200 basis point upward shock. The estimated duration contracts to 1.4 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, 2010, approximately $8.3 billion of the amortized costs of the Company's residential mortgage-backed securities were issued by U.S. government agencies. The fair value of these mortgage-backed securities totaled $8.6 billion at September 30, 2010.

We also hold amortized cost of $787 million in residential mortgage-backed securities privately issued by publicly-owned financial institutions. The amortized cost of these privately issued residential mortgage-backed securities decreased $63 million from June 30, 2010 primarily due to cash received and a $13.3 million other-than-temporary impairment charged against earnings. The fair value of our portfolio of privately issued residential mortgage-backed securities totaled $708 million at September 30, 2010. Net unrealized losses on our portfolio of privately issued mortgage-backed securities have declined for seven consecutive quarters from $396 million at December 31, 2008 to $78 million at September 30, 2010.

Privately issued residential mortgage-backed securities with a total amortized cost of $554 million were rated below investment grade by at least one of the nationally-recognized rating agencies. The unrealized loss on the below investment grade mortgage-backed securities totaled $72 million at September 30, 2010. The net unrealized loss on these securities decreased $36 million in the third quarter of 2010.

Our portfolio of privately issued residential mortgage-backed securities consists primarily of amortized cost of $576 million of Jumbo-A residential mortgage loans and $211 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. None of these securities are backed by sub-prime mortgage loans, collateralized debt obligations or collateralized loan obligations. Approximately 88% of our Alt-A residential mortgage-backed securities are credit enhanced with additional collateral support and 96% of our Alt-A residential mortgage-backed securities originated in 2007 and 2006 have additional collateral support. Approximately 82% of our Alt-A mortgage-backed securities represents pools of fixed-rate mortgage loans. None of the adjustable rate mortgages are payment option adjustable rate mortgages ("ARMs"). Approximately 27% of our Jumbo-A residential mortgage-backed securities represent pools of fixed rate residential mortgage loans and none of the ARMs are payment option ARMs.

Net unrealized losses on our portfolio of privately issued residential mortgage-backed securities improved for the eighth consecutive quarter to $78 million at September 30, 2010 compared to a net unrealized loss of $396 million at December 31, 2008.

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 $14.3 million were recognized in earnings in the third quarter of 2010 on certain privately issued residential mortgage-backed securities and municipal securities we do not intend to sell.

Certain government agency issued residential mortgage-backed securities, identified as mortgage trading securities, have been designated as economic hedges of mortgage servicing rights. These securities are carried at fair value with changes in fair value recognized in current period income. These securities are held with the intent that gains or losses will offset changes in the fair value of mortgage servicing rights.

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

Bank-Owned Life Insurance

We have approximately $254 million of bank-owned life insurance at September 30, 2010. This investment is expected to provide a long-term source of earnings to support existing employee benefit programs. Approximately $223 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, 2010, the cash surrender value represented by the underlying fair value of investments held in separate accounts was approximately $242 million. As the underlying fair value of the investments held in a separate account at September 30, 2010 exceeded the net book value of the investments, no cash surrender value was supported by the stable value wrap. The stable value wrap is provided by a highly-rated, domestic financial institution. The remaining cash surrender value of $31 million primarily represented the cash surrender value of policies held in general accounts and other amounts due from various insurance companies.

Loans

The aggregate loan portfolio before allowance for loan losses totaled $10.8 billion at September 30, 2010, a $77 million decrease since June 30, 2010.

Table 18 - Loans
(In thousands)

	Sept. 30, 2010	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009
Commercial:					
Energy	$1,761,926	$1,844,643	$1,892,306	$1,911,994	$2,093,802
Services	1,594,215	1,669,069	1,741,924	1,807,824	1,768,454
Wholesale/retail	1,041,004	964,440	873,170	921,830	940,258
Manufacturing	347,478	357,671	395,964	404,061	442,729
Healthcare	814,456	805,619	777,668	792,538	745,777
Agriculture	169,956	147,700	155,410	160,549	156,997
Other commercial and industrial	242,973	222,386	178,297	209,044	222,039
Total commercial	5,972,008	6,011,528	6,014,739	6,207,840	6,370,056
Commercial real estate:					
Construction and land development	502,465	545,659	605,667	645,295	735,196
Retail	399,500	392,910	408,936	423,260	409,775
Office	490,429	466,939	463,995	463,316	488,564
Multifamily	352,200	346,460	377,673	360,436	339,847
Industrial	176,594	176,535	181,117	146,707	127,845
Other real estate loans	401,934	412,406	406,460	452,420	459,108
Total commercial real estate	2,323,122	2,340,909	2,443,848	2,491,434	2,560,335
Residential mortgage:					
Permanent mortgage	1,356,269	1,320,408	1,303,589	1,303,340	1,348,183
Home equity	527,639	513,838	494,122	490,282	481,641
Total residential mortgage	1,883,908	1,834,246	1,797,711	1,793,622	1,829,824

