BOK FINANCIAL CORP ET AL
Form 10-Q
August 03, 2010
As filed with the Securities and Exchange Commission on August 2, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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)

Oklahoma	73-1373454
(State or other jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

Bank of Oklahoma Tower P.O. Box 2300 Tulsa, Oklahoma	74192
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 68,080,797 shares of common stock ($.00006 par value) as of June 30, 2010.

BOK Financial Corporation
Form 10-Q
Quarter Ended June 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 $63.5 million or $0.93 per diluted share for the second quarter of 2010, compared to $60.1 million or $0.88 per diluted share for the first quarter of 2010 and $52.1 million or $0.77 per share for the second quarter of 2009. Net income for the six months ended June 30, 2010 totaled $123.7 million or $1.81 per diluted share compared with net income of $107.1 million or $1.58 per diluted share for the six months ended June 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 second quarter of 2010 included:

- Net interest revenue totaled $182.1 million compared to $175.6 million for the second quarter of 2009 and $182.6 million for the first quarter of 2010. Net interest margin was 3.63% for the second quarter of 2010, 3.55% for the second quarter of 2009 and 3.68% for the first quarter of 2010. Average earning assets increased $149 million compared to the second quarter of 2009 and decreased $40 million compared to the first quarter of 2010.

- Fees and commissions revenue totaled $128.2 million for the second quarter of 2010, up $5.1 million over the second quarter of 2009 and up $12.9 million over the previous quarter. Brokerage and trading revenue increased $3.0 million over the second quarter of 2009, partially offset by a decline of $1.5 million in mortgage banking revenue. Trust fees and commissions, transaction card revenue and deposit service charges and fees all increased over the second quarter of 2009. Brokerage and trading revenue increased $3.7 million, mortgage banking revenue increased $3.5 million and transaction card revenue increased $2.6 million over the prior quarter. Deposit service charges and trust fees and commissions also increased over the prior quarter.

- Operating expenses, excluding changes in the fair value of mortgage servicing rights, totaled $186.5 million, up $2.8 million over the second quarter of the prior year and up $8.8 million from the prior quarter. Net losses and operating expenses on repossessed assets increased $12.1 million over the second quarter of 2009, partially offset by the impact of the FDIC special assessment of $11.8 million. Net losses and operating expenses of repossessed assets increased $5.8 million over the prior quarter.

- Combined reserves for credit losses totaled $315 million or 2.89% of outstanding loans at June 30, 2010 and $314 million or 2.86% of outstanding loans at March 31, 2010. Net loans charged off and provision for credit losses were $35.6 million and $36.0 million, respectively, for the second quarter of 2010 compared to $34.9 million and $47.1 million, respectively for the second quarter of 2009 and $34.5 million and $42.1 million, respectively, for the first quarter of 2010.

- Nonperforming assets totaled $461 million or 4.19% of outstanding loans and repossessed assets at June 30, 2010, down from $483 million or 4.36% of outstanding loans and repossessed assets at March 31, 2010. Newly identified nonaccruing loans totaled $58 million for the second quarter of 2010 and $81 million for the first quarter of 2010.

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Available for sale securities totaled $9.2 billion at June 30, 2010, up $322 million since March 31, 2010. Other-than-temporary impairment charges on certain privately-issued residential mortgage backed securities reduced pre-tax income by $2.6 million during the second quarter of 2010, $279 thousand in the second quarter of 2009 and $4.2 million during the first quarter of 2010.

- Outstanding loan balances were $10.9 billion at June 30, 2010, down $89 million since March 31, 2010. Commercial real estate loans decreased $103 million. The outstanding balance of commercial loans and unfunded commercial loan commitments were largely unchanged for the quarter.

- Total period-end deposits increased $560 million during the second quarter of 2010 to $16.1 billion. Growth in interest-bearing transaction and demand deposits were offset by a decrease in higher-costing time deposits.

- Tangible common equity ratio increased to 8.88% at June 30, 2010 from 8.46% at March 31, 2010 largely due to 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 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 11.90% at June 30, 2010 and 11.45% at March 31, 2010.

- The Company paid a cash dividend of $16.8 million or $0.25 per common share during the second quarter of 2010. On July 27, 2010, the board of directors declared a cash dividend of $0.25 per common share payable on or about August 27, 2010 to shareholders of record as of August 13, 2010.

Results of Operations

Net Interest Revenue and Net Interest Margin

Net interest revenue totaled $182.1 million for the second quarter of 2010, up $6.5 million or 4% over the second quarter of 2009 and down $461 thousand compared to the first quarter of 2010. The increase in net interest revenue compared to the second quarter of 2009 was due primarily to an 8 basis point improvement in net interest margin. The decrease in net interest revenue from the first quarter of 2010 was due primarily to a 5 basis point decrease in net interest margin. In addition, average earning assets were up over the second quarter of 2009, but down from the first quarter of 2010.

Average earning assets for the second quarter of 2010 increased $149 million or 1% compared to the second quarter of 2009. Average available for sale securities, which consist largely of U.S. government agency issued residential mortgage-backed securities, increased $1.8 billion. We purchased these securities to supplement earnings, especially in a period of declining loan demand, and to manage interest rate risk. Average loans, net of allowances for loan losses, decreased $1.5 billion compared to the second quarter of 2009. All major loan categories decreased largely due to reduced customer demand and normal repayment trends. In addition, average balances of trading securities and residential mortgage loans held for sale were lower in the second quarter of 2010.

Growth in average earning assets was funded by a $505 million increase in average deposits. Demand deposits for the second quarter of 2010 were up $478 million over the second quarter of 2009. In addition, interest-bearing transaction accounts increased $1.4 billion over the second quarter of 2009. Time deposits decreased $1.4 billion compared with the second quarter of 2009 as we continued to decrease brokered deposits and other higher costing time deposits. Borrowed funds decreased $158 million compared to the second quarter of 2009.

Average earning assets decreased $40 million compared to the previous quarter. Securities increased $155 million. Growth in securities was due to a $79 million increase in investment securities and a $69 million increase in mortgage trading securities. Residential mortgage loans held for sale increased $46 million. Outstanding loans, net of

allowance for loan losses, decreased $219 million. Commercial, commercial real estate and consumer loan categories decreased in the second quarter of 2010. Residential mortgage loans increased $15 million over the first quarter of 2010. Deposits increased $441 million compared with the previous quarter, including a $324 million increase in interest-bearing transaction accounts and a $175 million increase in demand deposits, partially offset by a $71 million decrease in higher-costing time deposits. Borrowed funds decreased $714 million compared to the previous quarter.

Net interest margin was 3.63% for the second quarter of 2010, 3.55% for the second quarter of 2009 and 3.68% for the first quarter of 2010.

The increase in net interest margin over the second quarter of 2009 was due primarily to lower funding costs. The cost of interest-bearing liabilities was 0.85% for the second quarter of 2010, down 46 basis points from the second quarter of 2009. The yield on earning assets dropped 32 basis points over these same periods.

The tax-equivalent yield on earning assets was 4.33% for the second quarter of 2010, down 32 basis points from the second quarter of 2009. Securities portfolio yields were down 94 basis points. Our securities re-price as cash flow received is reinvested at current market rates. The resulting change in yield on the securities portfolio occurs more slowly and may not immediately move in the same direction as changes in market rates. The decrease in securities portfolio yields was partially offset by growth in loan yields. Loan yields increased 19 basis points to 4.83%. Funding costs were down 46 basis points from the second quarter of 2009. The cost of interest-bearing deposits decreased 62 basis points and the cost of other borrowed funds decreased 4 basis points.

The tax-equivalent yield on earning assets for the second quarter of 2010 was down 8 basis points from the first quarter of 2010. Yield on the securities portfolio dropped by 18 basis points due primarily to reinvestment of cash flows at current rates. Loan portfolio yields were up 2 basis points. The cost of interest-bearing liabilities was down 2 basis points from the previous quarter.

The benefit to net interest margin from earning assets funded by non-interest bearing liabilities was 15 basis points for the second quarter of 2010 compared with 21 basis points in the second quarter of 2009 and 14 basis points in the preceding quarter.

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. We also use derivative instruments to manage our interest rate risk. Interest rate swaps with a combined notional amount of $30 million convert fixed rate liabilities to floating rate based on LIBOR. Net interest revenue increased $1.0 million for the second quarter of 2010, $4.6 million in the second quarter of 2009 and $658 thousand in the first 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 second quarter of 2010, 9 basis points in the second quarter of 2009 and 1 basis point in the first 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 June 30, 2010 / 2009			Six Months Ended June 30, 2010 / 2009		
		Change Due To (1)			Change Due To (1)	
	Change	Volume	Yield / Rate	Change	Volume	Yield /Rate
Tax-equivalent interest revenue:						
Securities	$319	$19,946	$(19,627)	$(1,375)	$173,475	$(174,850)
Trading securities	(322)	(541)	219	(549)	(3,055)	2,506
Loans	(12,544)	(14,889)	2,345	(24,147)	(114,725)	90,578
Funds sold and resell agreements	(6)	(3)	(3)	(28)	1	(29)
Total	(12,553)	4,513	(17,066)	(26,099)	55,696	(81,795)
Interest expense:						
Transaction deposits	(3,318)	2,265	(5,583)	(8,600)	32,330	(40,930)
Savings deposits	81	13	68	150	(135)	285
Time deposits	(15,574)	(7,478)	(8,096)	(34,671)	(11,198)	(23,473)
Federal funds purchased and repurchase agreements	259	154	105	(544)	1,535	(2,079)
Other borrowings	(972)	(346)	(626)	(2,445)	2,710	(5,155)
Subordinated debentures	(97)	1	(98)	(97)	164	(261)
Total	(19,621)	(5,391)	(14,230)	(46,207)	25,406	(71,613)
Tax-equivalent net interest revenue	7,068	9,904	(2,836)	20,108	30,290	(10,182)
Change in tax-equivalent adjustment	(535)			(846)		
Net interest revenue	$6,533			$19,262		

(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 $157.4 million for the second quarter of 2010 compared to $128.0 million for the second quarter of 2009 and $113.9 million for the first quarter of 2010. Fees and commissions revenue increased $5.1 million or 4% compared with the second quarter of 2009. Net gains on securities, derivatives and other assets increased $25.5 million, including an increase of $32.6 million on securities and derivatives held as an economic hedge of mortgage servicing rights. Other-than-temporary impairment charges recognized in earnings were $1.1 million greater compared to the second quarter of 2009.

Other operating revenue increased $43.6 million compared to the first quarter of 2010. Fees and commissions revenue increased $12.9 million. Net gains on securities, derivatives and other assets increased $29.1 million over the first quarter of 2010, including $22.6 million on securities and derivatives held as an economic hedge of mortgage servicing rights. Other-than-temporary impairment charges recognized in earnings were $1.6 million lower compared with the first quarter of 2010.

Table 2 – Other Operating Revenue
(In thousands)

	Three Months Ended June 30,		Increase	% Increase	Three Months Ended March 31,	Increase	% Increase
	2010	2009	(Decrease)	(Decrease)	2010	(Decrease)	(Decrease)
Brokerage and trading revenue	$24,754	$21,794	$2,960	14%	$21,035	$3,719	18%
Transaction card revenue	28,263	27,533	730	3%	25,687	2,576	10%
Trust fees and commissions	17,737	16,860	877	5%	16,320	1,417	9%
Deposit service charges and fees	28,797	28,421	376	1%	26,792	2,005	7%
Mortgage banking revenue	18,335	19,882	(1,547)	(8)%	14,871	3,464	23%
Bank-owned life insurance	2,908	2,418	490	20%	2,972	(64)	(2)%
Margin asset fees	69	68	1	1%	36	33	92%
Other revenue	7,305	6,124	1,181	19%	7,602	(297)	(4)%
Total fees and commissions revenue	128,168	123,100	5,068	4%	115,315	12,853	11%
Gain (loss) on other assets	1,545	973	572	N/A	(1,390)	2,935	N/A
Gain (loss) on derivatives, net	7,272	(1,037)	8,309	N/A	(341)	7,613	N/A
Gain on available for sale securities	8,469	16,670	(8,201)	N/A	4,076	4,393	N/A
Gain (loss) on mortgage hedge	14,631	(10,199)	24,830	N/A	448	14,183	N/A

securities							
Gain on securities, net	23,100	6,471	16,629	N/A	4,524	18,576	N/A
Total other-than-temporary impairment	(10,959)	(1,263)	(9,696)	N/A	(9,708)	(1,251)	N/A
Portion of loss recognized in other comprehensive income	(8,313)	279	(8,592)	N/A	(5,483)	(2,830)	N/A
Net impairment losses recognized in earnings	(2,646)	(1,542)	(1,104)	N/A	(4,225)	1,579	N/A
Total other operating revenue	$157,439	$127,965	$29,474	23 %	$113,883	$43,556	38 %
Gain (loss) on change in fair value of mortgage servicing rights	$(19,458)	$7,865	$(27,323)	N/A	$2,100 (1)	$(21,558)	N/A

(1) Excludes $11.8 million of initial pretax gain on the purchase of mortgage servicing rights.

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 41% of total revenue for the second 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.

Changes in Federal banking regulations that became effective on July 1, 2010 are expected to reduce overdraft fee revenue by $10 million to $15 million over the second half of 2010. We continue to explore options to mitigate the potential revenue decrease. In addition, the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act gave 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. The effect of this legislation on fee income and operating expenses cannot be accurately quantified at this time.

Brokerage and trading revenue increased $3.0 million or 14−−% compared to the second quarter of 2009. Securities trading revenue totaled $14.2 million for the second quarter of 2010, up $180 thousand or 1% compared to the second quarter of 2009. Higher mortgage lending activity by our mortgage banking customers increased the level of our mortgage securities transactions in both the second quarter of 2010 and 2009. Customer hedging revenue, totaled $2.0 million for the second quarter of 2010, up $422 thousand or 26% over the second quarter of 2009 on higher energy prices and interest rate volatility. Retail brokerage revenue increased $191 thousand or 4% over the second quarter of 2009 to $5.5 million and investment banking revenue increased $2.2 million over the second quarter of 2009 due to increased investment banking activity to $2.8 million.

