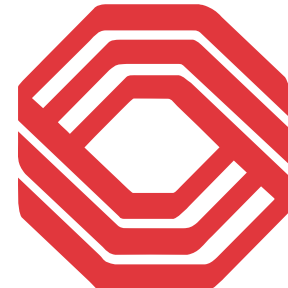
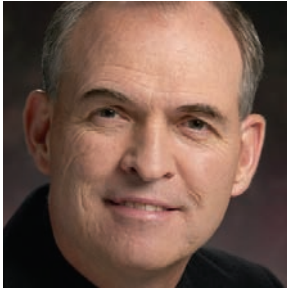


RELATIONSHIPS DRIVE RESULTS

BOK FINANCIAL CORPORATION | 2005 ANNUAL REPORT



COLORADO

Since BOKF acquired Colorado State Bank & Trust, N.A. in 2003, average assets have more than doubled to \$874 million. The newly opened Orchard Falls branch makes five full service locations in the Denver area, including two in Douglas County - one of the top 20 fastest growing counties in the U.S.

KANSAS/MISSOURI

The Kansas City loan production office has seen loan commitments exceeding \$1 billion as of December 31, 2005. We've expanded our presence in the Kansas City market since 2004 with an investment center and our two branch offices, with one on either side of the river.

ARIZONA

After entering the dynamic Phoenix market in 2004 with a successful loan production office, BOKF acquired a bank in 2005 which it subsequently renamed Bank of Arizona, N.A. The two full service branches are located in the Phoenix/Scottsdale area. Already one of the top ten largest cities, Phoenix is the fastest growing city in the U.S.

NEW MEXICO

Beginning as a consumer branch network acquired in 1998, Bank of Albuquerque, N.A. has grown to the fourth largest bank in Albuquerque as measured by deposit market share. Our 19 convenient locations in Albuquerque are complemented by one full service location in Santa Fe.



ction office has outstanding
y \$300 million at
been serving retail clients
nce 1999 through our
vo mortgage origination
de of the state line.

OKLAHOMA

With 74 full-service banking locations statewide complemented by an extensive ATM network, Bank of Oklahoma, N.A. is the state's leading bank with twice the deposit market share of our closest competitor.

We also are the leader in trust, commercial and consumer lending, transaction card services and public finance.

ARKANSAS

Bank of Arkansas, N.A.'s two full service branches are located in the northwest region of the state where the economy is flourishing. Our third branch is scheduled to open in Bentonville in the third quarter of 2006. Our largest institutional investments sales office is located in the state's capital of Little Rock.

TEXAS

Since BOKF's entry in the Texas market in 1997, average assets have grown to \$3.4 billion. With 23 banking locations in the Dallas/Fort Worth area and another 14 locations in the Houston area, Bank of Texas, N.A. is now the ninth largest bank headquartered in the state and contributes 25% of BOKF earnings.

Financial Highlights

(Dollars In Thousands Except Per Share Data)

	2005	2004	2003
For the year:			
Net income	\$ 201,505	\$ 179,023	\$ 158,360
Period-end:			
Loans	9,139,978	7,928,967	7,483,889
Assets	16,252,907	14,145,660	13,595,598
Deposits	11,375,318	9,674,398	9,219,863
Shareholders' equity	1,539,154	1,398,494	1,228,630
Nonperforming assets ¹	33,638	56,423	59,867
Profitability Statistics			
Earnings per share (based on average equivalent shares):			
Basic	\$ 3.14	\$ 3.00	\$ 2.67
Diluted	3.01	2.68	2.38
Percentages (based on daily averages):			
Return on average assets	1.29 %	1.28 %	1.24 %
Return on average shareholders' equity	13.78	13.80	13.66
Common Stock Performance			
Per Share:			
Book value per common share	\$ 23.07	\$ 23.28	\$ 20.60
Market price: December 31 close	45.43	48.76	38.72
Selected Balance Sheet Statistics			
Period-end:			
Tier 1 capital ratio	9.84 %	10.02 %	9.15 %
Total capital ratio	12.10	11.67	11.31
Leverage ratio	8.30	7.94	7.17
Reserve for loan losses to non performing loans	412.83	206.26	217.89
Combined reserves for credit losses to loans ^{2,3}	1.37	1.61	1.73
Miscellaneous (at December 31)			
Number of banking locations	150	149	142
Number of TransFund locations	1,421	1,389	1,442

¹ Includes nonaccrual loans, renegotiated loans and assets acquired in satisfaction of loans. Excludes loans past due 90 days or more and still accruing.

² Excludes residential mortgage loans held for sale.

³ Includes reserve for loan losses and reserve for off-balance sheet credit losses.

Relationships Drive Results

Our continued investment in building deeper, more complete relationships with our clients provided the foundation for the strong results for BOK Financial Corporation (BOKF) in 2005. Our 15th consecutive year of record earnings included net income of \$201.5 million and earnings per share of \$3.01 - a 12% increase over 2004. Loan growth of 15% was very strong and well-balanced, geographically and by industry. All of the BOKF subsidiary banks experienced solid growth. The banks outside Oklahoma produced over half of our growth in earnings and now represent close to 40% of BOKF's total income.

Our core strategy for many years has been to provide nationally competitive products delivered with local community bank service, but others share a similar strategy. In an increasingly commoditized business, BOKF has been successful by being more creative, flexible, and responsive than the competition. BOKF's greatest strength is the ability to attract and retain top talent and create an environment which helps talented and entrepreneurial people excel. It is the interplay of these factors and strong relationships with our customers that has significantly enhanced shareholder value over the past 15 years.

In addition to the robust financial accomplishments in 2005, we continued to build the foundation for future growth. In April, we completed our first acquisition in Phoenix, Arizona which we subsequently renamed Bank of Arizona. We added significantly to our talent in Houston in the first half of the year, and benefited from accelerated growth in the second half, increasing loans at a 30% annualized rate. In the fourth quarter, we added a team of talented local bankers in Kansas City to provide agribusiness and middle market lending services to continue to increase our presence in a market where, despite no full-service banking locations, we have enjoyed solid growth. We also laid the groundwork for successful expansion into the Tucson, Arizona and Boulder, Colorado markets in 2006.

Another notable achievement in 2005 was the addition of two key members to the management team. Don Parker joined BOKF to lead our Operations and Technology Division. Don is committed to ensuring that the quality of our service and support provides a competitive edge for BOKF as we continue to grow. We also named Jean-Claude Gruet to lead our equity investment management group. Jean-Claude is charged with substantially expanding our offering and delivering top tier performance to our clients.

As we look forward to 2006, we remain focused on building on the strong record of earnings growth that has been the hallmark of BOKF. Our diverse sources of non-interest revenue, which in total comprised 44% of total revenue in 2005, provide stability and growth during periods when the interest rate or credit environments are less favorable. The outstanding growth, potential of our regional markets should yield continued strong loan and deposit growth as well as expansion opportunities for our fee-based lines of business.

Our success, past and future, is dependent upon people. The faces you see in this year's annual report represent the thousands of talented BOKF team members who continue to work hard for our clients. Their efforts enable us to be a provider of choice in the markets we serve. We want to express our appreciation to all the members of the BOKF team and the many thousands of loyal customers they serve.


Chairman


President and Chief Executive Officer



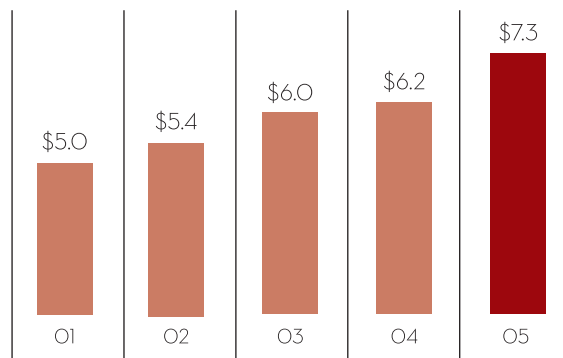
Commercial

BOKF remains steadfastly focused on developing long term banking relationships by partnering with our commercial clients to provide the financing and services they need to grow and prosper. Our experienced, knowledgeable bankers work closely with each client to determine their specific needs and offer innovative solutions. We offer a wide range of financial products and services including loan and lease financing, treasury and cash management, international trade services and even financial risk management, including interest rate, energy, foreign exchange and cattle hedging products. Growth in the commercial loan portfolio is evidence of our forte in middle market and small business lending. While our five year compound average growth rate is a strong 10%, the commercial loan portfolio grew 18% in 2005.

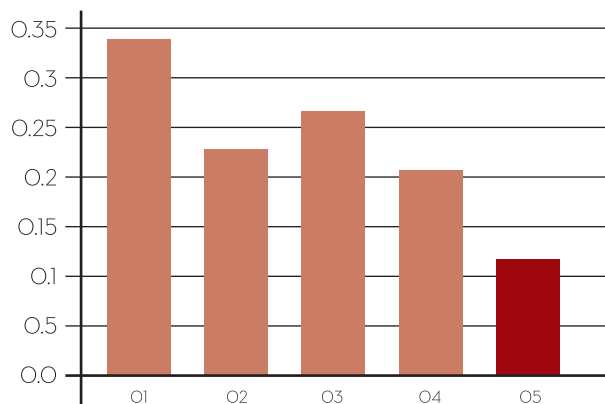
In 2005, we made an investment in technology to enhance our client service capabilities to allow us to more efficiently offer our full range of financial products and services. With our new sales force automation initiative, our bankers are in a better position to evaluate a client's financial needs, opportunities and profitability. This integrated system facilitates cross selling and enables predictive selling. Another important benefit of this initiative is that our bankers are spending less time in their offices at their computers and more time with existing and potential clients. Though we are just beginning to reap the benefits, the payoff is clear. In Oklahoma in 2005, commercial lending relationships with new clients were up 35% compared to the prior year.

As we have sought out new business, we have continued to uphold our conservative underwriting standards. Our centralized credit oversight is efficient and our well defined and consistently applied standards ensure the quality of the portfolio. While our five year average is more indicative of our long term commercial credit losses, in 2005, net chargeoffs decreased to 12 basis points while nonperforming assets decreased from 70 basis points in 2004 to 23 basis points.

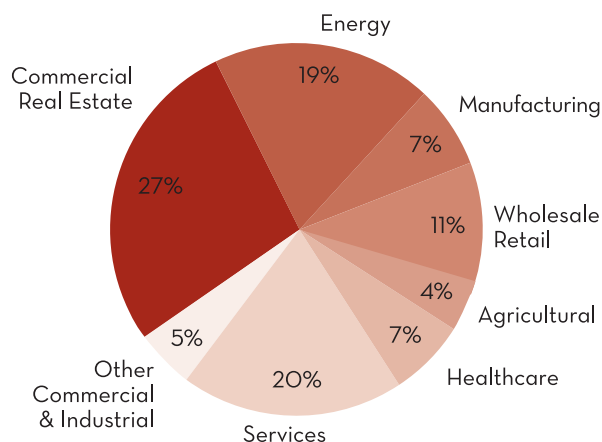
Commercial Loans in Billions



Commercial Net Charge-off Ratio

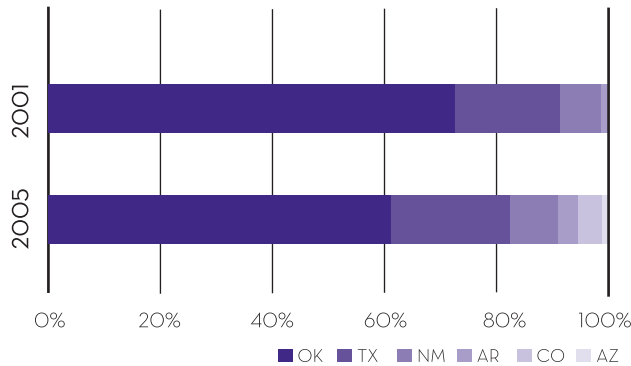


Commercial Loan Portfolio



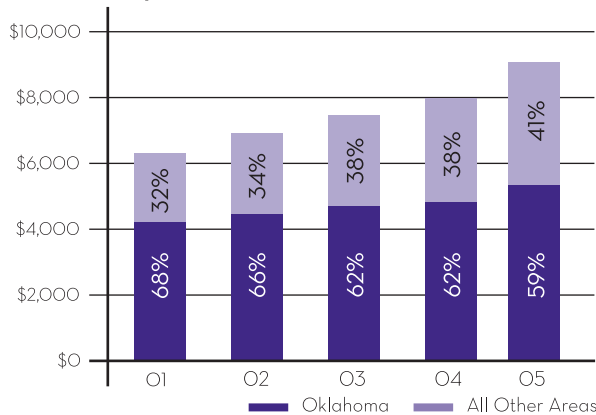


Revenues by State



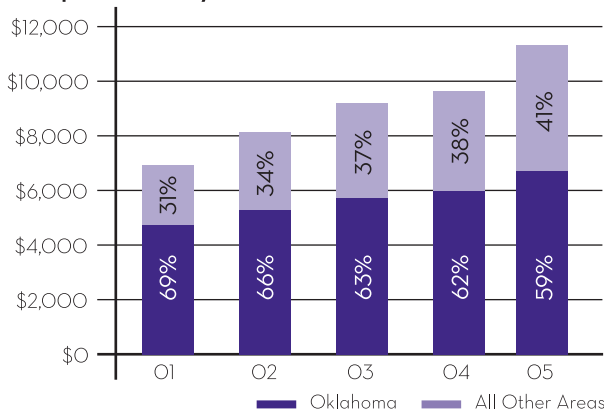
The core strategies for Regional Banking focus on developing and enhancing client relationships by providing highly qualified, empowered relationship managers that take a personal interest in their clients. While we centralize administrative and back office functions, we place a premium on maintaining local independence in client service areas. To execute our strategy for local growth, we seek out proven talent with tenure and influence. With the right people in the right markets, the results are outstanding - our five year compound annual growth rate is 19% for loans and 25% for deposits.

Regional Diversity - Loans by Market in Millions



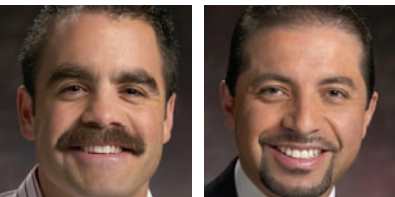
Our well established local management enables us to be responsive; our growing scale enables us to be increasingly efficient while offering a complete range of services. By delivering sophisticated products with a highly responsive personal touch, Regional Banking fueled over half of BOKF's growth in loans, deposits and earnings since 2001.

Regional Diversity - Deposits by Market in Millions



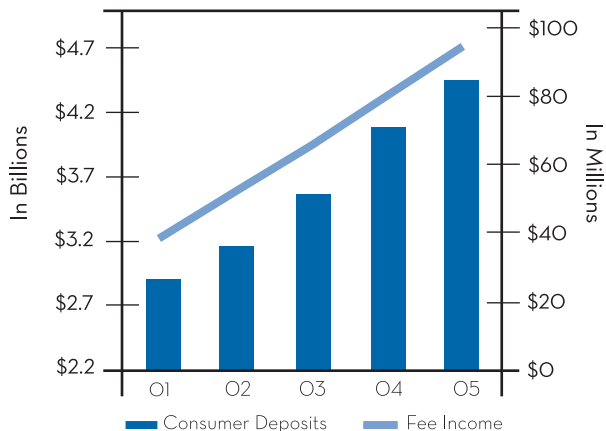
Beginning with our entry in Dallas, Texas in 1997, BOKF has carefully chosen dynamic new markets for expansion. Our loan and deposit portfolios are increasingly reflecting our geographic diversity. Markets outside Oklahoma fueled 60% of the growth in loans and deposits in 2005 and accounted for 41% of the portfolios at year end. Regional Banking's contribution to net income has grown from 28% in 2001 to 38% in 2005. During this period, gross revenue has grown at a compound annual rate of 21%. There are opportunities for significant growth in fee revenue as we continue to export our services in our newer markets.

Though organic growth continues to be our primary focus, we will continue to pursue acquisition opportunities in our footprint that would benefit our clients and shareholders. Of the \$6.4 billion in average assets outside Oklahoma, \$2.4 billion were acquired. Our disciplined acquisition approach and effective integration yield impressive returns. Bank of Albuquerque, N.A., acquired in 1998, generated a 21% return on invested capital in 2005, while Bank of Texas, N.A., which is far from maturity, generated 14%.



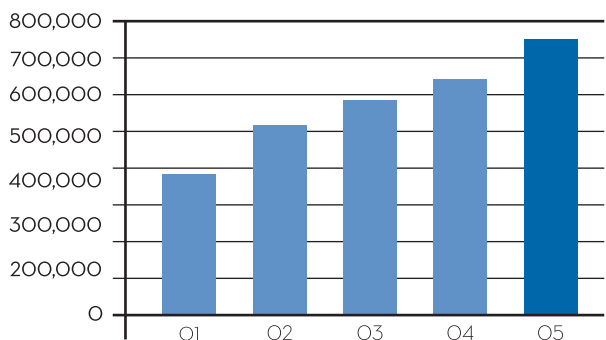
Consumer

Consumer Deposits & Fee Income



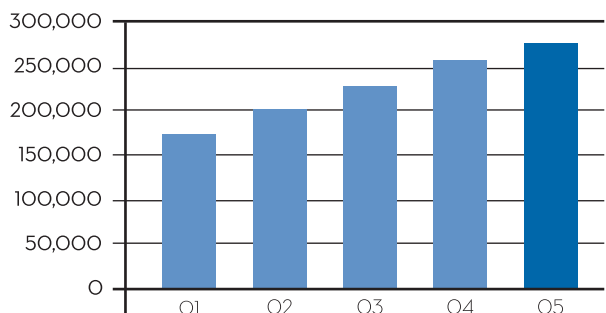
We value our clients and strive to deliver the best advice and service for each client's unique situation. The core of our Perfect Banking strategy, launched in 2001, is to create an exceptional client experience during each and every contact. The process includes a continuous training program centered on improvement and features a client profile designed to help identify needs that can be satisfied through an expanded relationship with our bank. The success of this program is demonstrated by the 26% compound annual growth rate over the last five years in sales points, which measure the profit contribution of new business. Helping our clients make the best possible financial decisions sets us apart from other transaction-focused retail banks.

Sales Points



Consumer Banking's vision strives to benefit each of our primary constituents; our clients receive quality assistance, our employees experience career growth and job satisfaction, and our shareholders gain from the ultimate result of increased profit. The results are exceptional. Since 2001, consumer deposits and fee income have grown at annual compound rates of 10% and 23%, respectively. Our footprint provides ample opportunity for this impressive growth to continue. Ten of the 28 counties we serve are among the 100 fastest growing counties in the United States as measured by numerical increase in population.

Number of Personal Checking Accounts



We understand that time and value are paramount to today's consumers so we offer more conveniences and benefits. In addition to free checking, our clients enjoy free online bill pay. Nearly 30% of our clients utilize our free online banking service while the number of bill pay users has increased five-fold since late 2003. Forty eight of our 137 branches are instore locations which are open extended hours. A client service representative is available 24 hours a day, 7 days a week at ExpressBank, our contact center. In 2005, ExpressBank celebrated its 10th year of continuous service, averaging 790,000 phone calls each month, 124,000 of which are handled by a live ExpressBanker located in one of our domestic offices.

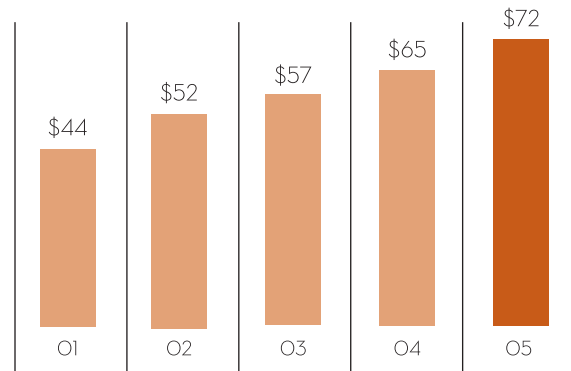


Transaction cards are a fundamental part of our client relationships. For over 25 years, TransFund, our electronic funds transfer network, has been offering integrated payment solutions to merchants and financial institutions. Merchant services, which includes revenue from processing card transactions for over 7,000 merchant locations, represents 35% of TransFund's 2005 revenue. Network revenue, which includes debit card support and processing for more than 360 financial institutions in 12 states, represents 43% of revenue while check card transaction revenue represents the remaining 22%. As the 10th largest ATM network, TransFund has over 1,400 ATMs conveniently located in financial institutions, grocery stores and convenience stores.

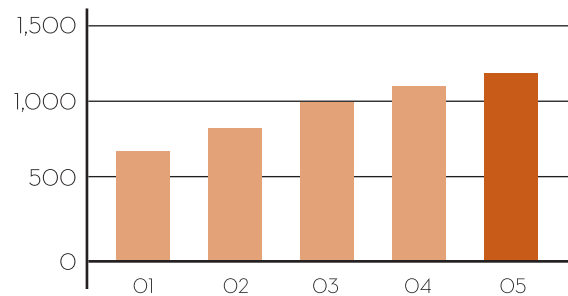
While TransFund's 16% five year compound annualized growth rate in transaction volume is partially attributed to the impressive growth in BOKF's deposit client base, much of it is due to our sales efforts to other financial institutions. The number of clients outside Oklahoma has increased 50% in the last five years. TransFund's 1.5 million cardholders throughout a 12 state area have come to rely on the red and white TransFund logo.

TransFund's 13% compound annualized revenue growth rate over the last five years is a direct result of our focus on client relationships. Though we do offer a cost advantage over the competition with our surcharge-free zones, it is our unparalleled reputation for quality service that attracts and maintains business. From the first contact to the on-site personalized training, our dedicated, knowledgeable EFT professionals, many of whom have more than 20 years of service with the company, guide financial institutions through the process of implementation and growth.

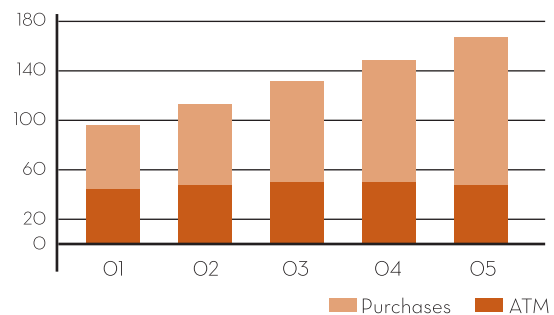
Transaction Card Revenue in Millions



Merchant Sales Processed in Millions



Transaction Volume in Millions





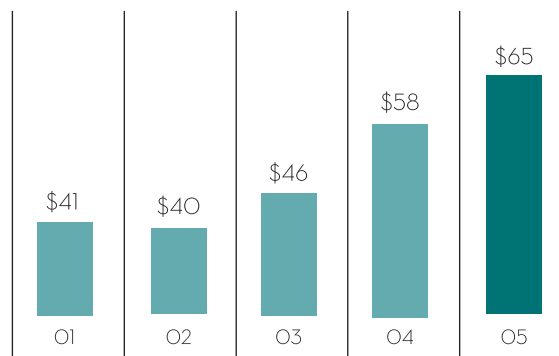
Wealth Management

BOKF's wealth management group provides a wide range of trust and private financial services to affluent individuals, businesses and non-profit agencies. Trust services include personal trust, estate and retirement planning, investment management, retirement and institutional benefits, and corporate trust as well as mineral and real estate management. Total trust assets grew 16% in 2005, totaling \$28 billion at year end, while discretionary assets grew 22% to \$11 billion.

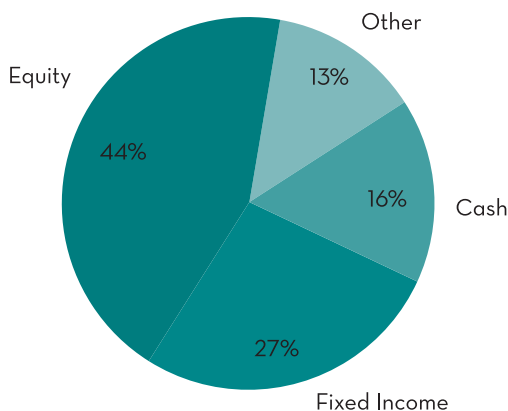
Our talented team of employees value the relationships we have with our clients and work very hard to find solutions to client needs instead of forcing a one-size-fits-all product. During 2005, this was best illustrated through the introduction of our wealth management investment team. The team is comprised of talented and experienced professionals from our brokerage, trust, investment management, and private financial services units. Their focus is to provide a broad and detailed set of unique solutions to ensure that each client has a financial advisory strategy that will achieve their stated goals and objectives. Our bankers strive to earn the role of "trusted advisor" to our clients by gaining their trust, providing useful, personalized advice and building relationships. Our success is reflected in the 13% increase in fee revenue.

BOKF's proprietary mutual fund family, the American Performance Funds, includes money market, equity and fixed income investment options. Four of our 13 funds rank in the top 10% of their Lipper peer groups for the calendar year 2005. The American Performance Intermediate Bond Fund was ranked #1 for the calendar year 2005 according to Lipper. During 2005, we began an initiative to expand our equity product offerings. We recently implemented a strategic effort to expand our distribution capabilities and increase assets under management in our mutual funds which grew 24% in 2005 to \$3.2 billion.

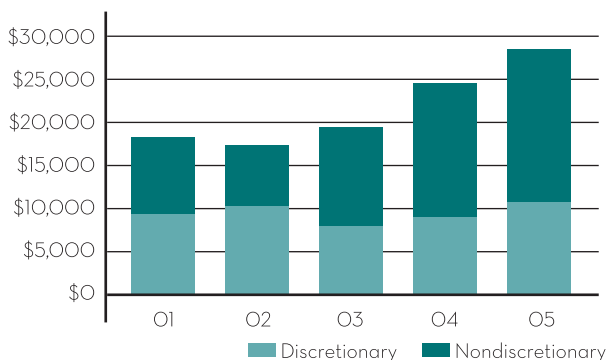
Trust Fees & Commissions in Millions

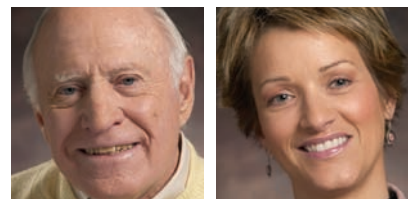


Composition of Trust Assets

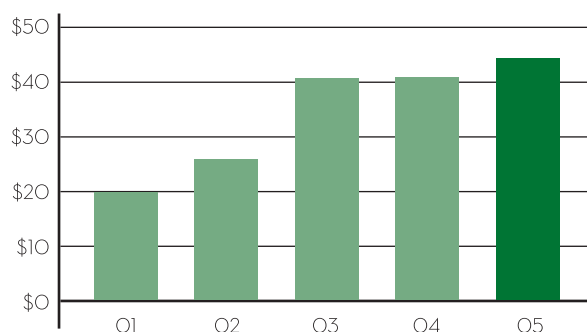


Trust Assets in Millions



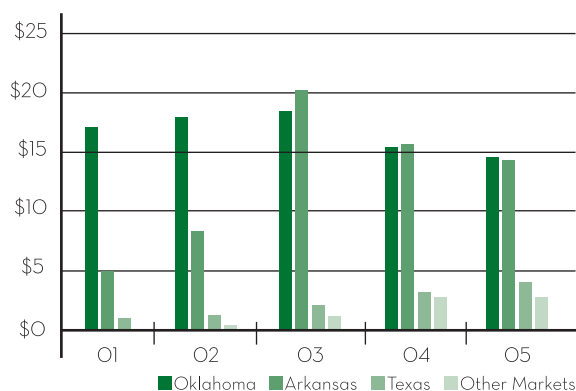


Brokerage and Trading Revenue in Millions



With 165 registered representatives in offices in 10 states, our tenured investment professionals provide institutional and retail sales, investment banking and financial risk management services with an unusually high degree of personal attention and industry knowledge. Our financial consultants average over 15 years of professional experience in the industry, which is more than 5 times the industry average. As a result, we are uniquely qualified to assist individual and corporate clients in reaching their financial goals.

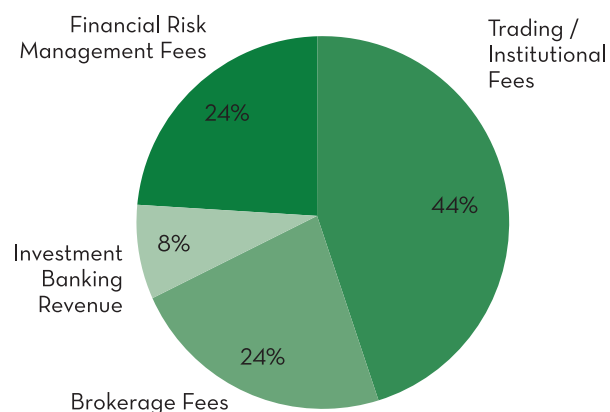
Retail/Institutional Sales by Market in Millions



By knowing our clients and their financial needs, we are able to provide a level of professional advice and counsel not found in other banks. Our investment professionals take a consultative approach, helping clients to select, preserve and grow assets according to their investment objectives. In 2005, we handled more than 240,000 transactions and traded in excess of \$145 billion in securities for more than 25,000 institutional and individual investors.

Our institutional sales professionals work closely with our commercial banking division to identify our clients' investment needs. We offer a complete line of investment products and services including bonds, commercial paper, bankers acceptances, portfolio accounting and pricing, safekeeping, analysis and educational workshops to our institutional clients which include corporations, insurance companies, foundations, pension funds, mutual funds, universities and investment advisors. Over the last five years, brokerage and trading revenue has grown at a compound annual rate of 24%.

Components of Revenue

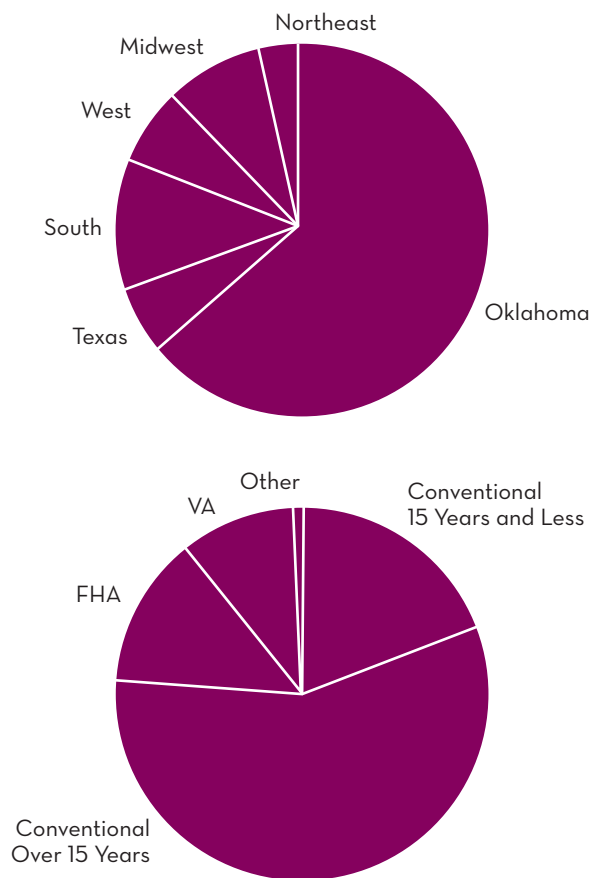


While always seeking to attract new clients, we value our existing relationships. In 2005, we created a team of three professionals who devote their efforts entirely to working with clients exiting benefit plans. Though an individual's employment with our client may end, his relationship with BOKF can continue.