Consumer:					
Indirect automobile	284,920	338,147	396,280	454,508	516,062
Other consumer	341,886	357,887	318,646	332,294	335,287
Total consumer	626,806	696,034	714,926	786,802	851,349
Total	$10,805,844	$10,882,717	$10,971,224	$11,279,698	$11,611,564

The decline in outstanding loan balances was broadly distributed among the various segments of the portfolio and across geographic markets. Generally, the decline in outstanding loans balances was due to reduced customer demand in response to current economic conditions, normal repayment trends and management decisions to mitigate credit risk by exiting certain loan types. A breakdown by geographical market follows in Table 19.

Table 19 – Loans by Principal Market
(In thousands)

	Sept. 30, 2010	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009
Oklahoma:					
Commercial	$2,662,347	$2,704,460	$2,616,086	$2,649,252	$2,738,217
Commercial real estate	748,501	784,549	787,543	820,578	815,362
Residential mortgage	1,293,334	1,257,497	1,235,788	1,228,822	1,245,917
Consumer	349,720	395,274	404,570	451,829	483,369
Total Oklahoma	5,053,902	5,141,780	5,043,987	5,150,481	5,282,865
Texas:					
Commercial	1,876,994	1,902,934	1,935,819	2,017,081	2,075,379
Commercial real estate	715,859	731,399	769,682	735,338	734,742
Residential mortgage	309,815	308,496	307,643	313,113	335,797
Consumer	151,434	160,377	160,449	170,062	188,374
Total Texas	3,054,102	3,103,206	3,173,593	3,235,594	3,334,292
New Mexico:					
Commercial	289,368	286,555	326,203	341,802	344,910
Commercial real estate	314,957	294,425	298,197	305,061	344,988
Residential mortgage	87,851	87,549	85,629	86,415	88,271
Consumer	20,153	20,542	16,713	17,473	18,176
Total New Mexico	712,329	689,071	726,742	750,751	796,345
Arkansas:					
Commercial	91,752	89,376	86,566	103,443	99,559
Commercial real estate	117,137	114,576	129,125	132,436	128,984
Residential mortgage	14,937	15,823	17,071	16,849	19,128
Consumer	84,869	96,189	110,123	124,265	136,461
Total Arkansas	308,695	315,964	342,885	376,993	384,132
Colorado:					
Commercial	457,421	484,188	495,916	545,724	569,549
Commercial real estate	203,866	225,758	228,998	239,970	249,879
Residential mortgage	75,152	69,325	68,049	66,504	68,667
Consumer	15,402	18,548	17,991	17,362	18,272
Total Colorado	751,841	797,819	810,954	869,560	906,367
Arizona:					
Commercial	234,739	204,326	209,019	199,143	219,330
Commercial real estate	188,943	163,374	202,192	227,249	257,169
Residential mortgage	85,184	78,890	68,015	65,047	57,304
Consumer	3,061	2,971	3,068	3,461	4,826
Total Arizona	511,927	449,561	482,294	494,900	538,629
Kansas / Missouri:					

Commercial	359,387	339,689	345,130	351,395	323,112
Commercial real estate	33,859	26,828	28,111	30,802	29,211
Residential mortgage	17,635	16,666	15,516	16,872	14,740
Consumer	2,167	2,133	2,012	2,350	1,871
Total Kansas / Missouri	413,048	385,316	390,769	401,419	368,934
Total BOK Financial loans	$10,805,844	$10,882,717	$10,971,224	$11,279,698	$11,611,564

Commercial

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

The commercial loan portfolio decreased $40 million during the third quarter of 2010 to $6.0 billion at September 30, 2010. Energy sector loans decreased $83 million, service sector loans decreased $75 million and manufacturing sector loans decreased $10 million. Decreases in outstanding commercial loans were partially offset by a $77 million increase in wholesale / retail sector loans, a $22 million increase in agricultural sector loans and a $ 21 million increase in other commercial and industrial loans. Commercial loan origination activity has slowed to less than amounts necessary to offset normal repayment trends in the portfolio. In general, loan demand has softened due to lower working capital needs and less capital project spending by our customers. The commercial sector of our loan portfolio is distributed as follows in Table 20.