Brokerage and trading revenue increased $3.7 million over the first quarter 2010 on higher securities trading revenue and investment banking activity. Interest rate volatility during the second quarter of 2010 increased trading volumes in mortgage-backed securities. Increases in securities trading revenue and investment banking revenue were partially offset by a decrease in derivative fee income and retail brokerage fees.

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 $28.2 million for the second quarter of 2010, up $730 thousand or 3% over the second quarter of 2009. Check card revenue increased $906 thousand or 12% to $8.4 million and merchant discounts increased $829 thousand or 12% to $7.7 million on both on higher transaction volumes, partially offset by a decline in ATM network revenue of $1.0 million or 8% below the second quarter of 2009. Increased ATM transaction volumes were offset by a decrease in the average rate charged per transaction. Transaction card revenue increased $2.6 million over the first 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 $877 thousand or 5% over the second quarter of 2009 to $17.7 million. The revenue increase was due to the timing of tax service fees and an increase in the fair value of trust assets, 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 $816 thousand for the second quarter of 2010 and $876 thousand for the second quarter of 2009. The fair value of trust assets administered by the Company totaled $29.8 billion at June 30, 2010 compared to $30.7 billion at March 31, 2010 and $29.3 billion at June 30, 2009. Trust fees and commissions also increased $1.4 million over the first quarter of 2010 due primarily to the timing of tax service fees.

Deposit service charges and fees increased $376 thousand or 1% compared to the second quarter of 2009. Commercial account service charge revenue decreased $1.0 million or 12% to $7.4 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. Overdraft fees increased $1.1 million or 6% to $19.3 million. The increase in overdraft fees was primarily due to a new service charge imposed in the second quarter of 2010 on accounts that remain overdrawn for more than five days. A 10% decrease in transaction volumes from the second quarter of 2009 was mostly offset by an 8% increase in the average per item overdraft fee charged which was implemented in the third quarter of 2009.

Deposit service charges and fees were up $2.0 million over the prior quarter largely due to a new service charge imposed on accounts that remain overdrawn more than five days partially offset by a decrease in commercial account service charge revenue in the second quarter of 2010.

Mortgage banking revenue decreased $1.5 million or 8% compared with the second quarter. Revenue from originating and marketing mortgage loans totaled $8.8 million, a $6.3 million decrease compared to the second quarter of 2009. Mortgage loans originated for sale in the secondary market totaled $541 million for the second quarter of 2010 and $1.0 billion for the second quarter of 2009. Mortgage servicing revenue totaled $9.6 million, up $4.8 million or 99% over the second quarter of. The outstanding principal balance of mortgage loans serviced for

others totaled $11.1 billion at June 30, 2010 and $6.1 billion at June 30, 2009. We purchased the rights to service approximately $4.2 billion of residential mortgage loans in the first quarter of 2010. This purchase added servicing fee revenue of $2.0 million to the first quarter of 2010 and $3.5 million to the second quarter of 2010.

Mortgage banking revenue was up $3.5 million over the first quarter of 2010 on a $2.3 million increase in revenue from originating and marketing mortgage loans and a $1.2 million increase in mortgage servicing revenue. Mortgage loans originated for sale in the secondary market totaled $382 million for the first quarter of 2010. The outstanding principle balance of mortgage loans serviced for others totaled $10.9 billion at March 31, 2010.

Net gains on securities, derivatives and other assets

We recognized $8.5 million of gains on sales of $595 million of available for sale securities in the second 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.

As more fully discussed in Note 2 to the Consolidated Financial Statements, we recognized an other-than-temporary impairment loss on certain private-label residential mortgage-backed securities of $2.6 million in earnings during the second quarter of 2010 related to additional declines in projected cash flows as a result of worsening trends in delinquencies and foreclosures.

Mortgage hedge 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.

Table 3 – Gain (Loss) on Mortgage Servicing Rights
(In thousands)

	Three Months Ended		
	June 30, 2010	March 31, 2010	June 30, 2009
Gain (loss) on mortgage hedge derivative contracts	$7,800	$(659)	$–
Gain (loss) on mortgage hedge securities	14,631	448	(10,199)
Total gain (loss) on financial instruments held as an economic hedge of mortgage servicing rights	22,431	(211)	(10,199)
Gain (loss) on change in fair value of mortgage servicing rights	(19,458)	2,100 (1)	7,865
Gain (loss) on changes in fair value of mortgage servicing rights, net of economic hedges	$ 2,973	$ 1,889	$(2,334)

(1) Excluding $11.8 million day-one gain on the purchase of mortgage servicing rights.

In addition to the gain (loss) on mortgage hedge derivative contracts, net gains or losses 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 second quarter of 2010 totaled $205.9 million, up $30.1 million or 17% compared to the second quarter of 2009. Changes in the fair value of mortgage servicing rights increased operating expense $27.3 million. In addition, operating expenses for the second quarter of 2009 included an $11.8 million FDIC special assessment. Excluding changes in the fair value of mortgage servicing rights and the FDIC special assessment, operating expenses were up $14.6 million or 8%. Personnel expenses increased $863 thousand or 1%.

Net losses and operating expenses related to repossessed assets were up $12.1 million over the second quarter of 2009. Remaining non-personnel operating expenses increased $1.7 million or 2% over the prior year.

Other operating expenses increased $42.2 million compared to the first quarter of 2010. Changes in the fair value of mortgage servicing rights increased operating expense $33.4 million. Personnel expenses were largely unchanged compared to the first quarter of 2010 Non-personnel expenses, excluding the changes in the fair value of mortgage servicing rights, increased $8.6 million, primarily composed of a $5.8 million increase in net losses and operating expenses of repossessed assets.

During the first quarter of 2010, the Company purchased the rights to service more than 34 thousand residential mortgage loans with unpaid principal balances of $4.2 billion. The loans to be serviced are primarily concentrated in the New Mexico market and predominately held by Fannie Mae, Freddie Mac and Ginnie Mae. The cash purchase price for these servicing rights was approximately $32 million. The day-one fair value of the servicing rights purchased, based on independent valuation analyses, which were further supported by assumptions and models we regularly use to value our portfolio of servicing rights, was $11.8 million higher than the purchase price. This amount is included in the change in fair value of mortgage servicing rights for the first quarter of 2010. The discounted purchase price can be directly attributed to the distressed financial condition of the seller, which was subsequently closed by federal banking regulators.

Table 4 – Other Operating Expense
(In thousands)

	Three Months Ended June 30, 2010	2009	Increase (Decrease)	% Increase (Decrease)	Mar. 31, 2010	Increase (Decrease)	% Increase (Decrease)
Regular compensation	$58,932	$58,573	$359	1%	$57,760	$1,172	2%
Incentive compensation:							
Cash-based	22,148	20,427	1,721	8%	18,677	3,471	19%
Stock-based	390	2,443	(2,053)	(84)%	4,484	(4,094)	(91)%
Total incentive compensation	22,538	22,870	(332)	(1)%	23,161	(623)	(3)%
Employee benefits	15,584	14,748	836	6%	15,903	(319)	(2)%
Total personnel expense	97,054	96,191	863	1%	96,824	230	
Business promotion	4,945	4,569	376	8%	3,978	967	24%
Professional fees and services	6,668	7,363	(695)	(9)%	6,401	267	4%
Net occupancy and equipment	15,691	15,973	(282)	(2)%	15,511	180	1%
Insurance	5,596	5,898	(302)	(5)%	6,533	(937)	(14)%
FDIC special assessment		11,773	(11,773)	(100)%			
Data processing &	21,940	20,452	1,488	7%	20,309	1,631	8%

communications							
Printing, postage and supplies	3,525	4,072	(547)	(13)%	3,322	203	6%
Net losses & operating expenses of repossessed assets	13,067	996	12,071	N/A	7,220	5,847	81%
Amortization of intangible assets	1,323	1,686	(363)	(22)%	1,324	(1)	–
Mortgage banking costs	10,380	9,336	1,044	11%	9,267	1,113	12%
Change in fair value of mortgage servicing rights	19,458	(7,865)	27,323	N/A	(13,932)	33,390	N/A
Other expense	6,265	5,326	939	18%	6,975	(710)	(10)%
Total other operating expense	$205,912	$175,770	$30,142	17%	$163,732	$42,180	26%
Number of employees (full-time equivalent)	4,428	4,434	(6)		4,425	3	–

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 $359 thousand or 1% over the second 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 decreased $332 thousand or 1% compared to the second 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 $1.7 million increase in cash-based incentive compensation from the second quarter of 2009 included a $545 thousand 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 $3.0 million compared with the second 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 $4.97 per share in the second quarter of 2010 and increased $3.17 per share in the second quarter of 2009. Compensation expense for equity awards increased $882 thousand compared with the second 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 increased $836 thousand or 6% compared to the second quarter of 2009 primarily due to increased expenses related to employee retirement plans, payroll taxes and other benefits costs, partially offset by a decrease in employee training and development costs. Medical insurance costs were largely unchanged, down 1% from the prior year. The Company self-insures a portion of its employee health care coverage and these costs may be volatile.

Personnel expense increased $230 thousand compared with the first quarter of 2010 primarily due to annual merit increases in regular compensation. Incentive compensation decreased $623 thousand and employee benefits expense decreased $319 thousand. Stock-based compensation decreased $4.1 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 $3.5 million, including $1.8 million from commissions related to brokerage and trading revenue. Employee benefit expenses for the first quarter of 2010 include a seasonal increase in payroll taxes.

Non-personnel operating expenses

Non-personnel operating expenses, excluding changes in the fair value of mortgage servicing rights and an FDIC special assessment, increased $13.7 million over the second quarter of 2009. Higher net losses and operating expenses related to repossessed assets and mortgage banking costs was offset by decreases in most other operating expense categories. Net losses and operating expenses of repossessed assets increased $12.1 million, data processing and communications expense increased $1.5 million on higher transaction volumes and mortgage banking costs increased $1.0 million. Net losses from sales and write-downs of repossessed property increased $10.7 million based on our quarterly review of carrying values. Operating expenses on repossessed assets increased $1.4 million.

Non-personnel operating expenses, excluding changes in the fair value of mortgage servicing rights, increased $8.6 million compared to the first quarter of 2010 primarily due to a $5.8 million increase in net losses and operating expenses of repossessed assets. Net losses from sales and write-downs of repossessed property increased $5.6 million based on our quarterly review of carrying values. Operating expenses on repossessed assets were up $202

thousand. In addition, data processing expense increased $1.7 million driven primarily by increased transaction card volumes.

Income Taxes

Income tax expense was $32.0 million or 33% of book taxable income for the second quarter of 2010 compared to $28.3 million or 35% of book taxable income for the second quarter of 2009 and $30.3 million or 33% of book taxable income for the first quarter of 2010.

BOK Financial operates in numerous jurisdictions, which requires judgment regarding the allocation of income, expense and earnings under various laws and regulations of each of these taxing jurisdictions. Each jurisdiction may audit our tax returns and may take different positions with respect to these allocations. The reserve for uncertain tax positions was approximately $13 million at June 30, 2010 and was largely unchanged from March 31, 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 5, net income attributable to our lines of business increased $1.2 million over the second quarter of 2009. The increase in net income attributed to our lines of business was due primarily decreased operating expenses attributed to the lines of business and an increase in the gain on the changes in the fair value of the mortgage servicing rights, net of economic hedges, offset by increased net losses on repossessed assets. The increase in net income attributed to funds management and other was primarily due to growth in the securities portfolio and a decrease in loan loss provision.

Table 5 – Net Income by Line of Business
(In thousands)

	Three Months Ended June 30,		Six Month Ended June 30,	
	2010	2009	2010	2009
Commercial banking	$13,353	$16,326	$24,777	$32,845
Consumer banking	9,018	6,653	25,596	16,050
Wealth management	3,535	1,707	6,657	7,219
Subtotal	25,906	24,686	57,030	56,114
Funds management and other	37,616	27,429	66,625	51,033
Total	$63,522	$52,115	$123,655	$107,147

Commercial Banking

Commercial banking contributed $13.4 million to consolidated net income in the second quarter of 2010, down from $16.3 million in the second quarter of 2009. The decrease in commercial banking net income was primarily due to a $10.8 million increase in losses on repossessed assets, partially offset by a $5.3 million decrease in operating expenses compared to the prior year. Operating revenues were flat compared to the prior year. Net interest revenue and charge-offs decreased from the second quarter of 2009.

Table 6 – Commercial Banking
(Dollars in thousands)

	Three Months Ended June 30,		Increase	Six Months Ended June 30,		Increase
	2010	2009	(Decrease)	2010	2009	(Decrease)
NIR (expense) from external sources	$85,116	$87,016	$(1,900)	$170,014	$172,615	$(2,601)
NIR (expense) from internal sources	(12,712)	(13,251)	539	(25,173)	(25,950)	777
Total net interest revenue	72,404	73,765	(1,361)	144,841	146,665	(1,824)
Other operating revenue	33,642	33,837	(195)	63,461	67,261	(3,800)
Operating expense	50,973	56,286	(5,313)	101,131	110,032	(8,901)
Net loans charged off	22,477	24,655	(2,178)	50,856	49,013	1,843
Gain (loss) on repossessed assets, net	(10,742)	59	(10,801)	(15,764)	(1,125)	(14,639)
Income before taxes	21,854	26,720	(4,866)	40,551	53,756	(13,205)
Federal and state income tax	8,501	10,394	(1,893)	15,774	20,911	(5,137)
Net income	$13,353	$16,326	$(2,973)	$24,777	$32,845	$(8,068)
Average assets	$8,990,120	$10,381,632	$(1,391,512)	$9,086,117	$10,566,763	$(1,480,646)
Average loans	8,237,283	9,436,325	(1,199,042)	8,305,366	9,618,102	(1,312,736)

Average deposits	5,941,486		5,234,401		707,085	5,816,028		4,993,078		822,950
Average invested capital	990,239		1,067,061		(76,822)	1,005,051		1,086,626		(81,575)
Return on average assets	0.60	%	0.63	%	(3) b.p.	0.55	%	0.63	%	(8) b.p.
Return on invested capital	5.41	%	6.14	%	(73) b.p.	4.97	%	6.10	%	(113) b.p.
Efficiency ratio	48.07	%	52.31	%	(424) b.p.	48.55	%	51.43	%	(288) b.p.
Net charge-offs (annualized) to average loans	1.09	%	1.05	%	4 b.p.	1.23	%	1.03	%	20 b.p.