Mortgage

Mortgage Servicing Portfolio



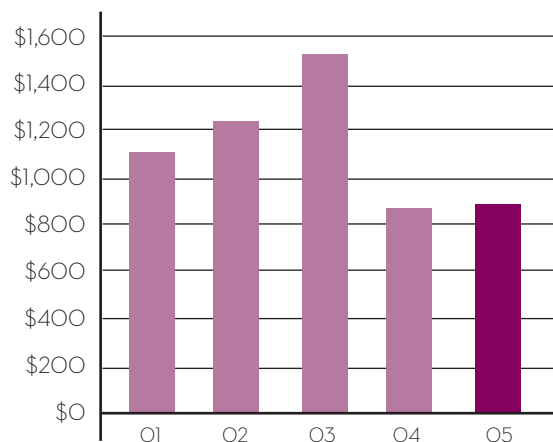
Our clients will make hundreds of important decisions during their lives, but few as significant as the purchase of a new home. With 15 mortgage offices in seven states, BOKF stands ready to guide buyers through the sometimes stressful and confusing process of financing a home. From the application through the servicing of the monthly payments, BOKF's focus is on client satisfaction.

BOKF's relationships continue after funding as we retain servicing rights on traditional mortgage products. We service traditional mortgage loans exceeding \$4 billion for over 50,000 very satisfied families. In 2005, BOKF's mortgage unit earned FHLMC's prestigious Tier 1 designation. The ranking is based on servicing efficiency and assistance provided to homeowners, including those struggling to avoid foreclosure. For the last five years, BOKF's annual delinquency rates have averaged over 100 basis points below the national delinquency rate reported by the Mortgage Bankers' Association.

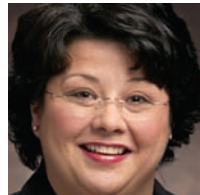
As with every product and service BOKF offers, the mortgage unit serves not only our clients, but our shareholders. Though the earnings volatility introduced by the mortgage unit presents short term challenges, BOKF manages for the long term return. The mortgage business is a significant contributor to fee income and because of its counter-cyclical nature, typically enjoys strong returns when other fee business slows. From a client service perspective, by retaining servicing rights we are able to ensure our clients will continue to receive the outstanding service they have come to expect from BOKF.

BOKF mortgage clients will be even better served in 2006 as we implement an initiative to integrate the mortgage unit into the Consumer Division's "Perfect Banking" experience. Our goal is to improve client service and increase bank-referred business.

Loan Originations in Millions



Community Development

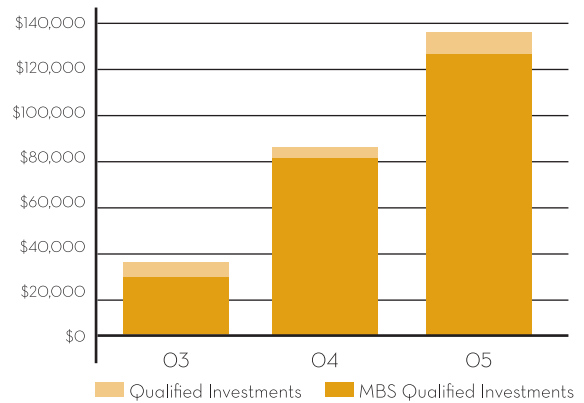


BOKF's dedication to the communities we serve is defined in our mission statement and is demonstrated in several ways in each of our markets. BOKF and its employees supported non-profit organizations with over \$2.7 million in charitable grants and donations. Our employees provide leadership on boards and committees of 250 non-profit agencies and community organizations and volunteer their time for over 1,000 events and programs.

In 2005, bank employees contributed more than 24,000 hours of community service. We read to inner-city school children in Oklahoma City; painted, mowed and trimmed trees for United Way agencies in Tulsa; and committed time and money to directly assist Hurricane Katrina victims taking shelter in Houston. Arkansas employees collected care package supplies for U.S. troops. In Albuquerque, our staff hosted a Spanish language call-in program for residents in need of financial services advice. Throughout our markets, employees conducted a literacy drive that collected more than 18,000 books for agencies that care for homeless and abused children and families. Through the course of these outreaches and our support of public and private endeavors, we will continue to carry on our mission of improving the quality of life in all our markets.

Through our innovative Adopt-An-Agency program, BOKF has partnered with key community-based organizations in all of our markets to drive product, investment and service alternatives that provide wealth creation and asset building opportunities for low-to-moderate income families and individuals. Our work with agencies such as Mercy Housing, Community Action Project of Tulsa County and Mosaic Family Services, has a direct and lasting impact on the communities where we live and work. At BOKF, we aim to do well and do good, all at the same time.

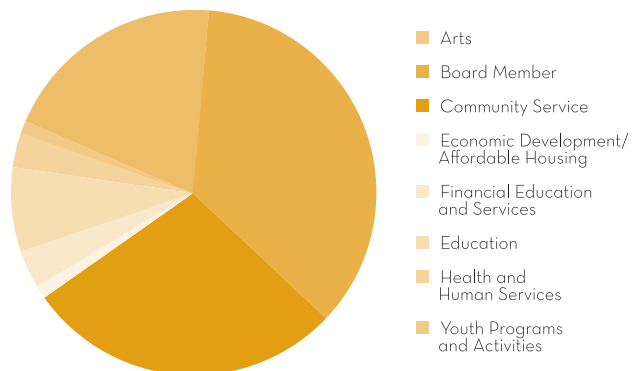
Community Development Investments in Thousands



Community Development Loans in Thousands



Community Service Hours



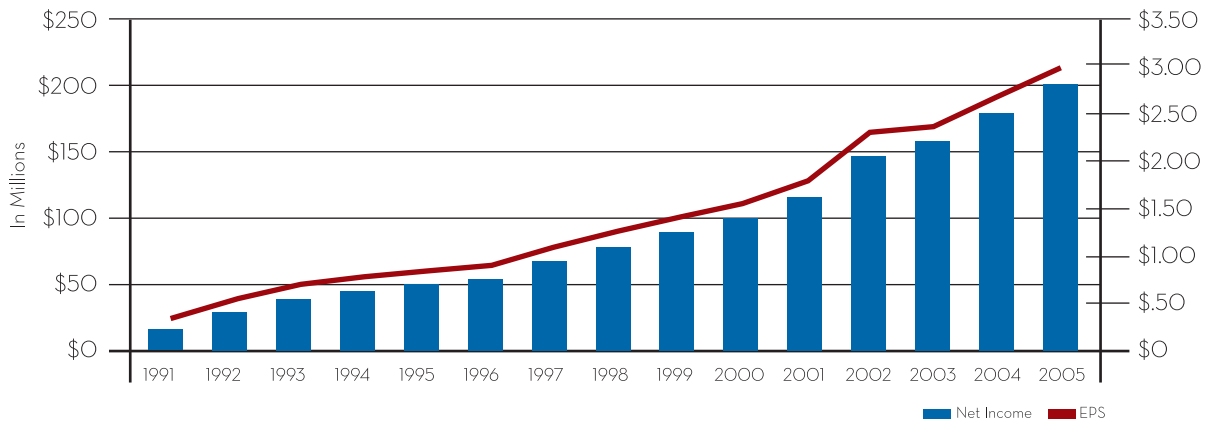


Positioned for a Successful Future

The depth and breadth of client relationships determine the growth and profitability of our company. BOKF's goal is to be our clients' lifelong financial resource fulfilling every need from consumer and commercial loans and deposit accounts to mortgage loans. As our clients' needs change, we stand ready to help them select, preserve and grow their assets. Our proven methods for generating new business and expanding services to existing clients produced solid results in 2005. For the 15th consecutive year, BOKF produced record earnings fueled by a combination of superior loan, deposit and fee revenue growth. As we reflect on the past year, we must once again thank our dedicated employees whose unwavering support for BOKF's values and implementation of our strategies is the core of our success story.

Relationships drive results and our investment in people is critical to meeting our long term objectives. As we look toward the future, our focus will remain on our relationships with our employees, our clients and the communities we serve, with the ultimate goal of all of our endeavors to build long term value for our shareholders. We'll continue to foster a working environment that promotes career development and rewards initiative, innovation, enthusiasm, team work and performance. We will continue to provide our clients with the highest quality products and services, keeping in mind their need for timeliness, convenience and flexibility. We will provide leadership in all of our communities for local and regional causes, encourage and support volunteerism among our employees and financially support key civic activities that are critical to the vitality of the community. By maintaining excellence in relationship banking, we will continue to create value for our shareholders.

Net Income and Earnings Per Share



Management's Discussion and Analysis

Table 1 Consolidated Selected Financial Data
(Dollars In Thousands Except Per Share Data)

	December 31,				
	2005	2004	2003	2002	2001
Selected Financial Data					
For the year:					
Interest revenue	\$ 769,934	\$ 614,284	\$ 565,173	\$ 574,913	\$ 654,633
Interest expense	320,593	191,041	173,678	205,581	325,159
Net interest revenue	449,341	423,243	391,495	369,332	329,474
Provision for credit losses	12,441	20,439	35,636	33,730	37,610
Net income	201,505	179,023	158,360	147,871	114,439
Period-end:					
Loans, net of reserve	9,036,102	7,820,349	7,369,105	6,797,132	6,206,190
Assets	16,252,907	14,145,660	13,595,598	12,263,233	11,158,701
Deposits	11,375,318	9,674,398	9,219,863	8,128,525	6,905,744
Subordinated debentures	295,964	151,594	154,332	155,419	186,302
Shareholders' equity	1,539,154	1,398,494	1,228,630	1,099,526	832,866
Nonperforming assets ²	33,638	56,423	59,867	56,574	50,708
Profitability Statistics					
Earnings per share (based on average equivalent shares):					
Basic	\$ 3.14	\$ 3.00	\$ 2.67	\$ 2.59	\$ 2.02
Diluted	3.01	2.68	2.38	2.30	1.81
Pro forma diluted earnings per share with FAS 142 and FAS 147	3.01	2.68	2.38	2.30	1.95
Percentages (based on daily averages):					
Return on average assets	1.29%	1.28%	1.24%	1.31%	1.12%
Return on average shareholders' equity	13.78	13.80	13.66	15.75	14.65
Average shareholders' equity to average assets	9.39	9.25	9.07	8.30	7.62
Common Stock Performance					
Per Share:					
Book value per common share ⁵	\$ 23.07	\$ 23.28	\$ 20.60	\$ 18.56	\$ 14.62
Market price: December 31 close	45.43	48.76	38.72	32.39	31.51
Market range – High close	49.31	49.18	41.02	36.52	32.75
– Low close	39.79	37.29	31.00	26.80	21.31
Selected Balance Sheet Statistics					
Period-end:					
Tier 1 capital ratio	9.84%	10.02%	9.15%	8.98%	8.08%
Total capital ratio	12.10	11.67	11.31	11.95	11.56
Leverage ratio	8.30	7.94	7.17	6.88	6.38
Reserve for loan losses to nonperforming loans	412.83	206.26	217.89	208.31	204.71
Reserve for loan losses to loans ¹	1.14	1.38	1.55	1.53	1.46
Combined reserves for credit losses to loans ^{1, 4}	1.37	1.61	1.73	1.72	1.66
Miscellaneous (at December 31)					
Number of employees (full-time equivalent)	3,825	3,548	3,449	3,402	3,392
Number of banking locations	150	149	142	130	114
Number of TransFund locations	1,421	1,389	1,442	1,390	1,325
Mortgage loan servicing portfolio ³	\$ 4,492,524	\$ 4,486,513	\$ 4,746,279	\$ 5,754,548	\$ 6,645,868

¹ Excludes residential mortgage loans held for sale.

² Includes nonaccrual loans, renegotiated loans and assets acquired in satisfaction of loans. Excludes loans past due 90 days or more and still accruing.

³ Includes outstanding principal for loans serviced for affiliates.

⁴ Includes reserve for loan losses and reserve for off-balance sheet credit losses.

⁵ Conversion of Series A preferred stock added 6.9 million common shares outstanding in 2005.

Management's Discussion and Analysis

Management's Assessment of Operations and Financial Condition

Overview

BOK Financial Corporation ("BOK Financial" or "the Company") is a financial holding company that offers full service banking in Oklahoma, Northwest Arkansas, Dallas and Houston, Texas, Albuquerque, New Mexico, Denver, Colorado, and Phoenix, Arizona. The Company also has commercial loan production, mortgage banking and institutional sales offices in the Kansas City market. BOK Financial was incorporated in 1990 in Oklahoma and is headquartered in Tulsa, Oklahoma. Activities are governed by the Bank Holding Company Act of 1956, as amended by the Financial Services Modernization Act or Gramm-Leach-Bliley Act. Principal subsidiaries are Bank of Oklahoma, N.A., Bank of Albuquerque, N.A., Bank of Arkansas, N.A., Bank of Texas, N.A., Colorado State Bank and Trust, N.A. and Bank of Arizona, N.A. Other subsidiaries include BOSCO, Inc., a broker/dealer that engages in retail and institutional securities sales and municipal bond underwriting.

Our overall strategic objective is to emphasize growth in long-term value by building on our leadership position in Oklahoma and expanding into high-growth markets in contiguous states. We have a solid position in Oklahoma and are the state's largest financial institution as measured by deposit market share. Since 1997, we have expanded into Dallas and Houston, Texas, Albuquerque, New Mexico, and Denver, Colorado. During 2005, we acquired Valley Commerce Bank (subsequently renamed Bank of Arizona, N.A.) in Phoenix, Arizona. We are currently exploring opportunities for further growth in our regional markets and expansion into the Kansas City market through acquisition or de novo banking operations.

Our primary focus is to provide a broad range of financial products and services, including loans and deposits, cash management services, fiduciary services, mortgage banking and brokerage and trading services to middle-market businesses, financial institutions and consumers. Our revenue sources are diversified. Approximately 43% of our revenue comes from commissions and fees.

Commercial banking is a significant part of our business. Our credit culture emphasizes building relationships by making high quality loans and providing a full range of financial products and services to our customers.

Our acquisition strategy targets quality organizations that have demonstrated solid growth in their business lines. We provide additional growth opportunities by hiring talent to enhance competitiveness, adding locations, and broadening product offerings. Our operating philosophy embraces local decision-making through the boards of directors for each of our bank subsidiaries.

BOK Financial operates five principal lines of business: Oklahoma corporate banking, Oklahoma consumer banking, mortgage banking, wealth management, and regional banking. Mortgage banking activities include loan origination and servicing across all markets served by the Company. Wealth management provides brokerage and trading, private financial services and investment advisory services in all markets. Wealth management also provides fiduciary services in all markets except Colorado. Fiduciary services in Colorado are included in regional banking. Regional banking consists primarily of corporate and consumer banking activities in the respective local markets.

Performance Summary

BOK Financial's net income for 2005 totaled \$201.5 million or \$3.01 per diluted share compared with \$179.0 million or \$2.68 per diluted share in 2004. Returns on average assets and shareholders' equity were 1.29% and 13.78%, respectively, for 2005 compared with 1.28% and 13.80%, respectively, for 2004.

Net income growth for 2005 was attributed primarily to increases in both net interest revenue and fees and commissions revenue, and a decrease in the provision for credit losses. Net interest revenue grew \$26.1 million or 6% during 2005 while fees and commissions revenue increased \$33.0 million or 11%. The provision for credit losses decreased \$8.0 million compared to the previous year.

Average earning assets increased \$1.0 billion for 2005, including an \$846 million increase in average outstanding loans. Outstanding loans increased in all of our primary markets. Much of the loan growth was focused in the commercial and commercial real estate portfolios. Growth in average earning assets was funded by a \$1.2 billion increase in interest-bearing liabilities. Average interest-bearing deposits increased \$839 million while short-term borrowings increased \$325 million. Growth in average deposits came primarily in the Texas, Oklahoma and Colorado markets. Consumer banking and personal financial services provided much of the increases. Growth in average interest-bearing liabilities also funded a \$198 million decrease in average demand deposits. Net interest margin was 3.39% for 2005, down 6 basis points from the previous year.

Management's Discussion and Analysis

Fees and commissions totaled \$345.6 million, which represented 43% of total revenue, excluding net securities and derivatives losses. Revenue grew in all business lines. Trust fees increased \$7.7 million or 13% due primarily to growth in the fair value of assets and new business generated. Transaction card revenue grew \$7.2 million or 11% due to transaction volumes. Other revenue increased \$7.9 million due largely to fees earned on margin assets carried in support of the Company's derivatives business.

Operating expenses increased \$279 million or 6% compared with 2004 due primarily to increased personnel and data processing costs. Personnel costs increased \$18.3 million as both total employment and average compensation per employee grew. Data processing expenses increased \$7.0 million, including \$3.5 million directly related to higher transaction card processing volumes.

Net income for the fourth quarter of 2005 totaled \$48.2 million or 72 cents per diluted share compared with \$46.6 million or 70 cents per diluted share for the fourth quarter of 2004. Net interest revenue grew \$9.9 million or 9% due to earning asset growth, partially offset by a 4 basis point reduction in net interest margin. Fees and commissions revenue increased \$11.1 million or 14% due primarily to trust fees, transaction card revenue and fees earned on margin assets. Operating expenses increased \$12.3 million or 11% due to higher personnel and data processing costs. Earnings for the fourth quarter of 2004 included an after-tax gain of \$2.5 million or 4 cents per diluted share from the sale of equity securities that had been acquired in prior years from a sale of a problem loan.

Critical Accounting Policies

Application of Critical Accounting Policies

Preparation of our consolidated financial statements is based on the selection of certain accounting policies, which requires management to make significant assumptions and estimates. The following discussion addresses the most critical areas where these assumptions and estimates could affect financial condition and results of operations. Application of these critical accounting policies and estimates has been discussed with the appropriate committees of the Board of Directors. No accounting standards with significant effects on our financial condition or results of operations were initially adopted in 2005.

Reserves for Loan Losses and Off-Balance Sheet Credit Losses

Reserves for loan losses and off-balance sheet credit losses are assessed by management based on an ongoing evaluation of the probable estimated losses inherent in the portfolio and probable estimated losses on unused commitments to provide financing. A consistent, well-documented methodology has been developed that includes reserves assigned to specific loans and commitments, general reserves that are based on a statistical migration analysis and nonspecific reserves that are based on analysis of current economic conditions, loan concentrations, portfolio growth and other relevant factors.

An independent Credit Administration department is responsible for performing this evaluation for all of our subsidiaries to ensure that the methodology is applied consistently.

All significant loans and commitments that exhibit weaknesses or deteriorating trends are reviewed quarterly. Specific reserves for impairment are determined through evaluation of estimated future cash flows and collateral values in accordance with Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for the Impairment of a Loan", regulatory accounting standards and other authoritative literature.

General reserves for commercial and commercial real estate loan losses, and related commitments, are determined primarily through an internally developed migration analysis model. The purpose of this model is to determine the probability that each credit relationship in the portfolio has an inherent loss based on historical trends. We use an eight-quarter aggregate accumulation of net losses as a basis for this model. Greater emphasis is placed on loan losses in more recent periods. A minimum reserve level is established for each loan grade based on long-term loss history. This model assigns a general reserve to all commercial loans and leases and commercial real estate loans, excluding loans that have a specific impairment reserve.

Separate models are used to determine the general reserve for residential mortgage loans, excluding residential mortgage loans held for sale, and consumer loans. General reserves for residential mortgage loans and consumer loans are based on a percent of loss experience for the preceding eight quarters. Separate migration factors are determined by major product line, such as indirect automobile loans and direct consumer loans.

Management's Discussion and Analysis

Nonspecific reserves are maintained for risks beyond those factors specific to a particular loan or those identified by the migration models. These factors include trends in the general economy in our primary lending areas, conditions in specific industries where we have a concentration, such as energy, real estate and agriculture, and overall growth in the loan portfolio. Evaluation of the nonspecific reserves also considers duration of the business cycle, regulatory examination results, potential errors in the migration analysis models and the underlying data, and other relevant factors. A range of potential losses is determined for each factor identified.

A separate reserve for off-balance sheet credit risk is maintained. The provision for credit losses includes 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 after funds are advanced against outstanding commitments and after the exhaustion of collection efforts.

Valuation and Amortization of Mortgage Servicing Rights

We have a significant investment in mortgage servicing rights. These rights are either purchased from other lenders or retained from sales of loans we have originated. Mortgage servicing rights are carried at the lower of amortized cost or fair value. Amortized cost and fair value are stratified by interest rate and loan type. A valuation allowance is provided when the net amortized cost of any strata exceeds the calculated fair value.

There is no active market for trading in mortgage servicing rights. We use a cash flow model to determine fair value. Key assumptions and estimates including projected prepayment speeds and assumed servicing costs, earnings on escrow deposits, ancillary income and discount rates, used by this model are based on current market sources. A separate third-party model is used to estimate prepayment speeds based on interest rates, housing turnover rates, estimated loan curtailment, anticipated defaults and other relevant factors. The prepayment model is updated daily for changes in market conditions. At least annually, we request estimates of fair value from outside sources to corroborate the results of the valuation model.

The assumptions used in this model are primarily based on mortgage interest rates. Evaluation of the effect of a change in one assumption must consider the effect on related assumptions to be meaningful. For

example, an increase in mortgage interest rates may decrease loan prepayment speeds, but may increase discount rates and escrow earnings rates. Considering the effects on all related assumptions, a 50 basis point increase in mortgage interest rates is expected to increase the fair value of our servicing rights by \$3.1 million. A 50 basis point decrease in mortgage interest rates is expected to decrease the fair value of our servicing rights by \$4.8 million.

Permanent impairment of mortgage servicing rights is evaluated quarterly. A strata is considered to be permanently impaired if the net amortized cost exceeds the calculated fair value assuming a 300 basis point increase in the applicable interest rates. We believe that a 300 basis point increase in mortgage interest rates reasonably represents changes that may occur under normal market conditions. The net amortized cost of the asset is reduced to the calculated fair value through a charge against the valuation allowance.

Prepayment assumptions also affect the amortization of mortgage servicing rights. Amortization is determined in proportion to the projected cash flows over the estimated life of each loan serviced. The same third party model that estimates prepayment speeds for determining the fair value of mortgage servicing rights determines the estimated life of each loan serviced.

Intangible Assets

Intangible assets, which consist primarily of goodwill, core deposit intangible assets and other acquired intangibles, for each business unit are evaluated for impairment annually or more frequently if conditions indicate that impairment may have occurred. The evaluation of possible impairment of intangible assets involves significant judgment based upon short-term and long-term projections of future performance.

The fair value of each of our business units is estimated by the discounted future earnings method. Income growth is projected over a five-year period for each unit and a terminal value is computed. The projected income stream is converted to current fair value by using a discount rate that reflects a rate of return required by a willing buyer.

At December 31, 2005, Bank of Texas had \$155 million or 66% of total goodwill and Colorado State Bank & Trust had \$42 million or 18% of total goodwill. Because of the large concentration of goodwill in these business units, the fair value determined by the discounted future earnings method was corroborated by comparison to the fair value of publicly traded banks of similar size and characteristics. No goodwill impairment was indicated by either valuation method.

Management's Discussion and Analysis

Intangible assets with finite lives, such as core deposit intangible assets, are amortized over their estimated useful lives. Such assets are reviewed for impairment whenever events indicate that the remaining carrying amount may not be recoverable.

Valuation of Derivative Instruments

We use interest rate derivative instruments to manage our interest rate risk. We also offer interest rate, commodity and foreign exchange derivative contracts to our customers. All derivative instruments are carried on the balance sheet at fair value. Fair values for exchange-traded contracts are based on quoted prices. Fair values for over-the-counter interest rate contracts used to manage our interest rate risk are provided either by third-party dealers in the contracts or by quotes provided by independent pricing services. Interest rate, commodity and foreign exchange contracts used in our customer hedging programs are based on valuations generated internally by a third-party provided pricing model. This model uses market inputs to estimate fair values. Changes in assumptions used in this pricing model could significantly affect the reported fair values of derivative assets and liabilities, though the net effect of these changes should not significantly affect earnings. Fair values determined by the internal model are corroborated by comparison against third-party dealer provided values.

Credit risk is considered in determining the fair value of derivative instruments. Deterioration in the credit rating of customers or dealers reduces the fair value of asset contracts. The reduction in fair value is recognized in earnings during the current period.

Income Taxes

Determination of income tax expense and related assets and liabilities is complex and requires estimates and judgments when applying tax laws, rules, regulations and interpretations. It also requires judgments as to future earnings and the timing of future events. Accrued income taxes represent an estimate of net amounts due to or from taxing jurisdictions based upon these estimates, interpretations and judgments.

We recognize the benefit of uncertain tax positions when, based upon all relevant evidence, it is more likely than not that our position would prevail upon audit. A reserve for the uncertain portion of the tax benefit is included in current accrued income taxes. This tax contingency reserve may reduce income tax expense in future periods if the uncertainty is favorably resolved, generally upon completion of an exami-

nation by the taxing authorities, expiration of a statute of limitations or changes in facts and circumstances. Additional income tax expense would be recognized from the adverse resolution of an uncertain tax position.

Pensions

The Company offers a defined-benefit, cash-balance pension plan to all employees who satisfy certain age and length of service requirements. Accounting for this plan requires management to make assumptions regarding the expected long-term rate of return on plan assets, the discount rate and the rate of future compensation increases. Changes in these assumptions affect pension liability and pension expense. Management, in consultation with independent actuaries, bases its assumptions on currently available information.

All plan assets are invested in the American Performance Balanced Fund. The expected long-term return on plan assets is based on this fund's life-to-date performance, adjusted for any known or expected changes in the fund's composition or objectives. The discount rate is based on current yields of high quality fixed income securities such as AA rated industrial and utility bonds. A 25 basis point decrease in the discount rate increases the pension liability by approximately \$1.4 million or 3% and pension expense by approximately \$300 thousand or 5%.

Stock-Based Compensation

Stock-based compensation consists of stock options and non-vested shares awarded to officers and employees of the Company. Awards may be granted on a discretionary basis as described in the employee stock option plan or as required by employment agreements and incentive compensation plans with certain executive officers. Accounting for stock-based compensation requires management to make assumptions regarding the valuation of financial instruments for which there are no readily available market values, achievement of specified performance conditions and expected forfeiture rates.

The majority of our stock options have graded vesting. One-seventh of the options awarded vest annually starting one year after the grant date. Options expire three years after vesting. Each tranche of these options is considered a separate award when determining fair value.

We use the Black-Scholes option pricing model. This model requires assumptions of expected volatility of our stock price and expected

Management's Discussion and Analysis

term between grant date and exercise date, along with other input to determine fair value. Expected volatility is based on historical changes in our stock price measured over a period that approximates the expected term of our stock options. Expected term and forfeitures are also based on historical trends. Information about assumptions used to value stock options can be found in Note 13 to the Consolidated Financial Statements. Non-vested shares, which cliff-vest five years after the grant date, are valued at the grant date market price for BOK Financial common stock.

Executive incentive plans and individual employment agreements include performance conditions that may increase or decrease the number of awards based on future events. Unrecognized compensation cost, which generally will be recognized as expense over the service period, based on the probable outcome of these conditions is \$12.7 million. Future compensation cost ranges from approximately \$7.4 million, if none of the performance conditions are met, to \$16.3 million if all of the performance conditions are met.

Assessment of Operations

Net Interest Revenue

Tax-equivalent net interest revenue totaled \$454.5 million for 2005 compared with \$428.3 million for 2004. Net interest revenue growth was driven primarily by a \$1.0 billion increase in average earning assets. Average outstanding loans increased \$846 million while average securities increased \$133 million. Growth in average earning assets was funded primarily by a \$1.2 billion increase in interest-bearing liabilities, partially offset by a \$198 million decrease in average demand deposit accounts. Table 2 shows the effects on net interest revenue of changes in average balances and interest rates for the various types of earning assets and interest-bearing liabilities.

Yields on average earning assets and rates paid on average interest-bearing liabilities both increased during 2005 due primarily to rising short-term interest rates. Net interest margin, the ratio of tax-equivalent net interest revenue to average earning assets, decreased to 3.39% in 2005 compared with 3.45% in 2004. The decrease in net interest margin reflected a flattened yield curve, the reduction in the difference between short-term and long-term interest rates, and asset spread compression.

Management's Discussion and Analysis

Table 2 Volume/Rate Analysis
(In Thousands)

	2005/2004			2004/2003		
	Change	Change Due To ¹		Change	Change Due To ¹	
		Volume	Yield/Rate		Volume	Yield/Rate
Tax-equivalent interest revenue:						
Securities	\$ 7,983	\$ 5,232	\$ 2,751	\$ 16,448	\$ 16,607	\$ (159)
Trading securities	141	(6)	147	(65)	(38)	(27)
Loans	146,735	50,282	96,453	32,525	28,878	3,647
Funds sold and resell agreements	934	475	459	72	(91)	163
Total	155,793	55,983	99,810	48,980	45,356	3,624
Interest expense:						
Transaction deposits	37,204	6,936	30,268	4,171	2,305	1,866
Savings deposits	131	(64)	195	31	(19)	50
Time deposits	28,632	10,101	18,531	8,302	4,288	4,014
Funds purchased and repurchase agreements	40,466	7,301	33,165	5,550	868	4,682
Other borrowings	16,513	(285)	16,798	1,025	(743)	1,768
Subordinated debentures	6,606	4,659	1,947	(1,716)	(110)	(1,606)
Total	129,552	28,648	100,904	17,363	6,589	10,774
Tax-equivalent net interest revenue	26,241	\$ 27,335	\$ (1,094)	31,617	\$ 38,767	\$ (7,150)
Decrease in tax-equivalent adjustment	(143)			131		
Net interest revenue	\$ 26,098			\$ 31,748		

	4th Qtr 2005/4th Qtr 2004		
	Change	Change Due To ¹	
		Volume	Yield/Rate
Tax-equivalent interest revenue:			
Securities	\$ 3,270	\$ 992	\$ 2,278
Trading securities	136	116	20
Loans	47,095	18,137	28,958
Funds sold and resell agreements	411	198	213
Total	50,912	19,443	31,469
Interest expense:			
Transaction deposits	13,296	3,847	9,449
Savings deposits	61	(10)	71
Time deposits	10,497	4,920	5,577
Funds purchased and repurchase agreements	9,517	504	9,013
Other borrowings	5,104	365	4,739
Subordinated debentures	2,754	2,044	710
Total	41,229	11,670	29,559
Tax-equivalent net interest revenue	9,683	\$ 7,773	\$ 1,910
Increase in tax-equivalent adjustment	241		
Net interest revenue	\$ 9,924		

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

Management's Discussion and Analysis

Management regularly models the effects of changes in interest rates on net interest revenue. Based on this modeling, we expect the effect of changes in interest rates on the Company's earnings to be neutral over a one-year forward-looking period. However, other factors may affect this general expectation. For example, throughout 2005 the spread between rates charged on loans and related funding sources narrowed due to competitive pressures. The result was that the loan portfolio's yield increased less than the increase in market interest rates. Additionally, we have a large portion of our securities portfolio in mortgage-backed securities. These securities reprice as cash flow received is reinvested at current market rates. The resulting change in yield of the securities portfolio occurs more slowly than changes in market rates. The tax-equivalent yield on the securities portfolio increased 6 basis points over 2004.

Our overall objective is to manage the Company's balance sheet to be essentially neutral to changes in interest rates. Approximately 71% of our commercial loan portfolio is either variable rate or fixed rate that will reprice within one year. These loans are funded primarily by deposit accounts that are either non-interest bearing, or that reprice more slowly than the loans. The result is a balance sheet that is asset sensitive, which means that assets generally reprice more quickly than liabilities. Among the strategies that we use to achieve a rate-neutral position, we purchase fixed rate, mortgage-backed securities and fund them with short-term borrowings. The average life of these securities is expected to be approximately 3.4 years based on a range of interest rate and prepayment assumptions. The funds borrowed to purchase these securities generally reprice within 90 days. The liability-sensitive nature of this strategy provides an offset to the asset-sensitive characteristics of our loan portfolio.