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Energy	$911,455	$649,558	$115	$6,242	$194,556	$–	$–	$1,761,926
Services	481,559	507,759	193,155	18,685	170,506	113,552	108,999	1,594,215
Wholesale/retail	458,153	388,802	34,704	59,037	19,247	60,819	20,242	1,041,004
Manufacturing	196,875	71,031	36,355	1,407	18,815	18,945	4,050	347,478
Healthcare	509,636	195,740	9,012	5,362	48,012	22,587	24,107	814,456
Agriculture	6,876	9,316	44	274	203	–	153,243	169,956
Other commercial and industrial	97,793	54,788	15,983	745	6,082	18,836	48,746	242,973
Total commercial loans	$2,662,347	$1,876,994	$289,368	$91,752	$457,421	$234,739	$359,387	$5,972,008

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

Energy loans totaled $1.8 billion or 16% of total loans. Outstanding energy loans decreased $83 million during the third quarter of 2010 primarily due to low customer loan demand as a result of low commodity prices which has led to curtailed exploration and production of oil and gas reserves and reduced borrowing capacity based upon collateral values. Approximately $1.5 billion of energy loans were to oil and gas producers, down $15 million from June 30, 2010. Approximately 52% of the committed production loans are secured by properties primarily producing oil and 48% of the committed production loans are secured by properties primarily producing natural gas. The energy category also included approximately $37 million of loans to borrowers that provide services to the energy industry, $166 million of loans to borrowers engaged in wholesale or retail energy sales and $39 million of loans to borrowers that manufacture equipment primarily for the energy industry. We did not experience a significant, direct impact on our energy loan portfolio from the moratorium on offshore drilling activities.

The services sector of the loan portfolio totaled $1.6 billion or 15% of total loans and consists of a large number of loans to a variety of businesses, including communications, gaming and transportation services. Approximately $934 million 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. Outstanding loans to the service sector of the loan portfolio decreased $75 million during the third quarter of 2010 due to reduced loan demand as a result of general economic conditions.

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, 2010, the outstanding principal balance of these loans totaled $1.4 billion. Substantially all of these loans are to borrowers with local market relationships. We serve as the agent lender in approximately 18% 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 2010 did not differ significantly from management's assessment.

Commercial Real Estate

Commercial real estate represents loans for the construction of buildings or other improvements to real estate and property held by borrowers for investment purposes 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 21% of the loan portfolio at September 30, 2010. Over the past five years, the percentage of commercial real estate loans to our total loan portfolio ranged from 20% to 23%. The outstanding balance of commercial real estate loans decreased $18 million from the previous quarter end. The commercial real estate sector of our loan portfolio is distributed as follows in Table 21.

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Construction and land development	$ 151,733	$ 109,962	$ 68,550	$ 16,498	$ 104,648	$ 46,344	$ 4,730	$ 502,465
Retail	145,082	116,178	58,757	17,678	7,243	43,260	11,302	399,500
Office	105,353	177,601	95,131	17,884	62,845	31,369	246	490,429
Multifamily	110,767	146,641	20,034	45,193	2,783	20,202	6,580	352,200
Industrial	70,028	70,809	21,152	245	1,676	12,619	65	176,594
Other real estate loans	165,538	94,668	51,333	19,639	24,671	35,149	10,936	401,934
Total commercial real estate loans	$ 748,501	$ 715,859	$ 314,957	$ 117,137	$ 203,866	$ 188,943	$ 33,859	$ 2,323,122

Construction and land development loans, which consist primarily of residential construction properties and developed building lots, decreased $43 million from June 30, 2010 to $502 million at September 30, 2010 primarily due to payments. In addition, approximately $7.1 million of construction and land development loans were transferred to other real estate owned in the third quarter of 2010 and $5.7 million were charged-off. This sector of the loan portfolio is expected to continue to decrease as construction projects currently in process are completed. Loan secured by office buildings, primarily attributed to the New Mexico and Texas markets increased $23 million during the third quarter.

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 $50 million from June 30, 2010. Permanent 1-4 family mortgage loans were up $36 million over the prior quarter primarily in the Oklahoma and Texas markets and home equity loans increased $14 million, primarily in the Oklahoma market. In general, we sell the majority of our conforming fixed-rate loan originations in the secondary market and retain the majority of our non-conforming and adjustable-rate mortgage loans. We have no concentration in sub-prime residential mortgage loans. Our mortgage loan portfolio does not include payment option adjustable rate mortgage loans or adjustable rate mortgage loans with initial rates that are below market.

The permanent mortgage loan portfolio is primarily composed of various 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 $1.2 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. The maximum loan amount of any of our residential mortgage loans products is $4 million.

Approximately $100 million or 7% of permanent mortgage loans consist of first lien, fixed rate residential mortgage loans originated under various community development programs. The outstanding balance of these loans is down from $103 million at June 30, 2010. These loans were underwritten to standards approved by various U.S. government agencies under these programs and include full documentation. However, these loans do have a higher risk of delinquency and losses given default than traditional residential mortgage loans. The initial maximum LTV of loans in these programs was 103%.