Net interest revenue decreased $1.4 million or 2% from the second quarter of 2009. Average loan balances attributed to commercial banking decreased $1.2 billion due to reduced customer demand and normal repayment trends, which decreased net interest revenue by $6.6 million. This was offset by a $4.2 million improvement in loan spreads on loans attributable to commercial banking. The decreased internal transfer pricing credit provided to the commercial banking unit on $5.2 billion of average deposits sold to the funds management unit reduced net interest revenue by approximately $1.1 million as deposit spreads compressed due to lower interest rates in the second

quarter of 2010 compared to the second quarter of 2009. This decrease was partially offset by a $384 thousand increase in net interest revenue related to a $707 million increase in average deposits compared to the second quarter of 2009.

Other operating revenue was largely unchanged from the second quarter of 2009. Service charges on commercial deposit accounts were down $1.0 million compared to the second quarter of 2009 as customers kept greater commercial deposit balances to offset the decrease in the earnings credit, which provides a non-cash method for commercial customers to avoid incurring charges for deposit services based on account balance. This was mostly offset by a $505 thousand increase in brokerage and trading revenue.

Operating expenses were down $5.3 million or 9% compared to the second quarter of 2009. Costs allocated to the commercial banking segment were down $7.0 million primarily on reduced lending activities. This was partially offset by $1.4 million of increased data processing costs related to higher transaction card volumes and a $1.1 million increase in repossession expenses. Average repossessed asset balances increased $51 million over the second quarter of 2009.

The average outstanding balance of loans attributed to commercial banking was $9.0 billion for the second quarter of 2010, down $1.4 billion or 13% compared to the second quarter of 2009. See Loan 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 $2.2 million compared to the second quarter of 2009 to $22.5 million or 1.09% of average loans attributed to this line of business on an annualized basis.

Average deposits attributed to commercial banking were $5.9 billion for the second quarter of 2010, up $707 million or 14% over the second quarter of 2009. Average balances attributed to our energy customers increased $238 million or 56% and average deposit balances attributed to our commercial & industrial customers increased $175 million or 9%. Average deposit balances attributable to our small business customers increased $139 million or 14% over the second quarter of 2009. Average treasury services deposit balances increased $109 million or 7% and average deposits attributable to our commercial real estate customers increased $25 million or 11%.

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 $9.0 million to consolidated net income for the second quarter of 2010, up $2.4 million compared to the second quarter of 2009. The change in the fair value of the mortgage servicing rights, net of economic hedge contributed $3.0 million to net income for the second quarter of 2010, up $5.3 million compared to the second quarter of 2009. Net charge-offs of loans attributed to the consumer banking unit increased $4.3 million over the second quarter of 2009, partially offset by a $2.9 million decrease in operating expenses compared to the second quarter of 2009.

Table 7 – Consumer Banking
(Dollars in thousands)

	Three Months Ended June 30,		Increase	Six Months Ended June 30,		Increase
	2010	2009	(Decrease)	2010	2009	(Decrease)
NIR (expense) from external sources	$21,587	$12,877	$8,710	$41,171	$25,199	$15,972
NIR (expense) from internal sources	11,452	21,146	(9,694)	23,312	46,108	(22,796)
Total net interest revenue	33,039	34,023	(984)	64,483	71,307	(6,824)
Other operating revenue	50,466	49,632	834	93,709	94,917	(1,208)
Operating expense	61,874	64,759	(2,885)	118,203	126,388	(8,185)
Net loans charged off	9,943	5,653	4,290	13,276	11,236	2,040
Increase (decrease) in fair value of mortgage service rights	(19,458)	7,865	(27,323)	(5,526)	9,820	(15,346)
Gain (loss) on financial instruments, net	22,431	(10,199)	32,630	22,220	(12,317)	34,537
Gain (loss) on repossessed assets, net	98	(20)	118	121	166	(45)
Income before taxes	14,759	10,889	3,870	43,528	26,269	17,259
Federal and state income tax	5,741	4,236	1,505	16,932	10,219	6,713
Net income	$9,018	$6,653	$2,365	$26,596	$16,050	$10,546
Average assets	$6,198,808	$6,258,278	$(59,470)	$6,179,261	$6,150,752	$28,509
Average loans	2,142,757	2,637,934	(495,177)	2,144,105	2,637,179	(493,074)
Average deposits	6,094,975	6,156,665	(61,690)	6,079,960	6,051,901	28,059
Average invested capital	208,648	246,247	(37,599)	204,723	233,987	(29,264)
Return on average assets	0.58%	0.43%	15 b.p.	0.87%	0.53%	34 b.p.
Return on invested capital	17.34%	10.84%	650 b.p.	26.20%	13.83%	1,237 b.p.
Efficiency ratio	74.10%	77.41%	(331) b.p.	74.72%	76.03%	(131) b.p.
Net charge-offs (annualized) to	1.86%	0.86%	100 b.p.	1.25%	0.86%	39 b.p.

average loans						
Mortgage loans funded for resale	$540,741	$1,023,272	$(482,531)	$922,769	$1,731,833	$(809,064)

	June 30, 2010	June 30, 2009	Increase (Decrease)
Branch locations	198	197	1
Mortgage loans serviced for others	$11,057,385	$6,082,501	$4,974,884

Net interest revenue from consumer banking activities decreased $984 thousand or 3% from the second quarter of 2009. Average earning assets were flat compared to the second quarter of 2009, decreasing only $59 million. Net interest revenue decreased $1.4 million related to a $495 million decrease in average loan balances attributed to the consumer banking division and $946 thousand due to a decrease in loan margins. Average loans decreased $250 million from the second quarter of 2009, due to the previously disclosed decision by the Company to exit the indirect automobile loan business in the first quarter of 2009.

Other operating revenue increased $834 thousand or 2% over the second quarter of 2009 primarily due to a $1.4 million increase in deposits service charges due to a new service charge imposed on accounts that remain overdrawn for more than five days, offset by a $1.5 million decrease in mortgage banking revenue as mortgage lending volumes have declined from their historic highs in the second quarter of 2009. Transaction card revenue increased $891 thousand or 11% over the second quarter of 2009.

Operating expenses decreased $2.9 million or 4% compared to the second quarter of 2009, primarily due to a $5.8 million decrease in corporate expenses allocated to the consumer banking division, partially offset by a $2.4 million increase in repossession expenses.

Net loans charged off by the consumer banking unit totaled $9.9 million in the second quarter of 2010 up from $5.7 million in the second quarter of 2009. Net consumer banking charge-offs include residential mortgage loans, indirect automobile loans, overdrawn deposit accounts and other direct consumer loans. The increase in net loans charged-off was due primarily to residential mortgage loans.

Average consumer deposits decreased $62 million or 1% compared to the second quarter of 2009. Average interest-bearing transaction accounts were up $391 million or 17% and average demand deposit accounts increased $42 million or 5% over the second quarter of 2009. Average time deposits decreased $507 million or 18% compared to the second 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 second quarter of 2010, $604 million of mortgage loans were funded compared with $1.0 billion funded in the second quarter of 2009. Approximately 47% of our mortgage loans funded was in the Oklahoma market, 15% in the Texas market and 12% in the Colorado market. In addition to the $11 billion of mortgage loans serviced for others, the Consumer banking division also services $806 million of loans for affiliated entities. Approximately 96% of the mortgage loans serviced were to borrowers in our primary geographical market areas. Mortgage servicing revenue increased to $9.6 million in the second quarter of 2010 from $8.4 million in the second 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, increased consumer banking net income by $3.0 million in the second quarter of 2010 compared with a decrease in net income of $2.3 million in the second 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.

Wealth Management

Wealth Management contributed consolidated net income of $3.5 million, up $1.8 million or 107% over the second quarter 2009. The increase in net income was primarily due to an increase in investment banking and trust fees.

Table 8 – Wealth Management
(Dollars in thousands)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Increase (Decrease)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Increase (Decrease)
NIR (expense) from external sources	$8,324	$5,690	$2,634	$16,928	$9,545	$7,383
NIR (expense) from internal sources	2,391	5,723	(3,332)	5,412	13,326	(7,914)
Total net interest revenue	10,715	11,413	(698)	22,340	22,871	(531)
Other operating revenue	42,020	38,556	3,464	79,340	79,829	(489)
Operating expense	43,829	42,546	1,283	84,901	84,327	574
Net loans charged off	3,135	4,629	(1,494)	5,900	6,558	(658)
Gain on financial instruments, net	15		15	16		16
Income before taxes	5,786	2,794	2,992	10,895	11,815	(920)
Federal and state income tax	2,251	1,087	1,164	4,238	4,596	(358)
Net income	$3,535	$1,707	$1,828	$6,657	$7,219	$(562)
Average assets	$3,355,079	$3,092,574	$262,505	$3,321,811	$3,049,610	$272,201
Average loans	1,084,581	1,049,921	34,660	1,084,835	1,038,787	46,048
Average deposits	3,273,332	3,024,808	248,524	3,241,774	2,977,227	264,547
Average invested capital	170,086	201,630	(31,544)	171,271	194,880	(23,609)
Return on assets	0.42%	0.22%	20 b.p.	0.40%	0.48%	(8) b.p.
Return on invested capital	8.34%	3.40%	494 b.p.	7.84%	7.47%	37 b.p.
Efficiency ratio	83.11%	85.14%	(203) b.p.	83.50%	82.11%	139 b.p.
Net charge-offs (annualized) to average loans	1.16%	1.77%	(61) b.p.	1.10%	1.27%	(17) b.p.

	June 30, 2010	June 30, 2009	Increase (Decrease)
Trust assets	$29,825,608	$29,288,041	$537,567

Net interest revenue for the second quarter of 2010 was down $698 thousand or 6% compared to the second quarter of 2009. Net interest revenue decreased $1.2 million due to lower internal transfer pricing credit provided to the wealth management segment for deposits sold to our funds management unit, partially offset by a $624 thousand increase in net interest revenue due to a $249 million increase in average deposits.

Other operating revenue increased $3.5 million or 9% over the second quarter of 2009. Investment banking revenue increased $1.9 million on increased activity. Trust fees and commissions were up $884 thousand or 5% primarily due

to the timing of tax service fees and an increase in the fair value of trust assets.

Operating expenses increased $1.3 million over the second quarter of 2009 primarily due to a $1.9 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 high net worth customer relationship growth. Average deposits provided by the wealth management division in the second quarter of 2010.

increased $249 million compared over the second quarter of 2009. Interest-bearing transaction accounts averaged $2.3 billion for the second quarter of 2010, an increase of $351 million or 25% over the second quarter of 2009. Average time deposits were $694 million, down $262 million or 27% compared to last year.

At June 30, 2010 and 2009, the Wealth Management line of business was responsible for trust assets with aggregate market values of $29.8 billion and $29.3 billion, respectively, under various fiduciary arrangements. We have sole or joint discretionary authority over $10.3 billion of trust assets at June 30, 2010 compared to $11.0 billion of trust assets at June 30, 2009. The fair value of non-managed assets totaled $19.5 billion at June 30, 2010 and $18.2 billion at June 30, 2009. The fair value of assets held in safekeeping totaled $7.4 billion at June 30, 2010 and $7.9 billion at June 30, 2009.

Geographical Market Distribution

The Company also 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 9 – Net Income by Geographic Region
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Oklahoma	$24,528	$27,210	$57,308	$52,077
Texas	6,570	2,490	12,117	9,386
New Mexico	2,849	1,444	3,125	4,050
Arkansas	126	2,621	445	6,326
Colorado	(140)	412	964	(1,472)
Arizona	(8,881)	(11,078)	(17,230)	(17,636)
Kansas / Missouri	1,152	1,639	1,867	3,375
Subtotal	26,204	24,738	58,596	56,106
Funds management and other	37,318	27,377	65,059	51,041
Total	$63,522	$52,115	$123,655	$107,147

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 50% of our average loans, 54% of our average deposits and 39% of our consolidated net income is attributed to the Oklahoma market. In addition, all of our mortgage servicing activity and 76% of our trust assets are attributed to the Oklahoma market.

Table 10 – Oklahoma
(Dollars in thousands)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Increase (Decrease)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Increase (Decrease)
Net interest revenue	$59,810	$59,964	$(154)	$118,582	$121,710	$(3,128)
Other operating revenue	85,589	87,792	(2,203)	156,342	163,786	(7,444)
Operating expense	87,842	93,842	(6,000)	167,425	184,583	(17,158)
Net loans charged off	19,979	7,066	12,913	30,563	13,389	17,174
Increase (decrease) in fair value of mortgage service rights	(19,458)	7,865	(27,323)	(5,526)	9,820	(15,346)
Gain (loss) on financial instruments, net	22,447	(10,199)	32,646	22,236	(12,317)	34,553
Gain (loss) on repossessed assets, net	(423)	20	(443)	147	206	(59)
Income before taxes	40,144	44,534	(4,390)	93,793	85,233	8,560
Federal and state income tax	15,616	17,324	(1,708)	36,485	33,156	3,329
Net income	$24,528	$27,210	$(2,682)	$57,308	$52,077	$5,231
Average assets	$9,616,880	$8,917,230	$699,650	$9,435,759	$8,851,925	$583,834
Average loans	5,484,597	6,307,355	(822,758)	5,515,230	6,392,727	(877,497)
Average deposits	8,596,629	7,940,597	656,032	8,460,892	7,754,242	706,650
Average invested capital	526,729	564,884	(38,155)	523,757	584,881	(61,124)
Return on average assets	1.02%	1.22%	(20) b.p.	1.22%	1.19%	0.03%
Return on invested capital	18.68%	19.32%	(64) b.p.	22.06%	17.96%	410 b.p.
Efficiency ratio	60.41%	63.51%	(310) b.p.	60.90%	64.65%	(375) b.p.
Net charge-offs (annualized) to average loans	1.46%	0.45%	101 b.p.	1.12%	0.42%	70 b.p.