We also use derivative instruments to manage our interest rate risk. Interest rate swaps with a combined notional amount of \$684 million convert fixed rate liabilities to floating rate based on LIBOR. The purpose of these derivatives, which generally have been designated as fair value hedges, is to reduce the asset-sensitive nature of the balance sheet. Interest rate swaps with a notional amount of \$100 million convert prime-based loans to fixed rate. The purpose of these derivatives, which have been designated as cash flow hedges, also is to reduce the asset-sensitive nature of our balance sheet.

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 2 and in the interest rate sensitivity projections as shown in the Market Risk section of this report.

Fourth Quarter 2005 Net Interest Revenue

Tax-equivalent net interest revenue for the fourth quarter of 2005 totaled \$117.8 million compared with \$108.1 million for the fourth quarter of 2004. Average earning assets increased \$1.3 billion or 10%, including a \$1.1 billion increase in average loans outstanding. Growth in average earning assets was funded by a \$1.8 billion increase in interest-bearing liabilities, including a \$1.5 billion increase in average interest-bearing deposits. The increase in interest-bearing liabilities also funded a decrease in average demand deposits. Net interest margin was 3.34%, down 4 basis points from the fourth quarter of 2004 due to changes in the funding mix and spread compression.

Net interest margin for the fourth quarter of 2005 was reduced 3 basis points by \$299 million of average margin assets carried in support of our derivatives business. We were required to place margin collateral with counterparties as the fair value of our derivative liabilities increased due to volatile energy prices. Fees earned on these margin assets, which totaled \$3.4 million, are included in non-interest revenue while the related cost of funds is included in interest expense. Margin assets averaged \$126 million for the fourth quarter of 2004. Fees earned on these assets totaled \$756 thousand.

2004 Net Interest Revenue

Tax-equivalent net interest revenue for 2004 was \$428.3 million, a \$31.6 million or 8% increase from 2003. Average earning assets increased \$885 million or 8%, including a \$542 million increase in average outstanding loans. As shown in Table 2, net interest revenue increased \$38.8 million due to changes in earning assets and interest-bearing liabilities. Net interest revenue growth due to earning assets was partially offset by a \$7.2 million decrease due to changes in interest yields and rates. Changes in interest rates and yields include the narrowing of spreads due to competitive pressures and other market conditions.

Management's Discussion and Analysis

Other Operating Revenue

Other operating revenue increased \$38.1 million compared with last year due primarily to a \$33.0 million increase in fees and commission revenue. Other operating revenue for 2005 also included \$7.1 million of gains on asset sales. Diversified sources of fees and commission revenue are a significant part of our business strategy and represented 43% of total revenue, excluding gains and losses on asset sales, secu-

rities 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 new markets. However, increased competition and saturation in our existing markets could affect the rate of future increases.

Table 3 Other Operating Revenue

(In Thousands)

	Years ended December 31,				
	2005	2004	2003	2002	2001
Brokerage and trading revenue	\$ 44,222	\$ 41,107	\$ 41,152	\$ 26,290	\$ 19,974
Transaction card revenue	72,036	64,816	57,352	52,213	44,231
Trust fees and commissions	65,187	57,532	45,763	40,092	40,567
Service charges and fees on deposit accounts	98,361	93,712	82,042	67,632	51,284
Mortgage banking revenue	30,681	28,189	52,336	48,910	50,155
Other revenue	35,114	27,209	27,573	22,424	23,252
Total fees and commissions	345,601	312,565	306,218	257,561	229,463
Gain on sales of assets	7,061	887	822	1,157	557
Gain (loss) on securities, net	(6,895)	(3,088)	7,188	58,704	30,640
Gain (loss) on derivatives, net	1,179	(1,474)	(9,375)	5,236	(3,812)
Total other operating revenue	\$346,946	\$308,890	\$304,853	\$322,658	\$256,848

Fees and Commissions Revenue

Trust fees increased \$7.7 million or 13%. The fair value of all trust relationships overseen by the Company, which is the basis for a significant portion of trust fees, increased to \$28.5 billion at December 31, 2005 compared with \$24.6 billion at December 31, 2004. Approximately 31% of trust fees are earned on personal trust relationships. Additionally, 21% of trust fees are earned by providing employee benefit plan services and 20% are based on mutual fund activities.

Transaction card revenue increased \$7.2 million or 11%. Merchant discount fees and check card revenue increased 11% and 32%, respectively. Revenue growth from each of these activities was due to growth in transaction volume. Merchant locations serviced increased by 485 or 7%, including 179 new merchant locations in Arizona and Colorado. The number of check card transactions processed during 2005 increased 17% over 2004. ATM fees grew at 3% compared to 2004. As previously disclosed, the growth rate in ATM fees was expected to slow for 2005. One of our customers was purchased by another financial institution in 2004.

Service charges on deposit accounts increased \$4.6 million or 5% compared with 2004. Overdraft fees increased 16% to \$62.7 million while account service charge revenue decreased 12% to \$28.6 million. The volume of overdraft items processed increased in 2005. Additionally, the per item overdraft charge was increased in the second quarter of 2005. The decrease in service charge revenue reflected an increase in the earnings credit available to commercial deposit customers. The earnings credit, which provides a non-cash method for commercial customers to avoid incurring charges for deposit services, increases when interest rates rise.

Brokerage and trading revenue grew \$3.1 million or 8% compared with 2004. Revenue from customer hedging activities increased \$2.4 million, including \$2.1 million from energy hedging activities. Volatility in the energy markets during 2005 prompted our energy customers to more actively hedge their gas and oil production. Retail brokerage revenue increased \$742 thousand or 6% over 2004. Securities trading revenue was \$23.5 million, unchanged from the previous year.

Volatility in the energy markets increased the fair value of derivative assets and liabilities and required the Company to pledge margin

Management's Discussion and Analysis

assets to secure obligations. Fees earned on margin assets, which are recognized in other revenue, totaled \$7.1 million in 2005, compared with \$686 thousand in 2004.

Gains on Sales of Assets

The Company recognized net gains on asset sales of \$7.1 million in 2005, including \$4.8 million from the sale of its interest in an Oklahoma City office building and \$1.2 million from the sale of loans from the community development mortgage loan portfolio. In addition to a cash premium received on the loan sale, we retained both the right to service the loans and a recourse obligation to the purchaser for borrower defaults. A servicing asset of \$1.6 million and a recourse liability of \$888 thousand were recognized in conjunction with this sale.

Securities and Derivatives

Aggregate net losses on securities and derivatives totaled \$5.7 million in 2005 and \$4.6 million in 2004. Net losses on securities totaled \$6.9 million in 2005, consisting of losses of \$5.2 million on securities held as economic hedges of mortgage servicing rights and \$1.7 million on other securities. Net losses on securities held as an economic hedge included \$420 thousand of other-than-temporary impairment at December 31, 2005. The Company's use of securities as an economic hedge of mortgage servicing rights is more fully discussed in the Line of Business – Mortgage Banking section of this report. Other securities are bought and sold as necessary to maximize the portfolio's total return and to manage prepayment or extension risk.

Net gains on derivatives totaled \$1.2 million in 2005, including net gains of \$1.1 million from fair value adjustments of derivatives used to manage interest rate risk and related hedge liabilities. Additionally, net gains on derivatives included \$108 thousand of gains realized on derivatives used as an economic hedge of mortgage servicing rights. The Company's use of derivatives to manage interest rate risk is more fully discussed in the Deposits and Borrowings and Capital sections of this report.

Fourth Quarter 2005 Other Operating Revenue

Other operating revenue for the fourth quarter of 2005 totaled \$87.3 million, an \$8.6 million or 11% increase from 2004. Fees and commissions revenue increased \$11.1 million or 14%. All business lines contributed to this increase. Transaction card revenue, deposit fees and trust fees increased \$2.4 million, \$1.9 million and \$1.7 million, respectively. Other operating revenue included \$3.4 million of fees earned on margin assets.

2004 Other Operating Revenue

Other operating revenue totaled \$308.9 million for 2004, up \$4.0 million from 2003. Fees and commissions revenue increased \$6.3 million or 2%. Strong growth in trust fees, transaction card revenue and deposit fees was partially offset by lower mortgage banking revenue. Mortgage banking revenue decreased \$24.1 million due primarily to reduced loan refinancing activity.

Net losses on securities totaled \$3.1 million, including losses of \$4.9 million on securities held as economic hedges of mortgage servicing rights and gains of \$1.8 million on sales of other securities.

During 2004, the Company recognized net losses of \$1.3 million on derivatives used to manage interest rate risk and \$208 thousand on derivatives used as economic hedges of mortgage servicing rights. The Company designated derivatives as fair value hedges of certain brokered certificates of deposit and subordinated debt in 2004. Net losses recognized included fair value adjustments for both the derivatives and the hedged liabilities.

Other Operating Expense

Other operating expense for 2005 totaled \$469.1 million, a 6% increase from 2004. This increase resulted primarily from personnel and data processing expenses. Growth in personnel expenses was driven largely by employment growth and an increase in average compensation per employee. The increase in data processing expenses included both transaction volume and system maintenance costs.

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Table 4 Other Operating Expense

(In Thousands)

	Years ended December 31,				
	2005	2004	2003	2002	2001
Personnel expense	\$258,971	\$240,661	\$222,922	\$187,439	\$166,864
Business promotion	17,964	15,618	12,937	11,367	10,658
Contribution of stock to BOK Charitable Foundation	—	5,561	—	—	—
Professional fees and services	16,596	15,487	17,935	12,987	13,391
Net occupancy and equipment	50,195	47,289	45,967	42,347	42,764
Data processing and communications	67,026	60,025	53,398	45,912	39,763
Printing, postage and supplies	15,066	14,034	13,930	12,665	12,329
Net (gain) loss and operating expenses on repossessed assets	572	(4,016)	271	1,014	1,401
Amortization of intangible assets	6,943	8,138	8,101	7,638	20,113
Mortgage banking costs	14,562	18,167	40,296	42,271	30,261
Provision (recovery) for impairment of mortgage servicing rights	(3,915)	(1,567)	(22,923)	45,923	15,551
Other expense	25,126	21,827	20,604	19,991	18,968
Total	\$469,106	\$441,224	\$413,438	\$429,554	\$372,063

Personnel Expense

Personnel expense increased \$18.3 million or 8% to \$259.0 million. Regular compensation expense totaled \$162.7 million, a \$16.0 million or 11% increase over 2004. The increase in regular compensation expense was due to a 6% increase in average regular compensation per full-time equivalent employee and a 5% increase in average staffing.

Incentive compensation, which includes both cash-based and stock-based plans, decreased \$4.6 million or 8% to \$49.8 million. The Company offers numerous incentive compensation plans that are aligned with the Company's growth strategy. Cash settlements paid under these plans may be based on defined formulas, other performance criteria or discretionary. Incentive compensation is designed to motivate and reinforce sales and customer service behavior in all of our markets. Variations of the plans are used in targeted geographic markets and lines of business where exceptional growth potential is expected. The effectiveness of all plans and their alignment with the Company's objectives are reviewed annually with executive management. Incentive compensation expenses related to these cash-based plans increased \$2.0 million or 5%.

Stock-based compensation expense decreased \$6.6 million or 56%. The Company's stock-based compensation plans include both equity awards and liability awards. Compensation expense associated with liability award plans decreased \$8.4 million. This decrease reflected a decrease in the market value of BOK Financial common stock at December 31, 2005 compared with December 31, 2004, and a reduction in the number of executive officers of the Company eligible

to participate in liability award plans. Additional information about our stock-based compensation plans is provided in Note 13 to the Consolidated Financial Statements.

Employee benefit expenses increased \$5.8 million or 15% to \$43.6 million. Employee insurance costs increased \$2.6 million or 20% due primarily to growth in medical claims. The Company self-insures a portion of its employee health care coverage. Retirement benefit costs, which include both thrift and pension plan expenses, increased \$1.7 million or 16%.

During the fourth quarter of 2005, our Board of Directors approved modifications to both the thrift and pension plans. These modifications will become effective April 1, 2006. The purpose of these modifications is to provide retirement benefits that align with the Company's strategy of rewarding long-term, superior performance, that are easily understood and that increase employee ownership and control over their retirement. These modifications consist primarily of enhanced Company contributions to the thrift plans and curtailed benefit accruals to the pension plan. A charge of \$384 thousand was recognized in 2005 for the curtailment of the pension plan. The combined effects of these modifications are not expected to have a significant impact on future earnings or liquidity.

The Company will continue to have a funding obligation to the pension plan and will continue to recognize pension expense based on plan asset performance, discount rates and other factors. At December 31, 2005, prepaid pension expense totaled \$21.9 million, consisting of \$1.3 million of net plan assets in excess of liabilities and \$20.6 million of unrecognized actuarial losses. These losses will be recognized in future

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years based on the lesser of the average remaining service periods or 10 years. These unrecognized losses may also be increased or reduced by plan asset performance and discount rate changes.

Data Processing and Communications Expense

Data processing and communication expenses increased \$7.0 million or 12% compared to 2004. This expense consists of two broad categories, data processing systems and transaction card processing. Data processing systems costs increased \$3.5 million or 10% due primarily to increased maintenance and communications costs. Transaction card processing costs increased \$3.5 million or 15% due to growth in processing volumes. The number of transactions processed during 2005 increased 17% over 2004.

Other Operating Expenses

Business promotion expense increased \$2.3 million or 15% compared with last year. Promotional activities in support of consumer banking initiatives accounted for \$1.5 million of the increase.

Mortgage banking expenses, including provision for impairment of mortgage servicing rights, decreased \$6.0 million. These expenses are discussed more fully in the Line of Business – Mortgage Banking section of this report.

Fourth Quarter 2005 Operating Expenses

Operating expenses for the fourth quarter of 2005 totaled \$123.9 million, up 11% over the same period in 2004. Personnel costs increased \$6.5 million or 11%. Regular compensation expense increased \$4.7 million or 12% due to a 5% increase in average compensation per employee and a 7% increase in staffing. Data processing and communication expense grew \$2.9 million or 19% due to increases of \$1.5 million in data processing costs and \$1.4 million in transaction card processing costs. Both increases reflect growth in processing volumes.

2004 Operating Expenses

Operating expenses for 2004 totaled \$441.2 million, a 7% increase from 2003. This increase resulted primarily from personnel and data processing costs. Growth in personnel costs were driven largely by the Colorado State Bank & Trust acquisition and stock-based compensation costs. The increase in data processing costs included both transaction volume and system maintenance costs.

Personnel costs increased \$17.7 million or 8%. Regular compensation increased \$8.0 million or 6% due primarily to a 5% increase in average regular compensation per employee and a 1% increase in average staffing. Additionally, incentive compensation increased \$8.6 million, including a \$5.9 million increase in stock-based compensation. Much of this expense is related to stock-based compensation that is recognized as liability awards. Compensation expense for these awards is based on the excess of the fair value of BOK Financial common stock over a set exercise price.

Data processing and communication expenses increased \$6.6 million or 12%. Transaction card processing costs increased \$4.6 million or 25% due to processing volumes. Data processing systems costs increased \$2.0 million or 6% due primarily to maintenance costs.

BOK Financial contributed appreciated securities to the BOK Charitable Foundation during 2004. The Foundation supports communities in the markets served by the Company. The cost basis in these securities of \$5.6 million was charged to operating expense. The after-tax cost of these contributions reduced net income by \$1.1 million, or 2 cents per diluted share.

Business promotion expense increased \$2.7 million or 21% compared with last year. Promotional activities in support of consumer banking initiatives accounted for \$1.5 million of the increase. Much of the growth in promotional expenses was targeted at demand deposit growth through our consumer banking network.

Net gains from the sale of repossessed assets totaled \$4.0 million including \$3.8 million from the sale of stock acquired several years ago as partial proceeds of the sale of a troubled loan.

Income Taxes

Income tax expense was \$113.2 million for 2005, \$91.4 million for 2004 and \$88.9 million for 2003. This represented 36%, 34% and 36%, respectively, of book taxable income. Tax expense currently payable totaled \$112.7 million in 2005 compared with \$91.3 million in 2004 and \$82.6 million in 2003.

Income tax expense for 2004 was reduced by \$3.0 million due to the favorable resolution of state income tax issues and by \$2.4 million from the contribution of appreciated securities to the BOK Charitable Foundation. Excluding these items, income tax expense would have been \$96.9 million or 36% of book taxable income.

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Lines of Business

BOK Financial operates five principal lines of business: Oklahoma corporate banking, Oklahoma consumer banking, mortgage banking, wealth management and regional banking. Mortgage banking activities include loan origination and servicing across all markets served by the Company. Wealth management provides brokerage and trading, private financial services and investment advisory services in all markets. It also provides fiduciary services in all markets except Colorado. Fiduciary services in Colorado are included in regional banking. Regional banking consists primarily of corporate and consumer banking activities in the respective local markets. In addition to its lines of business, BOK Financial has a funds management unit. The primary purpose of this unit is to manage the overall liquidity needs and interest rate risk of the Company. Each line of business borrows funds from and provides funds to the funds management unit as needed to support their operations.

BOK Financial allocates resources and evaluates performance of its lines of business after allocation of funds, certain indirect expenses, taxes 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 90 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. Additional capital is assigned to the regional banking line of business based on our investment in those entities.

As shown in Table 6, regional banking continued to increase its contribution to consolidated net income. The growth of the regional banking segment is consistent with our corporate strategy of expansion into high growth markets outside of Oklahoma. The Oklahoma consumer banking unit's contribution to consolidated earnings increased significantly in 2005. Rising short-term interest rates increased the internal transfer pricing credit provided to units that generate lower-costing funds for the Company.

Table 6 Net Income by Line of Business
(In Thousands)

	Years ended December 31,		
	2005	2004	2003
Oklahoma corporate banking	\$ 73,625	\$ 61,956	\$ 57,631
Oklahoma consumer banking	24,183	11,854	8,928
Mortgage banking	2,182	2,681	28,401
Wealth management	17,890	13,587	14,517
Regional banking	77,344	57,706	41,673
Subtotal	195,224	147,784	151,150
Funds management and all other	6,281	31,239	7,210
Total	\$201,505	\$179,023	\$158,360

Oklahoma Corporate Banking

The Oklahoma Corporate Banking Division provides loan and lease financing and treasury and cash management services to businesses throughout Oklahoma and certain relationships in surrounding states. In addition to serving the banking needs of small businesses, middle market and larger customers, this division has specialized groups that serve customers in the energy, agriculture, healthcare and banking/finance industries, and includes TransFund, our electronic funds transfer network. The Oklahoma Corporate Banking Division contributed \$73.6 million or 37% to consolidated net income for 2005, including an after-tax gain of \$2.9 million from the sale of the Company's interest in an Oklahoma City office building. This compares to \$62.0 million or 35% of consolidated net income for 2004. Net interest revenue increased \$7.4 million or 6% due primarily to asset growth. Average assets attributed to this division, which consist primarily of commercial loans, increased \$249 million or 6% over 2004. Operating revenue grew \$6.2 million or 7%. TransFund provided \$3.1 million of the increase in operating revenue. Operating expenses, which consist primarily of personnel and data processing costs, increased 4%. Growth in net income also reflected a \$4.2 million decrease in net loan charge-offs.

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Table 7 Oklahoma Corporate Banking

(Dollars in Thousands)

	Years ended December 31,		
	2005	2004	2003
NIR (expense) from external sources	\$ 191,040	\$ 148,919	\$ 140,818
NIR (expense) from internal sources	(60,735)	(26,049)	(25,924)
Total net interest revenue	130,305	122,870	114,894
Other operating revenue	92,707	86,493	77,332
Gain on sale of assets	4,758	—	—
Operating expense	102,513	99,007	87,585
Net loans charged off	4,757	8,956	10,318
Net income	\$ 73,625	\$ 61,956	\$ 57,631
Average assets	\$4,629,400	\$4,380,491	\$4,106,441
Average economic capital	322,440	312,530	311,140
Return on assets	1.59%	1.41%	1.40%
Return on economic capital	22.83	19.82	18.52
Efficiency ratio	45.01	47.29	45.56

Oklahoma Consumer Banking

The Oklahoma Consumer Banking Division provides a full line of deposit, loan and fee-based services to customers throughout Oklahoma through four major distribution channels: traditional branches, supermarket branches, the 24-hour ExpressBank call center and the Internet. Additionally, the division is a significant referral source for the Bank of Oklahoma Mortgage Division ("BOK Mortgage") and BOSC's retail brokerage division. This division contributed \$24.2 million or 12% to consolidated net income for 2005. This compares to \$11.9 million or 7% of consolidated net income for 2004. Net interest revenue grew \$16.5 million or 36% compared with 2004 due primarily to an increase in the internal transfer pricing credit. Additionally, average deposits provided by the Oklahoma Consumer Banking Division grew \$158 million or 6%. Other operating revenue growth from 2004 resulted largely from check card revenue and overdraft fees.

During 2005, growth initiatives focused on building customer relationships through sales promotions, Perfect Banking sales and service standards and free on-line BillPay services. These initiatives resulted in a 6% increase in average consumer deposits, a 10% increase in checking accounts and a 54% increase in the number of on-line BillPay users. Oklahoma Consumer Banking Division also added one new supermarket location.

Table 8 Oklahoma Consumer Banking

(Dollars in Thousands)

	Years ended December 31,		
	2005	2004	2003
NIR (expense) from external sources	\$ (25,140)	\$ (19,061)	\$ (17,188)
NIR (expense) from internal sources	87,421	64,873	58,261
Total net interest revenue	62,281	45,812	41,073
Other operating revenue	66,266	56,611	47,229
Operating expense	84,336	76,057	66,798
Net loans charged off	4,632	6,964	6,892
Net income	\$ 24,183	\$ 11,854	\$ 8,928
Average assets	\$2,988,218	\$2,746,279	\$2,525,060
Average economic capital	69,810	64,390	58,000
Return on assets	0.81%	0.43%	0.35%
Return on economic capital	34.64	18.41	15.39
Efficiency ratio	65.61	74.26	75.65

Mortgage Banking

BOK Financial engages in mortgage banking activities through the BOK Mortgage Division of Bank of Oklahoma. These activities include the origination, marketing and servicing of conventional and government-sponsored mortgage loans. Mortgage banking activities contributed \$2.2 million to consolidated net income in 2005 compared to \$2.7 million in 2004. Net income for 2005 included \$753 thousand from the sale of mortgage loans from the Company's community development loan portfolio.

Mortgage banking activities consist of two sectors, loan production and loan servicing. The loan production sector generally performs best when mortgage rates are relatively low and loan origination volumes are high. Conversely, the loan servicing sector generally performs best when mortgage rates are relatively high and prepayments are low.

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Table 9 Mortgage Banking

(Dollars in Thousands)

	Years ended December 31,		
	2005	2004	2003
NIR (expense) from external sources	\$ 20,392	\$ 21,647	\$ 27,770
NIR (expense) from internal sources	(14,979)	(11,423)	(9,415)
Total net interest revenue	5,413	10,224	18,355
Capitalized mortgage servicing rights	17,402	11,365	23,922
Other operating revenue	16,427	22,055	36,379
Gain on sale of assets	1,232	—	—
Operating expense	35,315	35,415	58,204
Recovery for impairment of mortgage servicing rights	(3,915)	(1,567)	(22,923)
Gain (loss) on financial instruments, net	(5,087)	(5,068)	4,025
Net income	\$ 2,182	\$ 2,681	\$ 28,401
Average assets	\$526,224	\$559,034	\$623,823
Average economic capital	24,210	27,270	34,120
Return on assets	0.41%	0.48%	4.55%
Return on economic capital	9.01	9.83	83.24
Efficiency ratio	87.25	81.15	74.00

Loan Production Sector

Loan production revenue totaled \$17.6 million in 2005, including \$17.4 million of capitalized mortgage servicing rights, compared to loan production revenue of \$20.9 million in 2004, including \$11.4 million of capitalized mortgage servicing rights. Mortgage loans funded totaled \$910 million in 2005, including \$664 million for home purchases and \$246 million of refinanced loans. Mortgage loans funded in 2004 totaled \$893 million, including \$587 million for home purchases and \$306 million of refinanced loans. Approximately 69% of the loans funded during 2005 were in Oklahoma. Growth initiatives for the loan production sector include a program to hire experienced originators in markets outside of Oklahoma to boost production. Pre-tax income from loan production totaled \$5.6 million for 2005 compared with \$6.7 million for the previous year end. The pipeline of mortgage loan applications totaled \$233 million at December 31, 2005, compared to \$189 million at December 31, 2004.

Loan Servicing Sector

The loan servicing sector had a pre-tax loss of \$3.2 million for 2005 compared to a pre-tax loss of \$4.3 million for the same period of

2004. Operating results of the loan servicing sector are greatly affected by the effect of changes in interest rates on prepayment speeds and the value of mortgage servicing rights. Mortgage interest rates changed little during 2005. In this rate environment, the fair value of our mortgage servicing rights appreciated modestly. The resulting recovery of provision for mortgage servicing rights was \$3.9 million in 2005, compared with a provision recovery of \$1.6 million in 2004.

Servicing revenue totaled \$16.3 million in 2005 compared to \$17.8 million in 2004. The decrease in servicing revenue was due primarily to a lower outstanding principal balance of loans serviced. The average outstanding balance of loans serviced for others was \$3.6 billion during 2005 compared to \$3.9 billion during 2004. The decrease in loans serviced reflected our decision to curtail purchases of mortgage loan servicing outside our market area. Servicing revenue per outstanding loan principal was 42 basis points in 2005 compared with 45 basis points in 2004. Approximately 80% of loans serviced was in our primary market areas at December 31, 2005 and December 31, 2004.

Subsequent to December 31, 2005, we agreed to purchase a \$480 million mortgage loan servicing package for approximately \$7 million. Substantially all of the loans are within our primary market area. This purchase is expected to close by the end of the first quarter of 2006.

Amortization of mortgage servicing rights, which is included in operating expense, was \$12.9 million in 2005 compared to \$15.8 million in 2004. Amortization expense is determined in proportion to the estimated future cash flows that will be generated by the mortgage servicing rights. The decrease in amortization expense in 2005 reflected an expectation of slower loan prepayment speeds.

The valuation allowance for impairment of mortgage servicing rights totaled \$7 million at December 31, 2005 compared to \$14 million at December 31, 2004. Increased fair value of our servicing rights was the primary reason for the reduction in the valuation allowance. The valuation allowance was also reduced by \$2.4 million from the charge-off of servicing rights determined to be permanently impaired. As discussed in the Critical Accounting Policies section of this report, servicing rights are considered to be permanently impaired if the fair value does not exceed amortized costs after assuming a 300 basis point increase in mortgage interest rates. Note 8 to the Consolidated Financial Statements presents additional information about the fair value and amortized costs of servicing rights and valuation allowance.

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BOK Financial designates a portion of its securities portfolio as an economic hedge against the risk of loss on its mortgage servicing rights. Mortgage-backed securities and U.S. government agency debentures are acquired and held as available for sale when prepayment risks exceed certain levels. Additionally, mortgage-related derivative contracts may also be designated as an economic hedge of the risk of loss on mortgage servicing rights. Because the fair values of these instruments are expected to vary inversely to the fair value of the servicing rights, they are expected to partially offset risk. However, no special hedge accounting treatment is applicable to either the mortgage servicing rights or the financial instruments designated as an economic hedge. Derivative contracts used to hedge mortgage servicing rights are carried at fair value with changes in fair value recognized in earnings. We recognized net losses of \$1.2 million in 2005 and \$3.5 million in 2004 from changes in the value of mortgage servicing rights and economic hedging activities.

This hedging strategy presents certain risks. A well-developed market determines the fair value for the securities and derivatives. However, there is no comparable market for mortgage servicing rights. Therefore, the computed change in value of the servicing rights for a specified change in interest rates may not correlate to the change in value of the securities.

At December 31, 2005, financial instruments with a fair value of \$49 million and an unrealized gain of \$52 thousand were held for the economic hedge program. This unrealized gain, net of income taxes, is included in shareholders' equity as part of other comprehensive income. The interest rate sensitivity of the mortgage servicing rights and securities held as a hedge is modeled over a range of +/- 50 basis points. At December 31, 2005, the pre-tax results of this modeling on reported earnings are shown in Table 10:

**Table 10 Interest Rate Sensitivity –
Mortgage Servicing**

(Dollars in Thousands)

	50 bp Increase	50 bp Decrease
Anticipated change in:		
Fair value of mortgage servicing rights	\$3,113	\$(4,763)
Fair value of hedging securities	(1,915)	2,112
Net	\$1,198	\$(2,651)

Table 10 shows the non-linear effect of changes in mortgage commitment rates on the value of mortgage servicing rights. A 50 basis

point increase in rates is expected to increase value by \$3.1 million while a 50 basis point decrease is expected to reduce value by \$4.8 million. This considers that there is an upper limit to appreciation in the value of servicing rights as rates rise due to the contractual repayment terms of the loans and other factors. There is much less of a limit on the speed at which mortgage loans may prepay in a declining rate environment.

Wealth Management

BOK Financial provides a wide range of financial services through its wealth management line of business, including trust and private financial services, and brokerage and trading activities. This line of business includes the activities of BOSCO, Inc., a registered broker / dealer. Trust and private financial services includes sales of institutional, investment and retirement products, loans and other services to affluent individuals, businesses, not-for-profit organizations, and governmental agencies. Trust services are provided primarily to clients throughout Oklahoma, Texas and New Mexico. Additionally, trust services include a nationally competitive, self-directed 401(k) program and administrative and advisory services to the American Performance family of mutual funds. Brokerage and trading activities within the wealth management line of business consist of retail sales of mutual funds, securities, and annuities, institutional sales of securities and derivatives, bond underwriting and other financial advisory services. Customer hedging programs were combined into the Wealth Management Division in 2005. Prior years' results have been reclassified for consistency.

Wealth Management contributed \$17.9 million or 9% to consolidated net income for 2005. This compared to \$13.6 million or 8% of consolidated net income for 2004. Trust and private financial services provided \$15.6 million of net income in 2005, a \$4.9 million or 46% increase over 2004. The increased contribution by trust and private financial services is attributable primarily to trust fees. At December 31, 2005 and 2004, the wealth management line of business was responsible for trust assets with aggregate market values of \$26.0 billion and \$22.6 billion, respectively, under various fiduciary arrangements. The growth in trust assets reflected increased market value of assets managed in addition to new business generated during the year. We have sole or joint discretionary authority over \$10.0 billion of trust assets at December 31, 2005 compared to \$8.2 billion of trust assets at December 31, 2004. The fair value of assets held in custody

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by the Wealth Management Division increased \$1.6 billion or 33% while the fair value of non-managed assets remained unchanged at \$9.4 billion.

Brokerage and trading activities provided \$2.3 million of net income in 2005 compared to \$2.9 million in the previous year. Operating revenue increased \$1.5 million or 4% due primarily to customer hedging programs. Operating expenses, which consisted primarily of compensation expense, increased \$2.1 million or 5%.

Table 11 Wealth Management

(Dollars in Thousands)

	Years ended December 31,		
	2005	2004	2003
NIR (expense) from external sources	\$ 5,651	\$ 4,001	\$ 1,966
NIR (expense) from internal sources	11,208	8,888	8,939
Total net interest revenue	16,859	12,889	10,905
Other operating revenue	100,647	93,193	93,757
Operating expense	88,001	83,784	80,512
Net income	\$ 17,890	\$ 13,587	\$ 14,517
Average assets	\$1,503,886	\$1,122,147	\$875,661
Average economic capital	106,040	84,820	69,690
Return on assets	1.19%	1.21%	1.66%
Return on economic capital	16.87	16.02	20.83
Efficiency ratio	74.89	78.98	76.93

Regional Banking

Regional banking consists primarily of the corporate and commercial banking services provided by Bank of Texas, Bank of Albuquerque, Bank of Arkansas, Colorado State Bank and Trust and Bank of Arizona in their respective markets. It also includes fiduciary services provided by Colorado State Bank and Trust. Small businesses and middle-market corporations are the regional banks' primary customer focus. Regional banking contributed \$77.3 million or 38% to consolidated net income during 2005. This compares with \$57.7 million or 32% of consolidated net income in 2004. Growth in net income contributed by regional banking came primarily from operations in Texas and New Mexico. Net income for 2005 in Texas and New Mexico increased \$10.6 million and \$6.0 million, respectively, from the previous year. Net income from our Colorado operations grew \$2.5 million or 152% over 2004.