The composition of residential mortgage and consumer loans at September 30, 2010 is as follows in Table 22.

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Residential mortgage:								
Permanent mortgage	$970,577	$221,629	$15,558	$10,107	$54,777	$70,289	$13,332	$1,356,269
Home equity	322,757	88,186	72,293	4,830	20,375	14,895	4,303	527,639
	$1,293,334	$309,815	$87,851	$14,937	$75,152	$85,184	$17,635	$1,883,908

Total residential mortgage								
Consumer:								
Indirect automobile	$164,757	$42,479	$–	$77,684	$–	$–	$–	$284,920
Other consumer	184,963	108,955	20,153	7,185	15,402	3,061	2,167	341,886
Total consumer	$349,720	$151,434	$20,153	$84,869	$15,402	$3,061	$2,167	$626,806

Indirect automobile loans decreased $53 million from June 30, 2010, primarily due to the previously-disclosed decision by the Company to exit the business in the first quarter of 2009 in favor of a customer-focused direct lending approach, and other consumer loans decreased $16 million.

Loan Commitments

We enter into certain off-balance sheet arrangements in the normal course of business. These arrangements included unfunded loan commitments which totaled $4.9 billion and standby letters of credit which totaled $525 million at September 30, 2010. 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 $4.1 million of the outstanding standby letters of credit were issued on behalf of customers whose loans are non-performing at September 30, 2010.

We also have off-balance sheet commitments for residential mortgage loans sold with full or partial recourse as more fully described in Note 14 to the consolidated financial statements. At September 30, 2010, the principal balance of residential mortgage loans sold subject to recourse obligations totaled $300 million, down from $311 million at June 30, 2010. Substantially all of these loans are to borrowers in our primary markets including $211 million to borrowers in Oklahoma, $32 million to borrowers in Arkansas, $18 million to borrowers in New Mexico, $16 million to borrowers in the Kansas/Missouri area and $13 million to borrowers in Texas.

We also have off-balance sheet commitments for residential mortgage loans sold to government sponsored agencies through our mortgage-banking activities. For the nine months ended September 30, 2010, we have repurchased 9 loans for approximately $500 thousand from the agencies. Losses incurred on these loans have been minimal. At September 30, 2010, we have unresolved deficiency requests from the agencies on 28 loans with an aggregate outstanding principal balance of $3.9 million.

Customer Derivative Programs

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

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

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

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

Derivative contracts are carried at fair value. At September 30, 2010, the net fair values of derivative contracts reported as assets under these programs totaled $277 million, down from $335 million at June 30, 2010. At September 30, 2010, derivative contracts carried as assets included interest rate contracts with fair values of $116 million, energy contracts with fair values of $102 million, and foreign exchange contracts with fair values of $49 million. The aggregate net fair values of derivative contracts held under these programs reported as liabilities totaled $274 million.

At September 30, 2010, total derivative assets were reduced by $20 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 as permitted by generally accepted accounting principles.

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

The fair value of derivative contracts reported as assets under these programs, net of cash margin held by the Company, by category of debtor at September 30, 2010 follows in Table 23.

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

Customers	$ 158,606
Banks and other financial institutions	47,073
Energy companies	45,181
Exchanges	5,685
Other	1,014
Fair value of customer hedge asset derivative contracts, net	$ 257,559

At September 30, 2010, the largest net amount due from a single counterparty, a domestic subsidiary of a major energy company, was $38 million. This amount was entirely offset by letters of credit issued by multiple independent financial institutions.

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 $248 million. An increase in prices equivalent to $––140 per barrel of oil would decrease the fair value of derivative assets by $202 million as current prices move away from the fixed prices embedded in our existing contracts. Further increases in prices equivalent to $148 per barrel of oil would increase the fair value of our derivative assets by $234 million. Liquidity requirements of this program are also affected by our credit rating. A decrease in credit rating from A1 to below investment grade would increase our obligation to post cash margin on existing contracts by approximately $58 million.

Summary of Loan Loss Experience

We maintain separate reserves for loan losses and reserves for off-balance sheet credit risk. The combined allowance for loan losses and reserve for off-balance sheet credit losses totaled $314 million or 2.91% of outstanding loans and 117% of nonaccruing loans at September 30, 2010. The allowance for loan losses was $299 million and the reserve for off-balance sheet credit losses was $15 million. The combined allowance for loan losses and reserve for off-balance sheet credit losses totaled $315 million or 2.89% of outstanding loans and 98% of nonaccruing loans at June 30, 2010.

