

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)

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  
(State or other jurisdiction  
of Incorporation or Organization)

73-1373454  
(IRS Employer  
Identification No.)

Bank of Oklahoma Tower  
P.O. Box 2300  
Tulsa, Oklahoma  
(Address of Principal Executive Offices)

74192  
(Zip Code)

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

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

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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   
filer

Accelerated  
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

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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BOK Financial Corporation  
Form 10-Q  
Quarter Ended 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.

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- 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

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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	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,		Increase	% Increase		Three Months Ended June 30,		Increase	% Increase
	2010	2009	(Decrease)	(Decrease)		2010	(Decrease)	(Decrease)	(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.

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Table 3 –  
Mortgage  
Banking  
Revenue  
(In thousands)

	Three Months Ended September 30,				Three Months Ended June 30,			
	2010	2009	Increase	% Increase	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,		%		Three Months Ended June 30,		%	
	2010	2009	Increase (Decrease)	Increase (Decrease)	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	

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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.

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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,			Nine Months Ended September 30,		
	2010	2009	Increase (Decrease)	2010	2009	Increase (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)

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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			Nine Months Ended			
	September 30, 2010	September 30, 2009	Increase (Decrease)	September 30, 2010	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

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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,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2010	2009		2010	2009	
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,	September 30,	Increase (Decrease)		
		2010	2009			
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
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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		Nine Months Ended	
	September 30,		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			Nine Months Ended			
	September 30, 2010	September 30, 2009	Increase (Decrease)	September 30, 2010	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			Nine Months Ended			
	September 30,		Increase	September 30,		Increase	
	2010	2009	(Decrease)	2010	2009	(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			Nine Months Ended			
	September 30,		Increase	September 30,		Increase	
	2010	2009	(Decrease)	2010	2009	(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			Nine Months Ended		
	September 30,		Increase	September 30,		Increase
	2010	2009	(Decrease)	2010	2009	(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 )

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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

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Table 15 – Colorado  
(Dollars in thousands)

	Three Months Ended		Increase (Decrease)	Nine Months Ended		(Decrease)
	September 30, 2010	2009		September 30, 2010	2009	
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		Increase (Decrease)	Nine Months Ended		(Increase) (Decrease)
	September 30, 2010	2009		September 30, 2010	2009	
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 )



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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		Increase (Decrease)	Nine Months Ended		(Increase) (Decrease)
	September 30, 2010	2009		September 30, 2010	2009	
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.

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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
<b>Commercial:</b>					
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
<b>Commercial real estate:</b>					
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
<b>Residential mortgage:</b>					
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
<b>Oklahoma:</b>					
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
<b>Total Oklahoma</b>	<b>5,053,902</b>	<b>5,141,780</b>	<b>5,043,987</b>	<b>5,150,481</b>	<b>5,282,865</b>
<b>Texas:</b>					
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
<b>Total Texas</b>	<b>3,054,102</b>	<b>3,103,206</b>	<b>3,173,593</b>	<b>3,235,594</b>	<b>3,334,292</b>
<b>New Mexico:</b>					
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
<b>Total New Mexico</b>	<b>712,329</b>	<b>689,071</b>	<b>726,742</b>	<b>750,751</b>	<b>796,345</b>
<b>Arkansas:</b>					
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
<b>Total Arkansas</b>	<b>308,695</b>	<b>315,964</b>	<b>342,885</b>	<b>376,993</b>	<b>384,132</b>
<b>Colorado:</b>					
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
<b>Total Colorado</b>	<b>751,841</b>	<b>797,819</b>	<b>810,954</b>	<b>869,560</b>	<b>906,367</b>
<b>Arizona:</b>					
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
<b>Total Arizona</b>	<b>511,927</b>	<b>449,561</b>	<b>482,294</b>	<b>494,900</b>	<b>538,629</b>
<b>Kansas / Missouri:</b>					



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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

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## 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						