Texas growth resulted from an increase in net interest revenue. Net interest revenue increased \$21.6 million or 19%. Average earning assets increased \$274 million, including \$293 million of loans partially offset by a reduction in securities and funds sold to the funds management unit. The growth in average earning assets was funded by a \$115 million increase in interest-bearing deposits and a \$77 million increase in demand deposits. Company initiatives to support loan growth included hiring additional middle market lending talent in Houston and expanding the energy lending staff in both Houston and Dallas. Operating expenses increased \$8.6 million or 12% due primarily to a \$6.5 million increase in personnel costs.

Net income growth from our New Mexico operations was also based largely on an increase in net interest revenue, combined with an increase in operating revenue. Average loans increased \$62 million compared with 2004 while average funds sold to the funds management unit decreased \$82 million. Average deposits in the New Mexico market grew \$74 million, including \$59 million of interest-bearing deposits and \$16 million of demand deposits. Over 15 thousand new consumer checking accounts were opened during 2005. Funds provided by the growth in deposits reduced average external borrowings. The increase in operating revenue was due primarily to growth in deposit fees and check card revenue.

Expansion efforts in the Colorado region continued during 2005. Commercial lending staff was added throughout the year. Additionally, a new office which offers trust products in Salt Lake City, Utah, was opened during the second quarter. The result of these efforts was net income from our Colorado operations of \$4.1 million, a 152% increase in its second full year of operations as a BOK Financial unit. Average earning assets attributed to our Colorado operations increased 36% due primarily to loan growth. Average deposits increased \$128 million or 40%. These factors combined to increase net interest revenue \$6.5 million or 39%. Other operating revenue increased \$1.6 million or 19% due primarily to growth in trust fees. The fair value of trust assets managed by Colorado State Bank and Trust was \$2.4 billion at December 31, 2005, a 20% increase from December 31, 2004. Net loans charged-off increased to \$2.5 million in 2005 from the resolution of several commercial lending relationships that pre-dated our acquisition of Colorado State Bank and Trust.

Bank of Arizona incurred a net loss of \$524 thousand since its acquisition in April, 2005. Operating expense included \$778 thousand of core deposit premium amortization expense. Our policy is to amortize core deposit premiums over the expected lives of the acquired

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deposits using an accelerated amortization method. The weighted average life of the acquired deposits is approximately five years. Operating expense also included \$380 thousand of recruiting expenses as we add professional staff. In the nine months since acquisition, Bank of Arizona has been converted to our data processing

systems which increased the scope of products and services offered in the Phoenix market. Outstanding loans increased \$70 million or 55%. We recently opened a loan production office in Tucson to further expand our Arizona operations.

Table 12 Bank of Texas

(Dollars in Thousands)

	Years ended December 31,		
	2005	2004	2003
NIR (expense) from external sources	\$ 148,021	\$ 120,813	\$ 106,617
NIR (expense) from internal sources	(10,809)	(5,206)	(5,068)
Total net interest revenue	137,212	115,607	101,549
Other operating revenue	24,053	22,406	21,951
Operating expense	82,189	73,548	78,152
Net loans charged off	2,727	3,928	4,301
Net income	\$ 49,946	\$ 39,388	\$ 26,601
Average assets	\$3,417,995	\$3,143,625	\$2,859,069
Average economic capital	182,640	168,430	166,870
Average invested capital	349,720	335,520	333,960
Return on assets	1.46%	1.25%	0.93%
Return on economic capital	27.35	23.39	15.94
Return on average invested capital	14.28	11.74	7.97
Efficiency ratio	50.97	53.29	63.28

Table 13 Bank of Albuquerque

(Dollars in Thousands)

	Years ended December 31,		
	2005	2004	2003
NIR (expense) from external sources	\$ 58,208	\$ 46,888	\$ 42,128
NIR (expense) from internal sources	(10,560)	(5,065)	(4,362)
Total net interest revenue	47,648	41,823	37,766
Other operating revenue	17,367	14,701	11,533
Operating expense	31,195	31,904	30,385
Net loans charged off	930	1,471	1,326
Net income	\$ 20,096	\$ 14,144	\$ 10,919
Average assets	\$1,633,310	\$1,652,557	\$1,551,192
Average economic capital	76,560	73,270	66,070
Average invested capital	95,650	92,360	85,160
Return on assets	1.23%	0.86%	0.70%
Return on economic capital	26.25	19.30	16.53
Return on average invested capital	21.01	15.31	12.82
Efficiency ratio	47.98	56.44	61.63

Table 14 Bank of Arkansas

(Dollars in Thousands)

	Years ended December 31,		
	2005	2004	2003
NIR (expense) from external sources	\$ 12,055	\$ 9,046	\$ 8,700
NIR (expense) from internal sources	(3,918)	(2,170)	(2,148)
Total net interest revenue	8,137	6,876	6,552
Other operating revenue	2,063	1,394	1,205
Operating expense	4,018	4,115	3,894
Net loans charged off	52	(26)	661
Net income	\$ 3,745	\$ 2,555	\$ 1,957
Average assets	\$268,307	\$273,700	\$288,030
Average economic capital	11,900	11,450	10,720
Average invested capital	11,900	11,450	10,720
Return on assets	1.40%	0.93%	0.68%
Return on economic capital	31.47	22.31	18.26
Return on average invested capital	31.47	22.31	18.26
Efficiency ratio	39.39	49.76	50.20

Table 15 Colorado State Bank and Trust

(Dollars in Thousands)

	Years ended December 31,		
	2005	2004	2003
NIR (expense) from external sources	\$ 35,299	\$ 24,034	***
NIR (expense) from internal sources	(12,059)	(7,312)	***
Total net interest revenue	23,240	16,722	***
Other operating revenue	10,136	8,516	***
Operating expense	24,179	22,455	***
Net loans charged off	2,517	134	***
Net income	\$ 4,081	\$ 1,619	***
Average assets	\$873,805	\$684,329	***
Average economic capital	47,070	27,560	***
Average invested capital	89,050	69,550	***
Return on assets	0.47%	0.24%	***
Return on economic capital	8.67	5.87	***
Return on average invested capital	4.58	2.33	***
Efficiency ratio	72.44	88.97	***

*** Data not meaningful due to acquisition of Colorado State Bank and Trust in September 2003.

Management's Discussion and Analysis

Table 16 Bank of Arizona

(Dollars in Thousands)

	Years ended December 31,		
	2005	2004	2003
NIR (expense) from external sources	\$ 10,690	***	***
NIR (expense) from internal sources	(3,992)	***	***
Total net interest revenue	6,698	***	***
Other operating revenue	1,100	***	***
Operating expense	8,828	***	***
Net loans charged off	(31)	***	***
Net loss	\$ (524)	***	***
Average assets	\$227,081	***	***
Average economic capital	6,830	***	***
Average invested capital	23,480	***	***
Return on assets	(0.23)%	***	***
Return on economic capital	(7.67)	***	***
Return on average invested capital	(2.23)	***	***
Efficiency ratio	113.21	***	***

*** Data not applicable due to acquisition of Bank of Arizona in April 2005.

Assessment of Financial Condition

Securities

BOK Financial maintains a securities portfolio to support its interest rate risk management strategies, provide liquidity and profitability

and comply with regulatory requirements. Securities are classified as either held for investment or available for sale. Investment securities, which consist primarily of Oklahoma municipal bonds, are carried at cost and adjusted for amortization of premiums or accretion of discounts. Management has the ability and intent to hold these securities until they mature. 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 at December 31, 2005 increased \$317 million compared with the previous year-end. Mortgage-backed securities increased \$293 million and represented 97% of total available for sale securities. The increase in securities reflected an increase in available funds due to strong deposit growth during 2005. As previously discussed in the Net Interest Revenue section of this report, we hold mortgage-backed securities as part of our overall interest rate risk management strategy.

The 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. The expected duration of the mortgage-backed securities portfolio was 2.8 years at December 31, 2005. Management estimates that the expected duration would extend to 3.3 years assuming a 300 basis point immediate rate shock.

Table 17 Securities

(Dollars in Thousands)

	December 31,					
	2005		2004		2003	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment:						
U.S. Treasury	\$ 1,994	\$ 1,976	\$ —	\$ —	\$ —	\$ —
Municipal and other tax-exempt	240,359	238,649	216,986	218,465	184,192	187,354
Mortgage-backed U.S. agency securities	—	—	1,287	1,336	2,296	2,418
Other debt securities	2,772	2,781	2,821	2,835	1,463	1,484
Total	\$ 245,125	\$ 243,406	\$ 221,094	\$ 222,636	\$ 187,951	\$ 191,256
Available for sale:						
U.S. Treasury	\$ 16,037	\$ 15,827	\$ 27,119	\$ 27,062	\$ 44,679	\$ 45,424
Municipal and other tax-exempt	17,153	17,078	414	404	3,271	3,257
Mortgage-backed securities:						
U.S. agencies	3,507,047	3,424,356	3,067,611	3,052,375	3,514,158	3,518,926
Other	1,277,161	1,250,701	1,423,613	1,418,770	845,430	848,911
Total mortgage-backed securities	4,784,208	4,675,057	4,491,224	4,471,145	4,359,588	4,367,837
Other debt securities	124	124	515	528	1,140	1,177
Equity securities and mutual funds	108,914	113,489	90,343	94,051	96,460	101,173
Total	\$4,926,436	\$4,821,575	\$4,609,615	\$4,593,190	\$4,505,138	\$4,518,868

Management's Discussion and Analysis

Net unrealized losses on available for sale securities totaled \$105 million at December 31, 2005 compared with net unrealized losses of \$16 million at December 31, 2004 due primarily to rising interest rates. None of the unrealized losses resulted from credit quality concerns. The aggregate gross amount of unrealized losses at December 31, 2005 totaled \$114 million. Management evaluated the securities with unrealized losses to determine if we believe that the losses were temporary. This evaluation considered factors such as causes of the unrealized losses and prospects for recovery over various interest rate scenarios and time periods. We also considered our intent and ability to either hold or sell the securities. It is our belief, based on currently available information and our evaluation, that the unrealized losses in these securities were temporary.

Loans

The aggregate loan portfolio before allowance for loan losses totaled \$9.1 billion at December 31, 2005, a \$1.2 billion or 15% increase since last year. Loan growth was broadly distributed among the various segments of the portfolio and across all geographic markets.

The commercial loan portfolio increased \$724 million during 2005. Much of this increase was focused in the services portion of the portfolio, which increased \$235 million or 20%. Services, which consist of loans to a variety of businesses, comprised 16% of the total loan portfolio. Approximately \$1.1 billion of the services category is made up of loans with outstanding balances of less than \$10 million. Energy loans totaled \$1.4 billion or 15% of total loans. Outstanding energy loans increased \$176 million or 14% during 2005. Approximately \$1.1 billion of the outstanding balance of energy loans was to oil and gas producers. The amount of credit available to these customers generally depends on a percentage of the value of their proven energy reserves based on anticipated prices. The energy category also included loans to borrowers involved in the transportation and sale of oil and gas and to borrowers that manufacture equipment or provide other services to the energy industry.

Notable loan concentrations by primary industry of the borrowers are presented in Table 18.

Table 18 Loans

(In Thousands)

	December 31,				
	2005	2004	2003	2002	2001
Commercial:					
Energy	\$1,399,417	\$1,223,195	\$1,231,599	\$1,132,178	\$ 987,556
Services	1,425,821	1,190,814	989,906	917,263	807,691
Wholesale/retail	793,032	699,318	668,202	627,422	600,470
Manufacturing	514,792	484,423	482,657	501,506	467,260
Healthcare	520,309	424,257	393,929	332,359	276,789
Agriculture	291,858	262,436	228,222	186,976	170,861
Other commercial and industrial	354,706	291,393	342,187	292,094	364,123
Total commercial	5,299,935	4,575,836	4,336,702	3,989,798	3,674,750
Commercial real estate:					
Construction and land development	638,366	457,399	436,087	356,227	327,455
Multifamily	204,620	231,985	271,119	307,119	291,687
Other real estate loans	1,146,916	931,726	922,886	772,492	722,633
Total commercial real estate	1,989,902	1,621,110	1,630,092	1,435,838	1,341,775
Residential mortgage:					
Secured by 1-4 family residential properties	1,169,331	1,198,918	1,015,643	929,759	703,080
Residential mortgages held for sale	51,666	40,262	56,543	133,421	166,093
Total residential mortgage	1,220,997	1,239,180	1,072,186	1,063,180	869,173
Consumer	629,144	492,841	444,909	412,167	409,680
Total	\$9,139,978	\$7,928,967	\$7,483,889	\$6,900,983	\$6,295,378

Management's Discussion and Analysis

BOK Financial participates 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 December 31, 2005, the outstanding principal balance of these loans totaled \$1.1 billion. Substantially all of these loans are to borrowers with local market relationships. BOK Financial serves as the agent lender in approximately 30% of its shared national credits, based on dollars committed. The Company's 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 loans totaled \$2.0 billion or 22% of the loan portfolio at December 31, 2005. Commercial real estate loans grew \$369 million or 23% from the previous year end. Growth in commercial real estate loans was distributed across all of our markets. Construction and land development included \$494 million for single family residential lots and premises, up \$144 million or 41% since December 31, 2004. The major components of other commercial real

estate loans were retail facilities – \$305 million and office buildings – \$499 million. Commercial real estate loans secured by office buildings increased \$156 million or 46% during the past year.

Residential mortgage loans, excluding loans held for sale, included \$350 million of home equity loans, \$346 million of loans held for business relationship purposes, \$232 million of adjustable rate mortgages and \$182 million of loans held for community development. Consumer loans included \$357 million of indirect automobile loans. Indirect automobile loans grew \$123 million during 2005 due to increased demand. Substantially all of these loans were purchased from dealers in Oklahoma, although the Company began indirect automobile lending in Arkansas during 2005.

The Company continued to increase geographic diversification through expansion into Texas, New Mexico, Colorado and Arizona. The percent of the loan portfolio attributed to Oklahoma was 59% at December 31, 2005 and 62% at December 31, 2004. Table 20 presents the distribution of the major loan categories among our primary market areas.

Table 19 Loan Maturity and Interest Rate Sensitivity at December 31, 2005
(In Thousands)

	Remaining Maturities of Selected Loans			
	Total	Within 1 Year	1-5 Years	After 5 Years
Loan maturity:				
Commercial	\$5,299,935	\$1,915,030	\$2,683,475	\$701,430
Commercial real estate	1,989,902	827,606	920,674	241,622
Total	\$7,289,837	\$2,742,636	\$3,604,149	\$943,052
Interest rate sensitivity for selected loans with:				
Predetermined interest rates	\$2,630,474	\$ 487,157	\$1,684,373	\$458,944
Floating or adjustable interest rates	4,659,363	2,255,479	1,919,776	484,108
Total	\$7,289,837	\$2,742,636	\$3,604,149	\$943,052

Management's Discussion and Analysis

Table 20 Loans by Principal Market Area

(In Thousands)

	December 31,				
	2005	2004	2003	2002	2001
Oklahoma:					
Commercial	\$3,159,683	\$2,847,470	\$2,802,852	\$2,677,616	\$2,576,808
Commercial real estate	862,700	744,724	789,868	763,469	739,419
Residential mortgage	842,757	901,648	699,274	656,391	476,023
Residential mortgage held for sale	51,666	40,262	56,543	133,421	166,093
Consumer	466,180	367,947	324,305	294,404	314,060
Total Oklahoma	\$5,382,986	\$4,902,051	\$4,672,842	\$4,525,301	\$4,272,403
Texas:					
Commercial	\$1,356,611	\$1,120,069	\$ 963,340	\$ 866,905	\$ 775,788
Commercial real estate	569,921	459,067	477,561	455,364	380,602
Residential mortgage	199,726	191,296	204,481	192,575	136,181
Consumer	89,017	86,732	101,269	104,353	85,347
Total Texas	\$2,215,275	\$1,857,164	\$1,746,651	\$1,619,197	\$1,377,918
Albuquerque:					
Commercial	\$ 383,325	\$ 354,904	\$ 297,896	\$ 286,622	\$ 219,257
Commercial real estate	232,564	196,832	175,745	150,293	136,425
Residential mortgage	65,784	63,043	66,179	76,020	85,309
Consumer	15,137	13,260	11,070	11,399	8,200
Total Albuquerque	\$ 696,810	\$ 628,039	\$ 550,890	\$ 524,334	\$ 449,191
Northwest Arkansas:					
Commercial	\$ 79,719	\$ 61,934	\$ 63,480	\$ 63,113	\$ 72,728
Commercial real estate	75,483	74,478	75,452	66,712	85,329
Residential mortgage	13,044	11,238	6,245	4,773	5,567
Consumer	25,659	3,858	2,671	2,011	2,073
Total Northwest Arkansas	\$ 193,905	\$ 151,508	\$ 147,848	\$ 136,609	\$ 165,697
Colorado¹:					
Commercial	\$ 270,108	\$ 191,459	\$ 209,134	\$ 95,542	\$ 30,169
Commercial real estate	133,537	118,134	111,466	—	—
Residential mortgage	21,918	31,693	39,464	—	—
Consumer	27,871	21,044	5,594	—	—
Total Colorado	\$ 453,434	\$ 362,330	\$ 365,658	\$ 95,542	\$ 30,169
Arizona:					
Commercial	\$ 50,489	\$ —	\$ —	\$ —	\$ —
Commercial real estate	115,697	27,875	—	—	—
Residential mortgage	26,102	—	—	—	—
Consumer	5,280	—	—	—	—
Total Arizona	\$ 197,568	\$ 27,875	\$ —	\$ —	\$ —
Total BOK Financial loans	\$9,139,978	\$7,928,967	\$7,483,889	\$6,900,983	\$6,295,378

¹Includes Denver loan production office

Management's Discussion and Analysis

Loan Commitments

BOK Financial enters into off-balance sheet arrangements in the normal course of business. These arrangements included loan commitments which totaled \$4.3 billion and standby letters of credit which totaled \$559 million at December 31, 2005. Loan commitments may be unconditional obligations to provide financing or conditional obli-

gations 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.

Table 21 Off-Balance Sheet Credit Commitments as of December 31, 2005

(In Thousands)

	2005	2004	2003	2002	2001
Loan commitments	\$4,349,114	\$3,459,425	\$2,964,694	\$2,884,011	\$2,461,141
Standby letters of credit	558,907	414,228	374,550	290,069	248,960
Total	\$4,908,021	\$3,873,653	\$3,339,244	\$3,174,080	\$2,710,101

Derivatives with Credit Risk

BOK Financial offers programs that permit its customers to hedge various risks, including fluctuations in energy and cattle 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 BOK Financial. 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.

These programs create credit risk for potential amounts due to the Company from its 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 are reduced and additional margin collateral is required.

A deterioration of the credit standing of one or more of the customers or counterparties to these contracts may result in BOK Financial's recognizing a loss as the fair value of the affected contracts may no longer move in tandem with the offsetting contracts. This could occur 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 December 31, 2005, the fair values of derivative contracts reported as assets under these programs totaled \$453 million. This included energy contracts with fair values of \$418 million, interest rate contracts with fair values of \$19 million and foreign exchange contracts with fair values of \$15 million. The aggregate fair values of derivative contracts reported as liabilities totaled \$452 million. Approximately 94% of the fair value of asset contracts was with customers. The credit risk of these contracts is generally backed by energy production. The remaining 6% was with counterparties, consisting primarily of highly-rated financial institutions and energy companies. The maximum net exposure to any single customer or counterparty totaled \$85 million.

The Company's policy had been to carry all derivative contracts at fair value on a gross asset / gross liability basis. Changes in energy prices during the third quarter of 2005 caused significant increases in the fair values of both derivative assets and liabilities. The potential impact of these increases on regulatory capital ratios caused the Company to adopt FASB Interpretation No. 39, "Offsetting Amounts Related to Certain Contracts" ("FIN 39"). FIN 39 permits, but does not require, reporting derivative assets and liabilities on a net by counterparty basis provided certain specified criteria are met. These criteria require written bilateral netting agreements between the Com-

Management's Discussion and Analysis

pany and each of its counterparties that create a single legal claim or obligation to pay or receive the net amount in settlement of the individual derivative contracts. Amounts reported for derivative assets and liabilities in prior periods have been reclassified for consistent presentation.

Summary of Loan Loss Experience

The reserve for loan losses, which is available to absorb losses inherent in the loan portfolio, totaled \$104 million at December 31, 2005 compared to \$109 million at December 31, 2004. These amounts represented 1.14% and 1.38% of outstanding loans, excluding loans held for sale, at December 31, 2005 and 2004, respectively. Losses on loans

held for sale, principally mortgage loans accumulated for placement into security pools, are charged to earnings through adjustment in the carrying value. The reserve for loan losses also represented 413% of the outstanding balance of nonperforming loans at year-end 2005 compared to 206% at year-end 2004. Nonperforming loans at December 31, 2005 decreased to \$25 million compared with \$53 million at the previous year-end. Net loans charged off during 2005 decreased to \$16 million in 2005 compared to \$22 million in the previous year. Net commercial loans charged-off during 2005 totaled \$5.6 million, a \$6.0 million decrease from 2004. Net consumer loan charge-offs, which include deposit account overdraft losses, were \$7.1 million in 2005 and \$8.2 million in 2004. Table 22 provides statistical information regarding the reserve for loan losses for the past five years.

Table 22 Summary of Loan Loss Experience

(Dollars in Thousands)

	Years ended December 31,				
	2005	2004	2003	2002	2001
Reserve for loan losses:					
Beginning balance	\$108,618	\$114,784	\$103,851	\$89,188	\$72,183
Loans charged off:					
Commercial	9,670	13,921	16,331	13,326	18,042
Commercial real estate	2,619	971	88	286	71
Residential mortgage	1,212	1,465	1,721	412	308
Consumer	12,257	13,328	13,335	11,881	6,827
Total	25,758	29,685	31,475	25,905	25,248
Recoveries of loans previously charged off:					
Commercial	4,071	2,283	887	1,276	1,151
Commercial real estate	117	30	53	118	653
Residential mortgage	180	243	83	146	57
Consumer	5,176	5,171	5,102	3,436	2,727
Total	9,544	7,727	6,125	4,976	4,588
Net loans charged off	16,214	21,958	25,350	20,929	20,660
Provision for loan losses	10,401	15,792	34,000	34,228	35,365
Additions due to acquisitions	1,071	—	2,283	1,364	2,300
Ending balance	\$103,876	\$108,618	\$114,784	\$103,851	\$89,188
Reserve for off-balance sheet credit losses:					
Beginning balance	\$18,502	\$13,855	\$12,219	\$12,717	\$10,472
Provision for off-balance sheet credit losses	2,040	4,647	1,636	(498)	2,245
Additions due to acquisitions	32	—	—	—	—
Ending balance	\$20,574	\$18,502	\$13,855	\$12,219	\$12,717
Total provision for credit losses	\$12,441	\$20,439	\$35,636	\$33,730	\$37,610
Reserve for loan losses to loans outstanding at year-end ¹	1.14%	1.38%	1.55%	1.53%	1.46%
Net charge-offs to average loans ¹	0.19	0.29	0.36	0.33	0.35
Total provision for credit losses to average loans ¹	0.15	0.27	0.50	0.54	0.63
Recoveries to gross charge-offs	37.05	26.03	19.46	19.21	18.17
Reserve for loan losses as a multiple of net charge-offs	6.41x	4.95x	4.53x	4.96x	4.32x
Reserve for off-balance sheet credit losses to off-balance sheet credit commitments	0.42%	0.48%	0.41%	0.38%	0.47%
Combined reserves for credit losses to loans outstanding at year-end ¹	1.37%	1.61%	1.73%	1.72%	1.66%
Problem Loans:					
Loans past due (90 days)	\$8,708	\$7,649	\$14,944	\$8,117	\$8,108
Nonaccrual ²	25,162	52,660	52,681	49,855	43,540
Renegotiated	—	—	—	—	27
Total	\$33,870	\$60,309	\$67,625	\$57,972	\$51,675
Foregone interest on nonaccrual loans ²	\$2,515	\$4,617	\$4,821	\$4,770	\$5,163

¹ Excludes residential mortgage loans held for sale.

² Interest collected and recognized on nonaccrual loans was not significant in 2005 and previous years disclosed.

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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. During 2004, we adopted the preferred presentation method and separated the reserve for off-balance sheet credit risk from the reserve for loan losses. Table 22 presents the trend of reserves for off-balance sheet credit losses and the relationship between the reserve and loan commitments. It also presents the relationship between the combined reserve for credit losses and outstanding loans for comparison with peer banks and others who have not adopted the preferred presentation. 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. The reserve for off-balance sheet credit losses would decrease and the reserve for loan losses would increase as outstanding commitments are funded.

Specific impairment reserves are determined through evaluation of estimated future cash flows and collateral value. At December 31, 2005, specific impairment reserves totaled \$2.6 million on total impaired loans of \$20 million.

Nonspecific reserves are maintained for risks beyond factors specific to an individual loan or those identified through migration analysis. A range of potential losses is determined for each risk factor identified. At December 31, 2005, the ranges of potential losses for the more significant factors were:

General economic conditions – \$6 million to \$11 million
 Concentration in large loans – \$2 million to \$3 million

Allocation of the loan loss reserve to the major loan categories is presented in Table 23.

The provision for credit losses totaled \$12.4 million, an \$8.0 million decrease from 2004. Factors considered in determining the provision for credit losses included reductions in the outstanding balances of criticized and classified loans, nonperforming loans and potential problem loans. Factors that reduce the required provision were partially offset by concerns about the effect of changes in interest rates and energy prices on the commercial real estate and commercial loan portfolios.

Table 23 Loan Loss Reserve Allocation

(Dollars in Thousands)

	December 31,									
	2005		2004		2003		2002		2001	
Loan category:	Reserve ²	% of Loans ¹	Reserve ²	% of Loans ¹	Reserve ²	% of Loans ¹	Reserve ²	% of Loans ¹	Reserve ²	% of Loans ¹
Commercial	\$ 43,915	58.32%	\$ 52,325	58.00%	\$ 58,993	58.39%	\$ 56,474	58.95%	\$ 51,803	59.95%
Commercial real estate	25,529	21.89	21,317	20.55	16,395	21.95	16,037	21.22	14,000	21.89
Residential mortgage	5,302	12.87	5,904	15.20	6,797	13.67	3,956	13.74	3,612	11.47
Consumer	10,929	6.92	12,034	6.25	16,132	5.99	13,922	6.09	6,318	6.69
Nonspecific allowance	18,201	—	17,038	—	16,467	—	13,462	—	13,455	—
Total	\$103,876	100.00%	\$108,618	100.00%	\$114,784	100.00%	\$103,851	100.00%	\$ 89,188	100.00%

¹ Excludes residential mortgage loans held for sale.

² Specific allocation for the loan concentration risks are included in the appropriate category.

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Nonperforming Assets

Information regarding nonperforming assets, which totaled \$34 million at December 31, 2005 and \$56 million at December 31, 2004 is presented in Table 24. Nonperforming assets included nonaccrual and renegotiated loans and excluded loans 90 days or more past due but still accruing interest. Nonaccrual loans decreased to \$25

million at December 31, 2005 from \$53 million at December 31, 2004. Newly identified nonaccruing loans totaled \$17 million during the year. Nonaccruing loans decreased \$17 million for loans charged off and foreclosed and \$16 million for cash payments received. Nonaccruing loans also decreased \$10 million from loans returned to accruing status after a period of satisfactory performance.

Table 24 Nonperforming Assets

(Dollars in Thousands)

	December 31,				
	2005	2004	2003	2002	2001
Nonperforming loans					
Nonaccrual loans:					
Commercial	\$11,673	\$33,195	\$41,360	\$39,114	\$35,075
Commercial real estate	5,370	10,144	2,311	3,395	3,856
Residential mortgage	7,347	8,612	7,821	5,950	4,140
Consumer	772	709	1,189	1,396	469
Total nonaccrual loans	25,162	52,660	52,681	49,855	43,540
Renegotiated loans	—	—	—	—	27
Total nonperforming loans	25,162	52,660	52,681	49,855	43,567
Other nonperforming assets	8,476	3,763	7,186	6,719	7,141
Total nonperforming assets	\$33,638	\$56,423	\$59,867	\$56,574	\$50,708
Ratios:					
Reserve for loan losses to nonperforming loans	412.83%	206.26%	217.89%	208.31%	204.71%
Nonperforming loans to period-end loans ²	0.28	0.67	0.71	0.74	0.71
Loans past due (90 days) ¹	\$ 8,708	\$ 7,649	\$14,944	\$ 8,117	\$ 8,108
¹ Includes residential mortgages guaranteed by agencies of the U.S. Government.	\$ 2,021	\$ 2,308	\$ 4,132	\$ 4,956	\$ 6,222
² Excludes residential mortgage loans held for sale.					

The 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 concerns as to the borrowers' ability to comply with current repayment terms. These potential problem loans totaled \$28 million at December 31, 2005 and \$49 million at December 31, 2004. The current composition of potential problem loans by primary industry included health-care – \$12 million, real estate – \$6 million and services – \$5 million.

Deposits

Deposit accounts represent our primary 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 program, free checking and on-line billpay services, an extensive network of branch locations and ATMs and a 24-hour ExpressBank call center. Commercial deposit growth is supported by offering treasury management and lockbox services.

Total deposits averaged \$10.1 billion for 2005, a \$641 million or 7% increase over 2004. Growth in average deposits came primarily in the Texas, Oklahoma and Colorado markets. Average deposits increased \$192 million or 8% in Texas, \$179 million or 3% in Oklahoma and \$128 million or 40% in Colorado. Consumer banking and personal financial services provided much of the deposit growth in each of these markets. Additionally, average deposits increased \$90 million from the Bank of Arizona acquisition.

Across all markets, average core deposits, which we define as deposits of less than \$100,000, excluding public funds and brokered deposits, increased 4% to \$5.2 billion. Growth in average core

Management's Discussion and Analysis

deposits resulted from initiatives such as free on-line billpay, free checking and Perfect Banking. The remaining average deposits included accounts with balances in excess of \$100,000, which totaled \$3.9 billion, and brokered deposits and public funds, which totaled \$987 million.

Table 25 Maturity of Domestic CDs and Public Funds in Amounts of \$100,000 or More

(In Thousands)

	December 31,	
	2005	2004
Months to maturity:		
3 or less	\$ 354,724	\$ 412,455
Over 3 through 6	256,919	183,723
Over 6 through 12	631,691	264,101
Over 12	1,226,823	1,388,014
Total	\$2,470,157	\$2,248,293

At December 31, 2005, the Company had \$442 million in fixed rate, brokered certificates of deposits. The weighted-average interest rate paid on these certificates is 3.64%. Interest rate swaps have been designated as hedges of each of these certificates. The purpose of these swaps is to hedge against changes in fair value due to changes in interest rates by modifying the certificates from fixed rate to floating rates based on changes in LIBOR. We receive a weighted average fixed rate of 3.81% on these swaps and currently pay a floating rate of 4.39%.

The distribution of deposit accounts among our principal markets is shown in Table 26.