Net income generated in the Oklahoma market in the second quarter of 2010 decreased $2.7 million or 10% compared to the second quarter of 2009, primarily due to a $12.9 million increase in net loans charged off as compared to the second quarter of 2009, partially offset by $6 million decrease in operating expenses. The change in the fair value of the mortgage servicing rights, net of economic hedge improved $5.3 million over the second quarter of 2009.

Net interest revenue was flat with the second quarter of 2009. Average loans decreased $823 million, offset by improving interest spreads on loans. The benefit to net interest revenue from average deposit growth of $656 million over the second quarter of 2009 was offset by lower internal funds transfer credit provided for deposits sold to the funds management unit.

Other operating revenue decreased $2.2 million or 3% compared to the second quarter of 2009. Transaction card revenue decreased $1.7 million and mortgage banking revenue declined $1.2 million. Brokerage and trading revenue increased $332 thousand and trust fees and commissions increased $251 thousand over the prior year.

Other operating expenses decreased $6.0 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 foreclosure expenses.

Net loans charged off totaled $20.0 million or 1.46% of average loans on an annualized basis for second quarter of 2010 compared with $7.1 million or 0.45% of average loans on an annualized basis for the second quarter of 2009. Net loans charged off in the second quarter of 2010 included $8.7 million from a single condominium and commercial office development project.

Average deposits in the Oklahoma market for the second quarter of 2010 increased $656 million over the second quarter of 2009. Commercial and wealth management units, including trust, broker/dealer and private banking also increased over the prior year, partially offset by a decrease in consumer banking deposits.

The change in the fair value of the mortgage servicing rights, net of economic hedge increased net income by $3.0 million in the second quarter of 2010 compared to reducing net income by $2.3 million in the second quarter of 2009.

Texas Market

Texas is our second largest market. Our Texas offices are located primarily in the Dallas, Fort Worth and Houston metropolitan areas. Approximately 31% of our average loans, 24% of our average deposits and 10% of our consolidated net income is attributed to the Texas market.

Table 11 – Texas
(Dollars in thousands)

	Three Months Ended June 30,		Increase	Six Months Ended June 30,		Increase
	2010	2009	(Decrease)	2010	2009	(Decrease)
Net interest revenue	$32,898	$33,726	$(828)	$65,803	$68,548	$(2,745)
Other operating revenue	14,908	10,264	4,644	29,493	23,591	5,902
Operating expense	32,194	33,747	(1,553)	64,165	65,685	(1,520)
Net loans charged off	4,700	6,278	(1,578)	11,125	11,722	(597)
Gain (loss) on repossessed assets, net	(647)	(75)	(572)	(1,073)	(67)	(1,006)
Income before taxes	10,265	3,890	6,375	18,933	14,665	4,268
Federal and state income tax	3,695	1,400	2,295	6,816	5,279	1,537
Net income	$6,570	$2,490	$4,080	$12,117	$9,386	$2,731
Average assets	$4,345,595	$4,073,519	272,076	$4,336,985	$4,057,099	279,886
Average loans	3,348,494	3,695,684	(347,190)	3,341,463	3,768,371	(426,908)
Average deposits	3,786,650	3,619,200	167,450	3,767,268	3,506,710	260,558
Average invested capital	533,418	546,875	(13,457)	538,400	545,716	(7,316)
Return on average assets	0.61 %	0.25 %	36 b.p.	0.56 %	0.47 %	10 b.p.
Return on invested capital	4.94 %	1.83 %	311 b.p.	4.54 %	3.47 %	107 b.p.
Efficiency ratio	67.34 %	76.72 %	(937) b.p.	67.33 %	71.29 %	(396) b.p.
Net charge-offs (annualized) to average loans	0.56 %	0.68 %	(12) b.p.	0.67 %	0.63 %	4 b.p.

Net income in the Texas market increased $4.1 million compared to the second quarter of 2009 primarily due to increased operating revenue, decreased operating expenses and decreased net loans charged off.

Net interest revenue decreased $828 thousand or 2% compared to the second quarter of 2009. Average outstanding loans decreased $347 million or 9% compared to the second quarter of 2009. Average deposits increased $167 million or 5%. The benefit of an increase in average deposits was offset by the average decrease in loans and reduced the benefit from funds sold to the funds management unit.

Other operating revenue increased $4.6 million or 45% over the second quarter of 2009 primarily due to an increase in trading and brokerage fees, transaction card revenue, mortgage banking revenue and trust fees. 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 flat with the second quarter of 2009.

Net loans charged off totaled $4.7 million or 0.56% of average loans for second quarter of 2010 on an annualized basis, down from $6.3 million or 0.68% of average loans for the second quarter of 2009 on an annualized basis.

Other Markets

For the second quarter of 2010, net income attributable to our New Mexico market increased $1.4 million compared to the second quarter of 2009 to $2.8 million or 4% of consolidated net income. The increase in net income attributed to New Mexico resulted primarily from a $1.5 million decrease in corporate expenses allocated to the New Mexico market as well as a $1.1 million increase in net loans charged off. 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.

For the second quarter of 2010, net income in the Arkansas market decreased to $126 thousand from $2.6 million in the second quarter of 2009 primarily due to an increase in corporate expenses allocated to the Arkansas market and an increase in net loans charged off. Average deposits in our Arkansas market were up $20 million or 14% over the second quarter of 2009 due primarily to commercial banking deposits. Wealth management and consumer deposits also increased over the second quarter of 2009.

We incurred a net loss of $140 thousand in the Colorado market in the second quarter of 2010, compared to net income of $412 thousand in second quarter of 2009 primarily due to the decline in net interest revenue as a results of a $160 million or 20% decline in the average outstanding commercial loan balances. Net loans charged off increased $509 thousand over the second quarter of 2009 to $3.4 million or 1.75% of average loan on an annualized basis.

We incurred a net loss of $8.9 million in the Arizona market in the second quarter of 2010 compared with a net loss of $11.1 million in the second quarter of 2009. The loss was largely due to an $8.0 million increase in losses on repossessed assets, primarily composed of commercial real estate. Net loans charged off were down $11.3 million from the prior year and totaled $4.9 million or 3.87% of average loans on an annualized basis compared with $16.2 million or 11.26% of average loans on an annualized basis in the second quarter of 2009. Average deposits increased $30 million over the second quarter of 2009 and average loans decreased $68 million 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 half of 2010 and all of 2009 are largely due to commercial real estate lending. Commercial loans attributed to the Arizona market decreased by $4.7 million from March 31, 2010 and commercial real estate loans were down $39 million from March 31, 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 decreased $487 thousand compared to the second quarter of 2009, primarily due to a $1.2 million increase in operating expenses. Total average deposits increased $12 million over the second quarter of 2009 and average loans decreased $41 million compared to the prior year.

Table 12 – New Mexico
(Dollars in thousands)

	Three Months Ended June 30, 2010	2009	Increase (Decrease)	Six Months Ended June 30, 2010	2009	Increase (Decrease)
Net interest revenue	$7,940	$8,305	$(365)	$15,683	$16,766	$(1,083)
Other operating revenue	6,272	5,549	723	12,094	11,919	175
Operating expense	8,595	10,046	(1,451)	16,850	19,182	(2,332)
Net loans charged off	344	1,444	(1,100)	3,122	1,949	1,173
Loss on repossessed assets, net	(610)		(610)	(2,691)	(925)	(1,766)
Income before taxes	4,663	2,364	2,299	5,114	6,629	(1,515)
Federal and state income tax	1,814	920	894	1,989	2,579	(590)
Net income	$2,849	$1,444	$1,405	$3,125	$4,050	$(925)
Average assets	$1,286,675	$1,271,398	$15,277	$1,279,968	$1,243,544	36,424
Average loans	723,580	832,903	(109,323)	732,244	829,815	(97,917)
Average deposits	1,203,080	1,151,349	51,731	1,200,678	1,132,838	67,840
Average invested capital	79,975	98,705	(18,730)	82,961	98,588	(15,627)
Return on average assets	0.89 %	0.46 %	43 b.p.	0.49 %	0.66 %	(16) b.p.
Return on invested capital	14.29 %	5.87 %	842 b.p.	7.60 %	8.28 %	(69) b.p.
Efficiency ratio	60.48 %	72.51 %	(1,204) b.p.	60.66 %	66.87 %	(621) b.p.
Net charge-offs (annualized) to average loans	0.19 %	0.70 %	(50) b.p.	0.86 %	0.47 %	39 b.p.

Table 13 – Arkansas
(Dollars in thousands)

	Three Months Ended June 30, 2010	2009	Increase (Decrease)	Six Months Ended June 30, 2010	2009	Increase (Decrease)
Net interest revenue	$2,360	$3,009	$(649)	$5,277	$5,958	$(681)
Other operating revenue	8,907	9,156	(249)	17,520	20,196	(2,676)
Operating expense	8,520	7,031	1,489	17,427	13,969	3,458
Net loans charged off	2,207	845	1,362	4,206	1,831	2,375
Loss on repossessed assets, net	(333)		(333)	(435)	(1)	(434)
Income before taxes	207	4,289	(4,082)	729	10,353	(9,624)
Federal and state income tax	81	1,668	(1,587)	284	4,027	(3,743)

Net income	$126	$2,621	$(2,495)	$455	$6,326	$(5,881)
Average assets	$358,649	$434,018	$(75,369)	$371,013	$439,923	$(68,910)
Average loans	336,091	422,898	(86,807)	350,601	429,078	(78,477)
Average deposits	165,346	145,550	19,796	172,725	142,781	29,944
Average invested capital	23,682	35,656	(11,974)	24,548	34,010	(9,462)
Return on average assets	0.14 %	2.42 %	(228) b.p.	0.24 %	2.90 %	(266) b.p.
Return on invested capital	2.13 %	29.48 %	(2,735) b.p.	3.66 %	37.51 %	(3,385) b.p.
Efficiency ratio	75.62 %	57.80 %	1,782 b.p.	76.44 %	53.41 %	2,303 b.p.
Net charge-offs (annualized) to average loans	2.63 %	0.80 %	183 b.p.	2.42 %	0.86 %	156 b.p.

Table 14 – Colorado
(Dollars in thousands)

	Three Months Ended June 30,		Increase	Six Months Ended June 30,		
	2010	2009	(Decrease)	2010	2009	(Decrease)
Net interest revenue	$8,198	$––– 9,336	$(1,138)	$16,652	$18,397	$(1,745)
Other operating revenue	4,802	4,093	709	9,995	9,262	733
Operating expense	9,233	10,200	(967)	18,429	19,236	(807)
Net loans charged off	3,397	2,888	509	6,042	10,889	(4,847)
Loss on repossessed assets, net	(599)	333	(932)	(599)	57	(656)
Income (loss) before taxes	(229)	674	(903)	1,577	(2,409)	3,986
Federal and state income tax	(89)	262	(351)	613	(937)	1,550
Net income (loss)	$(140)	$412	$(552)	$964	$(1,472))	$2,436
Average assets	$1,198,000	$1,245,346	$(47,346)	$1,202,076	$1,228,795	$(26,719)
Average loans	778,405	962,947	(184,542)	797,053	969,830	(172,777)
Average deposits	1,126,479	1,169,336	(42,857)	1,131,217	1,155,557	(24,340)
Average invested capital	123,424	159,077	(35,653)	128,116	142,173	(14,057)
Return on average assets	(0.05%)	0.13%	(18) b.p.	0.16%	(0.24%)	40 b.p.
Return on invested capital	(0.45%)	1.04%	(149) b.p.	1.52%	(2.09%)	361 b.p
Efficiency ratio	71.02%	75.96%	(493) b.p.	69.16%	69.55%	(39) b.p
Net charge-offs (annualized) to average loans	1.75%	1.20%	55 b.p.	1.53%	2.26%	(74) b.p

Table 15 – Arizona
(Dollars in thousands)

	Three Months Ended June 30,		Increase	Six Months Ended June 30,		(Increase)
	2010	2009	(Decrease)	2010	2009	(Decrease)
Net interest revenue	$2,680	$2,912	$(232)	$5,303	$5,757	$(454)
Other operating revenue	664	105	559	1,820	1,149	671
Operating expense	4,949	4,695	254	9,329	9,246	83
Net loans charged off	4,921	16,214	(11,293)	15,022	26,295	(11,273)
Gains (losses) on repossessed assets, net	(8,010)	(239)	(7,771)	(10,971)	(229)	(10,742)
Loss before taxes	(14,536)	(18,131)	3,595	(28,199)	(28,864)	665
Federal and state income tax	(5,655)	(7,053)	1,398	(10,969)	(11,228)	259

Net loss	$(8,881)	$(11,078)	$2,197	$(17,230)	$(17,636)	$406
Average assets	$596,799	$628,216	$(31,417)	$595,085	$622,767	$(27,682)
Average loans	509,595	577,458	(67,863)	511,485	582,433	(70,948)
Average deposits	212,438	182,403	30,035	205,929	164,539	41,390
Average invested capital	60,374	84,596	(24,222)	61,808	86,280	(24,472)
Return on average assets	(5.97%)	(7.07%)	110 b.p.	(5.84%)	(5.71%)	(13) b.p.
Return on invested capital	(59.00%)	(52.52%)	(648) b.p.	(56.22%)	(41.22%)	(1,500) b.p.
Efficiency ratio	148.00%	155.62%	(762) b.p.	130.97%	133.886%	(291) b.p.
Net charge-offs (annualized) to average loans	3.87%	11.26%	(739) b.p.	5.92%	9.10%	(318) b.p.