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

	Three Months Ended				
	Sept. 30, 2010	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009
Reserve for loan losses:					
Beginning balance	$299,489	$299,717	$292,095	$280,902	$263,309
Loans charged off:					
Commercial	5,435	6,030	11,373	12,773	12,026
Commercial real estate	8,704	19,439	22,357	12,505	17,407
Residential mortgage	7,380	8,804	1,842	6,055	3,479
Consumer	3,820	3,895	4,756	6,641	5,669
Total	25,339	38,168	40,328	37,974	38,581
Recoveries of loans previously charged off:					
Commercial	2,309	958	3,063	640	858
Commercial real estate	1,086	94	672	317	20
Residential mortgage	316	127	120	335	201
Consumer	1,493	1,435	1,995	1,658	1,515
Total	5,204	2,614	5,850	2,950	2,594
Net loans charged off	20,135	35,554	34,478	35,024	35,987
Provision for loan losses	19,800	35,326	42,100	46,217	53,580
Ending balance	$299,154	$299,489	$299,717	$292,095	$280,902
Reserve for off-balance sheet credit losses:					
Beginning balance	$15,102	$14,388	$14,388	$11,985	$10,445
Provision for off-balance sheet credit losses	200	714	–	2,403	1,540
Ending balance	$15,302	$15,102	$14,388	$14,388	$11,985
Total provision for credit losses	$20,000	$36,040	$42,100	$48,620	$55,120
Reserve for loan losses to loans outstanding at period-end	2.77 %	2.75 %	2.73 %	2.59 %	2.42 %
Net charge-offs (annualized) to average loans	0.74	1.30	1.23	1.22	1.21
Total provision for credit losses (annualized) to average loans	0.74	1.31	1.51	1.69	1.85
Recoveries to gross charge-offs	20.54	6.85	14.51	7.77	6.72

Reserve for loan losses as a multiple of net charge-offs (annualized)	3.71	x	2.11	x	2.17	x	2.08	x	1.95	x
Reserve for off-balance sheet credit losses to off-balance sheet credit commitments	0.28	%	0.28	%	0.26	%	0.26	%	0.22	%
Combined reserves for credit losses to loans outstanding at period-end	2.91		2.89		2.86		2.72		2.52	

Allowance for Loan Losses

The adequacy of the allowance for loan losses is assessed by management based on an ongoing quarterly evaluation of the probable estimated losses inherent in the portfolio. The allowance consists of specific reserves attributed to impaired loans that have not yet been charged down to amounts we expect to recover, general reserves based on migration factors and non-specific reserves based on general economic, risk concentration and related factors. An independent Credit Administration department is responsible for performing this evaluation for the entire company to ensure that the methodology is applied consistently. For the nine months ended September 30, 2010, there have been no material changes in the approach or techniques utilized in developing the allowance for loan losses.

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

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

Impaired loans are charged-off when the loan balance or a portion of the loan balance is no longer supported by the paying capacity of the borrower based on 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 reserves are attributed to the remaining balance of loans that have been charged-down to amounts management expects to recover. However, the remaining balance continues to be classified as nonaccruing until full recovery of principal and interest, including the charged-off portion of the loan, is probable.

Impaired loans totaled $243 million at September 30, 2010 and $293 million at June 30, 2010. At September 30, 2010, $170 million of impaired loans had specific reserves of $12 million and $73 million had no specific reserves because the loan balance had been charged down to amounts we expect to recover. Impaired loans with no specific reserves had gross outstanding principal balances of $170 million. Cumulative life-to-date charge-offs of impaired loans with no specific reserves at September 30, 2010 totaled $97 million, including $9.0 million charged-off in the third quarter of 2010. At June 30, 2010, $203 million of impaired loans had specific reserves of $20 million and $90 million had no specific reserves because they had been charged down to amounts we expect to recover.

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

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

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

The aggregate amount of general reserves determined by migration factors for all unimpaired loans totaled $260 million at September 30, 2010. Approximately, $195 million was attributed to commercial and commercial real estate loans, $52 million was attributed to residential mortgage loans and $13 million was attributed to consumer loans. The aggregate amount of general reserves determined by migration factors for all unimpaired loans totaled $260 million at June 30, 2010.

Nonspecific reserves are maintained for risks beyond factors specific to a particular loan or identified by the migration models. These factors include trends in the economy in our primary lending areas, conditions in certain industries where we have a concentration and overall growth in the loan portfolio. Evaluation of nonspecific factors considers the effect of the duration of the business cycle on migration factors. Nonspecific factors also consider current economic conditions and other relevant factors. Nonspecific reserves totaled $27 million at September 30, 2010 and $19 million at June 30, 2010.