Management's Discussion and Analysis

Table 26 Deposits by Principal Market Area

(In Thousands)

	December 31,				
	2005	2004	2003	2002	2001
Oklahoma:					
Demand	\$ 1,003,284	\$ 1,095,228	\$ 1,025,483	\$ 1,044,628	\$ 992,663
Interest-bearing:					
Transaction	3,002,609	2,291,089	2,246,675	1,897,353	1,650,269
Savings	85,837	87,597	98,611	103,749	101,433
Time	2,564,338	2,505,849	2,403,293	2,334,949	2,041,025
Total interest-bearing	5,652,784	4,884,535	4,748,579	4,336,051	3,792,727
Total Oklahoma	\$ 6,656,068	\$ 5,979,763	\$ 5,774,062	\$ 5,380,679	\$ 4,785,390
Texas:					
Demand	\$ 615,732	\$ 617,808	\$ 421,292	\$ 394,164	\$ 305,745
Interest-bearing:					
Transaction	1,535,570	1,119,893	1,213,777	953,550	670,728
Savings	27,398	30,331	35,702	33,071	28,918
Time	735,731	571,993	505,463	510,512	451,031
Total interest-bearing	2,298,699	1,722,217	1,754,942	1,497,133	1,150,677
Total Texas	\$ 2,914,431	\$ 2,340,025	\$ 2,176,234	\$ 1,891,297	\$ 1,456,422
Albuquerque:					
Demand	\$ 129,289	\$ 136,599	\$ 106,050	\$ 79,953	\$ 57,648
Interest-bearing:					
Transaction	381,099	320,118	370,294	295,174	224,265
Savings	17,839	17,885	20,728	26,704	26,848
Time	453,314	411,939	317,924	287,607	241,549
Total interest-bearing	852,252	749,942	708,946	609,485	492,662
Total Albuquerque	\$ 981,541	\$ 886,541	\$ 814,996	\$ 689,438	\$ 550,310
Northwest Arkansas:					
Demand	\$ 10,429	\$ 14,489	\$ 16,351	\$ 12,949	\$ 10,634
Interest-bearing:					
Transaction	22,354	26,882	28,411	18,025	14,452
Savings	1,058	1,434	1,341	1,214	1,035
Time	75,034	99,677	105,598	134,923	87,501
Total interest-bearing	98,446	127,993	135,350	154,162	102,988
Total Northwest Arkansas	\$ 108,875	\$ 142,482	\$ 151,701	\$ 167,111	\$ 113,622
Colorado:					
Demand	\$ 61,647	\$ 62,995	\$ 79,424	\$ —	\$ —
Interest-bearing:					
Transaction	258,668	189,106	162,651	—	—
Savings	17,772	19,092	18,347	—	—
Time	264,020	54,394	42,448	—	—
Total interest-bearing	540,460	262,592	223,446	—	—
Total Colorado	\$ 602,107	\$ 325,587	\$ 302,870	\$ —	\$ —
Arizona:					
Demand	\$ 45,567	\$ —	\$ —	\$ —	\$ —
Interest-bearing:					
Transaction	56,994	—	—	—	—
Savings	4,111	—	—	—	—
Time	5,624	—	—	—	—
Total interest-bearing	66,729	—	—	—	—
Total Arizona	\$ 112,296	\$ —	\$ —	\$ —	\$ —
Total BOK Financial deposits	\$11,375,318	\$ 9,674,398	\$ 9,219,863	\$ 8,128,525	\$ 6,905,744

Management's Discussion and Analysis

Borrowings and Capital

Parent Company

BOK Financial (parent company) has a \$100 million unsecured revolving line of credit with certain commercial banks that expires in December 2010. There was no outstanding principal balance of this credit agreement at December 31, 2005. Interest is based upon a base rate or LIBOR plus a defined margin that is determined by the Company's credit rating. This margin ranges from 0.375% to 1.125%. The margin currently applicable to borrowings against this line is 0.500%. The base rate is defined as the greater of the daily federal funds rate plus 0.500% or the SunTrust Bank prime rate. Interest is generally paid monthly. Facility fees are paid quarterly on the unused portion of the commitment at rates that range from 0.100% to 0.250% based on the Company's credit rating.

This credit agreement includes certain restrictive covenants that limit the Company's ability to borrow additional funds, to make investments and to pay cash dividends on common stock. These covenants also require BOK Financial and subsidiary banks to maintain minimum capital levels. BOK Financial met all of the restrictive covenants at December 31, 2005.

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 preceding two years. Dividends are further restricted by minimum capital requirements. Based on the most restrictive limitations, the subsidiary banks could declare up to \$158 million of dividends without regulatory approval. Management has developed and the Board of Directors has approved an internal capital policy that is more restrictive than the regulatory capital standards. The subsidiary banks could declare dividends of up to \$86 million under this policy.

Equity capital for BOK Financial increased \$141 million to \$1.5 billion during 2005. Retained earnings, net income less cash dividends paid, provided \$181 million to this increase. Growth in retained earnings was partially offset by a \$56 million increase in accumulated other comprehensive losses due primarily to net unrealized losses on available for sale securities. The remaining increase in capital during 2005 resulted primarily from employee stock option transactions.

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.

On April 26, 2005, the Board of Directors authorized a share repurchase program which replaced a previously authorized program. A 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, 30,000 shares have been repurchased by the Company for \$1.3 million.

During the second quarter of 2005, the Board of Directors approved the Company's first quarterly cash dividend of \$0.10 per common share. The quarterly cash dividend replaced the annual dividend historically paid in shares of common stock. Concurrent with the first quarterly cash dividend, holders of the Company's convertible preferred stock exercised their conversion rights. All of the Series A Preferred Stock was converted into 6,920,666 common shares.

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. The capital ratios for BOK Financial and each subsidiary bank are presented in Note 16 to the Consolidated Financial Statements.

Subsidiary Banks

BOK Financial's subsidiary banks use borrowings to supplement deposits as a source of funds for loans and securities growth. Sources of these borrowings included federal funds purchased, securities repurchase agreements and advances from the Federal Home Loan Banks. Interest rates and maturity dates for the various borrowings are matched with specific asset types in the asset/liability management process. Note 10 to the Consolidated Financial Statements provides additional information about the subsidiary banks' borrowings, including maturity and repricing periods and collateral requirements.

Management's Discussion and Analysis

During 2005, Bank of Oklahoma issued \$150 million of 10-year, fixed rate subordinated debt. The cost of this subordinated debt, including issuance discounts and hedge loss is 5.43%. The proceeds of this debt were used to repay \$95 million of BOK Financial's unsecured revolving line of credit and to provide additional capital to support asset growth.

In 1997, Bank of Oklahoma issued \$150 million of 10-year, 7.125% fixed rate subordinated debt. During 2004, a \$150 million notional amount interest rate swap was designated as a hedge of changes in fair value of the subordinated debt due to changes in interest rates. The Company receives a fixed rate of 3.165% and pays a variable rate based on 1-month LIBOR. Semi-annual swap settlements coincide with interest payments on the subordinated debenture. The interest rate swap terminates on August 15, 2007, the maturity date of the subordinated debt.

Off-Balance Sheet Arrangements

During 2002, BOK Financial agreed to a limited price guarantee on a portion of the common shares issued to purchase Bank of Tanglewood. The fair value of this guarantee, estimated to be \$3 million based upon the Black-Scholes option pricing model, was included in the purchase price. Any holder of BOK Financial common shares issued in this acquisition may annually make a claim for the excess of the guaranteed price and the actual sales price of any shares sold during a 60-day period after each of the first five anniversary dates after October 25, 2002. The maximum annual number of shares sub-

ject to this guarantee is 210,069. The price guarantee is non-transferable and non-cumulative. BOK Financial may elect, in its sole discretion, to issue additional shares of common stock or to pay cash to satisfy any obligation under the price guarantee. The maximum remaining number of shares that may be issued to satisfy any price guarantee obligations is 10 million. If, as of any benchmark date, we have already issued 10 million shares, we are not obligated to make any further benchmark payments. Additionally, the Company's ability to pay cash to satisfy any price guarantee obligations is limited by applicable banking capital and dividend regulations.

The Company will have no obligation to issue additional common shares or pay cash to satisfy any benchmark price protection obligation if the market value per share of BOK Financial common stock remains above the highest benchmark price of \$42.53. The closing price of the Company's common stock on December 31, 2005 was \$45.43.

Aggregate Contractual Obligations

BOK Financial has numerous contractual obligations in the normal course of business. These obligations include time deposits and other borrowed funds, premises used under various operating leases, commitments to extend credit to borrowers and to purchase securities, derivative contracts and contracts for services such as data processing that are integral to our operations. The following table summarizes payments due per these contractual obligations at December 31, 2005.

Table 27 Contractual Obligations as of December 31, 2005

(In Thousands)

	Less Than 1 Year	1 to 3 Years	4 to 5 Years	More Than 5 Years	Total
Time deposits	\$1,010,487	\$1,328,851	\$ 690,977	\$ 446,834	\$3,477,149
Other borrowings	1,046,357	5,813	14,526	11,910	1,078,606
Subordinated debentures	18,188	182,367	15,000	183,125	398,680
Operating lease obligations	14,963	26,328	22,090	29,883	93,264
Derivative contracts	308,823	128,411	13,975	805	452,014
Data processing contracts	13,967	23,544	13,868	—	51,379
Total	\$2,412,785	\$1,695,314	\$ 770,436	\$ 672,557	\$5,551,092
Loan commitments		\$4,349,114			
Standby letters of credit		558,907			
Unfunded third-party private equity investments		16,438			
Deferred compensation and stock-based compensation obligations		18,278			

Management's Discussion and Analysis

Payments on time deposits and other borrowed funds include interest, which has been calculated from rates at December 31, 2005. Many of these obligations have variable interest rates, and actual payments will differ from the amounts shown on this table. Obligations under derivative contracts used for interest rate risk management purposes are included with projected payments from time deposits and other borrowed funds as appropriate.

Only time deposits with original terms exceeding one year are presented in Table 27. Payments on time deposits are based on contractual maturity dates. These funds may be withdrawn prior to maturity. We may charge the customer a penalty for early withdrawal.

Operating lease commitments generally represent real property we rent for branch offices, corporate offices and operations facilities. Payments presented represent the minimum lease payments and exclude related costs such as utilities and property taxes.

Data processing contracts represent the minimum obligations under the contracts. Additional payments that are based on the volume of transactions processed are excluded.

Loan commitments represent legally binding obligations to provide financing to our customers. Since some of these commitments are expected to expire before being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Obligations under derivative contracts relate to customer hedging programs. As previously discussed, we have entered into derivative contracts that are expected to substantially offset the cash payments due on these obligations.

The Company has commitments to make investments through its BOK Financial Private Equity Fund. These commitments generally reflect customer investment obligations.

The Company has compensation and employment agreements with its President and Chief Executive Officer. Collectively, these agreements provide, among other things, that all unvested stock-based compensation shall fully vest upon his termination, subject to certain conditions. These agreements also provide for settlement in cash or other assets. We currently have recognized an \$11.7 million liability for these plans. This liability would increase to \$13.0 million if all awards were fully vested. We also have obligations with respect to employee and executive benefit plans. See Notes 12 and 13 to the Consolidated Financial Statements.

Market Risk

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of a financial instrument. These changes may be the result of various factors, including interest rates, foreign exchange prices, commodity prices or equity prices. Financial instruments that are subject to market risk can be classified either as held for trading or held for purposes other than trading.

BOK Financial is subject to market risk primarily through the effect of changes in interest rates on both its assets held for purposes other than trading and trading assets. The effects of other changes, such as foreign exchange rates, commodity prices or equity prices, do not pose significant market risk to BOK Financial. BOK Financial has no material investments in assets that are affected by changes in foreign exchange rates or equity prices. Energy derivative contracts, which are affected by changes in commodity prices, are matched against offsetting contracts as previously discussed.

Responsibility for managing market risk rests with the Asset / Liability Committee that operates under policy guidelines established by the Board of Directors. The acceptable negative variation in net interest revenue, net income or economic value of equity due to a specified basis point increase or decrease in interest rates is generally limited by these guidelines to +/- 10%. These guidelines also set maximum levels for short-term borrowings, short-term assets, public funds and brokered deposits, and establish minimum levels for unpledged assets, among other things. Compliance with these guidelines is reviewed monthly.

Interest Rate Risk – Other than Trading

BOK Financial has a large portion of its earning assets in variable rate loans and a large portion of its liabilities in demand deposit accounts and interest-bearing transaction accounts. Changes in interest rates affect earning assets more rapidly than interest-bearing liabilities in the short-term. Management has adopted several strategies to reduce this interest rate sensitivity. As previously noted in the Net Interest Revenue section of this report, management acquires securities that are funded by borrowings in the capital markets. These securities have an expected average duration of 2.8 years while the related funds borrowed have an average duration of 90 days.

Management's Discussion and Analysis

BOK Financial also uses interest rate swaps to manage its interest rate sensitivity. These products are generally used to more closely match interest on certain fixed rate loans with funding sources and long-term certificates of deposit with earning assets. Net interest revenue decreased \$1.4 million in 2005 and increased \$99 million in 2004 from periodic settlements of these contracts. These contracts are carried on the balance sheet at fair value and changes in fair value are reported in income as derivatives gains or losses. A net gain of \$1.1 million was recognized in 2005 compared with a net loss of \$1.3 million in 2004 from adjustments of these swaps and hedged liabilities to fair value. Credit risk from these swaps is closely monitored as part of our overall process of managing credit exposure to other financial institutions. Additional information regarding interest rate swap contracts is presented in Note 4 to the Consolidated Financial Statements.

The effectiveness of these strategies in managing the overall interest rate risk is evaluated through the use of an asset/liability model. BOK Financial performs a sensitivity analysis to identify more dynamic interest rate risk exposures, including embedded option positions, on net interest revenue, net income and economic value of equity. A simulation model is used to estimate the effect of changes in interest rates over the next 12 and 24 months based on eight interest rate scenarios. Two specified interest rate scenarios are used to evaluate interest rate risk against policy guidelines. The first assumes a sustained parallel 200 basis point increase and the second assumes a sustained parallel 200 basis point decrease in interest rates. The Company also performs a sensitivity analysis based on a "most likely" interest rate scenario, which includes non-parallel shifts in interest rates. An independent source is used to determine the most likely interest rate scenario.

The Company's primary interest rate exposures include the Federal Funds rate, which affects short-term borrowings, and the prime lending rate and LIBOR, which are the basis for much of the variable rate loan pricing. Additionally, mortgage rates directly affect the prepayment speeds for mortgage-backed securities and mortgage servicing rights. Derivative financial instruments and other financial instruments used for purposes other than trading are included in this simulation. The model incorporates assumptions regarding the effects of changes in interest rates and account balances on indeterminable maturity deposits based on a combination of historical analysis and expected behavior. The impact of planned growth and new business activities is factored into the simulation model. The effects of changes in interest rates on the value of mortgage servicing rights are excluded from Table 28 due to the extreme volatility over such a large rate range. The effects of interest rate changes on the value of mortgage servicing rights and securities identified as economic hedges are presented in the Lines of Business – Mortgage Banking section of this report.

The simulations used to manage market risk are based on numerous assumptions regarding the effects of changes in interest rates on the timing and extent of repricing characteristics, future cash flows and customer behavior. These assumptions are inherently uncertain, and, as a result, the model cannot precisely estimate net interest revenue, net income or economic value of equity or precisely predict the impact of higher or lower interest rates on net interest revenue, net income or economic value of equity. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes, market conditions and management strategies, among other factors.

Table 28 Interest Rate Sensitivity

(Dollars in Thousands)

	200 bp Increase		200 bp Decrease		Most Likely	
	2005	2004	2005	2004	2005	2004
Anticipated impact over the next twelve months on net interest revenue	\$ 7,334	\$ 7,969	\$ (7,295)	***	\$ 5,675	\$ 5,893
	1.5%	1.8%	(1.5)%	***	1.2%	1.3%

*** A 200 basis point decrease was not computed in 2004 due to low market interest rates.

Management's Discussion and Analysis

Trading Activities

BOK Financial enters into trading activities both as an intermediary for customers and for its own account. As an intermediary, BOK Financial will take positions in securities, generally mortgage-backed securities, government agency securities and municipal bonds. These securities are purchased for resale to customers, which include individuals, corporations, foundations and financial institutions. BOK Financial will also take trading positions in U.S. Treasury securities, mortgage-backed securities, municipal bonds and financial futures for its own account. These positions are taken with the objective of generating trading profits. Both of these activities involve interest rate risk.

A variety of methods are used to manage the interest rate risk of trading activities. These methods include daily marking of all positions to market value, independent verification of inventory pricing and position limits for each trading activity. Hedges in either the futures or cash markets may be used to reduce the risk associated with some trading programs.

Management uses a Value at Risk ("VAR") methodology to measure the market risk inherent in its trading activities. VAR is calculated based upon historical simulations over the past five years using a variance / covariance matrix of interest rate changes. It represents an amount of market loss that is likely to be exceeded only one out of every 100 two-week periods. Trading positions are managed within guidelines approved by the Board of Directors. These guidelines limit the VAR to \$1.8 million. At December 31, 2005, the VAR was \$241 thousand. The greatest value at risk during 2005 was \$1.8 million.

Recently Issued Accounting Standards

Financial Accounting Standards Board

Statement of Financial Accounting Standards 123R, "Share-Based Payments" ("FAS 123R")

FAS 123R requires companies to recognize in income statements the grant-date fair value of stock options and other equity-based com-

pensation issued to employees. Previously, FAS 123 recommended, but did not require income statement recognition of the fair value of equity-based compensation. FAS 123R also requires that share-based payments that meet specified criteria be classified as liability awards and carried at current fair value. Fair value is determined at each balance sheet date until the award is settled. Share-payments that will be settled in equity instruments are measured at grant-date fair value and not re-measured for subsequent changes in fair value. FAS 123R was effective for annual periods beginning on or after June 15, 2005.

We previously adopted the preferred income statement recognition methods of the original FAS 123. Management does not expect FAS 123R to have a significant effect on its financial statements.

FSP 115-1 and FAS 124-1 The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments ("FSP 115-1")

FSP 115-1 addressed the determination as to when an investment is considered impaired, whether that impairment is other-than-temporary and the measurement of an impairment loss. It also addressed accounting considerations subsequent to the recognition of an other-than-temporary impairment and disclosures about unrealized losses that have not been recognized.

An investment is considered impaired when its fair value is less than cost. Determination of when an unrealized loss must be recognized as an other-than-temporary impairment is based on an assessment of factors, including the nature of the asset, the financial condition and near-term prospects of the issuer, whether the asset can be prepaid by the issuer in a manner that the investor will not recover its investment, the severity and duration of the impairment and the investor's ability and intent to hold the asset until the fair value recovers.

FSP 115-1 was effective for reporting periods beginning after December 15, 2005. Guidance provided by FSP 115-1 had previously been issued in other authoritative literature, including SEC Staff Accounting Bulletin No. 59, and we do not expect a significant impact on future financial statements.

Management's Discussion and Analysis

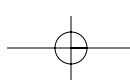
Forward-Looking Statements

This report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about BOK Financial, the financial services industry and the economy in general. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "plans," "projects," variations of such words and similar expressions are intended to identify such forward-looking statements. Management judgments relating to and discussion of the provision and reserve for loan losses involve judgments as to expected events and are inherently forward-looking statements. Assessments that BOK Financial's acquisitions and other growth endeavors will be profitable are necessary statements of belief as to the outcome of future events, based in part on information provided by others that BOK Financial has not independently verified. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what is expressed, implied or forecasted in such forward-looking statements. Internal and external factors that might cause such a dif-

ference include, but are not limited to: (1) the ability to fully realize expected cost savings from mergers within the expected time frames, (2) the ability of other companies on which BOK Financial relies to provide goods and services in a timely and accurate manner, (3) changes in interest rates and interest rate relationships, (4) demand for products and services, (5) the degree of competition by traditional and nontraditional competitors, (6) changes in banking regulations, tax laws, prices, levies and assessments, (7) the impact of technological advances and (8) trends in customer behavior as well as their ability to repay loans. BOK Financial and its affiliates undertake no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

Legal Notice

As used in this report, the term "BOK Financial" and such terms as "the Company," "the Corporation," "our," "we" and "us" may refer to one or more of the consolidated subsidiaries or all of them taken as a whole. All these terms are used for convenience only and are not intended as a precise description of any of the separate companies, each of which manages its own affairs.



Report of Management on Financial Statements

Management of BOK Financial is responsible for the preparation, integrity and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and necessarily include some amounts that are based on our best estimates and judgments.

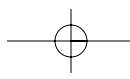
Management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, conducted an assessment of internal control over financial reporting as of December 31, 2005. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States. In establishing internal control over financial reporting, management assesses risk and designs controls to prevent or detect financial reporting misstatements that may be consequential to a reader. Management also assesses the impact of any internal control deficiencies and oversees efforts to continuously improve internal control over financial reporting. Because of inherent limitations, it is possible that internal controls may not prevent or detect misstatements, and it is possible that internal controls may vary over time based on changing conditions. There have been no material changes in internal controls subsequent to December 31, 2005.

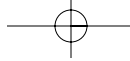
The Risk Oversight and Audit Committee, consisting entirely of independent directors, meets regularly with management, internal auditors and the independent registered public accounting firm, Ernst & Young LLP, regarding management's assessment of internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting and for assessing the effectiveness of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Management has assessed the effectiveness of the Company's internal control over financial reporting based on the criteria established in "Internal Control – Integrated Framework," issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission. Based on that assessment and criteria, management has determined that the Company maintained effective internal control over financial reporting as of December 31, 2005.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this annual report, has issued an audit report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. Their report, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, is included in this annual report.





Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm

Report on Consolidated Financial Statements

The Board of Directors and Shareholders of BOK Financial Corporation

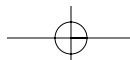
We have audited the accompanying consolidated balance sheets of BOK Financial Corporation as of December 31, 2005 and 2004, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BOK Financial Corporation at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of BOK Financial Corporation's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP
Tulsa, Oklahoma
March 10, 2006



Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm

Report on Effectiveness of Internal Control over Financial Reporting

The Board of Directors and Shareholders of BOK Financial Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that BOK Financial Corporation maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). BOK Financial Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting

principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that BOK Financial Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, BOK Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2005 consolidated financial statements of BOK Financial Corporation and our report dated March 10, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP
Tulsa, Oklahoma
March 10, 2006

Consolidated Financial Statements

Consolidated Statements of Earnings

(In Thousands Except Share And Per Share Data)

	2005	2004	2003
Interest Revenue			
Loans	\$ 554,691	\$ 408,115	\$ 375,788
Taxable securities	205,952	197,884	180,581
Tax-exempt securities	7,329	7,359	7,898
Total securities	213,281	205,243	188,479
Trading securities	675	573	625
Funds sold and resell agreements	1,287	353	281
Total interest revenue	769,934	614,284	565,173
Interest Expense			
Deposits	210,400	144,433	131,929
Borrowed funds	95,826	38,847	32,272
Subordinated debentures	14,367	7,761	9,477
Total interest expense	320,593	191,041	173,678
Net Interest Revenue	449,341	423,243	391,495
Provision for Credit Losses	12,441	20,439	35,636
Net Interest Revenue After Provision for Credit Losses	436,900	402,804	355,859
Other Operating Revenue			
Brokerage and trading revenue	44,222	41,107	41,152
Transaction card revenue	72,036	64,816	57,352
Trust fees and commissions	65,187	57,532	45,763
Service charges and fees on deposit accounts	98,361	93,712	82,042
Mortgage banking revenue	30,681	28,189	52,336
Other revenue	35,114	27,209	27,573
Total fees and commissions	345,601	312,565	306,218
Gain on sales of assets	7,061	887	822
Gain (loss) on securities, net	(6,895)	(3,088)	7,188
Gain (loss) on derivatives, net	1,179	(1,474)	(9,375)
Total other operating revenue	346,946	308,890	304,853
Other Operating Expense			
Personnel	258,971	240,661	222,922
Business promotion	17,964	15,618	12,937
Contribution of stock to BOK Charitable Foundation	—	5,561	—
Professional fees and services	16,596	15,487	17,935
Net occupancy and equipment	50,195	47,289	45,967
Data processing and communications	67,026	60,025	53,398
Printing, postage and supplies	15,066	14,034	13,930
Net (gains) losses and operating expenses on repossessed assets	572	(4,016)	271
Amortization of intangible assets	6,943	8,138	8,101
Mortgage banking costs	14,562	18,167	40,296
Recovery for impairment of mortgage servicing rights	(3,915)	(1,567)	(22,923)
Other expense	25,126	21,827	20,604
Total other operating expense	469,106	441,224	413,438
Income Before Taxes	314,740	270,470	247,274
Federal and state income tax	113,235	91,447	88,914
Net Income	\$ 201,505	\$ 179,023	\$ 158,360
Earnings Per Share:			
Basic	\$ 3.14	\$ 3.00	\$ 2.67
Diluted	\$ 3.01	\$ 2.68	\$ 2.38
Average Shares Used in Computation:			
Basic	64,067,873	59,128,395	58,699,951
Diluted	67,047,064	66,732,496	66,509,121

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Balance Sheets

(In Thousands Except Share Data)

	December 31,	
	2005	2004
Assets		
Cash and due from banks	\$ 684,857	\$ 503,715
Funds sold and resell agreements	14,465	27,376
Trading securities	18,633	9,692
Securities:		
Available for sale	4,821,575	4,080,696
Available for sale securities pledged to creditors	—	512,494
Investment (fair value: 2005 — \$243,406; 2004 — \$222,636)	245,125	221,094
Total securities	5,066,700	4,814,284
Loans	9,139,978	7,928,967
Less reserve for loan losses	(103,876)	(108,618)
Loans, net of reserve	9,036,102	7,820,349
Premises and equipment, net	179,627	172,643
Accrued revenue receivable	99,874	79,644
Intangible assets, net	263,022	242,594
Mortgage servicing rights, net	54,097	45,678
Real estate and other repossessed assets	8,476	3,763
Bankers' acceptances	33,001	31,799
Receivable on unsettled security transactions	—	56,873
Derivative contracts	452,878	130,297
Other assets	341,175	206,953
Total assets	\$16,252,907	\$14,145,660
Liabilities and Shareholders' Equity		
Noninterest-bearing demand deposits	\$ 1,865,948	\$ 1,927,119
Interest-bearing deposits:		
Transaction	5,257,295	3,947,088
Savings	154,015	156,339
Time	4,098,060	3,643,852
Total deposits	11,375,318	9,674,398
Funds purchased and repurchase agreements	1,337,911	1,555,507
Other borrowings	1,054,298	1,015,000
Subordinated debentures	295,964	151,594
Accrued interest, taxes and expense	18,057	71,062
Bankers' acceptances	33,001	31,799
Due on unsettled security transactions	8,429	—
Derivative contracts	466,669	137,538
Other liabilities	124,106	110,268
Total liabilities	14,713,753	12,747,166
Shareholders' equity:		
Preferred stock	—	12
Common stock (\$.00006 par value; 2,500,000,000 shares authorized; shares issued and outstanding: 2005 — 67,904,533; 2004 — 60,420,811)	4	4
Capital surplus	656,579	631,747
Retained earnings	990,422	809,261
Treasury stock (shares at cost: 2005 — 1,202,125; 2004 — 998,393)	(40,040)	(30,905)
Accumulated other comprehensive loss	(67,811)	(11,625)
Total shareholders' equity	1,539,154	1,398,494
Total liabilities and shareholders' equity	\$16,252,907	\$14,145,660

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Statements of Cash Flows

(In Thousands)

	2005	2004	2003
Cash Flows From Operating Activities:			
Net income	\$ 201,505	\$ 179,023	\$ 158,360
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	12,441	20,439	35,636
Recovery for mortgage servicing rights impairment	(3,915)	(1,567)	(22,923)
Unrealized losses from derivatives	8,463	6,124	5,888
Depreciation and amortization	44,860	47,298	64,425
Tax benefit on exercise of stock options	3,583	4,609	1,325
Stock-based compensation	4,848	11,306	5,746
Net (accretion) amortization of securities discounts and premiums	(1,159)	(3,116)	8,965
Net gain on sale of assets	(15,230)	(11,678)	(44,426)
Contribution of stock to BOK Charitable Foundation	—	5,561	—
Mortgage loans originated for resale	(783,498)	(635,624)	(1,314,453)
Proceeds from sale of mortgage loans held for resale	770,115	666,549	1,420,475
Change in trading securities	(8,941)	(1,869)	(2,713)
Change in accrued revenue receivable	(20,230)	(4,664)	(2,962)
Change in other assets	17,592	(48,766)	(28,442)
Change in accrued interest, taxes and expense	(53,005)	(14,722)	11,366
Change in other liabilities	33,102	39,218	(13,906)
Net cash provided by operating activities	210,531	258,121	282,361
Cash Flows From Investing Activities:			
Proceeds from sales of available for sale securities	1,537,628	2,652,554	5,089,734
Proceeds from maturities of investment securities	54,336	61,583	65,504
Proceeds from maturities of available for sale securities	868,401	1,036,014	2,410,213
Purchases of investment securities	(78,675)	(94,947)	(55,678)
Purchases of available for sale securities	(2,731,763)	(3,800,015)	(8,145,655)
Loans originated or acquired net of principal collected	(1,287,158)	(554,128)	(741,405)
Net payments or proceeds on derivative asset contracts	4,290	(9,368)	(41,226)
Net change in other investment assets	33,718	3,208	(3,849)
Proceeds from disposition of assets	88,527	69,320	65,989
Purchases of assets	(49,199)	(34,404)	(62,926)
Cash and cash equivalents of subsidiaries and branches acquired and sold, net	(29,093)	—	2,123
Net cash used by investing activities	(1,588,988)	(670,183)	(1,417,176)
Cash Flows From Financing Activities:			
Net change in demand deposits, transaction deposits and savings accounts	1,246,713	185,409	984,603
Net change in certificates of deposit	457,412	269,126	107,522
Net change in other borrowings	(83,299)	(55,811)	65,610
Change in amount receivable (due) on unsettled security transactions	65,302	(65,132)	74,160
Pay down of revolving line of credit	(95,000)	—	(95,000)
Issuance of preferred, common and treasury stock, net	7,032	7,132	4,627
Issuance of subordinated debenture	147,855	—	—
Net change in derivative margin accounts	(167,137)	(50,202)	(31,763)
Net payments or proceeds on derivative liability contracts	(9,407)	10,259	45,538
Repurchase of common stock	(2,439)	—	—
Dividends paid	(20,344)	(1,540)	(785)
Net cash provided by financing activities	1,546,688	299,241	1,154,512
Net increase (decrease) in cash and cash equivalents	168,231	(112,821)	19,697
Cash and cash equivalents at beginning of period	531,091	643,912	624,215
Cash and cash equivalents at end of period	\$ 699,322	\$ 531,091	\$ 643,912
Cash paid for interest	\$ 312,200	\$ 192,187	\$ 176,225
Cash paid for taxes	104,543	95,282	81,596
Net loans transferred to repossessed real estate	11,633	6,013	6,378
Payment of dividends in common stock	—	65,899	58,300

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Statements of Changes in Shareholders' Equity

(In Thousands)

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
December 31, 2002	250,000	\$25	55,750	\$ 3
Comprehensive income:				
Net income	—	—	—	—
Other comprehensive loss, net of tax	—	—	—	—
Comprehensive income				
Exercise of stock options	—	—	603	—
Tax benefit on exercise of stock options	—	—	—	—
Stock-based compensation	—	—	—	—
Cash dividends on preferred stock	—	—	—	—
Redeem nonvoting preferred units	—	(13)	—	—
Dividends paid in shares of common stock:				
Preferred stock	—	—	23	—
Common stock	—	—	1,680	1
December 31, 2003	250,000	12	58,056	4
Comprehensive income:				
Net income	—	—	—	—
Other comprehensive loss, net of tax	—	—	—	—
Comprehensive income				
Exercise of stock options	—	—	616	—
Conversion of preferred stock to common	(25)	—	—	—
Tax benefit on exercise of stock options	—	—	—	—
Stock-based compensation	—	—	—	—
Cash dividends on preferred stock	—	—	—	—
Dividends paid in shares of common stock	—	—	1,749	—
December 31, 2004	249,975	12	60,421	4
Comprehensive income:				
Net income	—	—	—	—
Other comprehensive loss, net of tax	—	—	—	—
Comprehensive income				
Treasury stock purchase	—	—	—	—
Exercise of stock options	—	—	563	—
Conversion of preferred stock to common	(249,975)	(12)	6,921	—
Tax benefit on exercise of stock options	—	—	—	—
Stock-based compensation	—	—	—	—
Cash dividends on:				
Preferred stock	—	—	—	—
Common stock	—	—	—	—
December 31, 2005	—	\$ —	67,905	\$ 4

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

Accumulated Other Comprehensive Income (Loss)	Capital Surplus	Retained Earnings	Treasury Stock		Total
			Shares	Amount	
\$ 43,088	\$475,054	\$598,777	683	\$(17,421)	\$1,099,526
—	—	158,360	—	—	158,360
(34,629)	—	—	—	—	(34,629)
					123,731
—	10,953	—	145	(6,326)	4,627
—	1,325	—	—	—	1,325
—	219	—	—	—	219
—	—	(750)	—	—	(750)
—	—	—	—	—	(13)
—	750	(750)	—	—	—
—	58,293	(57,585)	21	(744)	(35)
8,459	546,594	698,052	849	(24,491)	1,228,630
—	—	179,023	—	—	179,023
(20,084)	—	—	—	—	(20,084)
					158,939
—	12,507	—	122	(5,375)	7,132
—	—	—	—	—	—
—	4,609	—	—	—	4,609
—	1,099	—	—	—	1,099
—	—	(1,875)	—	—	(1,875)
—	66,938	(65,939)	27	(1,039)	(40)
(11,625)	631,747	809,261	998	(30,905)	1,398,494
—	—	201,505	—	—	201,505
(56,186)	—	—	—	—	(56,186)
					145,319
—	—	—	60	(2,439)	(2,439)
—	13,728	—	144	(6,696)	7,032
—	12	—	—	—	—
—	3,583	—	—	—	3,583
—	7,509	—	—	—	7,509
—	—	(375)	—	—	(375)
—	—	(19,969)	—	—	(19,969)
\$(67,811)	\$656,579	\$990,422	1,202	\$(40,040)	\$1,539,154

Notes to Consolidated Financial Statements

(1) Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements of BOK Financial Corporation ("BOK Financial" or "the Company") have been prepared in conformity with accounting principles generally accepted in the United States, including general practices of the banking industry. The consolidated financial statements include the accounts of BOK Financial and its subsidiaries, principally Bank of Oklahoma, N.A. and its subsidiaries ("BOK"), Bank of Texas, N.A., Bank of Arkansas, N.A., Bank of Albuquerque, N.A., Colorado State Bank and Trust, N.A., Bank of Arizona, N.A. and BOSCO, Inc.