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Table 16 – Kansas / Missouri
(Dollars in thousands)

	Three Months Ended June 30,		Increase	Six Months Ended June 30,		(Increase)
	2010	2009	(Decrease)	2010	2009	(Decrease)
Net interest revenue	$2,271	$1,942	$329	$4,363	$3,657	$706
Other operating revenue	4,677	4,747	(70)	8,673	10,547	(1,874)
Operating expense	5,036	3,806	1,230	10,007	7,948	2,059
Net loans charged off (recovered)	6	201	(195)	(48)	733	(781)
Gains (losses) on repossessed assets, net	(21)		(21)	(21)		(21)
Income before taxes	1,885	2,682	(797)	3,056	5,523	(2,467)
Federal and state income tax	733	1,043	(310)	1,189	2,148	(959)
Net income	$1,152	$1,639	$(487)	$1,867	$3,375	$(1,508)
Average assets	$296,272	$327,212	$(30,940)	$297,146	$320,832	$(23,686)
Average loans	283,859	324,747	(40,888)	286,228	318,390	(32,162)
Average deposits	219,169	207,438	11,731	199,053	165,534	33,519
Average invested capital	21,372	25,170	(3,798)	21,455	23,845	(2,390)
Return on average assets	1.56 %	2.01 %	(45) b.p.	1.27 %	2.12 %	(85) b.p.
Return on invested capital	21.62 %	26.12 %	(450) b.p	17.55 %	28.54 %	(1,099) b.p.
Efficiency ratio	72.48 %	56.90 %	1,558 b.p.	76.76 %	55.96 %	2,081 b.p.
Net charge-offs (annualized) to average loans	0.01 %	0.25 %	(24) b.p.	(0.03 %)	0.46 %	(50) b.p.

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 June 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 June 30, 2010, investment securities were carried at $353 million and had a fair value of $364 million.

The Company added $43 million to its investment securities portfolio during the second quarter of 2010 comprised primarily of qualifying school construction bonds. The bonds were issued with the Company's assistance by several school districts in our Texas market under a program authorized by the U.S. Treasury Department. Interest on these

bonds is primarily payable through federal income tax credits.

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 $9.0 billion at June 30, 2010, up $215 million over March 31, 2010. At June 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. Currently rates are historically low and prices for mortgage-backed securities are historically high resulting in very low effective durations. The estimated expected duration of the residential mortgage-backed securities portfolio was approximately 0.25 years at June 30, 2010. Management estimates that the expected duration would extend to approximately 3.5 years assuming an immediate 300 basis point upward rate shock.

In this environment, management uses the modified duration as it presents a more realistic duration / risk profile of the residential mortgage-backed securities portfolio. The current modified duration of the residential mortgage-backed securities portfolio is 2.5 years and this would extend to 4.1 years assuming an immediate 300 basis point upward shock. The modified duration contracts to 1.6 years assuming a 50 basis point decline in the current low rate environment.

Residential mortgage-backed securities also have credit risk from delinquency or default of the underlying loans. We mitigate this risk by primarily investing in securities issued by U.S. government agencies. Principal and interest payments on the underlying loans are fully guaranteed. At June 30, 2010, approximately $7.9 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 $8.2 billion at June 30, 2010.

We also hold amortized cost of $849 million in residential mortgage-backed securities privately issued by publicly-owned financial institutions. The fair value of our portfolio of privately issued residential mortgage-backed securities totaled $736 million at June 30, 2010. Approximately $594 million of these privately issued residential mortgage-backed securities 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 $106 million at June 30, 2010. The amortized cost of our privately issued residential mortgage-backed securities decreased $60 million from March 31, 2010 primarily due to cash received. The unrealized loss on these securities decreased $30 million in the second quarter of 2010.

Our portfolio of privately issued residential mortgage-backed securities consists primarily of amortized cost of $619 million of Jumbo-A residential mortgage loans and $230 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 89% of our Alt-A residential mortgage-backed securities are credit enhanced with additional collateral support and 100% of our Alt-A residential mortgage-backed securities originated in 2007 and 2006 have additional collateral support. Approximately 83% 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.

The aggregate gross amount of unrealized losses on available for sale securities totaled $122 million at June 30, 2010. 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 $2.6 million were recognized in earnings in the second quarter of 2010 on certain privately issued residential mortgage backed 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 $250 million of bank-owned life insurance at June 30, 2010. This investment is expected to provide a long-term source of earnings to support existing employee benefit programs. Approximately $219 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 June 30, 2010, the cash surrender value represented by the underlying fair value of investments held in separate accounts was approximately $235 million. As the underlying fair value of the investments held in a separate account at June 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 $10.9 billion at June 30, 2010, an $89 million decrease since March 31, 2010.

Table 17 - Loans
(In thousands)

	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009
Commercial:					
Energy	$1,844,643	$1,892,306	$1,911,994	$2,093,802	$2,203,558
Services	1,669,069	1,741,924	1,807,824	1,768,454	1,884,097
Wholesale/retail	964,440	873,170	921,830	940,258	1,027,532
Manufacturing	357,671	395,964	404,061	442,729	496,496
Healthcare	805,619	777,668	792,538	745,777	765,285
Agriculture	147,700	155,410	160,549	156,997	157,759
Other commercial and industrial	222,386	178,297	209,044	222,039	181,124
Total commercial	6,011,528	6,014,739	6,207,840	6,370,056	6,715,851
Commercial real estate:					
Construction and land development	545,659	605,667	645,295	735,196	818,837
Retail	392,910	408,936	423,260	409,775	413,789
Office	466,939	463,995	463,316	488,564	490,044
Multifamily	346,460	377,673	360,436	339,847	306,175
Industrial	176,535	181,117	146,707	127,845	129,239
Other real estate loans	412,406	406,460	452,420	459,108	453,609
Total commercial real estate	2,340,909	2,443,848	2,491,434	2,560,335	2,611,693
Residential mortgage:					
Permanent mortgage	1,320,408	1,303,589	1,303,340	1,348,183	1,362,505
Home equity	513,838	494,122	490,282	481,641	471,470
Total residential mortgage	1,834,246	1,797,711	1,793,622	1,829,824	1,833,975

Consumer:					
Indirect automobile	338,147	396,280	454,508	516,062	582,380
Other consumer	357,887	318,646	332,294	335,287	326,029
Total consumer	696,034	714,926	786,802	851,349	908,409
Total	$10,882,717	$10,971,224	$11,279,698	$11,611,564	$12,069,928

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 on Table 18.

Table 18 – Loans by Principal Market
(In thousands)

	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009
Oklahoma:					
Commercial	$2,704,460	$2,616,086	$2,649,252	$2,738,217	$2,918,478
Commercial real estate	784,549	787,543	820,578	815,362	855,742
Residential mortgage	1,257,497	1,235,788	1,228,822	1,245,917	1,249,104
Consumer	395,274	404,570	451,829	483,369	521,431
Total Oklahoma	5,141,780	5,043,987	5,150,481	5,282,865	5,544,755
Texas:					
Commercial	1,902,934	1,935,819	2,017,081	2,075,379	2,182,756
Commercial real estate	731,399	769,682	735,338	734,742	741,199
Residential mortgage	308,496	307,643	313,113	335,797	345,780
Consumer	160,377	160,449	170,062	188,374	196,752
Total Texas	3,103,206	3,173,593	3,235,594	3,334,292	3,466,487
New Mexico:					
Commercial	286,555	326,203	341,802	344,910	380,378
Commercial real estate	294,425	298,197	305,061	344,988	313,190
Residential mortgage	87,549	85,629	86,415	88,271	90,944
Consumer	20,542	16,713	17,473	18,176	18,826
Total New Mexico	689,071	726,742	750,751	796,345	803,338
Arkansas:					
Commercial	89,376	86,566	103,443	99,559	97,676
Commercial real estate	114,576	129,125	132,436	128,984	133,026
Residential mortgage	15,823	17,071	16,849	19,128	19,015
Consumer	96,189	110,123	124,265	136,461	152,620
Total Arkansas	315,964	342,885	376,993	384,132	402,337
Colorado:					
Commercial	484,188	495,916	545,724	569,549	595,858
Commercial real estate	225,758	228,998	239,970	249,879	269,923
Residential mortgage	69,325	68,049	66,504	68,667	58,557
Consumer	18,548	17,991	17,362	18,272	14,097
Total Colorado	797,819	810,954	869,560	906,367	938,435
Arizona:					
Commercial	204,326	209,019	199,143	219,330	215,540
Commercial real estate	163,374	202,192	227,249	257,169	262,607
Residential mortgage	78,890	68,015	65,047	57,304	58,265
Consumer	2,971	3,068	3,461	4,826	3,229
Total Arizona	449,561	482,294	494,900	538,629	539,641
Kansas / Missouri:					

Commercial	339,689	345,130	351,395	323,112	325,165
Commercial real estate	26,828	28,111	30,802	29,211	36,006
Residential mortgage	16,666	15,516	16,872	14,740	12,310
Consumer	2,133	2,012	2,350	1,871	1,454
Total Kansas / Missouri	385,316	390,769	401,419	368,934	374,935
Total BOK Financial loans	$10,882,717	$10,971,224	$11,279,698	$11,611,564	$12,069,928

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 $3.2 million during the second quarter of 2010 to $6.0 billion at June 30, 2010. The change in outstanding commercial loans was primarily related to a $91 million increase in wholesale/retail sector loans, a $44 million increase in other commercial and industrial loans and a $28 million increase in healthcare sector loans. These increases were primarily offset by a $73 million decrease in service sector 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 19.

Table 19 – Commercial Loans by Principal Market
(In thousands)

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Energy	$934,931	$679,741	$40	$4,997	$216,382	$1,873	$6,679	$1,844,643
Services	515,813	532,843	199,346	19,095	173,594	111,096	117,282	1,669,069
Wholesale/retail	443,992	341,176	24,740	57,761	20,112	49,684	26,975	964,440
Manufacturing	200,997	77,337	35,851	1,449	20,470	17,456	4,111	357,671
Healthcare	510,799	210,473	9,307	5,046	47,462	21,874	658	805,619
Agriculture	19,106	8,671	66	277	210	–	119,370	147,700
Other commercial and industrial	78,822	52,693	17,205	751	5,958	2,343	64,614	222,386
Total commercial loans	$2,704,460	$1,902,934	$286,555	$89,376	$484,188	$204,326	$339,689	$6,011,528

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

Energy loans totaled $1.8 billion or 17% of total loans. Outstanding energy loans decreased $48 million during the second quarter of 2010 primarily due to low customer loan demand as a result of low commodity prices which has led

to curtailed exploration and production of oil and gas reserves and reduced borrowing capacity based upon collateral values. Approximately $1.5 billion of energy loans were to oil and gas producers, down $20 million from March 31, 2010. Approximately 52% of the committed production loans are secured by properties primarily producing oil and 48% of the committed production loans are secured by properties primarily producing natural gas. The energy category also included approximately $45 million of loans to borrowers that provide services to the energy industry, $219 million of loans to borrowers engaged in wholesale or retail energy sales and $40 million of loans to borrowers that manufacture equipment primarily for the energy industry. We do not expect a significant, direct impact from the moratorium on offshore drilling activities on our energy loan portfolio.

The services sector of the loan portfolio totaled $1.7 billion or 15% of total loans and consists of a large number of loans to a variety of businesses, including communications, gaming and transportation services. Approximately $973 million of the services category is made up of loans with individual balances of less than $10 million. Service sector loans are generally secured by the assets of the borrower with repayment coming from the cash flows of ongoing operations of the customer's business. Loans in this sector may also be secured by personal guarantees of the owners or related parties. Outstanding loans to the service sector of the loan portfolio decreased $73 million during the second quarter of 2010 due to reduced loan demand as a result of general economic conditions.

We participate in shared national credits when appropriate to obtain or maintain business relationships with local customers. Shared national credits are defined by banking regulators as credits of more than $20 million and with three or more non-affiliated banks as participants. At June 30, 2010, the outstanding principal balance of these loans totaled $1.5 billion. Substantially all of these loans are to borrowers with local market relationships. We serve as the agent lender in approximately 18% of our shared national credits, based on dollars committed. We hold shared credits to the same standard of analysis and perform the same level of review as internally originated credits. Our lending policies generally avoid loans in which we do not have the opportunity to maintain or achieve other business relationships with the customer.

Commercial Real Estate

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

Commercial real estate loans totaled $2.3 billion or 22% of the loan portfolio at June 30, 2010. Over the past five years, the percentage of commercial real estate loans to our total loan portfolio ranged from 20% to 23%. The outstanding balance of commercial real estate loans decreased $103 million from the previous quarter end. The commercial real estate sector of our loan portfolio is distributed as follows in Table 20.

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

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Construction and land development	$ 154,684	$ 131,849	$ 71,196	$ 15,041	$ 122,285	$ 45,843	$ 4,761	$ 545,659
Retail	147,917	117,964	57,962	19,045	7,282	31,246	11,494	392,910
Office	112,367	163,094	78,947	17,558	64,148	30,387	438	466,939
Multifamily	119,234	144,442	20,414	41,662	4,853	9,241	6,614	346,460
Industrial	70,605	70,851	21,648	439	1,060	11,864	68	176,535
Other real estate loans	179,742	103,199	44,258	20,831	26,130	34,793	3,453	412,406
Total commercial real estate loans	$ 784,549	$ 731,399	$ 294,425	$ 114,576	$ 225,758	$ 163,374	$ 26,828	$ 2,340,909

Construction and land development loans, which consist primarily of residential construction properties and developed building lots, decreased $60 million from March 31, 2010 to $546 million at June 30, 2010 primarily due to payments. In addition, approximately $4.4 million of construction and land development loans were transferred to other real estate owned in the second quarter of 2010 and $5.6 million were charged-off. This sector of the loan portfolio is expected to continue to decrease as construction projects currently in process are completed. Loans secured by multifamily residential properties decreased $31 million primarily in the Texas and Arkansas markets and loans secured by retail facilities decreased $16 million, primarily in the Arizona market.