The provision for loan losses is the amount necessary to maintain the allowance for loan losses at an amount determined by management to be adequate based on its evaluation. The provision for loan losses totaled $20.0 million for the third quarter of 2010, $36.0 million for the second quarter of 2010 and $55.1 million for the third quarter of 2009. Factors considered in determining the provision for credit losses for the third quarter of 2010 included trends of net charge-offs, nonperforming loans and risk grading.

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. Collateral values are generally evaluated annually, or more frequently for certain collateral types or collateral located in certain distressed markets. 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 2010 totaled $20.1 million compared to $35.6 million in the previous quarter and $36.0 million in the third quarter of 2009. The ratio of net loans charged off (annualized) to average outstanding loans was 0.74% for the third quarter of 2010 compared with 1.30% for the second quarter of 2010 and 1.21% for the third quarter of 2009. Net loans charged off in the third quarter of 2010 decreased $15.4 million compared to the previous quarter. Gross loans charged off in the third quarter of 2010 decreased $12.8 million and recoveries increased by $2.6 million compared to the prior quarter.

Net loans charged off by category and principal market area during the third quarter of 2010 follow in Table 25.

Table 25 – Net Loans Charged Off
(In thousands)

	Oklahoma	Texas	Colorado	Arkansas	New Mexico	Arizona	Kansas/ Missouri	Total
Commercial	$ 1,450	$835	$192	$(1)	$530	$120	$–	$3,126
Commercial real estate	1,038	1,298	1,925	966	(95)	2,486	–	7,618
Residential mortgage	4,108	244	–	42	1,955	715	–	7,064
Consumer	916	720	213	301	163	14	–	2,327
Total net loans charged off	$ 7,512	$3,097	$2,330	$1,308	$2,553	$3,335	$–	$20,135

Net commercial loans charged off during the third quarter of 2010 decreased $1.9 million compared to the prior quarter. Net commercial loans charged off during the third quarter of 2010 included $1.7 million of charge-offs from the energy sector and $1.0 million from the other commercial sector in the Oklahoma market.

Net charge-offs of commercial real estate loans decreased $11.7 million compared to the second quarter of 2010. Net charge-offs of loans secured by multifamily residential properties primarily attributed to the Oklahoma market decreased $8.4 million compared to the prior quarter to $360 thousand. Land and residential construction sector charge-offs decreased $529 thousand compared to the prior quarter to $5.7 million. Net charge-offs of land and residential construction sector loans were primarily composed of $1.9 million attributed to the Arizona market, $1.9 million attributed to the Colorado market and $1.3 million attributed to the Texas market.

Residential mortgage net charge-offs decreased $1.6 million compared to the previous quarter primarily related to residential mortgage loans attributed to the Oklahoma market. The timing of residential mortgage loan charge-offs varies based on foreclosure activity and delinquency status. Consumer loan net charge-offs, which includes indirect auto loan and deposit account overdraft losses, decreased $133 thousand from the previous quarter. Net charge-offs of indirect auto loans increased to $1.1 million in the third quarter of 2010 up from $938 thousand for the second quarter of 2010.

The Company considers the credit risk from loan commitments and letters of credit in its evaluation of the adequacy of the reserve for loan losses. A separate reserve for off-balance sheet credit risk is maintained. Table 24 presents the trend of reserves for off-balance sheet credit losses and the relationship between the reserve and loan commitments. The provision for credit losses included the combined charge to expense for both the reserve for loan losses and the reserve for off-balance sheet credit losses. All losses incurred from lending activities will ultimately be reflected in charge-offs against the reserve for loan losses following funds advanced against outstanding commitments and after the exhaustion of collection efforts.

Nonperforming Assets

Table 26 – Nonperforming Assets
(In thousands)