During 2005, the Company adopted FASB Interpretation No. 39, "Offsetting Amounts Related to Certain Contracts" ("FIN 39"). FIN 39 permits, but does not require, reporting derivative assets and liabilities on a net by counterparty basis provided certain specified criteria are met. These criteria require written bilateral netting agreements between the Company and each of its counterparties that create a single legal claim or obligation to pay or receive the net amount in settlement of the individual derivative contracts. Amounts reported for derivative assets and liabilities in prior periods have been reclassified for consistent presentation.

The consolidated financial statements would also include the assets, liabilities, non-controlling interests and results of operations of variable interest entities ("VIEs") when BOK Financial is determined to be the primary beneficiary. Variable interest entities are generally defined in FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities," as entities that either do not have sufficient equity to finance their activities without support from other parties or whose equity investors lack a controlling financial interest. BOK Financial is not the primary beneficiary in any VIE that would be significant to its operations.

Nature of Operations

BOK Financial, through its subsidiaries, provides a wide range of financial services to commercial and industrial customers, other financial institutions and consumers throughout Oklahoma; Northwest Arkansas; Dallas and Houston, Texas; Albuquerque, New Mexico; Denver, Colorado, and Phoenix, Arizona. These services include depository and cash management; lending and lease financing; mortgage banking; securities brokerage, trading and underwriting; and personal and corporate trust.

Use of Estimates

Preparation of BOK Financial's consolidated financial statements requires management to make estimates of future economic activities, including loan collectibility, prepayments and cash flows from customer accounts. These estimates are based upon current conditions and information available to management. Actual results may differ significantly from these estimates.

Acquisitions

Assets and liabilities acquired, including identifiable intangible assets, are recorded at fair values on the acquisition dates. The Consolidated Statements of Earnings include the results of operations from the dates of acquisition.

Intangible Assets

Intangible assets, which generally result from business combinations, are accounted for under the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and No. 147, "Acquisitions of Certain Financial Institutions."

Intangible assets with indefinite lives, such as goodwill, are evaluated for each of BOK Financial's business units for impairment annually or more frequently if conditions indicate impairment. The evaluation of possible impairment of intangible assets involves significant judgment based upon short-term and long-term projections of future performance.

The fair value of BOK Financial's business units is estimated by the discounted future earnings method. Income growth is projected over a five-year period for each unit and a terminal value is computed. This projected income stream is converted to current fair value by using a discount rate that reflects a rate of return required by a willing buyer.

Core deposit intangible assets are amortized using accelerated methods over the estimated lives of the acquired deposits. These assets generally have a weighted average life of 5 years. Other intangible assets are amortized using accelerated or straight-line methods, as appropriate, over the estimated benefit periods. These periods range from 5 years to 20 years. The net book values of core deposit intangible assets are evaluated for impairment when economic conditions indicate impairment may exist.

Notes to Consolidated Financial Statements

Cash Equivalents

Due from banks, funds sold (generally federal funds sold for one-day periods) and resell agreements (which generally mature within one to 30 days) are considered cash equivalents.

Securities

Securities are identified as trading, investment (held to maturity) or available for sale at the time of purchase based upon the intent of management, liquidity and capital requirements, regulatory limitations and other relevant factors. Trading securities, which are acquired for profit through resale, are carried at market value with unrealized gains and losses included in current period earnings. Investment securities are carried at amortized cost. Amortization is computed by methods that approximate level yield and is adjusted for changes in prepayment estimates. Investment securities may be sold or transferred to trading or available for sale classification in certain limited circumstances specified in generally accepted accounting principles. Securities identified as available for sale are carried at fair value. Unrealized gains and losses are recorded, net of deferred income taxes, as accumulated other comprehensive income (loss) in shareholders' equity. Unrealized losses on securities are evaluated to determine if the losses are temporary based on various factors, including the cause of the loss, prospects for recovery and management's intent and ability to hold the security until the fair value exceeds amortized cost. An impairment charge is recorded against earnings if the loss is determined to be other than temporary. Realized gains and losses on sales of securities are based upon the amortized cost of the specific security sold. Available for sale securities are separately identified as pledged to creditors if the creditor has the right to sell or repledge the collateral.

The purchase or sale of securities is recognized on a trade date basis. A net receivable or payable is recognized for subsequent transaction settlement. BOK Financial will periodically commit to purchase to-be-announced mortgage-backed securities. These commitments are carried at fair value if they are considered derivative contracts. These commitments are not reflected in BOK Financial's balance sheet until settlement date if they meet specific criteria exempting them from the definition of derivative contracts.

Derivative Instruments

Derivative instruments may be used by the Company as part of its interest rate risk management programs or may be offered to customers. All derivative instruments are carried at fair value. The determination of fair value of derivative instruments considers changes in interest rates, commodity prices, foreign exchange rates and counterparty credit ratings, when appropriate. Changes in fair value are generally reported in income as they occur.

Derivative instruments used to manage interest rate risk consist primarily of interest rate swaps. These contracts modify the interest income or expense of certain assets or liabilities. Amounts receivable from or payable to counterparties are reported in interest income or expense using the accrual method. Changes in fair value of interest rate swaps are reported in other operating revenue – gains or losses on derivatives.

In certain circumstances, interest rate swaps may be designated as fair value hedges and may qualify for hedge accounting. In these circumstances, changes in the fair value of the hedged asset or liability that are attributable to the hedged risk are also reported in other operating revenue – gains or losses on derivatives, and may partially or completely offset the change in fair value of the interest rate swap. Fair value hedges are considered to be effective if the cumulative fair value adjustment of the interest rate swap is within a range of 80% to 120% of the change in fair value of the hedged asset or liability.

Interest rate swaps may be designated as cash flow hedges of variable rate assets or liabilities, or of anticipated transactions. Changes in the fair value of interest rate swaps designated as cash flow hedges are recorded in accumulated other comprehensive income to the extent they are effective. The amount recorded in other comprehensive income is reclassified to earnings in the same periods as the hedged cash flows impact earnings. The ineffective portion of changes in fair value is reported in current earnings.

If a derivative instrument that had been designated as a fair value hedge is terminated or if the hedge designation is removed or deemed to no longer be effective, the difference between the hedged item's carrying value and its face amount is recognized into income over the remaining original hedge period. Similarly, if a derivative instrument that had been designated as a cash flow hedge is terminated or if the hedge designation is removed or deemed to no longer

Notes to Consolidated Financial Statements

be effective, the amount remaining in accumulated other comprehensive income is reclassified to earnings in the same period as the hedged item.

BOK Financial also enters into mortgage loan commitments that are considered derivative instruments. Forward sales contracts are used to hedge these mortgage loan commitments as well as mortgage loans held for sale. Mortgage loan commitments are carried at fair value based upon quoted prices, excluding the value of loan servicing rights or other ancillary values. Changes in fair value of the mortgage loan commitments and forward sales contracts are reported in other operating revenue – mortgage banking revenue.

Derivative contracts are also offered to customers to assist in hedging their risks of adverse changes in commodity prices, interest rates and foreign exchange rates. BOK Financial serves as an intermediary between its customers and the markets. Each contract between BOK Financial and its customers is offset by a contract between BOK Financial and various counterparties. These contracts are carried at fair value. Compensation for credit risk and reimbursement of administrative costs are recognized over the life of the contracts and included in other operating revenue – brokerage and trading revenue.

Loans

Loans are either secured or unsecured based on the type of loan and the financial condition of the borrower. Repayment is generally expected from cash flow or proceeds from the sale of selected assets of the borrower. BOK Financial is exposed to risk of loss on loans due to the borrower's difficulties, which may arise from any number of factors, including problems within the respective industry or local economic conditions. Access to collateral, in the event of borrower default, is reasonably assured through adherence to applicable lending laws and through sound lending standards and credit review procedures.

Interest is accrued at the applicable interest rate on the principal amount outstanding. Loans are placed on nonaccrual status when, in the opinion of management, full collection of principal or interest is uncertain, generally when the collection of principal or interest is 90 days or more past due. Interest previously accrued but not collected is charged against interest income when the loan is placed on nonaccrual status. Payments on nonaccrual loans are applied to principal or reported as interest income, according to management's judgment as to the collectibility of principal.

Loan origination and commitment fees and direct loan acquisition and origination costs, when significant, are deferred and amortized as an adjustment to yield over the life of the loan or over the commitment period, as applicable.

Mortgage loans held for sale are carried at the lower of aggregate cost or market value. Mortgage loans held for sale that are designated as hedged assets are carried at fair value based on sales commitments or market quotes. Changes in fair value after the date of designation of an effective hedge are recorded in other operating revenue – mortgage banking revenue.

Reserve for Loan Losses and Off-Balance Sheet Credit Losses

Reserves for loan losses and off-balance sheet credit losses are assessed by management, based upon an ongoing quarterly evaluation of the probable estimated losses inherent in the portfolio, and includes probable losses on both outstanding loans and unused commitments to provide financing. A consistent methodology has been developed that includes reserves assigned to specific criticized loans, general reserves that are based upon statistical migration analyses for each category of loans, and a nonspecific allowance that is based upon an analysis of current economic conditions, loan concentrations, portfolio growth and other relevant factors. The reserve for loan losses related to loans that are identified for evaluation in accordance with Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" ("FAS 114"), is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. Loans are considered to be impaired when it becomes probable that BOK Financial will be unable 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. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

In accordance with the provisions of FAS 114, management has excluded small balance, homogeneous loans from the impairment evaluation specified in FAS 114. Such loans include 1-4 family mortgage loans, consumer loans and commercial loans with committed amounts less than \$1 million. The adequacy of the reserve for loan losses applicable to these loans is evaluated in accordance with gen-

Notes to Consolidated Financial Statements

erally accepted accounting principles and standards established by the banking regulatory authorities and adopted as policy by BOK Financial.

A provision for credit losses is charged against earnings in amounts necessary to maintain adequate reserves for loan and off-balance sheet credit losses. Loans are charged off when the loan balance or a portion of the loan balance is no longer covered by the paying capacity of the borrower based on an evaluation of available cash resources and collateral value. Loans are evaluated quarterly and charge-offs are taken in the quarter in which the loss is identified. Additionally, all unsecured or under-secured loans that are past due by 180 days or more are charged off within 30 days. Recoveries of loans previously charged off are added to the reserve.

Transfers of Financial Assets

BOK Financial transfers pools of financial assets as part of its mortgage banking activities and periodically may transfer other financial assets. These transfers are recorded as sales for financial reporting purposes when the criteria for surrender of control specified in Statement of Financial Accounting Standards, No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" are met. BOK Financial may retain the right to service the assets and a residual interest in excess cash flows generated by the assets and may incur a recourse obligation. The carrying value of the assets sold is allocated between the financial components sold and retained based on relative fair values. The fair value of the retained assets is determined by a discounting of expected future net cash to be received using assumed market interest rates for these instruments. Residual interests are carried at fair value. Changes in fair values are recorded in income. Servicing rights are carried at the lower of amortized cost or fair value. A valuation allowance is provided when amortized cost of servicing rights exceeds fair value.

Real Estate and Other Repossessed Assets

Real estate and other repossessed assets are assets acquired in partial or total forgiveness of loans. These assets are carried at the lower of cost, which is determined by fair value at date of foreclosure, or current fair value. Income generated by these assets is recognized as received, and operating expenses are recognized as incurred.

Premises and Equipment

Premises and equipment are carried at cost including capitalized interest, when appropriate, less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets or, for leasehold improvements, over the shorter of the estimated useful lives or remaining lease terms. Useful lives range from 5 years to 40 years for buildings and improvements, 3 years to 7 years for software and 3 years to 10 years for furniture and equipment. Repair and maintenance costs are charged to expense as incurred.

Rent expense for leased premises is recognized as incurred over the lease term. The effects of rent holidays, significant rent escalations and other adjustments to rent payments are recognized over the lease term.

Mortgage Servicing Rights

Capitalized mortgage servicing rights are carried at the lower of amortized cost or fair value. Amortization is determined in proportion to the projected cash flows over the estimated lives of the servicing portfolios. The actual cash flows are dependent upon the prepayment of the mortgage loans and may differ significantly from the estimates.

There is no active market for trading in mortgage servicing rights. A cash flow model is used to determine fair value. Key assumptions and estimates including projected prepayment speeds and assumed servicing costs, earnings on escrow deposits, ancillary income and discount rates used by this model are based on current market sources. A separate third party model is used to estimate prepayment speeds based on interest rates, housing turnover rates, estimated loan curtailment, anticipated defaults and other relevant factors. The prepayment model is updated daily for changes in market conditions. At least annually, we request estimates of fair value from outside sources to corroborate the results of the valuation model.

Permanent impairment of mortgage servicing rights is evaluated quarterly. A strata is considered to be permanently impaired if the fair value does not exceed amortized cost after assuming a 300 basis point increase in mortgage interest rates. The amortized cost of the asset is reduced to the calculated fair value through a charge against the valuation allowance.

Notes to Consolidated Financial Statements

Originated mortgage servicing rights are recognized when either mortgage loans are originated pursuant to an existing plan for sale or, if no such plan exists, when the mortgage loans are sold. The fair value of the originated servicing rights is determined at closing based upon relative fair value. Purchased mortgage servicing rights are recorded at cost.

Federal and State Income Taxes

BOK Financial and its subsidiaries file consolidated tax returns. The subsidiaries provide for income taxes on a separate return basis and remit to BOK Financial amounts determined to be currently payable.

Current income tax expense is based on an effective tax rate that considers statutory federal and state income tax rates and permanent differences between income and expense recognition for financial reporting and income tax purposes. The amount of current income tax expense recognized in any period may differ from amounts reported to taxing authorities.

BOK Financial has a tax contingency reserve, which is included in accrued current income taxes payable, for the uncertain portion of recorded tax benefits and related interest. These uncertainties result from the application of complex tax laws, rules, regulations and interpretations, primarily in state taxing jurisdictions. The adequacy of this reserve is assessed quarterly and may be adjusted through current income tax expense in future periods based on changing facts and circumstances, completion of examinations by taxing authorities or expiration of a statute of limitations.

Deferred tax assets and liabilities are determined based upon the difference between the values of the assets and liabilities as reflected in the financial statements and their related tax basis using enacted tax rates in effect for the year in which the differences are expected to be recovered or settled. As changes in tax law or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation allowance is provided when it is more likely than not that some portion or the entire deferred tax asset will not be realized.

Employee Benefit Plans

BOK Financial sponsors a defined benefit cash balance pension plan ("Pension Plan"), qualified profit sharing plans ("Thrift Plans") and employee healthcare plans. Pension Plan costs, which are based upon actuarial computations of current costs, are expensed

annually. Unrecognized prior service cost and net gains or losses are amortized on a straight-line basis over the lesser of the average remaining service periods of the participants or 10 years. Employer contributions to the Pension Plan are in accordance with Federal income tax regulations.

Employer contributions to the Thrift Plans, which match employee contributions subject to percentage and years of service limits, are expensed when incurred. BOK Financial recognizes the expense of health care benefits on the accrual method.

Stock Compensation Plans

BOK Financial has adopted the expense recognition provisions of Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("FAS 148").

Grant date fair value of stock options is based on the Black-Scholes option pricing model. Stock options generally have graded vesting over 7 years. Each tranche is considered a separate award for valuation and compensation cost recognition. Grant date fair value of non-vested shares is based on the current market value of BOK Financial common stock. Non-vested shares cliff vest in 5 years.

Compensation cost is recognized as expense over the vesting period. Expense is adjusted for forfeitures as they occur. Stock-based compensation awarded to certain officers has performance conditions that affect the number of awards granted. Compensation cost is adjusted based on the probable outcome of the performance conditions.

Certain executive officers may defer the recognition of income from stock-based compensation for income tax purposes and to diversify the deferred income into alternative investments. Stock-based compensation granted to these officers is considered liability awards. Changes in the fair value of liability awards are recognized as compensation expense in the period of the change.

Other Operating Revenue

Fees and commissions revenue is recognized at the time the related services are provided or products are sold and may be accrued when necessary. Accrued fees and commissions are reversed against revenue if amounts are subsequently deemed to be uncollectible.

Notes to Consolidated Financial Statements

Effect of Pending Statements of Financial Accounting Standards

Financial Accounting Standards Board

Statement of Financial Accounting Standards 123R, "Share-Based Payments" ("FAS 123R")

FAS 123R requires companies to recognize in income statements the grant-date fair value of stock options and other equity-based compensation issued to employees. Previously, FAS 123 recommended, but did not require income statement recognition of the fair value of equity-based compensation. FAS 123R also requires that share-based payments that meet specified criteria be classified as liability awards and carried at current fair value. Fair value is determined at each balance sheet date until the award is settled. Share-payments that will be settled in equity instruments are measured at grant-date fair value and not re-measured for subsequent changes in fair value. FAS 123R was effective for annual periods beginning on or after June 15, 2005.

We previously adopted the preferred income statement recognition methods of the original FAS 123. Management does not expect FAS 123R to have a significant effect on its financial statements.

FSP 115-1 and FAS 124-1 The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments ("FSP 115-1")

FSP 115-1 addressed the determination as to when an investment is considered impaired, whether that impairment is other-than-temporary and the measurement of an impairment loss. It also addressed accounting considerations subsequent to the recognition of an other-than-temporary impairment and disclosures about unrealized losses that have not been recognized.

An investment is considered impaired when its fair value is less than cost. Determination of when an unrealized loss must be recognized as an other-than-temporary impairment is based on an assessment of factors, including the nature of the asset, the financial condition and near-term prospects of the issuer, whether the asset can be prepaid by the issuer in a manner that the investor will not recover its investment, the severity and duration of the impairment and the investor's ability and intent to hold the asset until the fair value recovers.

FSP 115-1 was effective for reporting periods beginning after December 15, 2005. Guidance provided by FSP 115-1 had previously been issued in other authoritative literature, including SEC Staff Accounting Bulletin No. 59, and we do not expect a significant impact on future financial statements.

(2) Acquisitions

Effective April 6, 2005, BOK Financial acquired all of the outstanding common stock of Valley Commerce Bancorp, Ltd. ("VCB") for \$32.0 million in cash. VCB and its wholly-owned subsidiary, Valley Commerce Bank, had total assets of \$143 million, including loans of \$93 million, total deposits of \$110 million and total shareholders' equity of \$12.7 million. As of August 15, 2005, Valley Commerce Bank was renamed Bank of Arizona, N.A. The VCB acquisition is consistent with the Company's strategy to expand into high-growth markets.

On September 10, 2003, BOK Financial paid \$77.9 million in cash for all the outstanding stock of Colorado Funding Company and its Colorado State Bank and Trust subsidiary.

These transactions were accounted for by the purchase method of accounting. Aggregate allocation of the purchase price to the net assets acquired was as follows (in thousands):

	2005	2003
Cash and cash equivalents	\$ 2,921	\$ 80,051
Securities	35,355	14,507
Loans	92,821	222,530
Less reserve for loan losses	1,072	2,282
Loans, net	91,749	220,248
Identifiable intangible assets	4,380	18,770
Other assets	11,334	20,809
Total assets acquired	145,739	354,385
Deposits	110,217	301,439
Other borrowings	18,155	5,098
Other liabilities	2,003	11,951
Net assets acquired	15,364	35,897
Less purchase price	32,014	77,928
Goodwill	\$ 16,650	\$ 42,031

The results of operations of these acquisitions would not have been significant to the Company's consolidated results during the pre-acquisition periods of 2005, 2004 and 2003. None of the intangible assets acquired are deductible for tax purposes.

Notes to Consolidated Financial Statements

(3) Securities

Investment Securities

The amortized cost and fair values of investment securities are as follows (in thousands):

	December 31,							
	2005				2004			
	Amortized Cost	Fair Value	Gross Unrealized		Amortized Cost	Fair Value	Gross Unrealized	
		Gain	Loss			Gain	Loss	
U.S. Treasury	\$ 1,994	\$ 1,976	\$ —	\$ (18)	\$ —	\$ —	\$ —	\$ —
Municipal and other tax-exempt Mortgage-backed U.S. agency securities	240,359	238,649	903	(2,613)	216,986	218,465	2,501	(1,022)
Other debt securities	—	—	—	—	1,287	1,336	49	—
	2,772	2,781	9	—	2,821	2,835	14	—
Total	\$245,125	\$243,406	\$ 912	\$ (2,631)	\$221,094	\$222,636	\$ 2,564	\$ (1,022)

The amortized cost and fair values of investment securities at December 31, 2005, by contractual maturity, are as shown in the following table (dollars in thousands):

	Less than One Year	One to Five Years	Five to Ten Years	Over Ten Years	Total	Weighted Average Maturity ²
U.S. Treasury:						
Amortized cost	\$ —	\$ 1,994	\$ —	\$ —	\$ 1,994	1.17
Fair value	—	1,976	—	—	1,976	
Nominal yield	—	3.64	—	—	3.64	
Municipal and other tax-exempt:						
Amortized cost	\$ 57,284	\$ 146,544	\$ 26,900	\$ 9,631	\$240,359	3.07
Fair value	57,223	145,303	26,647	9,476	238,649	
Nominal yield ¹	4.79	5.03	5.61	6.26	5.11	
Other debt securities:						
Amortized cost	\$ 1,985	\$ 99	\$ 675	\$ 13	\$ 2,772	2.34
Fair value	1,985	103	680	13	2,781	
Nominal yield	4.15	7.00	5.31	—	4.51	
Total fixed maturity securities:						
Amortized cost	\$ 59,269	\$ 148,637	\$ 27,575	\$ 9,644	\$245,125	3.05
Fair value	59,208	147,382	27,327	9,489	243,406	
Nominal yield	4.77	5.01	5.60	6.26	5.09	
Total investment securities:						
Amortized cost					\$245,125	
Fair value					243,406	
Nominal yield					5.09	

¹ Calculated on a taxable equivalent basis using a 39% effective tax rate.

² Expected maturities may differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without penalty.

Notes to Consolidated Financial Statements

Available for Sale Securities

The amortized cost and fair value of available for sale securities are as follows (in thousands):

	December 31,							
	2005				2004			
	Amortized Cost	Fair Value	Gross Unrealized		Amortized Cost	Fair Value	Gross Unrealized	
			Gain	Loss			Gain	Loss
U.S. Treasury	\$ 16,037	\$ 15,827	\$ —	\$ (210)	\$ 27,119	\$ 27,062	\$ 31	\$ (88)
Municipal and other tax-exempt	17,153	17,078	3	(78)	414	404	1	(11)
Mortgage-backed securities:								
U. S. agencies	3,507,047	3,424,356	1,416	(84,107)	3,067,611	3,052,375	8,079	(23,315)
Other	1,277,161	1,250,701	201	(26,661)	1,423,613	1,418,770	2,378	(7,221)
Total mortgage-backed securities	4,784,208	4,675,057	1,617	(110,768)	4,491,224	4,471,145	10,457	(30,536)
Other debt securities	124	124	1	(1)	515	528	13	—
Equity securities and mutual funds	108,914	113,489	4,575	—	90,343	94,051	3,708	—
Total	\$4,926,436	\$4,821,575	\$ 6,196	\$(111,057)	\$4,609,615	\$4,593,190	\$ 14,210	\$(30,635)

The amortized cost and fair values of available for sale securities at December 31, 2005, by contractual maturity, are as shown in the following table (dollars in thousands):

	Less than One Year	One to Five Years	Five to Ten Years	Over Ten Years	Total	Weighted Average Maturity ⁵
U.S. Treasury:						
Amortized cost	\$ 9,987	\$ 6,050	\$ —	\$ —	\$ 16,037	1.08
Fair value	9,847	5,980	—	—	15,827	
Nominal yield	2.78	3.50	—	—	3.05	
Municipal and other tax-exempt:						
Amortized cost	\$ 100	\$ —	\$ 12,005	\$ 5,048	\$ 17,153	9.40
Fair value	100	—	11,960	5,018	17,078	
Nominal yield ¹	4.67	—	3.80	3.17	3.80	
Other debt securities:						
Amortized cost	\$ 65	\$ 26	\$ 33	\$ —	\$ 124	2.91
Fair value	66	25	33	—	124	
Nominal yield ¹	6.26	6.18	7.60	—	6.60	
Total fixed maturity securities:						
Amortized cost	\$ 10,152	\$ 6,076	\$ 12,038	\$ 5,048	\$ 33,314	5.37
Fair value	10,013	6,005	11,993	5,018	33,029	
Nominal yield	2.80	3.51	3.81	3.17	3.45	
Mortgage-backed securities:						
Amortized cost					\$4,784,208	2
Fair value					4,675,057	
Nominal yield ⁴					4.45	
Equity securities and mutual funds:						
Amortized cost					\$ 108,914	3
Fair value					113,489	
Nominal yield					2.99	
Total available-for-sale securities:						
Amortized cost					\$4,926,436	
Fair value					4,821,575	
Nominal yield					4.41	

¹ Calculated on a taxable equivalent basis using a 39% effective tax rate.

² The average expected lives of mortgage-backed securities were 3.4 years based upon current prepayment assumptions.

³ Primarily common stock and preferred stock of U.S. Government agencies with no stated maturity.

⁴ The nominal yield on mortgage-backed securities is based upon prepayment assumptions at the purchase date. Actual yields earned may differ significantly based upon actual prepayments.

⁵ Expected maturities may differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without penalty.

Notes to Consolidated Financial Statements

Sales of available for sale securities resulted in gains and losses as follows (in thousands):

	2005	2004	2003
Proceeds	\$1,537,628	\$2,652,554	\$5,089,734
Gross realized gains	5,145	10,452	30,373
Gross realized losses	12,040	13,540	23,185
Related federal and state income tax expense (benefit)	(2,480)	(1,044)	2,585

In addition to securities that have been reclassified as pledged to creditors, securities with an amortized cost of \$2.7 billion and \$2.6 billion at December 31, 2005 and 2004, respectively, have been pledged as collateral for repurchase agreements, public and trust funds on deposit and for other purposes, as required by law. The secured parties do not have the right to sell or repledge these securities.

Net unrealized losses on securities totaled \$107 million at December 31, 2005 compared with net unrealized losses of \$15 million at December 31, 2004 due primarily to rising interest rates. The aggregate gross amount of unrealized losses at December 31, 2005 totaled \$114 million. Unrealized losses were due primarily to rising interest rates. None of the unrealized losses resulted from credit quality concerns. Management evaluated the securities with unrealized losses to determine if we believe that the losses were temporary. This evaluation considered factors such as causes of the unrealized losses and prospects for recovery over various interest rate scenarios and time periods. The Company also considered the ability and intent to hold the securities until the fair values exceed amortized cost. It is our belief, based on currently available information and our evaluation, that the unrealized losses in these securities were temporary.

Temporarily Impaired Securities

(In Thousands)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Investment:						
U.S. Treasury	\$ 1,976	\$ 18	\$ —	\$ —	\$ 1,976	\$ 18
Municipal and other tax exempt	110,872	1,464	47,765	1,149	158,637	2,613
Available for sale:						
U. S. Treasury	4,950	45	10,877	165	15,827	210
Other debt securities	—	—	34	1	34	1
Municipal and other tax-exempt	8,093	59	296	19	8,389	78
Mortgage-backed securities:						
U. S. agencies	1,188,731	20,262	2,027,695	63,845	3,216,426	84,107
Other	299,168	4,399	901,533	22,262	1,200,701	26,661
Total	\$1,613,790	\$26,247	\$2,988,200	\$87,441	\$4,601,990	\$113,688

Notes to Consolidated Financial Statements

(4) Derivatives

The fair values of derivative contracts at December 31, 2005 were (in thousands):

	Assets	Liabilities
Customer Risk Management Programs:		
Interest rate contracts	\$ 18,741	\$ 20,309
Energy contracts	418,494	416,106
Cattle contracts	1,014	970
Foreign exchange contracts	14,629	14,629
Total Customer Derivatives	452,878	452,014
Interest Rate Risk Management Programs	—	14,655
Total Derivative Contracts	\$ 452,878	\$ 466,669

Customer Risk Management Programs

BOK Financial offers programs that permit its customers to manage various risks, including fluctuations in energy and cattle prices, interest rates and foreign exchange rates. Derivative contracts are executed between the customers and BOK Financial. Offsetting contracts are executed between BOK Financial and selected

counterparties to minimize the risk 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 BOK Financial as compensation for administrative costs, credit risks and profit.

Interest Rate Risk Management Programs

BOK Financial uses interest rate swaps in managing its interest rate sensitivity. Interest rate swaps are generally used to reduce overall asset sensitivity by converting specific fixed rate liabilities to floating rate based on LIBOR, or specific prime-based loans to fixed rate. Interest rate swaps are designated as fair value or cash flow hedges when the specific criteria required by generally accepted accounting principles are met. These criteria include requirements that derivatives are highly effective in offsetting changes in fair value or cash flow of the hedged assets or liabilities.