Residential Mortgage and Consumer

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

Residential mortgage loans totaled $1.8 billion, up $37 million from March 31, 2010. Permanent 1-4 family mortgage loans were up $17 million over the prior quarter primarily in the Oklahoma and Arizona markets and home equity loans increased $20 million, primarily in the Oklahoma market. In general, we sell the majority of our conforming fixed-rate loan originations in the secondary market and retain the majority of our non-conforming and adjustable-rate mortgage loans. We have no concentration in sub-prime residential mortgage loans. Our mortgage loan portfolio does not include payment option adjustable rate mortgage loans or adjustable rate mortgage loans with initial rates that are below market.

The permanent mortgage loan portfolio is primarily composed of various non-conforming mortgage programs to support customer relationships including jumbo mortgage loans, non-builder construction loans and special loan programs for high net worth individuals or certain professionals. The aggregate outstanding balance of loans in these programs is $1.2 billion. Jumbo loans may be fixed or variable rate and are fully amortizing. The size of jumbo loans exceed maximums set under government sponsored entity standards, but otherwise generally conform to those standards. These loans generally require a minimum FICO score of 720 and a maximum debt-to-income ratio ("DTI") of 38%. Loan-to-value ratios ("LTV") are tiered from 60% to 100%, depending on the market. Special mortgage programs include fixed and variable rate fully amortizing loans tailored to the needs of certain health-care professionals. Variable rate loans are fully indexed at origination and may have fixed rates for three to ten years, then adjust annually thereafter. The maximum loan amount of any of our residential mortgage loans products is $4 million.

Approximately $103 million or 8% of permanent mortgage loans consist of first lien, fixed rate residential mortgage loans originated under various community development programs. The outstanding balance of these loans is down from $106 million at March 31, 2010. These loans were underwritten to standards approved by various U.S. government agencies under these programs and include full documentation. However, these loans do have a higher risk of delinquency and losses given default than traditional residential mortgage loans. The initial maximum LTV of loans in these programs was 103%.

The composition of residential mortgage and consumer loans at June 30, 2010 is as follows in Table 21.

Table 21 – Residential Mortgage and Consumer Loans by Principal Market
(In thousands)

	Oklahoma	Texas	New Mexico	Arkansas	Colorado	Arizona	Kansas/ Missouri	Total
Permanent mortgage	$942,141	$220,729	$19,078	$11,156	$49,152	$65,645	$12,507	$1,320,408
Home equity	315,356	87,767	68,471	4,667	20,173	13,245	4,159	513,838
Total residential mortgage	$1,257,497	$308,496	$87,549	$15,823	$69,325	$78,890	$16,666	$1,834,246
Consumer:								

Indirect automobile	$198,729	$49,194	$–	$90,224	$–	$–	$–	$338,147
Other consumer	196,545	111,183	20,542	5,965	18,548	2,971	2,133	357,887
Total consumer	$395,274	$160,377	$20,542	$96,189	$18,548	$2,971	$2,133	$696,034

Indirect automobile loans decreased $58 million from March 31, 2010, primarily due to the previously-disclosed decision by the Company to exit the business in the first quarter of 2009 in favor of a customer-focused direct lending approach.

Loan Commitments

We enter into certain off-balance sheet arrangements in the normal course of business. These arrangements included unfunded loan commitments which totaled $4.9 billion and standby letters of credit which totaled $552 million at June 30, 2010. Loan commitments may be unconditional obligations to provide financing or conditional obligations that depend on the borrower's financial condition, collateral value or other factors. Standby letters of credit are unconditional commitments to guarantee the performance of our customer to a third party. Since some of these commitments are expected to expire before being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Approximately $3.9 million of the outstanding standby letters of credit were issued on behalf of customers whose loans are non-performing at June 30, 2010.

We also have off-balance sheet commitments for residential mortgage loans sold with full or partial recourse as more fully described in Note 14 to the consolidated financial statements. At June 30, 2010, the principal balance of residential mortgage loans sold subject to recourse obligations totaled $311 million, down from $324 million at March 31, 2010. Substantially all of these loans are to borrowers in our primary markets including $219 million to borrowers in Oklahoma, $33 million to borrowers in Arkansas, $18 million to borrowers in New Mexico, $16 million to borrowers in the Kansas/Missouri area and $14 million to borrowers in Texas.

Customer Derivative Programs

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

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

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

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

Derivative contracts are carried at fair value. At June 30, 2010, the net fair values of derivative contracts reported as assets under these programs totaled $335 million, down slightly from $337 million at March 31, 2010. At June 30, 2010, derivative contracts carried as assets included interest rate contracts with fair values of $153 million, energy contracts with fair values of $120 million, and foreign exchange contracts with fair values of $54 million. The aggregate net fair values of derivative contracts held under these programs reported as liabilities totaled $338 million.

At June 30, 2010, total derivative assets were reduced by $7.9 million of cash collateral received from counterparties and total derivative liabilities were reduced by $39 million of cash collateral paid to counterparties related to instruments executed with the same counterparty under a master netting agreement as permitted by generally accepted accounting principles.

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

The fair value of derivative contracts reported as assets under these programs, net of cash margin held by the Company, by category of debtor at June 30, 2010 follows in Table 22.

Table 22 – Fair Value of Derivative Contracts
(In thousands)

Customers	$	176,107
Energy companies		60,396
Banks and other financial institutions		73,330
Exchanges		16,080
Other		826
Fair value of customer hedge asset derivative contracts, net	$	326,739

The largest net amount due from a single counterparty, a domestic subsidiary of a major energy company, at June 30, 2010 was $54 million. This amount was offset by $46 million in letters of credit issued by multiple independent financial institutions. At June 30, 2010, we had a $1.7 million credit exposure to BP North America Inc., an approved counterparty of the Company.

Our customer derivative program also introduces liquidity and capital risk. We are required to provide cash margin to certain counterparties when the net negative fair value of the contracts exceeds established limits. Also, changes in commodity prices affect the amount of regulatory capital we are required to hold as support for the fair value of our derivative assets. These risks are modeled as part of the management of these programs. Based on current prices, a decrease in market prices equivalent to $10 per barrel of oil would increase the fair value of derivative assets by $370 million. An increase in prices equivalent to $137 per barrel of oil would decrease the fair value of derivative assets by $267 million as current prices move away from the fixed prices embedded in our existing contracts. Further increases in prices equivalent to $144 per barrel of oil would increase the fair value of our derivative assets by $309 million. Liquidity requirements of this program are also affected by our credit rating. A decrease in credit rating from A1 to below investment grade would increase our obligation to post cash margin on existing contracts by approximately $45 million.

Summary of Loan Loss Experience

We maintain separate reserves for loan losses and reserves for off-balance sheet credit risk. The combined allowance for loan losses and reserve for off-balance sheet credit losses totaled $315 million or 2.89% of outstanding loans and 98% of nonaccruing loans at June 30, 2010. The allowance for loan losses was $300 million and the reserve for off-balance sheet credit losses was $15 million. At March 31, 2010, the combined allowance for loan losses and off-balance sheet credit losses was $314 million or 2.86% of outstanding loans and 91% of nonaccruing loans.

Table 23 – Summary of Loan Loss Experience
(In thousands)

	Three Months Ended				
	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009
Reserve for loan losses:					
Beginning balance	$299,717	$292,095	$280,902	$263,309	$251,002
Loans charged off:					
Commercial	6,030	11,373	12,773	12,026	9,135
Commercial real estate	19,439	22,357	12,505	17,407	17,186
Residential mortgage	8,804	1,842	6,055	3,479	5,373
Consumer	3,895	4,756	6,641	5,669	5,715
Total	38,168	40,328	37,974	38,581	37,409
Recoveries of loans previously charged off:					
Commercial	958	3,063	640	858	692
Commercial real estate	94	672	317	20	83
Residential mortgage	127	120	335	201	179
Consumer	1,435	1,995	1,658	1,515	1,518
Total	2,614	5,850	2,950	2,594	2,472
Net loans charged off	35,554	34,478	35,024	35,987	34,937
Provision for loan losses	35,326	42,100	46,217	53,580	47,244
Ending balance	$299,489	$299,717	$292,095	$280,902	$263,309
Reserve for off-balance sheet credit losses:					
Beginning balance	$14,388	$14,388	$11,985	$10,445	$10,569
Provision for off-balance sheet credit losses	714	–	2,403	1,540	(124)
Ending balance	$15,102	$14,388	$14,388	$11,985	$10,445
Total provision for credit losses	$36,040	$42,100	$48,620	$55,120	$47,120
Reserve for loan losses to loans outstanding at period-end	2.75 %	2.73 %	2.59 %	2.42 %	2.18 %
Net charge-offs (annualized) to average loans	1.30	1.23	1.22	1.21	1.13
Total provision for credit losses (annualized) to average loans	1.31	1.51	1.69	1.85	1.52
Recoveries to gross charge-offs	6.85	14.51	7.77	6.72	6.61
Reserve for loan losses as a multiple of net charge-offs (annualized)	2.11 x	2.17 x	2.08 x	1.95 x	1.88 x

Reserve for off-balance sheet credit losses to off-balance sheet credit commitments	0.28	%	0.26	%	0.26	%	0.22	%	0.19	%
Combined reserves for credit losses to loans outstanding at period-end	2.89		2.86		2.72		2.52		2.27	

Allowance for Loan Losses

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

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

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

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

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

Impaired loans totaled $293 million at June 30, 2010 and $311 million at March 31, 2010. At June 30, 2010, $203 million of impaired loans had specific reserves of $20 million and $90 million had no specific reserves because they had been charged down to amounts we expect to recover. Impaired loans with no specific reserves had gross outstanding principal balances of $187 million. Cumulative life-to-date charge-offs of impaired loans with no specific reserves at June 30, 2010 totaled $97 million, including $18 million charged-off in the second quarter of 2010. At March 31, 2010, $186 million of impaired loans had specific reserves of $12 million and $125 million had no specific reserves because they had been charged down to amounts we expect to recover.

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

Migration models fairly measure loss exposure during an economic cycle. However, because they are based on historic trends, their accuracy is limited near the beginning or ending of a cycle. Because of this limitation, the results

of the migration models are evaluated by management quarterly. The resulting general reserve may be adjusted upward or downward so that the allowance for loan losses fairly represents credit losses inherent in the loan portfolio.

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

The aggregate amount of general reserves determined by migration factors for all unimpaired loans totaled $260 million at June 30, 2010. Approximately, $204 million was attributed to commercial and commercial real estate loans, $40 million was attributed to residential mortgage loans and $16 million was attributed to consumer loans. The aggregate amount of general reserves determined by migration factors for all unimpaired loans totaled $265 million at March 31, 2010.

Nonspecific reserves are maintained for risks beyond factors specific to a particular loan or identified by the migration models. These factors include trends in the economy in our primary lending areas, conditions in certain industries where we have a concentration and overall growth in the loan portfolio. Evaluation of nonspecific factors considers the effect of the duration of the business cycle on migration factors. Nonspecific factors also consider current economic conditions and other relevant factors. Nonspecific reserves totaled $19 million at June 30, 2010 and $23 million at March 31, 2010.

The provision for loan losses is the amount necessary to maintain the allowance for loan losses at an amount determined by management to be adequate based on its evaluation. The provision for loan losses totaled $36.0 million for the second quarter of 2010, $42.1 million for the first quarter of 2010 and $47.1 million for the second quarter of 2009. Factors considered in determining the provision for credit losses for the second quarter of 2010 included trends of net charge-offs, nonperforming loans and risk grading.

Net Loans Charged-Off

Loans are charged off against the allowance for loan losses when the loan balance or a portion of the loan balance is no longer covered by the paying capacity of the borrower based on an evaluation of available cash resources and collateral value. Collateral values are generally evaluated annually, or more frequently for certain collateral types or collateral located in certain distressed markets. Loans are evaluated quarterly and charge-offs are taken in the quarter in which the loss is identified.

Net loans charged off during the second quarter of 2010 totaled $35.6 million compared to $34.5 million in the previous quarter and $34.9 million in the second quarter of 2009. The ratio of net loans charged off (annualized) to average outstanding loans was 1.30% for the second quarter of 2010 compared 1.23% for the first quarter of 2010 compared with 1.13% for the second quarter of 2009. Net loans charged off in the second quarter of 2010 increased $1.1 million compared to the previous quarter. Gross loans charged off in the second quarter of 2010 decreased $2.2 million compared to the previous quarter, offset by a $3.2 million decrease in recoveries in the second quarter of 2010 compared to the first quarter of 2010.

Net loans charged off by category and principal market area during the second quarter of 2010 follow in Table 24.

Table 24 – Net Loans Charged Off
(In Thousands)

	Oklahoma	Texas	Colorado	Arkansas	New Mexico	Arizona	Kansas/ Missouri	Total
Commercial	$ 2,193	$2,065	$513	$(1)	$28	$274	$–	$5,072
Commercial real estate	8,845	1,323	2,232	1,822	655	4,468	–	19,345
Residential mortgage	7,763	591	111	1	168	43	–	8,677
Consumer	1,059	690	173	386	144	(2)	10	2,460
Total net loans charged off	$ 19,860	$4,669	$3,029	$2,208	$995	$4,783	$10	$35,554

Net commercial loans charged off during the second quarter of 2010 decreased $3.2 million compared to the prior quarter. Net commercial loans charged off during the second quarter of 2010 included $2.5 million of charge-offs from the services sector in the Texas, Arizona and Colorado markets and $1.8 million healthcare sector of the loan portfolio primarily in the Oklahoma and Texas markets.

Net charge-offs of commercial real estate loans decreased $2.3 million over the first quarter of 2010. Net commercial real estate loans charged off during the second quarter of 2010 included $8.8 million of loans secured by multifamily residential properties attributed to the Oklahoma market. A single condominium and commercial office project comprised $8.7 million of this amount. Land and residential construction sector charge-offs totaled $6.3

million in the second quarter of 2010, a $2.6 million increase from the prior quarter. Land and residential construction sector loan portfolio charge-offs were primarily composed of $2.5 million in the Arizona market, $2.2 million in the Colorado market and $1.3 million in the Texas market.