	Sept. 30, 2010	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009
Nonaccrual loans:					
Commercial	$49,361	$82,775	$84,491	$101,384	$128,266
Commercial real estate	177,709	193,698	219,639	204,924	212,418
Residential mortgage	38,898	40,033	36,281	29,989	38,220
Consumer	2,784	3,188	3,164	3,058	3,897
Total nonaccrual loans	268,752	319,694	343,575	339,355	382,801
Renegotiated loans (2)	25,252	21,327	17,763	15,906	17,426
Total nonperforming loans	294,004	341,021	361,338	355,261	400,227
Other nonperforming assets	126,859	119,908	121,933	129,034	89,507
Total nonperforming assets	$420,863	$460,929	$483,271	$484,295	$489,734
Nonaccrual loans by principal market:					
Oklahoma	$72,264	$93,898	$102,231	$83,176	$112,610
Texas	36,979	49,695	58,067	66,892	65,911
New Mexico	23,792	26,956	23,021	26,693	35,541
Arkansas	9,990	10,933	14,652	13,820	5,911
Colorado (3)	55,631	66,040	66,883	60,082	50,432
Arizona	70,038	72,111	78,656	84,559	108,161
Kansas / Missouri	58	61	65	4,133	4,235
Total nonaccrual loans	$268,752	$319,694	$343,575	$339,355	$382,801
Nonaccrual loans by loan portfolio sector:					
Commercial:					
Energy	$8,189	$26,259	$17,182	$22,692	$48,992
Manufacturing	2,454	3,237	4,834	15,765	17,429
Wholesale / retail	5,584	5,561	6,629	12,057	7,623
Agriculture	58	58	65	65	98
Services	23,925	31,062	35,535	30,926	30,094
Healthcare	2,608	8,568	10,538	13,103	13,758
Other	6,543	8,030	9,708	6,776	10,272
Total commercial	49,361	82,775	84,491	101,384	128,266
Commercial real estate:					
Land development and construction	116,252	132,686	140,508	109,779	113,868
Retail	8,041	4,967	14,843	26,236	22,254
Office	24,942	24,764	26,660	25,861	31,406
Multifamily	6,924	7,253	15,725	26,540	28,223
Industrial	4,151	4,223	–	279	527
Other commercial real estate	17,399	19,805	21,903	16,229	16,140
Total commercial real estate	177,709	193,698	219,639	204,924	212,418
Residential mortgage:					
Permanent mortgage	36,654	37,978	34,134	28,314	36,431
Home equity	2,244	2,055	2,147	1,675	1,789
Total residential mortgage	38,898	40,033	36,281	29,989	38,220
Consumer	2,784	3,188	3,164	3,058	3,897
Total nonaccrual loans	$268,752	$319,694	$343,575	$339,355	$382,801

Ratios:										
Reserve for loan losses to nonperforming loans	101.75	%	87.82	%	82.95	%	82.22	%	70.19	%
Nonperforming loans to period-end loans	2.72		3.13		3.29		3.15		3.45	
Loans past due (90 days or more) (1)	$6,433		$12,474		$12,915		$10,308		$24,238	
(1) Includes residential mortgages guaranteed by agencies of the U.S. Government.	$854		$3,210		$3,183		$1,400		$2,589	
(2) Includes residential mortgages guaranteed by agencies of the U.S. Government. These loans have been modified to extend payment terms and/or reduce interest rates to current market.	21,706		17,598		14,083		12,799		11,234	
(3) Includes loans subject to First United Bank sellers escrow for any losses incurred during a three-year period after the June 2007 which expired in the second quarter of 2010.	–		–		4,281		4,311		4,173	

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Nonperforming assets decreased $40 million during the third quarter of 2010 to $421 million or 3.85% of outstanding loans and repossessed assets at September 30, 2010. Nonaccruing loans totaled $269 million, renegotiated residential mortgage loans totaled $25 million (including $22 million of residential mortgage loans guaranteed by U.S. government agencies) and real estate and other repossessed assets totaled $127 million. The Company generally retains nonperforming assets to maximize potential recovery.

Renegotiated loans represent troubled debt restructurings of residential mortgage loans. Generally, we modify residential mortgage loans by reducing interest rates and extending the number of payments. We do not forgive principal or unpaid interest. At September 30, 2010, approximately $14 million of the renegotiated residential mortgage loans are currently performing in accordance with the modified terms, $5.3 million are 30 to 89 days past due and $5.9 million are past due 90 days or more. Restructured residential mortgage loans guaranteed by agencies of the U.S. government in accordance with agency guidelines represent $22 million of our $25 million portfolio of renegotiated loans. Interest continues to accrue on these guaranteed loans based on the modified terms of the loan. Renegotiated loans may be transferred to loans held-for-sale after a period of satisfactory performance, generally at least nine months. If it becomes probable that we will not be able to collect all amounts due according to the modified loan terms, the loan is placed on nonaccrual status and included in nonaccrual loans.

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

A rollforward of nonperforming assets for the third quarter of 2010 follows in Table 27.

Table 27 – Rollforward of Nonperforming Assets
(In thousands)

	For the Three Months Ended September 30, 2010			
	Nonaccruing Loans	Renegotiated Loans	Real Estate and Other Repossessed Assets	Total Nonperforming Assets
Balance, June 30, 2010	$ 319,694	$ 21,327	$ 119,908	$ 460,929
Additions	30,036	–	–	30,036
Transfers from premises and equipment	–	–	8,984	8,984
Payments	(23,563)	–	–	(23,563)
Charge-offs / Write-offs	(25,340)	–	(5,411)	(30,751)
Foreclosures	(16,441)	–	16,441	–
Sales	–	–	(13,063)	(13,063)
Return to accrual	(13,713)	–	–	(13,713)
Other, net	(1,921)	3,925	–	2,004
Balance, September 30, 2010	$ 268,752	$ 25,252	$ 126,859	$ 420,863