The following table details interest rate swaps and, when applicable, the associated hedged assets or liabilities at December 31, 2005 (dollars in thousands):

Maturity	Description	Hedged Asset / Liability			Interest Rate Swap				
		Amount	Weighted Average		Notional Amount	Weighted Average		Positive Fair Value	Negative Fair Value
Fixed Rate (Paid)	Floating Rate Received ²		Fixed Rate Received (Paid)	Floating Rate Received (Paid) ¹					
Fair value hedges:									
2006	Certificates of deposit	\$186,937	(3.590) %	— %	\$187,000	3.818%	(4.390) %	\$ —	\$ 847
2007	Certificates of deposit	139,875	(3.634)	—	140,000	3.795	(4.390)	—	1,995
2007	Subordinated debt	150,000	(7.125)	—	150,000	3.165	(4.390)	—	3,947
2008	Certificates of deposit	21,920	(3.000)	—	22,000	3.093	(4.390)	—	811
2009	Certificates of deposit	54,544	(3.945)	—	55,000	4.052	(4.390)	—	1,293
2010	Certificates of deposit	9,564	(3.626)	—	10,000	3.657	(4.390)	—	456
2011	Certificates of deposit	29,435	(3.983)	—	30,000	4.013	(4.390)	—	1,128
	Total fair value hedges	592,275			594,000			—	10,477
Cash flow hedges:									
2008	Prime rate loans	100,000	—	7.250	100,000	5.926	(7.250) ²	—	3,441
	Total cash flow hedges	100,000			100,000			—	3,441
Not designated as hedges:									
2006		—	—	—	12,497	(5.425)	4.390	—	48
2006		—	—	—	33,000	2.699	(4.390)	—	255
2009		—	—	—	15,000	4.432	(4.390)	—	175
2011		—	—	—	29,311	(5.358)	4.390	—	259
	Total	\$692,275			\$783,808			\$ —	\$14,655

¹ Floating rates are based on 30-day LIBOR, unless otherwise noted.

² Floating rate based on prime.

During 2005 and 2004, net interest revenue was decreased by \$1.4 million and increased by \$9.9 million, respectively, from the settlement of amounts receivable or payable on interest rate swaps.

Notes to Consolidated Financial Statements

(5) Loans

Significant components of the loan portfolio are as follows (in thousands):

	December 31,				December 31,			
	2005				2004			
	Fixed Rate	Variable Rate	Non-accrual	Total	Fixed Rate	Variable Rate	Non-accrual	Total
Commercial	\$2,040,799	\$3,247,463	\$11,673	\$5,299,935	\$1,580,239	\$2,962,402	\$33,195	\$4,575,836
Commercial real estate	588,128	1,396,404	5,370	1,989,902	376,290	1,234,676	10,144	1,621,110
Residential mortgage	624,685	537,299	7,347	1,169,331	687,574	502,732	8,612	1,198,918
Residential mortgage held for sale	51,666	—	—	51,666	40,262	—	—	40,262
Consumer	422,799	205,573	772	629,144	309,461	182,671	709	492,841
Total	\$3,728,077	\$5,386,739	\$25,162	\$9,139,978	\$2,993,826	\$4,882,481	\$52,660	\$7,928,967
Loans past due (90 days)				\$ 8,708				\$ 7,649
Foregone interest on nonaccrual loans				\$ 2,515				\$ 4,617

Approximately 57% of the commercial and consumer loan portfolios and approximately 72% of the residential mortgage loan portfolio (excluding loans held for sale) are loans to businesses and individuals in Oklahoma. This geographic concentration subjects the loan portfolio to the general economic conditions within this area.

Within the commercial loan classification, loans to energy-related businesses totaled \$1.4 billion or 15% of total loans as of December 31, 2005. Other notable segments include wholesale/retail, \$793 million; healthcare, \$520 million; manufacturing, \$515 million; agriculture, \$292 million, which includes \$228 million of loans to the cattle industry; and services, \$1.4 billion. Approximately \$1.1 billion of the services category is made up of loans with outstanding balances of less than \$10 million.

Approximately 33% of commercial real estate loans are secured by properties located in Oklahoma, primarily in the Tulsa and Oklahoma City metropolitan areas. An additional 30% of commercial real estate loans are secured by property located in Texas. The major components of these properties are multifamily residences, \$205 million; construction and land development, \$638 million; retail facilities, \$305 million; and office buildings, \$499 million.

During 2004, interest rate swaps with \$100 million notional amounts were designated cash flow hedges of prime-based loans and they remained outstanding through 2005. The objective of the hedge is to protect against the variability of interest cash flows on the first \$100 million of then existing prime-based loans. The Company receives settlements based on a fixed rate of 5.93% and pays settlements based on the U.S. prime rate. Amounts due are settled monthly. As of December 31, 2005, a net loss of approximately \$2.1 million

related to these swaps was included in accumulated other comprehensive income and expected to be reclassified into earnings based on the current interest rate environment.

Credit Commitments

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2005, outstanding commitments totaled \$4.3 billion. Because some commitments are expected to expire before being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. BOK Financial uses the same credit policies in making commitments as it does loans.

The amount of collateral obtained, if deemed necessary, is based upon management's credit evaluation of the borrower.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Because the credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan commitments, BOK Financial uses the same credit policies in evaluating the creditworthiness of the customer. Additionally, BOK Financial uses the same evaluation process in obtaining collateral on standby letters of credit as it does for loan commitments. The term of these standby letters of credit is defined in each commitment and typically corresponds with the underlying loan commitment. At December 31, 2005, outstanding standby letters of credit totaled \$559 million.

Notes to Consolidated Financial Statements

Commercial letters of credit are used to facilitate customer trade transactions with the drafts being drawn when the underlying transaction is consummated. At December 31, 2005, outstanding commercial letters of credit totaled \$6 million.

Reserves for Credit Losses

The activity in the reserve for loan losses is summarized as follows (in thousands):

	2005	2004	2003
Beginning balance	\$108,618	\$114,784	\$103,851
Provision for loan losses	10,401	15,792	34,000
Loans charged off	(25,758)	(29,685)	(31,475)
Recoveries	9,544	7,727	6,125
Addition due to acquisitions	1,071	—	2,283
Ending balance	\$103,876	\$108,618	\$114,784

The activity in the reserve for off-balance sheet credit losses is summarized as follows (in thousands):

	2005	2004	2003
Beginning balance	\$ 18,502	\$ 13,855	\$ 12,219
Provision for off-balance sheet credit losses	2,040	4,647	1,636
Additions due to acquisitions	32	—	—
Ending balance	\$ 20,574	\$ 18,502	\$ 13,855
Provision for credit losses	\$ 12,441	\$ 20,439	\$ 35,636

Impaired Loans

Investments in loans considered to be impaired under FAS 114 were as follows (in thousands):

	December 31,		
	2005	2004	2003
Investment in loans impaired under FAS 114 (all of which were on a nonaccrual basis)	\$ 19,857	\$ 45,424	\$ 46,990
Loans with specific reserves for loss	5,686	14,881	18,947
Specific reserve balance	2,632	6,994	6,377
No specific related reserve for loss	14,171	30,543	28,043
Average recorded investment in impaired loans	32,722	46,386	47,415

Interest income recognized on impaired loans during 2005, 2004 and 2003 was not significant.

(6) Premises and Equipment

Premises and equipment at December 31 are summarized as follows (in thousands):

	December 31,	
	2005	2004
Land	\$ 43,875	\$ 40,479
Buildings and improvements	143,051	135,932
Software	31,250	27,515
Furniture and equipment	107,675	100,447
Subtotal	325,851	304,373
Less accumulated depreciation	146,224	131,730
Total	\$ 179,627	\$172,643

Depreciation expense of premises and equipment was \$24.0 million, \$23.4 million and \$22.4 million for the years ended December 31, 2005, 2004 and 2003, respectively.

(7) Intangible Assets

The following table presents the original cost and accumulated amortization of intangible assets (in thousands):

	December 31,	
	2005	2004
Core deposit premiums	\$ 90,637	\$ 86,257
Less accumulated amortization	77,111	71,158
Net core deposit premiums	13,526	15,099
Other identifiable intangible assets	17,866	11,526
Less accumulated amortization	5,238	4,249
Net other identifiable intangible assets	12,628	7,277
Goodwill	290,003	273,353
Less accumulated amortization	53,135	53,135
Net goodwill	236,868	220,218
Total intangible assets, net	\$263,022	\$242,594

Expected amortization expense for intangible assets that will continue to be amortized under FAS 142, as amended by FAS 147, (in thousands):

	Core Deposit Premiums	Other Identifiable Intangible Assets	Total
2006	\$ 4,563	\$ 769	\$ 5,332
2007	3,777	763	4,540
2008	2,314	780	3,094
2009	1,871	1,137	3,008
2010	846	1,163	2,009
Thereafter	155	8,016	8,171
	\$13,526	\$12,628	\$26,154

Notes to Consolidated Financial Statements

The net amortized cost of intangible assets at December 31, 2005 is assigned to reporting units as follows (in thousands):

Core deposit premiums:	
Bank of Texas	\$ 4,143
Colorado State Bank and Trust	5,781
Bank of Arizona	3,602
	<u>\$ 13,526</u>
Other identifiable intangible assets:	
Bank of Oklahoma	\$ 6,341
Colorado State Bank and Trust	6,287
	<u>\$ 12,628</u>
Goodwill:	
Bank of Oklahoma	\$ 8,173
Bank of Texas	154,741
Bank of Albuquerque	15,273
Colorado State Bank and Trust	42,031
Bank of Arizona	16,650
	<u>\$236,868</u>

During 2005, the Company acquired the naming rights to the BOK Center, a new arena to be built in Tulsa, Oklahoma, and other related intangible rights. Under an agreement with the City of Tulsa, the Company will pay \$11.0 million over 20 years. One or more installment payments may be accelerated by paying a discounted amount based on the average yield of 20-year U.S. Treasury bonds. The Company recognized a \$6.3 million intangible asset and an interest-bearing liability from this transaction. The intangible asset will be amortized over the life of the agreement.

(8) Mortgage Banking Activities

BOK Financial engages in mortgage banking activities through the BOK Mortgage Division of BOK. Residential mortgage loans held for sale totaled \$52 million and \$40 million, and outstanding mortgage loan commitments totaled \$233 million and \$189 million at December 31, 2005 and 2004, respectively. Mortgage loan commitments

are generally outstanding for 60 to 90 days and are subject to both credit and interest rate risk. Credit risk is managed through underwriting policies and procedures, including collateral requirements, which are generally accepted by the secondary loan markets. Exposure to interest rate fluctuations is partially hedged through forward sales of mortgage-backed securities and forward sales contracts. These latter contracts set the price for loans that will be delivered in the next 60 to 90 days. As of December 31, 2005, the unrealized loss on forward sales of mortgage-backed securities and forward sales contracts used to hedge the mortgage pipeline was approximately \$217 thousand. Gains on mortgage loans sold, including capitalized mortgage servicing rights, totaled \$16.0 million in 2005, \$10.4 million in 2004 and \$30.5 million in 2003.

At December 31, 2005, BOK Financial owned the rights to service 53,897 mortgage loans with outstanding principal balances of \$4.5 billion, including \$462 million serviced for affiliates, and held related funds of \$56 million for investors and borrowers. The weighted average interest rate and remaining term was 6.13% and 275 months, respectively. Mortgage loans sold with recourse totaled \$248 million at December 31, 2005. At December 31, 2004, BOK Financial owned the rights to service 56,062 mortgage loans with outstanding principal balances of \$4.5 billion, including \$655 million serviced for affiliates, and held related funds of \$67 million for investors and borrowers. The weighted average interest rate and remaining term was 6.27% and 270 months, respectively. Mortgage loans sold with recourse totaled \$32 million at December 31, 2004.

The portfolio of mortgage servicing rights exposes BOK Financial to interest rate risk. During periods of falling interest rates, mortgage loan prepayments increase, reducing the value of the mortgage servicing rights. See Note 1 for specific accounting policies for mortgage servicing rights.

Activity in capitalized mortgage servicing rights and related valuation allowance during 2003, 2004 and 2005 are as follows (in thousands):

Notes to Consolidated Financial Statements

	Capitalized Mortgage Servicing Rights			Valuation Allowance	Hedging Loss ²	Net
	Purchased	Originated	Total			
Balance at December 31, 2002	37,223	49,849	87,072	(54,918)	5,134	37,288
Additions, net	(3)	23,922	23,919	—	—	23,919
Amortization expense	(14,840)	(19,315)	(34,155)	—	(1,425)	(35,580)
Recovery of impairment	—	—	—	22,923	—	22,923
Balance at December 31, 2003	22,380	54,456	76,836	(31,995)	3,709	48,550
Additions, net	—	11,365	11,365	—	—	11,365
Amortization expense	(4,695)	(10,753)	(15,448)	—	(356)	(15,804)
Write-off	(6,291)	(7,012)	(13,303)	16,656	(3,353)	—
Recovery of impairment	—	—	—	1,567	—	1,567
Balance at December 31, 2004	\$ 11,394	\$ 48,056	\$ 59,450	\$ (13,772)	\$ —	\$ 45,678
Additions, net	—	17,402	17,402	—	—	17,402
Amortization expense	(2,788)	(10,110)	(12,898)	—	—	(12,898)
Write-off	—	(2,443)	(2,443)	2,443	—	—
Recovery of impairment	—	—	—	3,915	—	3,915
Balance at December 31, 2005	\$ 8,606	\$ 52,905	\$ 61,511	\$ (7,414)	\$ —	\$ 54,097
Estimated fair value of mortgage servicing rights at:						
December 31, 2003 ¹	\$ 12,625	\$ 36,564	\$ 49,189			\$ 49,189
December 31, 2004 ¹	\$ 9,338	\$ 36,985	\$ 46,323			\$ 46,323
December 31, 2005 ^{1,3}	\$ 8,489	\$ 46,158	\$ 54,647			\$ 54,647

¹ Excludes approximately \$1.0 million, \$1.1 million and \$1.4 million at December 31, 2005, 2004 and 2003, respectively, of loan servicing rights on mortgage loans originated prior to the adoption of FAS 122.

² Hedging loss represents the deferred loss on a derivatives-based hedging program prior to the adoption of FAS 133.

³ Fair value of mortgage servicing rights is based on numerous assumptions primarily related to mortgage interest rates. At December 31, 2005, management estimates that a 50 basis point increase in mortgage interest rates will increase the fair value of mortgage servicing rights by \$3.1 million and a 50 basis point decrease in mortgage interest rates will reduce the fair value of mortgage servicing rights by \$4.8 million.

Fair value is determined by discounting the projected net cash flows. Significant assumptions are:

Discount rate – Indexed to a risk-free rate commensurate with the average life of the servicing portfolio plus a market premium. The discount rate at December 31, 2005 was 10.85%.

Prepayment rate – Annual prepayment estimates ranging from 10.42% to 20.38% based upon loan interest rate, original term and loan type.

Loan servicing costs – \$35 to \$46 annually per loan based upon loan type.

Escrow earnings rate – Indexed to rates paid on deposit accounts with a comparable average life. The escrow earnings rate at December 31, 2005 was 5.21%.

Stratification of the mortgage loan-servicing portfolio, outstanding principal of loans serviced, and related hedging information by interest rate at December 31, 2005 follows (in thousands):

	< 5.51%	5.51% - 6.50%	6.51% - 7.50%	=> 7.51%	Total
Cost less accumulated amortization	\$ 14,506	\$ 29,294	\$ 13,715	\$ 3,996	\$ 61,511
Fair value	\$ 13,366	\$ 25,337	\$ 11,958	\$ 3,986	\$ 54,647
Impairment ²	\$ 1,267	\$ 3,959	\$ 1,759	\$ 429	\$ 7,414
Outstanding principal of loans serviced ¹	\$998,200	\$1,864,300	\$835,500	\$267,000	\$3,965,000

¹ Excludes outstanding principal of \$462 million for loans serviced for affiliates and \$66 million of mortgage loans for which there are no capitalized mortgage servicing rights.

² Impairment is determined by both an interest rate and loan type stratification.

Notes to Consolidated Financial Statements

(9) Deposits

Interest expense on deposits is summarized as follows (in thousands):

	2005	2004	2003
Transaction deposits	\$ 72,721	\$ 35,517	\$ 31,346
Savings	1,106	975	944
Time:			
Certificates of deposits under \$100,000	50,129	41,978	39,098
Certificates of deposits \$100,000 and over	73,248	53,918	48,181
Other time deposits	13,196	12,045	12,360
Total time	136,573	107,941	99,639
Total	\$210,400	\$144,433	\$131,929

The aggregate amounts of time deposits in denominations of \$100,000 or more at December 31, 2005 and 2004 were \$2.5 billion and \$2.2 billion, respectively.

Time deposit maturities are as follows: 2006 – \$1.9 billion, 2007 – \$1.0 billion, 2008 – \$232 million, 2009 – \$303 million, 2010 – \$298 million, and \$374 million thereafter.

At December 31, 2005, the Company had \$442 million in fixed rate, brokered certificates of deposits. The weighted-average interest rate paid on these certificates is 3.64%. Interest rate swaps have been designated as hedges of each of these certificates. The purpose of these swaps is to hedge against changes in fair value due to changes in interest rates by modifying the certificates from fixed rate to floating rates based on changes in LIBOR. We receive a weighted average fixed rate of 3.81% on these swaps and currently pay a floating rate of 4.39%.

Interest expense on time deposits during 2005 and 2004 was reduced by the net accrued settlement from interest rate swaps of \$700 thousand and \$7.9 million, respectively.

(10) Other Borrowings

Information relating to other borrowings is summarized as follows (dollars in thousands):

	December 31,								
	2005			2004			2003		
	Balance	Rate	Maximum Outstanding At Any Month End	Balance	Rate	Maximum Outstanding At Any Month End	Balance	Rate	Maximum Outstanding At Any Month End
Parent Company:									
Revolving, unsecured line	\$ —	—%	\$ 95,000	\$ 95,000	2.91%	\$ 95,000	\$ 95,000	1.75%	\$ 95,000
Subsidiary Banks:									
Funds purchased and repurchase agreements	1,337,911	4.53	2,291,509	1,555,507	2.18	1,900,810	1,609,668	1.37	1,904,269
Federal Home Loan Bank advances	1,020,871	4.26	1,031,821	894,354	2.31	899,350	899,426	1.21	974,729
Subordinated debenture	295,964	6.30	297,980	151,594	5.18	154,230	154,332	6.02	155,345
Other	33,427	3.13	33,427	25,646	0.98	28,748	22,224	1.58	29,116
Total subsidiary banks	2,688,173	4.61		2,627,101	2.39		2,685,650	1.58	
Total other borrowings	\$2,688,173	4.61		\$2,722,101	2.41		\$2,780,650	1.74	

Aggregate annual principal repayments of long-term debt at December 31, 2005 are as follows (in thousands):

	Parent Company	Subsidiary Banks
2006	\$ —	\$2,364,738
2007	—	152,779
2008	—	1,824
2009	—	8,524
2010	—	475
Thereafter	—	159,833
Total	\$ —	\$2,688,173

Notes to Consolidated Financial Statements

Funds purchased generally mature within one to ninety days from the transaction date. At December 31, 2005, securities sold under agreements to repurchase totaled \$661 million with related accrued interest payable of \$75 thousand.

Additional information relating to repurchase agreements at December 31, 2005 is as follows (dollars in thousands):

Security Sold/Maturity	Amortized Cost	Market Value	Repurchase Liability ¹	Average Rate
Overnight U.S. Agency Securities	\$806,679	\$781,589	\$661,192	4.14%

¹ BOK Financial maintains control over the securities underlying overnight repurchase agreements and generally transfers control over securities underlying longer-term dealer repurchase agreements to the respective counterparty.

Borrowings from the Federal Home Loan Bank are used for funding purposes. In accordance with policies of the Federal Home Loan Bank, BOK Financial has granted a blanket pledge of eligible assets (generally unencumbered U.S. Treasury and mortgage-backed securities, 1-4 family loans and multifamily loans) as collateral for these advances. The Federal Home Loan Bank has issued letters of credit totaling \$308 million to secure BOK Financial's obligations to depositors of public funds. The unused credit available to BOK Financial at December 31, 2005 pursuant to the Federal Home Loan Bank's collateral policies is \$314 million.

BOK Financial has a \$100 million unsecured revolving line of credit with certain commercial banks that expires in December 2010. There was no outstanding principal balance of this credit agreement at December 31, 2005. Interest is based upon a base rate or LIBOR plus a defined margin that is determined by the Company's credit rating. This margin ranges from 0.375% to 1.125%. The margin currently applicable to borrowings against this line is 0.500%. The base rate is defined as the greater of the daily federal funds rate plus 0.5% or the SunTrust Bank prime rate. Interest is generally paid monthly. Facility fees are paid quarterly on the unused portion of the commitment at rates that range from 0.100% to 0.250% based on the Company's credit rating. This credit agreement includes certain restrictive covenants that limit the Company's ability to borrow additional funds, to make investments and to pay cash dividends on common stock. These covenants also require BOK Financial and subsidiary banks to maintain minimum capital levels. BOK Financial met all of the restrictive covenants at December 31, 2005.

In 2005, BOK issued \$150 million of 10-year, fixed rate subordinated debt. The cost of this subordinated debt, including issuance discounts and hedge loss is 5.43%. The proceeds of this debt were used to repay \$95 million of BOK Financial's unsecured revolving line of credit and to provide additional capital to support asset growth.

In 1997, BOK issued a \$150 million 7.125% fixed rate subordinated debenture that matures in 2007. During 2004, a \$150 million notional amount interest rate swap was designated as a hedge of changes in fair value of the subordinated debt due to changes in interest rates. The Company receives a fixed rate of 3.165% and pays a variable rate based on 1-month LIBOR, or 4.39% at December 31, 2005. Semi-annual swap settlements coincide with interest payments on the subordinated debenture. The interest rate swap terminates on August 15, 2007, the maturity date of the subordinated debenture.

(11) Federal and State Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2005	2004
Deferred tax liabilities:		
Pension contributions in excess of book expense	\$ 9,900	\$ 9,400
Valuation adjustments	27,600	29,300
Mortgage servicing rights	22,000	20,200
Lease financing	15,500	15,800
Other	3,300	4,500
Total deferred tax liabilities	78,300	79,200
Deferred tax assets:		
Available for sale securities mark-to-market	40,700	6,400
Stock-based compensation	4,700	3,900
Credit loss reserves	48,000	48,500
Valuation adjustments	7,700	13,200
Deferred book income	26,000	22,400
Deferred compensation	6,900	8,300
Other	12,500	12,100
Total deferred tax assets	146,500	114,800
Deferred tax assets in excess of deferred tax liabilities	\$ 68,200	\$ 35,600

Notes to Consolidated Financial Statements

The significant components of the provision for income taxes attributable to continuing operations for BOK Financial are shown below (in thousands):

	Years ended December 31,		
	2005	2004	2003
Current:			
Federal	\$105,403	\$ 84,514	\$ 77,015
State	7,341	6,743	5,551
Total current	112,744	91,257	82,566
Deferred:			
Federal	415	161	5,369
State	76	29	979
Total deferred	491	190	6,348
Total income tax	\$113,235	\$ 91,447	\$ 88,914

The reconciliations of income attributable to continuing operations computed at the U.S. federal statutory tax rates to income tax expense are as follows (in thousands):

	Years ended December 31,		
	2005	2004	2003
Amount:			
Federal statutory tax	\$110,158	\$ 94,671	\$ 86,538
Tax exempt revenue	(2,592)	(2,705)	(2,815)
Effect of state income taxes, net of federal benefit	4,729	4,220	4,110
Intangible amortization	216	397	763
Charitable contribution	—	(2,446)	—
Utilization of tax credits	(929)	(784)	(794)
Reduction of tax accrual	—	(3,000)	—
Other, net	1,653	1,094	1,112
Total	\$113,235	\$ 91,447	\$ 88,914

Due to the favorable resolution of certain state tax issues for the tax period ended December 31, 2000, BOK Financial reduced its tax accrual by \$3 million, which was credited against current federal income tax expense in 2004.

	Years ended December 31,		
	2005	2004	2003
Percent of pretax income:			
Federal statutory rate	35%	35%	35%
Tax-exempt revenue	(1)	(1)	(1)
Effect of state income taxes, net of federal benefit	1	2	2
Intangible amortization	—	—	—
Charitable contribution	—	(1)	—
Utilization of tax credits	—	—	—
Reduction of tax accrual	—	(1)	—
Other, net	1	—	—
Total	36%	34%	36%

Notes to Consolidated Financial Statements

(12) Employee Benefits

BOK Financial sponsors a defined benefit cash balance Pension Plan for all employees who satisfy certain age and service requirements. The following table presents information regarding this plan (dollars in thousands):

	December 31,	
	2005	2004
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 44,688	\$ 37,773
Service cost	6,766	6,096
Interest cost	2,488	2,314
Actuarial loss	6,599	2,262
Benefits paid	(2,884)	(3,757)
Projected benefit obligation at end of year ^{1,2}	<u>\$ 57,657</u>	<u>\$ 44,688</u>
Change in plan assets:		
Plan assets at fair value at beginning of year	\$ 52,246	\$ 43,275
Actual return on plan assets	3,298	4,002
Company contributions	6,329	8,726
Benefits paid	(2,884)	(3,757)
Plan assets at fair value at end of year	<u>\$ 58,989</u>	<u>\$ 52,246</u>
Reconciliation of prepaid (accrued) and total amount recognized:		
Benefit obligation	\$(57,657)	\$ (44,688)
Fair value of assets	58,989	52,246
Funded status of the plan	1,332	7,558
Unrecognized net loss	20,555	14,226
Unrecognized prior service cost	—	443
Prepaid pension costs	<u>\$ 21,887</u>	<u>\$ 22,227</u>
Components of net periodic benefit costs:		
Service cost	\$ 6,766	\$ 6,096
Interest cost	2,488	2,314
Expected return on plan assets	(4,122)	(3,639)
Amortization of unrecognized amounts:		
Net loss	1,094	1,060
Prior service cost	60	60
Net periodic pension cost	<u>\$ 6,286</u>	<u>\$ 5,891</u>

¹ Projected benefit obligation equals accumulated benefit obligation.

² Projected benefit obligation is based on a January 1 measurement date.

Weighted-average assumptions as of December 31:

Discount rate	5.50%	5.75%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	5.25%	5.25%

As of December 31, 2005, expected future benefit payments related to the Pension Plan were as follows (in thousands):

2006	\$ 2,734
2007	3,307
2008	3,038
2009	3,310
2010	3,297
2011 through 2015	18,272
	<u>\$33,958</u>

Notes to Consolidated Financial Statements

Assets of the Pension Plan consist primarily of shares in the American Performance Balanced Fund. The stated objective of this fund is to provide an attractive total return through a broadly diversified mix of equities and bonds. The typical portfolio mix is approximately 60% equities and 40% bonds. The inception-to-date return on the fund, which is used as an indicator when setting the expected return on plan assets, was 8.40%. The maximum allowed and minimum required Pension Plan contributions for 2005 were \$7.5 million and \$0, respectively. Amounts contributed to the Pension Plan during 2005 included \$5.0 million attributable to the current year and \$1.3 million attributable to 2004.

Employee contributions to the Thrift Plans are matched by BOK Financial up to 5% of base compensation, based upon years of service. Participants may direct the investments of their accounts in a variety of options, including a BOK Financial Common Stock fund. Employer contributions vest over five years. Expenses incurred by BOK Financial for the Thrift Plans totaled \$4.6 million, \$3.9 million and \$3.6 million for 2005, 2004 and 2003, respectively.

BOK Financial also sponsors a defined benefit post-retirement employee medical plan, which pays 50 percent of annual medical insurance premiums for retirees who meet certain age and service requirements. Assets of the retiree medical plan consist primarily of shares in a cash management fund. Eligibility for the post-retirement plan is limited to current retirees and certain employees who were age 60 or older at the time the plan was frozen in 1993. The net obligation recognized under the plan was \$2.2 million at December 31, 2005. A 1% change in medical expense trends would not significantly affect the net obligation or cost of this plan.

During the fourth quarter of 2005, modifications to both the thrift and pension plans were approved. These modifications will become effective April 1, 2006 and consist primarily of enhanced Company contributions to the thrift plans and curtailed benefit accruals to the pension plan.

Employee contributions to the thrift plans eligible for Company matching will increase from 5% of base compensation to 6% of base compensation, as defined in the plans. The Company-provided matching contribution rates will range from 50% for employees with less than four years of service to 200% for employees with 15 or more years of service. Additionally, a maximum Company-provided, non-elective annual contribution of \$750 will be made for employees whose annual base compensation is less than \$30,000.

Accruals for future service under the pension plan will be curtailed. Interest will continue to accrue on employees' account balances at 5.25%. A charge of \$384 thousand was recognized in 2005 for the curtailment of the pension plan.

The combined effects of these modifications are not expected to have a significant impact on future earnings or liquidity. The Company will continue to have a funding obligation to the pension plan and will continue to recognize pension expense based on plan asset performance, discount rates and other factors. At December 31, 2005, prepaid pension expense totaled \$21.9 million, consisting of \$1.3 million of net plan assets in excess of liabilities and \$20.6 million of unrecognized actuarial losses. These losses will be recognized in future years. These unrecognized losses may also be increased or reduced by plan asset performance and discount rate changes.

BOK Financial offers numerous incentive compensation plans that are aligned with the Company's growth strategy. Cash settlements paid under these plans may be based on defined formulas, other performance criteria or discretionary. Incentive compensation is designed to motivate and reinforce sales and customer service behavior in all markets. Earnings were charged \$48.7 million in 2005, \$46.4 million in 2004 and \$46.2 million in 2003 for incentive compensation plans.

(13) Stock Compensation Plans

The shareholders and Board of Directors of BOK Financial have approved various stock-based compensation plans. An independent compensation committee of the Board of Directors determines the number of awards granted to the Chief Executive Officer and other senior executives. Stock-based compensation granted to other officers and employees is approved by the independent compensation committee upon recommendation of the Chairman of the Board and the Chief Executive Officer.

These awards consist primarily of stock options that are subject to vesting requirements. Generally, one-seventh of the options awarded vest annually and expire three years after vesting. Additionally, stock options that vest in two years and expire 45 days after vesting have been awarded. Non-vested shares may be granted to the Chief Executive Officer and other senior executives of the Company. These shares vest five years after the grant date. The holders of these shares may be required to retain the shares for a three-year period after vesting.

Notes to Consolidated Financial Statements

The Chief Executive Officer and other senior executives participate in an Executive Incentive Plan. The number of options and non-vested shares may increase or decrease based upon the Company's growth in earnings per share over a three-year period compared to the median growth in earnings per share for a designated peer group of financial institutions and other individual performance factors.