Residential mortgage net charge-offs increased $7.0 million compared to the previous quarter primarily related to residential mortgage loans attributed to the Oklahoma market. The timing of residential mortgage loan charge-offs varies based on foreclosure activity and delinquency status. Consumer loan net charge-offs, which includes indirect auto loan and deposit account overdraft losses, decreased $301 thousand over the previous quarter. Net charge-offs of indirect auto loans decreased to $938 thousand for the second quarter of 2010 compared to $1.6 million for the first quarter of 2010.

The Company considers the credit risk from loan commitments and letters of credit in its evaluation of the adequacy of the reserve for loan losses. A separate reserve for off-balance sheet credit risk is maintained. Table 23 presents the trend of reserves for off-balance sheet credit losses and the relationship between the reserve and loan commitments. The provision for credit losses included the combined charge to expense for both the reserve for loan losses and the reserve for off-balance sheet credit losses. All losses incurred from lending activities will ultimately be reflected in charge-offs against the reserve for loan losses following funds advanced against outstanding commitments and after the exhaustion of collection efforts.

Nonperforming Assets

Table 25 – Nonperforming Assets
(In thousands)

	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009
Nonaccrual loans:					
Commercial	$82,775	$84,491	$101,384	$128,266	$126,510
Commercial real estate	193,698	219,639	204,924	212,418	189,586
Residential mortgage	40,033	36,281	29,989	38,220	35,860
Consumer	3,188	3,164	3,058	3,897	1,037
Total nonaccrual loans	319,694	343,575	339,355	382,801	352,993
Renegotiated loans (2)	21,327	17,763	15,906	17,426	17,479
Total nonperforming loans	341,021	361,338	355,261	400,227	370,472
Other nonperforming assets	119,908	121,933	129,034	89,507	75,243
Total nonperforming assets	$460,929	$483,271	$484,295	$489,734	$445,715
Nonaccrual loans by principal market:					
Oklahoma	$93,898	$102,231	$83,176	$112,610	$108,490
Texas	49,695	58,067	66,892	65,911	51,582
New Mexico	26,956	23,021	26,693	35,541	29,640
Arkansas	10,933	14,652	13,820	5,911	3,888
Colorado (3)	66,040	66,883	60,082	50,432	45,794
Arizona	72,111	78,656	84,559	108,161	106,076
Kansas / Missouri	61	65	4,133	4,235	7,523
Total nonaccrual loans	$319,694	$343,575	$339,355	$382,801	$352,993
Nonaccrual loans by loan portfolio sector:					
Commercial:					
Energy	$26,259	$17,182	$22,692	$48,992	$53,842
Manufacturing	3,237	4,834	15,765	17,429	16,975
Wholesale / retail	5,561	6,629	12,057	7,623	10,983
Agriculture	58	65	65	98	105
Services	31,062	35,535	30,926	30,094	24,713
Healthcare	8,568	10,538	13,103	13,758	14,222
Other	8,030	9,708	6,776	10,272	5,670
Total commercial	82,775	84,491	101,384	128,266	126,510
Commercial real estate:					
Land development and construction	132,686	140,508	109,779	113,868	97,425
Retail	4,967	14,843	26,236	22,254	17,474
Office	24,764	26,660	25,861	31,406	27,685
Multifamily	7,253	15,725	26,540	28,223	27,827
Industrial	4,223	–	279	527	527
Other commercial real estate	19,805	21,903	16,229	16,140	18,648
Total commercial real estate	193,698	219,639	204,924	212,418	189,586
Residential mortgage:					
Permanent mortgage	37,978	34,134	28,314	36,431	34,149
Home equity	2,055	2,147	1,675	1,789	1,711
Total residential mortgage	40,033	36,281	29,989	38,220	35,860
Consumer	3,188	3,164	3,058	3,897	1,037
Total nonaccrual loans	$319,694	$343,575	$339,355	$382,801	$352,993

Ratios:										
Reserve for loan losses to nonperforming loans	87.82	%	82.95	%	82.22	%	70.19	%	71.07	%
Nonperforming loans to period-end loans	3.13		3.29		3.15		3.45		3.07	
Loans past due (90 days or more) (1)	$12,474		$12,915		$10,308		$24,238		$32,479	
(1) Includes residential mortgages guaranteed by agencies of the U.S. Government.	$3,210		$3,183		$1,400		$2,589		$1,337	
(2) Includes residential mortgages guaranteed by agencies of the U.S. Government. These loans have been modified to extend payment terms and/or reduce interest rates to current market.	17,598		14,083		12,799		11,234		11,079	
(3) Includes loans subject to First United Bank sellers escrow for any losses incurred during a three-year period after the June 2007 which expired in the second quarter of 2010.	–		4,281		4,311		4,173		8,305	

Nonperforming assets totaled $461 million or 4.19% of outstanding loans and repossessed assets at June 30, 2010, down $22 million since March 31, 2010. In addition to $320 million of nonaccruing loans, nonperforming assets included $21 million of renegotiated residential mortgage loans and $120 million of real estate and other repossessed assets. The Company generally retains nonperforming assets to maximize potential recovery which may cause future nonperforming assets to increase.

Renegotiated loans represent troubled debt restructurings of residential mortgage loans. Generally, we modify residential mortgage loans by reducing interest rates and extending the number of payments. We do not forgive principle or unpaid interest. At June 30, 2010, approximately $13 million of the renegotiated residential mortgage loans are currently performing in accordance with the modified terms, $4.6 million are 30 to 89 days past due and $3.6 million are past due 90 days or more. Restructured residential mortgage loans guaranteed by agencies of the U.S. government in accordance with agency guidelines represent $18 million of our $21 million portfolio of renegotiated loan. Interest continues to accrue on these guaranteed loans based on the modified terms of the loan. Renegotiated loans may be transferred to loans held-for-sale after a period of satisfactory performance, generally at least nine months. If it becomes probable that we will not be able to collect all amounts due according to the modified loan terms, the loan is placed on nonaccrual status and included in nonaccrual loans. Approximately $2.3 million of renegotiated loans have not met the modified terms and are reported as nonaccruing residential mortgage loans.

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

A rollforward of nonperforming assets for the first quarter of 2010 follows in Table 26.

Table 26 – Rollforward of Nonperforming Assets
(In thousands)

	For the Three Months Ended June 30, 2010			
	Nonaccruing Loans	Renegotiated Loans	Real Estate and Other Repossessed Assets	Total Nonperforming Assets
Balance, March 31, 2010	$343,575	$ 17,763	$ 121,933	$ 483,271
Additions	58,038	–	–	58,038
Payments	(17,815)	–	–	(17,815)
Charge-offs / Write-offs	(38,168)	–	(11,623)	(49,791)
Foreclosures	(18,667)	–	18,667	–
Sales	–	–	(9,149)	(9,149)
Return to accrual	(5,282)	–	–	(5,282)
Other, net	(1,987)	3,564	80	1,657
Balance, June 30, 2010	$319,694	$ 21,327	$ 119,908	$ 460,929

For the Six Months Ended June 30, 2010

			Real Estate and Other	Total Nonperforming

	Nonaccruing Loans	Renegotiated Loans	Repossessed Assets	Assets
Balance, December 31, 2009	$339,355	$ 15,906	$ 129,034	$ 484,295
Additions	138,888	–	–	138,888
Payments	(50,623)	–	–	(50,623)
Charge-offs / Write-offs	(78,496)	–	(17,560)	(96,056)
Foreclosures	(24,769)	–	24,769	–
Sales	–	–	(16,670)	(16,670)
Return to accrual	(8,883)	–	–	(8,883)
Other, net	4,222	5,421	335	9,978
Balance, June 30, 2010	$319,694	$ 21,327	$ 119,908	$ 460,929

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

The distribution of nonaccruing loans among our various markets follows in Table 27.

Table 27 – Nonaccruing Loans by Principal Market
(Dollars In thousands)

	June 30, 2010		March 31, 2010		Change	
	Amount	% of outstanding loans	Amount	% of outstanding loans	Amount	% of outstanding loans
Oklahoma	$93,898	1.83 %	$102,231	2.03 %	$(8,333)	(20) bp
Texas	49,695	1.60	58,067	1.83	(8,372)	(23)
New Mexico	26,956	3.91	23,021	3.17	3,935	74
Arkansas	10,933	3.46	14,652	4.27	(3,719)	(81)
Colorado	66,040	8.28	66,883	8.25	(843)	3
Arizona	72,111	16.04	78,656	16.31	(6,545)	(27)
Kansas / Missouri	61	0.02	65	0.02	(4)	–
Total	$319,694	2.94 %	$343,575	3.13 %	$(23,881)	(19) bp

Nonaccruing loans attributed to the Arizona, Colorado and Texas markets consisted primarily of commercial real estate loans. Nonaccruing loans attributed to the Oklahoma market are primarily composed of $42 million of commercial loans, $27 million of residential mortgage loans and $24 million of commercial real estate loans.

Nonaccruing loans decreased $24 million from March 31, 2010 primarily due to an $8.4 million decrease in nonaccruing loans attributed to the Texas market, an $8.3 million decrease in nonaccruing loans attributed to the Oklahoma market and a $6.5 million decrease in nonaccruing loans attributed to the Arizona market. During the second quarter of 2010, $58 million of new nonaccruing loans were identified, offset by $18 million in payments received, $38 million in charge-offs and $19 million in foreclosures and repossessions. In addition, $5 million of nonaccruing loans were returned to accrual status during the second quarter of 2010 based on our expectation of full repayment. The ratio of nonaccruing loans to period end loans was also negatively impacted by an $89 million decrease in period end loans balances from March 31, 2010.

Commercial

Nonaccruing commercial loans totaled $83 million or 1.38% of total commercial loans at June 30, 2010 and $84 million or 1.40% of total commercial loans at March 31, 2010. At June 30, 2010, nonaccruing commercial loans were primarily composed of $31 million or 1.86% of total services sector loans, $26 million or 1.42% of total energy sector loans, $9 million or 1.06% of total healthcare sector loans and $8 million or 3.61% of other commercial and industrial sector loans. Nonaccruing commercial loans decreased $1.7 million primarily due to a $9 million increase in energy sector loans offset by decreases in nonaccruing loans in all other sectors. Nonaccruing service sector loans declined $4 million from March 31, 2010.

Newly identified nonaccruing commercial loans in the second quarter of 2010 totaled approximately $20 million, offset primarily by $8 million in payments and $6 million in charge-offs and $5 million of nonaccruing commercial loans returning to accrual status. Newly identified nonaccrual loans were primarily in the services and other commercial and industrial sectors of the portfolio. Nonaccruing commercial loans attributed to our various markets as of June 30, 2010 follows in Table 28.

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

	June 30, 2010		March 31, 2010		Change	
	Amount	% of outstanding loans	Amount	% of outstanding loans	Amount	% of outstanding loans
Oklahoma	$41,758	1.54 %	$36,110	1.38 %	$5,648	16 bp
Texas	11,398	0.60	17,450	0.90	(6,052)	(30)
New Mexico	8,398	2.93	8,873	2.72	(475)	21
Arkansas	103	0.12	839	0.97	(736)	(85)
Colorado	8,314	1.72	9,429	1.90	(1,115)	(18)
Arizona	12,743	6.24	11,725	5.61	1,018	63
Kansas / Missouri	61	0.02	65	0.02	(4)	–
Total commercial	$82,775	1.38 %	$84,491	1.40 %	$(1,716)	(2) bp

Commercial Real Estate

Nonaccruing commercial real estate loans totaled $194 million or 8.27% of outstanding commercial real estate loans at June 30, 2010 compared to $220 million or 8.99% of outstanding commercial real estate loans at March 31, 2010. Nonaccruing commercial real estate loans continue to be largely concentrated in land development and residential construction loans. Nonaccruing commercial real estate loans decreased $26 million from March 31, 2010. Newly identified nonaccruing commercial real estate loans totaled $19 million, offset by $19 million of charge-offs, $16 million of foreclosures and $10 million of cash payments received. Nonaccruing commercial real estate loans attributed to our geographic market follows in Table 29.

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

	June 30, 2010		March 31, 2010		Change	
	Amount	% of outstanding loans	Amount	% of outstanding loans	Amount	% of outstanding loans
Oklahoma	$23,797	3.03 %	$38,666	4.91 %	$(14,689)	(188) bp
Texas	31,150	4.26	33,811	4.39	(2,661)	(13)
New Mexico	16,410	5.57	12,370	4.15	4,040	142
Arkansas	9,532	8.32	12,643	9.79	(3,111)	(147)
Colorado	56,880	25.20	57,362	25.05	(482)	15
Arizona	55,929	34.23	64,787	32.04	(8,858)	219
Kansas / Missouri	–	–	–	–	–	–
Total commercial real estate	$193,698	8.27 %	$219,639	8.99 %	$(25,941)	(72) bp

Nonaccruing commercial real estate loans are primarily concentrated in the Arizona and Colorado markets. Approximately $57 million or 25% of commercial real estate loans in the Colorado market are nonaccruing, primarily consisting of nonaccruing residential construction and land development loans. Nonaccruing commercial real estate loans in the Colorado market were largely unchanged from March 31, 2010. Approximately $56 million or 34% of commercial real estate loans in Arizona are nonaccruing and consist primarily of $27 million of nonaccruing residential construction and land development loans, $12 million of nonaccruing loans secured by other commercial and industrial facilities and $10 million of nonaccruing loans secured by office buildings. Nonaccruing commercial

real estate in the Arizona market decreased $9 million from March 31, 2010, primarily due to charge-offs and transfers to other real estate owned.

The decrease in nonaccruing commercial real estate loans included $10 million decrease in nonaccruing loans secured by retail facilities primarily in the Arizona market, an $8 million decrease in nonaccruing residential construction and land development loans and an $8 million decrease in loans secured by multifamily residential properties primarily in the Oklahoma market. Decrease in nonaccruing loans were partially offset by a $4 million increase in nonaccruing loans secured by industrial facilities related to a single loan in the Arizona market.