For the Nine Months Ended September 30, 2010

	Nonaccruing Loans	Renegotiated Loans	Real Estate and Other Repossessed Assets	Total Nonperforming Assets
Balance, December 31, 2009	$ 339,355	$ 15,906	$ 129,034	$ 484,295
Additions	168,924	–	–	168,924
Transfers from premises and equipment	–	–	8,984	8,984
Payments	(74,186)	–	–	(74,186)
Charge-offs / Write-offs	(103,836)	–	(23,441)	(127,277)
Foreclosures	(41,210)	–	41,210	–
Sales	–	–	(28,928)	(28,928)
Return to accrual	(22,596)	–	–	(22,596)
Other, net	2,301	9,346	–	11,647
Balance, September 30, 2010	$ 268,752	$ 25,252	$ 126,859	$ 420,863

Nonaccruing loans may be returned to accrual status when full collection of contractual principal and interest, including principal previously charged-off, is probable based on improvements in the borrower's financial condition and a sustained period of performance.

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

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

	September 30, 2010		June 30, 2010		Change	
	Amount	% of outstanding loans	Amount	% of outstanding loans	Amount	% of outstanding loans
Oklahoma	$72,264	1.43 %	$93,898	1.83 %	$(21,634)	(40) bp
Texas	36,979	1.21	49,695	1.60	(12,716)	(39)
New Mexico	23,792	3.34	26,956	3.91	(3,164)	(57)
Arkansas	9,990	3.24	10,933	3.46	(943)	(22)
Colorado	55,631	7.40	66,040	8.28	(10,409)	(88)
Arizona	70,038	13.68	72,111	16.04	(2,073)	(236)
Kansas / Missouri	58	0.01	61	0.02	(3)	(1)
Total	$268,752	2.49 %	$319,694	2.94 %	$(50,942)	(45) bp

Nonaccruing loans attributed to the Arizona, Colorado and Texas markets consisted primarily of commercial real estate loans. Nonaccruing loans attributed to the Oklahoma market are primarily composed of $26 million of residential mortgage loans, $24 million of commercial real estate loans and $21 million of commercial loans.

Nonaccruing loans decreased $51 million from June 30, 2010 primarily due to a $22 million decrease in nonaccruing loans attributed to the Oklahoma market, a $13 million decrease in nonaccruing loans attributed to the Texas market and a $10 million decrease in nonaccruing loans attributed to the Colorado market. Nonaccruing loans attributed to New Mexico, Arizona and Arkansas all decreased in third quarter of 2010. During the third quarter of 2010, $30 million of new nonaccruing loans were identified, offset by $24 million in payments received, $25 million in charge-offs and $16 million in foreclosures and repossessions. In addition, $14 million of nonaccruing loans were returned to accrual status during the third quarter of 2010 based on our expectation of full repayment. This was primarily due to one energy customer for which additional equity capital was placed into the entity and additional collateral for the loan was provided. All past due amounts were paid current. Based on the developments related to this customer relationship during the quarter, we now expect full repayment of all contractual amounts due and accordingly returned this customer to accruing status during the third quarter. The ratio of nonaccruing loans to period end loans was also negatively impacted by a $77 million decrease in period end loans balances from June 30, 2010.

Commercial

Nonaccruing commercial loans totaled $49 million or 0.83% of total commercial loans at September 30, 2010 and $83 million or 1.38% of total commercial loans at June 30, 2010. At September 30, 2010, nonaccruing commercial loans were primarily composed of $24 million or 1.50% of total services sector loans, $8 million or 0.46% of total energy sector loans, $2.6 million or 0.32% of total healthcare sector loans. Nonaccruing commercial loans decreased $33 million primarily due to an $18 million decrease in energy sector loans, a $7 million decrease in nonaccruing service sector loans and a $6 million decrease in nonaccruing healthcare sector loans.

Newly identified nonaccruing commercial loans in the third quarter of 2010 totaled approximately $3 million, primarily offset by $13 million of nonaccruing commercial loans returning to accrual status, $11 million in payments, $7 million in foreclosures and $5 million in charge-offs. Nonaccruing commercial loans attributed to our various markets as of September 30, 2010 follows in Table 29.

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

	September 30, 2010		June 30, 2010		Change	
	Amount	% of outstanding loans	Amount	% of outstanding loans	Amount	% of outstanding loans
Oklahoma	$20,681	0.78 %	$41,758	1.54 %	$(21,077)	(76) bp
Texas	5,728	0.31	11,398	0.60	(5,670)	(29)
New Mexico	6,787	2.35	8,398	2.93	(1,611)	(58)
Arkansas	97	0.11	103			