Residential Mortgage and Consumer

Nonaccruing residential mortgage loans totaled $40 million or 2.18% of outstanding residential mortgage loans at June 30, 2010 compared to $36 million or 2.02% of outstanding residential loans at March 31, 2010. Nonaccruing residential mortgage loans primarily consist of permanent residential mortgage loans which totaled $38 million or 2.88% of outstanding residential mortgage loans at June 30, 2010, a $3.8 million increase compared to March 31, 2010. Nonaccruing home equity loans continued to perform well with only $2.1 million or 0.40% of total home equity loans in nonaccrual status.

The distribution of nonaccruing residential mortgage loans attributed to our various markets is included in Table 30.

Table 30 – Nonaccruing Residential Mortgage Loans by Principal Market
(Dollars in thousands)

	June 30, 2010			March 31, 2010			Change		
	Amount	% of outstanding loans		Amount	% of outstanding loans		Amount	% of outstanding loans	
Oklahoma	$27,447	2.18	%	$26,463	2.14	%	$984	4	bp
Texas	6,489	2.10		5,951	1.93		538	17	
New Mexico	2,049	2.34		1,761	2.06		288	28	
Arkansas	81	0.51		–	–		81	51	
Colorado	655	0.94		91	0.13		564	81	
Arizona	3,312	4.20		2,015	2.96		1,297	124	
Kansas / Missouri	–	–		–	–		–	–	
Total residential mortgage loans	$40,033	2.18	%	$36,281	2.02	%	$3,752	16	bp

In addition to nonaccruing residential mortgage and consumer loans and renegotiated residential mortgage loans, payments of residential mortgage loans and consumer loans may be delinquent. The composition of residential mortgage and consumer loans past due is included in the following Table 31. Residential mortgage loans 30 to 89 days past due increased $34 thousand and residential mortgage loans past due 90 days or more increased $170 thousand during second quarter of 2010. Consumer loans past due 30 to 89 days decreased $1.8 million from March 31, 2010 due to a $936 thousand decrease in indirect automobile loans and an $898 thousand decrease in other consumer loans. Consumer loans past due 90 days or more decreased $79 thousand in the second quarter of 2010, due primarily to a decrease in other consumer loans.

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

	June 30, 2010		March 31, 2010	
	90 Days or More	30 to 89 Days	90 Days or More	30 to 89 Days
Permanent mortgage	$3,400	$23,508	$3,183	$22,649
Home equity	–	919	47	1,744
Total residential mortgage	$3,400	$24,427	$3,230	$24,393
Consumer:				
Indirect automobile	$306	$14,059	$287	$14,995

Other consumer	118	1,934	216	2,832
Total consumer	$424	$15,993	$503	$17,827

Real Estate and Other Repossessed Assets

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

The carrying value of real estate and other repossessed assets is evaluated by management on a quarterly basis, including our consideration of marketing activity of our properties and sales of competing properties.

Real estate and other repossessed assets totaled $120 million at June 30, 2010, a decrease of $2.0 million from March 31, 2010 including a $5.1 million decrease of 1-4 family residential properties and residential land development properties attributed to the Arizona market. The distribution of real estate and other repossessed assets attributed by geographical market is included in Table 32 following.

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

	Oklahoma	Texas	Colorado	Arkansas	New Mexico	Arizona	Kansas/ Missouri	Total
1-4 family residential properties and residential land development properties	$ 5,936	$19,860	$2,893	$5,859	$1,895	$20,468	$686	$57,597
Developed commercial real estate properties	5,046	4,584	2,009	2,155	4,905	18,161	–	36,860
Equity interest in partial satisfaction of debts	13,100	–	–	–	–	–	–	13,100
Undeveloped land	–	315	2,218	11	–	5,142	–	7,686
Construction equipment	–	–	–	–	–	–	3,311	3,311
Vehicles	531	333	–	281	–	–	–	1,145
Other	–	–	209	–	–	–	–	209
Total real estate and other repossessed assets	$ 24,613	$25,092	$7,329	$8,306	$6,800	$43,771	$3,997	$119,908

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

of the entity in which we hold an equity interest. Prices indicated in that market exceed our carrying value per share.

Our loan review process also identified loans that possess more than the normal amount of risk due to deterioration in the financial condition of the borrower or the value of the collateral. Because the borrowers are still performing in accordance with the original terms of the loan agreements, and no loss of principal or interest is anticipated, these loans were not included in nonperforming assets. Known information does, however, cause management concern as to the borrowers' ability to comply with current repayment terms. These potential problem loans totaled $194 million at June 30, 2010 and $231 million at March 31, 2010. Potential problem loans by primary industry included real estate - $112 million, energy - $19 million, manufacturing - $18 million, and services - $18 million. Potential problem real estate loans included $36 million of residential development loans on properties primarily located in Texas and Oklahoma and $26 million of loans secured by multifamily residential properties primarily located in Texas.

Liquidity and Capital

Subsidiary Banks

Deposits and borrowed funds are the primary sources of liquidity for the subsidiary banks. Based on the average balances for the second quarter of 2010, approximately 68% of our funding was provided by deposit accounts, 18% from borrowed funds, 2% from long-term subordinated debt and 10% from shareholders' equity. Our funding sources, which primarily include deposits and borrowings from the Federal Home Loan Banks and other banks, provide adequate liquidity to meet our operating needs.

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

Average deposits totaled $15.8 billion at June 30, 2010 and represented approximately 68% of total average liabilities and capital for the second quarter of 2010 compared with $15.4 billion at March 31, 2010 and approximately 65% of total average liabilities and capital for the first quarter of 2010. Average deposits increased $441 million over the first quarter of 2010. Average interest-bearing transaction deposit accounts continued to grow in the second quarter of 2010, up $324 million over the first quarter of 2010. Growth in our average interest-bearing transaction deposit accounts included $196 million of commercial deposits, $78 million of consumer banking deposits and $47 million of wealth management deposits. Average demand deposits decreased $175 million from the first quarter of 2010, including $85 million of commercial deposits, $57 million of consumer banking deposits and $26 million of wealth management deposits. Higher-costing average time deposits also decreased $71 million during the second quarter of 2010. Brokered deposits, which are included in time deposits, averaged $170 million for the second quarter of 2010, unchanged from the first quarter of 2010.

The distribution of deposit accounts among our principal markets is shown in Table 33.

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

	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009
Oklahoma:					
Demand	$2,101,994	$2,062,084	$2,068,908	$1,895,980	$1,451,057
Interest-bearing:					
Transaction	5,562,287	5,237,983	5,134,902	4,566,058	4,374,089
Savings	102,590	101,708	93,006	93,443	94,048
Time	1,442,525	1,360,756	1,397,240	1,765,980	2,033,312
Total interest-bearing	7,107,402	6,700,447	6,625,148	6,425,481	6,501,449
Total Oklahoma	9,209,396	8,762,531	8,694,056	8,321,461	7,952,506
Texas:					
Demand	1,150,495	1,068,656	1,108,401	1,138,794	1,002,266
Interest-bearing:					
Transaction	1,674,519	1,675,759	1,748,319	1,716,460	1,660,642
Savings	36,814	37,175	35,129	35,724	33,992
Time	1,003,936	1,043,813	1,100,602	1,007,579	1,035,919
Total interest-bearing	2,715,269	2,756,747	2,884,050	2,759,763	2,730,553
Total Texas	3,865,764	3,825,403	3,992,451	3,898,557	3,732,819
New Mexico:					
Demand	223,869	222,685	209,090	216,330	175,033
Interest-bearing:					
Transaction	491,708	480,189	444,247	424,528	434,498
Savings	30,231	20,036	17,563	18,039	18,255
Time	476,155	495,243	510,202	511,507	542,388
Total interest-bearing	998,094	995,468	972,012	954,074	995,141
Total New Mexico	1,221,963	1,218,153	1,181,102	1,170,404	1,170,174
Arkansas:					
Demand	14,919	17,599	21,526	19,077	17,261
Interest-bearing:					
Transaction	108,104	61,398	50,879	85,061	73,972
Savings	1,288	1,266	1,346	1,131	1,031
Time	119,472	105,794	101,839	137,109	162,505
Total interest-bearing	228,864	168,458	154,064	223,301	237,508
Total Arkansas	243,783	186,057	175,590	242,378	254,769
Colorado:					
Demand	143,783	136,048	146,929	121,555	113,895
Interest-bearing:					
Transaction	441,085	456,508	448,846	477,418	445,521
Savings	18,869	18,118	17,802	18,518	18,144
Time	497,538	509,410	525,844	520,906	579,709
Total interest-bearing	957,492	984,036	992,492	1,016,842	1,043,374

Total Colorado	1,101,275	1,120,084	1,139,421	1,138,397	1,157,269
Arizona:					
Demand	71,711	61,183	68,651	54,046	55,975
Interest-bearing:					
Transaction	94,033	81,851	81,909	95,242	89,842
Savings	1,062	1,105	958	971	1,282
Time	63,643	64,592	60,768	56,809	59,775
Total interest-bearing	158,738	147,548	143,635	153,022	150,899
Total Arizona	230,449	208,731	212,286	207,068	206,874
Kansas / Missouri:					
Demand	28,518	31,726	30,339	16,406	9,692
Interest-bearing:					
Transaction	116,423	100,037	21,337	15,682	12,907
Savings	110	146	148	70	54
Time	69,819	74,648	71,498	84,923	158,325
Total interest-bearing	186,352	174,831	92,983	100,675	171,286
Total Kansas / Missouri	214,870	206,557	123,322	117,081	180,978
Total BOK Financial deposits	$16,087,500	$15,527,516	$15,518,228	$15,095,346	$14,655,389

In addition to deposits, subsidiary bank liquidity is provided primarily by federal funds purchased, securities repurchase agreements and Federal Home Loan Bank borrowings. Federal funds purchased consist primarily of unsecured, overnight funds acquired from other financial institutions. Funds are primarily purchased from bankers' banks and Federal Home Loan banks from across the country. The largest single source of Federal funds purchased totaled $200 million at June 30, 2010. Securities repurchase agreements generally mature within 90 days and are secured by certain available for sale securities. Federal Home Loan Bank borrowings are generally short term and are secured by a blanket pledge of eligible collateral (generally unencumbered U.S. Treasury and mortgage-backed securities, 1-4 family mortgage loans and multifamily mortgage loans). During the second quarter of 2010, the outstanding balance of federal funds purchased averaged $1.4 billion, securities repurchase agreements averaged $1.1 billion and Federal Home Loan Bank borrowings averaged $1.6 billion.

At June 30, 2010, the estimated unused credit available to the subsidiary banks from collateralized sources within our internal policy limits was approximately $3.7 billion.

Parent Company

The primary source of liquidity for BOK Financial is dividends from subsidiary banks, which are limited by various banking regulations to net profits, as defined, for the year plus retained profits for the two preceding years. Dividends are further restricted by minimum capital requirements. Based on the most restrictive limitations as well as management's internal capital policy, at June 30, 2010, the subsidiary banks could declare up to $210 million of dividends without regulatory approval. Future losses or increases in required regulatory capital at the subsidiary banks could affect their ability to pay dividends to the parent company.

Effective December 2, 2009, the Company amended an unsecured revolving credit agreement with George B. Kaiser, its Chairman and principal shareholder. The terms of the amended credit agreement reduced the committed amount from $188 million to $100 million, changed the interest rate and facility fee to reflect current market terms and extended the maturity date from December 2, 2010 to December 2, 2012. Interest on outstanding balances due to Mr. Kaiser is based on one-month LIBOR plus 250 basis points and is payable quarterly. Additional interest in the form of a facility fee is paid quarterly on the unused portion of the commitment at 50 basis points. Previously, interest was due quarterly based on one-month LIBOR plus 125 basis points and the facility fee was paid quarterly on the unused portion of the commitment at 25 basis points. As with the original agreement, the amended agreement has no restrictive covenants. No amounts were outstanding under this credit agreement as of June 30, 2010.

Our equity capital at June 30, 2010 was $2.4 billion, up from $2.3 billion at March 31, 2010. Net income less cash dividend paid increased equity $47 million during the second quarter of 2010. An increase in the fair value of available-for-sale securities was primarily responsible for a $66 million increase in accumulated other comprehensive income during the second quarter of 2010. Capital is managed to maximize long-term value to the shareholders. Factors considered in managing capital include projections of future earnings, asset growth and acquisition strategies, and regulatory and debt covenant requirements. Capital management may include subordinated debt issuance, share repurchase and stock and cash dividends.

Based on asset size, we are the largest commercial bank that elected not to participate in the TARP Capital Purchase Program. The decision not to participate in TARP was based on an evaluation of our capital needs in both the current environment and in several capital stress environments. We considered capital requirements for organic growth and potential acquisitions, the cost of TARP capital and a defined exit strategy when the cost of TARP capital increases substantially at the end of year five.

On April 26, 2005, the Board of Directors authorized a share repurchase program, which replaced a previously authorized program. The maximum of two million common shares may be repurchased. The specific timing and amount of shares repurchased will vary based on market conditions, securities law limitations and other factors. Repurchases may be made over time in open market or privately negotiated transactions. The repurchase program may be suspended or discontinued at any time without prior notice. Since this program began, 784,073 shares have been repurchased by the Company for $38.7 million. No shares were repurchased in the second quarter of 2010.

BOK Financial and subsidiary banks are subject to various capital requirements administered by federal agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that could have a material impact on operations. These capital requirements include

quantitative measures of assets, liabilities, and off-balance sheet items. The capital standards are also subject to qualitative judgments by the regulators.

For a banking institution to qualify as well capitalized, its Tier 1, Total and Leverage capital ratios must be at least 6%, 10% and 5%, respectively. All of the Company's banking subsidiaries exceeded the regulatory definitions of well capitalized. The capital ratios for BOK Financial on a consolidated basis are presented in Table 34.

Table 34 – Capital Ratios	Well Capitalized Minimums	June 30, 2010		March 31, 2010		Dec. 31, 2009		Sept. 30, 2009		June 30, 2009	
Average total equity to average assets	–	10.15	%	9.69	%	9.48	%	9.26	%	8.70	%
Tangible common equity ratio	–										