The following table presents options outstanding during 2003, 2004 and 2005 under these plans:

	Number	Weighted-Average Exercise Price
Options outstanding at December 31, 2002	3,233,570	19.66
Options awarded	889,343	32.60
Options exercised	(672,457)	16.74
Options forfeited	(61,941)	23.07
Options expired	(53)	18.73
Options outstanding at December 31, 2003	3,388,462	23.58
Options awarded	857,951	40.37
Options exercised	(693,199)	19.65
Options forfeited	(212,844)	27.15
Options expired	(2,322)	14.94
Options outstanding at December 31, 2004	3,338,048	\$28.53
Options awarded	900,126	47.02
Options exercised	(668,990)	24.10
Options forfeited	(82,505)	33.67
Options expired	(616)	30.11
Options outstanding at December 31, 2005	3,486,063	\$ 34.03
Options vested at December 31, 2005	1,004,508	\$ 24.12

The following table summarizes information concerning currently outstanding and vested stock options:

Options Outstanding			Options Vested		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Vested	Weighted Average Exercise Price
\$ 9.69	20,100	0.83	\$ 9.69	20,100	\$ 9.69
16.17	80,911	1.42	16.17	80,911	16.17
17.37 — 19.02	694,430	2.61	18.00	460,356	18.18
28.27 — 30.87	914,335	3.80	29.74	279,537	29.34
37.43 — 37.65	92,490	0.12	37.53	92,490	37.53
37.74	577,442	5.00	37.74	71,114	37.74
45.43 — 49.09	218,204	1.00	47.79	—	—
45.15 — 47.34	674,467	6.00	47.32	—	—
44.00 — 47.99	213,684	2.00	46.04	—	—

Compensation expense for stock options is generally recognized based on the fair value of options granted over the options' vesting period. No compensation expense is recognized for options that are forfeited before vesting. The fair value of options was determined as of the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	2005	2004	2003
Average risk-free interest rate	3.69%	3.27%	2.57%
Dividend yield	0.90%	None	None
Volatility factors	.161	.168	.178
Weighted-average expected life	4.9 years	4.9 years	7 years
Weighted-average fair value	\$10.01	\$ 8.53	\$ 6.66

Compensation cost of stock options granted that may be recognized as compensation expense in future years totaled \$10.5 million at December 31, 2005. Subject to adjustments for forfeitures, we expect to recognize compensation expense for current outstanding options of \$4.5 million in 2006, \$2.9 million in 2007, \$1.5 million in 2008, \$930 thousand in 2009 and \$661 thousand thereafter. Stock option expense for the years ended December 31, 2005, 2004 and 2003 was \$5.5 million, \$3.7 million and \$3.6 million, respectively.

BOK Financial also issues non-vested common shares under the various stock-based compensation plans. At December 31, 2005, a total of 57,706 non-vested common shares have been awarded, including 15,028 awarded in 2005. The weighted average grant date fair value of non-vested shares awarded in 2005 was \$46.76 per share. Unrecognized compensation cost of non-vested shares totaled \$904 thousand at December 31, 2005. Subject to adjustment for forfeitures, we expect to recognize compensation expense of \$250 thousand in 2006 and 2007, \$246 thousand in 2008 and \$158 thousand thereafter.

BOK Financial permits certain executive officers to defer recognition of taxable income from their stock-based compensation. Deferred compensation may also be diversified into investments other than BOK Financial common stock.

Stock-based compensation subject to these deferral plans is recognized as a liability award rather than as an equity award. Compensation expense is based on the fair value of the award recognized over the vesting period. At December 31, 2005, the recorded obligation for liability awards was \$4.0 million. Compensation expense for liability awards was a credit of \$632 thousand in 2005 and expense of \$7.6 million in 2004 and \$2.2 million in 2003. The reduction in

Notes to Consolidated Financial Statements

2005 expense resulted from the termination of future deferral rights for all executive officers except the President and Chief Executive Officer and a decrease in the period end market value of BOK Financial common stock.

During January 2006, BOK Financial awarded the following stock-based compensation:

	Number	Exercise Price	Fair Value / Award
Equity awards:			
Stock options	632,776	\$47.05	\$ 9.86
Nonvested stock	20,495	—	47.05
Total Equity awards	653,271		
Liability awards:			
Stock options	52,246	47.05	9.86
Nonvested stock	12,803	—	47.05
Total Liability awards	65,049		
Total stock-based awards	718,320		

The aggregate compensation cost of these awards totaled approximately \$8.5 million. This cost will be recognized over the vesting periods, subject to adjustments for forfeitures and changes in the fair value of liability awards.

(14) Related Parties

In compliance with applicable regulations, the Company may extend credit to certain executive officers, directors, principal shareholders and their affiliates (collectively referred to as "related parties") in the ordinary course of business under substantially the same terms as comparable third-party lending arrangements. The Company's loans to related parties do not involve more than the normal credit risk and there are no non-accrual or impaired related party loans outstanding at December 31, 2005 or 2004.

Activity in loans to related parties is summarized as follows (in thousands):

	2005	2004
Beginning balance	\$104,845	\$119,873
Advances	691,848	434,242
Payments	(678,098)	(442,834)
Adjustments ¹	11,769	(6,436)
Ending balance	\$130,364	\$104,845

¹ Adjustments generally consist of changes in status as a related party.

BOK Investment Advisors, Inc. ("BOKIA"), a wholly-owned subsidiary of BOK, serves as investment advisor to American Performance Funds ("AP Funds"). AP Funds is a diversified, open-ended, investment company established in 1987 as a business trust under the Investment Act

of 1940. BOK serves as custodian for AP Funds. Effective July 1, 2004, BOKIA began serving as the AP Funds administrator. BOK Financial offers the AP Funds, products to customers and employees, in the ordinary course of business, through its brokerage and trading, employee benefit plan and trust services as well as to the general public.

Certain related parties are customers of the Company for services other than loans, including consumer banking, corporate banking, risk management, wealth management, brokerage and trading, or fiduciary/trust services. The Company engages in transactions with related parties in the ordinary course of business in compliance with applicable regulations. There are no other material related party transactions that require disclosure.

(15) Commitments and Contingent Liabilities

In the ordinary course of business, BOK Financial and its subsidiaries are subject to legal actions and complaints. Management believes, based upon the opinion of counsel, that the actions and liability or loss, if any, resulting from the final outcomes of the proceedings will not be material in the aggregate.

BOK is obligated under a long-term lease for its bank premises located in downtown Tulsa. The lease term, which began November 1, 1976, is for fifty-seven years with options to terminate in 2014 and 2024. Annual base rent is \$3.3 million. BOK subleases portions of its space for annual rents of \$213 thousand in years 2006 through 2009 and \$195 thousand in 2010. Net rent expense on this lease was \$2.9 million in years 2005, 2004 and 2003. Total rent expense for BOK Financial was \$15.3 million in 2005, \$14.3 million in 2004 and \$13.0 million in 2003.

At December 31, 2005, future minimum lease payments for equipment and premises under operating leases were as follows: \$14.9 million in 2006, \$13.6 million in 2007, \$12.5 million in 2008, \$11.5 million in 2009, \$10.6 million in 2010, and a total of \$94.4 million thereafter. Premises leases may include options to renew at then current market rates and may include escalation provisions based upon changes in the consumer price index or similar benchmarks.

The Federal Reserve Bank requires member banks to maintain certain minimum average cash balances. These balances were approximately \$316 million and \$334 million at December 31, 2005 and 2004, respectively.

Notes to Consolidated Financial Statements

BOSC, Inc., a wholly-owned subsidiary of BOK Financial, is an introducing broker to Pershing, LLC for retail equity investment transactions. As such, it has indemnified Pershing, LLC against losses due to a customer's failure to settle a transaction or to repay a margin loan. All unsettled transactions and margin loans are secured as required by applicable regulation. The amount of customer balances subject to indemnification totaled \$1.5 million at December 31, 2005.

BOK Private Equity, LLC, indirectly a wholly-owned subsidiary of BOK Financial, is the general partner in BOK Private Equity Fund, LP ("the Fund"). The Fund provides alternative investment opportunities to certain customers, some of which are related parties, through limited partnerships. The Fund generally invests in distressed assets, asset buy-out or venture capital limited partnerships or limited liability companies. The general partner has contingent obligations through the Fund to make additional investments totaling \$16.4 million as of December 31, 2005.

(16) Shareholders' Equity

Preferred Stock

One billion shares of preferred stock with a par value of \$0.000005 per share are authorized. The Series A Preferred Stock has no voting rights except as otherwise provided by Oklahoma corporate law and may be converted into one share of Common Stock for each 36 shares of Series A Preferred Stock at the option of the holder. Dividends are cumulative at an annual rate of ten percent of the \$0.06 per share liquidation preference value when declared and are payable in cash. Aggregate liquidation preference is \$15 million. During the second quarter of 2005, holders of the Company's convertible preferred stock exercised their conversion rights. All of the Series A Preferred Stock was converted into 6,920,666 common shares. In 2004 and 2003, cash dividends declared on preferred stock totaled \$1.9 million and \$750 thousand, respectively. During 2003, 23,214 shares of BOK Financial common stock were issued in payment of dividends on the Series A Preferred Stock in lieu of cash by mutual agreement of BOK Financial and the holders of the Series A Preferred Stock. These shares were valued at \$750,000 based on average market price, as defined, for a 65 business day period preceding declaration. George B. Kaiser owned substantially all Series A Preferred Stock.

Common Stock

Common stock consists of 2.5 billion authorized shares with a \$0.000006 par value. Holders of common shares are entitled to one vote per share at the election of the Board of Directors and on any question arising at any shareholders' meeting and to receive dividends when and as declared. No common stock dividends can be paid unless all accrued dividends on the Series A Preferred Stock have been paid. Additionally, regulations restrict the ability of national banks and bank holding companies to pay dividends, and BOK Financial's credit agreement restricts the payment of dividends by the holding company.

During the second quarter of 2005, the Board of Directors approved the Company's first quarterly cash dividend of \$0.10 per common share. The quarterly cash dividend replaced the annual dividend historically paid in shares of common stock. Cash dividends paid on common stock totaled \$20 million. During 2004 and 2003, 3% dividends payable in shares of BOK Financial common stock were declared and paid. The shares issued were valued at \$66 million and \$58 million, respectively, based on the average closing bid/ask prices on the day preceding declaration. Per share data has been restated to reflect these stock dividends.

During 2002, BOK Financial agreed to a limited price guarantee on a portion of the shares issued to purchase Bank of Tanglewood. The fair value of this price guarantee, estimated to be \$3 million based upon the Black-Scholes option pricing model, was included in the purchase price. Any holder of BOK Financial common shares issued in this acquisition may annually make a claim for the excess of the guaranteed price and the actual sales price of any shares sold during a 60-day period after each of the first five anniversary dates after October 25, 2002. The maximum annual number of shares subject to this guarantee is 210,069. The guaranteed price for each anniversary period is \$40.10 for 2006 and \$42.53 for 2007. The price guarantee is nontransferable and noncumulative. BOK Financial may elect, in its sole discretion, to issue additional shares of common stock to satisfy any obligation under the price guarantee or to pay cash. The maximum aggregate number of common shares that may be issued to satisfy any price guarantee obligations is 10 million. If, as of any benchmark date, BOK Financial has already issued 10 million shares, BOK Financial is not obligated to make any further benchmark payments. BOK Financial's ability to pay cash to satisfy any price guarantee obligations is limited by applicable bank holding company and bank capital and dividend regulations.

Notes to Consolidated Financial Statements

Subsidiary Banks

The amounts of dividends that BOK Financial's subsidiary banks can declare and the amounts of loans the subsidiary banks can extend to affiliates are limited by various federal banking regulations and state corporate law. Generally, dividends declared during a calendar year are limited to net profits, as defined, for the year plus retained profits for the preceding two years. The amounts of dividends are further restricted by minimum capital requirements. Pursuant to the most restrictive of the regulations at December 31, 2005, BOK Financial's subsidiary banks could declare dividends up to \$158 million without prior regulatory approval. Management has developed and the Board of Directors has approved an internal capital policy that is more restrictive than the regulatory capital standards. As of December 31, 2005, the subsidiary banks could declare dividends of up to \$86 million under this policy. The subsidiary banks declared and paid dividends of \$151 million in 2005 and \$66 million in 2003. During 2004, the subsidiary banks did not declare any dividends.

Loans to a single affiliate may not exceed 10% and loans to all affiliates may not exceed 20% of unimpaired capital and surplus, as defined. Additionally, loans to affiliates must be fully secured. As of December 31, 2005 and 2004, these loans had no outstanding balance. Total loan commitments to affiliates at December 31, 2005 were \$128 million.

Regulatory Capital

BOK Financial and its banking subsidiaries are subject to various capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and additional discretionary actions by regulators that could have a material effect on BOK Financial's operations. These capital requirements include quantitative measures of assets, liabilities and certain off-balance sheet items. The capital standards are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

For a banking institution to qualify as well capitalized, its Tier I, Total and Leverage capital ratios must be at least 6%, 10% and 5%, respectively. Tier I capital consists primarily of common stockholders' equity, excluding unrealized gains or losses on available for sale securities, less goodwill, core deposit premiums and certain other intangible assets. As directed by the Federal Reserve Bank, Tier I capital excludes \$16 million, the combined value of common shares issued subject to the market value protection program and the value of the market value guarantee. These values will be restored to Tier I capital as the market price guarantee expires. Total capital consists primarily of Tier I capital plus preferred stock, subordinated debt and reserves for credit losses, subject to certain limitations. All of BOK Financial's banking subsidiaries exceeded the regulatory definition of well capitalized.

	December 31,			
	2005		2004	
	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>				
Total Capital (to Risk Weighted Assets):				
Consolidated	\$ 1,625,832	12.10%	\$ 1,329,431	11.67%
BOK	1,162,091	10.91	1,016,351	11.13
Bank of Texas	275,507	11.29	235,921	11.41
Bank of Albuquerque	95,134	16.47	103,573	15.34
Bank of Arkansas	18,372	19.53	16,162	20.37
Colorado State Bank and Trust	40,249	13.17	36,015	14.50
Bank of Arizona	18,194	18.44	N/A	N/A
Tier I Capital (to Risk Weighted Assets):				
Consolidated	\$ 1,322,570	9.84%	\$ 1,140,654	10.02%
BOK	895,653	8.41	867,335	9.50
Bank of Texas	252,316	10.34	211,641	10.24
Bank of Albuquerque	88,439	15.31	95,443	14.14
Bank of Arkansas	17,194	18.27	15,164	19.11
Colorado State Bank and Trust	36,935	12.09	32,891	13.24
Bank of Arizona	17,113	17.35	N/A	N/A
Tier I Capital (to Average Assets):				
Consolidated	\$ 1,322,570	8.30%	\$ 1,140,654	7.94%
BOK	895,653	6.88	867,335	7.29
Bank of Texas	252,316	8.09	211,641	7.62
Bank of Albuquerque	88,439	6.76	95,443	6.69
Bank of Arkansas	17,194	10.98	15,164	8.97
Colorado State Bank and Trust	36,935	6.10	32,891	8.73
Bank of Arizona	17,113	11.67	N/A	N/A

Notes to Consolidated Financial Statements

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) ("AOCI") includes unrealized gains and losses on available for sale securities and accumulated gains or losses on effective cash flow hedges, including hedges of anticipated transactions. Gains and losses in AOCI are net

of deferred income taxes. Accumulated losses on cash flow hedges of prime-based loans of \$2.1 million will be reclassified into income over two years. Accumulated losses on the rate lock hedge of the 2005 subordinated debenture issuance will be reclassified into income over the ten-year life of the debt.

	Unrealized Gain (Loss) On Available For Sale Securities	Accumulated Loss on Effective Cash Flow Hedges	Total
Balance at December 31, 2002	\$ 43,088	\$ —	\$ 43,088
Unrealized losses on securities	(46,884)	—	(46,884)
Tax benefit on unrealized losses	16,858	—	16,858
Reclassification adjustment for gains realized and included in net income	(7,188)	—	(7,188)
Reclassification adjustment for tax expense on realized gains	2,585	—	2,585
Balance at December 31, 2003	8,459	—	8,459
Unrealized losses on securities	(31,806)	—	(31,806)
Unrealized losses on cash flow hedges	—	(2,664)	(2,664)
Tax benefit on unrealized losses	11,303	1,039	12,342
Reclassification adjustment for losses realized and included in net income	3,088	—	3,088
Reclassification adjustment for tax benefit on realized losses	(1,044)	—	(1,044)
Balance at December 31, 2004	(10,000)	(1,625)	(11,625)
Unrealized losses on securities	(92,551)	—	(92,551)
Unrealized gains on cash flow hedges	—	684	684
Loss on rate lock hedge of subordinated debt issuance	—	(2,788)	(2,788)
Tax benefit (expense) on unrealized gains (losses)	34,129	(75)	34,054
Reclassification adjustment for losses realized and included in net income	6,772	123	6,895
Reclassification adjustment for tax benefit on realized losses	(2,432)	(48)	(2,480)
Balance at December 31, 2005	\$ (64,082)	\$ (3,729)	\$ (67,811)

(17) Earnings Per Share

The following table presents the computation of basic and diluted earnings per share (dollars in thousands except per share data):

	Years ended December 31,		
	2005	2004	2003
Numerator:			
Net income	\$ 201,505	\$ 179,023	\$ 158,360
Preferred stock dividends	(375)	(1,875)	(1,500)
Numerator for basic earnings per share — income available to common stockholders	201,130	177,148	156,860
Effect of dilutive securities:			
Preferred stock dividends	375	1,875	1,500
Numerator for diluted earnings per share — income available to common stockholders after assumed conversion	\$ 201,505	\$ 179,023	\$ 158,360
Denominator:			
Denominator for basic earnings per share — weighted average shares	64,067,873	59,128,395	58,699,951
Effect of dilutive securities:			
Employee stock compensation plans ¹	628,060	669,857	776,891
Convertible preferred stock	2,351,131	6,921,083	6,921,164
Tanglewood market value guarantee (see Note 16)	—	13,161	111,115
Dilutive potential common shares	2,979,191	7,604,101	7,809,170
Denominator for diluted earnings per share — adjusted weighted average shares and assumed conversions	67,047,064	66,732,496	66,509,121
Basic earnings per share	\$ 3.14	\$ 3.00	\$ 2.67
Diluted earnings per share	\$ 3.01	\$ 2.68	\$ 2.38

¹ Excludes employee stock options with exercise prices greater than the current market price.

	855,326	31,970	26,943
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Notes to Consolidated Financial Statements

(18) Reportable Segments

BOK Financial operates five principal lines of business: Oklahoma corporate banking, Oklahoma consumer banking, mortgage banking, wealth management, and regional banking. Mortgage banking activities include loan origination and servicing across all markets served by the Company. Wealth management provides brokerage and trading, private financial services and investment advisory services in all markets. It also provides fiduciary services in all markets except Colorado. Fiduciary services in Colorado are included in regional banking. Regional banking consists primarily of corporate and consumer banking activities in the respective local markets. In addition to its lines of business, BOK Financial has a funds management unit. The primary purpose of this unit is to manage the overall liquidity needs and interest rate risk of the Company. Each line of business borrows funds from and provides funds to the funds management unit as needed to support their operations.

The Oklahoma Corporate Banking segment provides loan and lease financing and treasury and cash management services to businesses throughout Oklahoma and certain relationships in surrounding states. Oklahoma Corporate Banking also includes our TransFund unit, which provides ATM and merchant deposit services. The Oklahoma Consumer Banking segment provides a full line of deposit, loan and fee-based services to customers throughout Oklahoma through four major distribution channels: traditional branches, supermarket branches, the 24-hour ExpressBank call center and the Internet. The Mortgage Banking segment consists of two operating sectors that originate a full range of mortgage products from federally sponsored programs to "jumbo loans" on higher priced homes in BOK Financial's primary market areas. The Mortgage Banking segment also services mortgage loans acquired from throughout the United States. The Wealth Management segment provides a wide range of financial services, including trust and private financial services and brokerage and trading services. This segment includes the activities of BOSC, Inc., a registered broker/dealer. Trust and private financial services include sales of institutional, investment and retirement products, loans and other services to affluent individuals, businesses, not-for-profit organizations, and governmental agencies. Trust services are primarily provided to clients in Oklahoma, Texas and New Mexico. Regional banking includes Bank of Texas, Bank of Albuquerque, Bank of Arkansas, Colorado State Bank and Trust and Bank of Arizona. Each of these banks provides a full range of corporate and consumer banking services in their respective markets. Fiduciary services provided through Colorado State Bank and Trust are included in the Regional Banking segment.

BOK Financial identifies reportable segments by type of service provided for the Mortgage Banking and the Wealth Management segments and by type of customer for the Oklahoma Corporate Banking and Oklahoma Consumer Banking segments. Regional Banking is identified by legal entity. Operating results are adjusted for inter-company loan participations and allocated service costs and management fees.

BOK Financial allocates resources and evaluates performance of its lines of business after allocation of funds, certain indirect expenses, taxes 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 rates are 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 90 days for certain rate-sensitive deposits to five years. The accounting policies of the reportable segments generally follow those described in the summary of significant accounting policies, except that interest income is reported on a fully tax-equivalent basis, loan losses are based on actual net amounts charged off and the amortization of intangible assets is generally excluded.

Economic capital is assigned to the business units by a third-party developed 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 the 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. Additional capital is assigned to the regional banking line of business based on BOK Financial's investment in those entities.

Substantially all revenue is from domestic customers. No single external customer accounts for more than 10% of total revenue.

Notes to Consolidated Financial Statements

(In Thousands)	Oklahoma Corporate Banking	Oklahoma Consumer Banking	Mortgage Banking	Wealth Management	Regional Banking	All Other/ Eliminations	Total
Year ended December 31, 2005							
Net interest revenue/(expense) from external sources	\$ 191,040	\$ (25,140)	\$ 20,392	\$ 5,651	\$ 264,273	\$ (6,875)	\$ 449,341
Net interest revenue/(expense) from internal sources	(60,735)	87,421	(14,979)	11,208	(41,338)	18,423	—
Total net interest revenue	130,305	62,281	5,413	16,859	222,935	11,548	449,341
Provision for credit losses	4,757	4,632	416	218	6,195	(3,777)	12,441
Other operating revenue	92,707	66,266	16,427	100,647	54,719	(1,496)	329,270
Gain on sales of assets	4,758	—	1,232	—	—	—	5,990
Capitalized mortgage servicing rights	—	—	17,402	—	—	—	17,402
Financial instruments gains (losses)	—	—	(5,087)	—	503	(1,132)	(5,716)
Operating expense	102,513	84,336	35,315	88,001	150,409	12,447	473,021
Recovery for impairment of mortgage servicing rights	—	—	(3,915)	—	—	—	(3,915)
Income taxes	46,875	15,396	1,389	11,397	44,209	(6,031)	113,235
Net income	\$ 73,625	\$ 24,183	\$ 2,182	\$ 17,890	\$ 77,344	\$ 6,281	\$ 201,505
Average assets	\$4,629,400	\$2,988,218	\$526,224	\$1,503,886	\$6,420,498	\$ (499,371)	\$15,568,855
Average economic capital	322,440	69,810	24,210	106,040	325,000	614,346	1,461,846
Average invested capital	—	—	—	—	569,800	—	—
Performance measurements:							
Return on assets	1.59%	0.81%	0.41%	1.19%	1.20%	—	1.29%
Return on economic capital	22.83	34.64	9.01	16.87	23.80	—	13.78
Return on invested capital	—	—	—	—	13.57	—	—
Efficiency ratio	45.01	65.61	87.25	74.89	54.17	—	58.98

Reconciliation to Consolidated Financial Statements

	Net Interest Revenue	Other Operating Revenue ¹	Other Operating Expense	Net Income	Average Assets
Total reportable segments	\$437,793	\$354,158	\$456,659	\$195,224	\$16,068,226
Unallocated items:					
Tax-equivalent adjustment	5,182	—	—	5,182	—
Funds management	18,543	(709)	7,778	(1,789)	1,688,973
All others (including eliminations), net	(12,177)	(787)	4,669	2,888	(2,188,344)
BOK Financial consolidated	\$449,341	\$352,662	\$469,106	\$201,505	\$15,568,855

¹Excluding financial instrument gains/(losses)

Notes to Consolidated Financial Statements

<i>(In Thousands)</i>	Oklahoma Corporate Banking	Oklahoma Consumer Banking	Mortgage Banking	Wealth Management	Regional Banking	All Other/ Eliminations	Total
Year ended December 31, 2004							
Net interest revenue/(expense) from external sources	\$ 148,919	\$ (19,061)	\$ 21,647	\$ 4,001	\$ 200,781	\$ 66,956	\$ 423,243
Net interest revenue/(expense) from internal sources	(26,049)	64,873	(11,423)	8,888	(19,753)	(16,536)	—
Total net interest revenue	122,870	45,812	10,224	12,889	181,028	50,420	423,243
Provision for credit losses	8,956	6,964	340	23	5,507	(1,351)	20,439
Other operating revenue	86,493	56,611	22,055	93,193	47,017	(3,282)	302,087
Capitalized mortgage servicing rights	—	—	11,365	—	—	—	11,365
Financial instruments gains (losses)	—	—	(5,068)	—	—	506	(4,562)
Operating expense	99,007	76,057	35,415	83,784	132,022	16,506	442,791
Recovery for impairment of mortgage servicing rights	—	—	(1,567)	—	—	—	(1,567)
Income taxes	39,444	7,548	1,707	8,688	32,810	1,250	91,447
Net income	\$ 61,956	\$ 11,854	\$ 2,681	\$ 13,587	\$ 57,706	\$ 31,239	\$ 179,023
Average assets	\$4,380,491	\$2,746,279	\$559,034	\$1,122,147	\$5,754,211	\$ (535,275)	\$14,026,887
Average economic capital	312,530	64,390	27,270	84,820	280,710	527,837	1,297,557
Average invested capital	—	—	—	—	508,880	—	—
Performance measurements:							
Return on assets	1.41%	0.43%	0.48%	1.21%	1.00%	—	1.28%
Return on economic capital	19.82	18.41	9.83	16.02	20.56	—	13.80
Return on invested capital	—	—	—	—	11.34	—	—
Efficiency ratio	47.29	74.26	81.15	78.98	57.89	—	60.11

Reconciliation to Consolidated Financial Statements

	Net Interest Revenue	Other Operating Revenue ¹	Other Operating Expense	Net Income	Average Assets
Total reportable segments	\$372,823	\$316,734	\$424,718	\$147,784	\$14,562,162
Unallocated items:					
Tax-equivalent adjustment	5,039	—	—	5,039	—
Funds management	56,432	(3,465)	12,073	19,066	1,590,820
All others (including eliminations), net	(11,051)	183	4,433	7,134	(2,126,095)
BOK Financial consolidated	\$423,243	\$313,452	\$441,224	\$179,023	\$14,026,887

¹Excluding financial instrument gains/(losses)

Notes to Consolidated Financial Statements

<i>(In Thousands)</i>	Oklahoma Corporate Banking	Oklahoma Consumer Banking	Mortgage Banking	Wealth Management	Regional Banking	All Other/ Eliminations	Total
Year ended December 31, 2003							
Net interest revenue/(expense) from external sources	\$ 140,818	\$ (17,188)	\$ 27,770	\$ 1,966	\$ 168,995	\$ 69,134	\$ 391,495
Net interest revenue/(expense) from internal sources	(25,924)	58,261	(9,415)	8,939	(14,801)	(17,060)	—
Total net interest revenue	114,894	41,073	18,355	10,905	154,194	52,074	391,495
Provision for credit losses	10,318	6,892	917	390	6,425	10,694	35,636
Other operating revenue	77,332	47,229	36,379	93,757	37,106	(8,685)	283,118
Capitalized mortgage servicing rights	—	—	23,922	—	—	—	23,922
Financial instruments gains (losses)	—	—	4,205	—	339	(6,551)	(2,187)
Operating expense	87,585	66,798	58,204	80,512	119,567	23,695	436,361
Recovery for impairment of mortgage servicing rights	—	—	(22,923)	—	—	—	(22,923)
Income taxes	36,692	5,684	18,082	9,243	23,974	(4,761)	88,914
Net income	\$ 57,631	\$ 8,928	\$ 28,401	\$ 14,517	\$ 41,673	\$ 7,210	\$ 158,360
Average assets	\$4,106,441	\$2,525,060	\$623,823	\$ 875,661	\$5,000,039	\$ (351,608)	\$12,779,416
Average economic capital	311,140	58,000	34,120	69,690	273,600	413,006	1,159,556
Average invested capital	—	—	—	—	459,780	—	—
Performance measurements:							
Return on assets	1.40%	0.35%	4.55%	1.66%	0.83%	—	1.24%
Return on economic capital	18.52	15.39	83.24	20.83	15.23	—	13.66
Return on invested capital	—	—	—	—	9.06	—	—
Efficiency ratio	45.56	75.65	74.00	76.93	62.50	—	62.47

Reconciliation to Consolidated Financial Statements

	Net Interest Revenue	Other Operating Revenue ¹	Other Operating Expense	Net Income	Average Assets
Total reportable segments	\$339,421	\$315,725	\$389,743	\$151,150	\$13,131,024
Unallocated items:					
Tax-equivalent adjustment	5,170	—	—	5,170	—
Funds management	59,519	(6,520)	13,946	4,959	1,379,342
All others (including eliminations), net	(12,615)	(2,165)	9,749	(2,919)	(1,730,950)
BOK Financial consolidated	\$391,495	\$307,040	\$413,438	\$158,360	\$12,779,416

¹Excluding financial instrument gains/(losses)

Notes to Consolidated Financial Statements

(19) Fair Value of Financial Instruments

The following table presents the carrying values and estimated fair values of financial instruments as of December 31, 2005 and 2004 (dollars in thousands):

	Carrying Value	Range of Contractual Yields	Average Repricing (in years)	Discount Rate	Estimated Fair Value
2005:					
Cash and cash equivalents	\$ 699,322				\$ 699,322
Securities	5,085,333				5,083,614
Loans:					
Commercial	5,299,935	2.75 - 18.00%	0.33	4.61 - 7.25%	5,411,035
Commercial real estate	1,989,902	4.00 - 12.00	1.21	7.25	1,977,936
Residential mortgage	1,169,331	2.82 - 12.13	3.29	4.60 - 6.17	1,146,072
Residential mortgage — held for sale	51,666	—	—	—	51,666
Consumer	629,144	3.04 - 18.90	2.38	7.25	623,265
Total loans	9,139,978				9,209,974
Reserve for loan losses	(103,876)				—
Net loans	9,036,102				9,209,974
Derivative instruments with positive fair value	452,878				452,878
Deposits with no stated maturity	7,277,258				7,277,258
Time deposits	4,098,060	0.70 - 7.25	1.70	4.25 - 4.90	4,056,480
Other borrowings	2,392,209	2.01 - 4.48	1.54	4.37 - 4.61	2,392,255
Subordinated debentures	295,964	6.71	8.09	4.48	317,779
Derivative instruments with negative fair value	466,669				466,669
2004:					
Cash and cash equivalents	\$ 531,091				\$ 531,091
Securities	4,823,976				4,825,518
Loans:					
Commercial	4,575,836	2.71 - 15.00%	0.41	2.45 - 6.68%	4,778,495
Commercial real estate	1,621,110	3.50 - 15.00	1.08	5.65 - 7.60	1,606,153
Residential mortgage	1,198,918	2.82 - 7.96	4.17	5.36 - 6.44	1,154,226
Residential mortgage — held for sale	40,262	—	—	—	40,262
Consumer	492,841	2.65 - 21.00	2.29	4.83 - 8.75	471,863
Total loans	7,928,967				8,050,999
Reserve for loan losses	(108,618)				—
Net loans	7,820,349				8,050,999
Derivative instruments with positive fair value	130,297				130,297
Deposits with no stated maturity	6,030,546				6,030,546
Time deposits	3,643,852	0.55 - 7.33	2.34	2.40 - 3.75	3,639,345
Other borrowings	2,570,507	2.26 - 5.51	0.05	1.43 - 4.38	2,571,259
Subordinated debentures	151,594	5.25	2.60	5.14	153,565
Derivative instruments with negative fair value	137,538				137,538

The preceding table presents the estimated fair values of financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involved significant judgments by management. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquida-

tion sale. Because no market exists for certain of these financial instruments and management does not intend to sell these financial instruments, BOK Financial does not know whether the fair values shown above represent values at which the respective financial instruments could be sold individually or in the aggregate.

Notes to Consolidated Financial Statements

The following methods and assumptions were used in estimating the fair value of these financial instruments:

Cash and Cash Equivalents

The book value reported in the consolidated balance sheet for cash and short-term instruments approximates those assets' fair values.

Securities

The fair values of securities are based on quoted market prices or dealer quotes, when available. If quotes are not available, fair values are based on quoted prices of comparable instruments.

Derivatives

All derivative instruments are carried on the balance sheet at fair value. Fair values for exchange-traded contracts are based on quoted prices. Fair values for over-the-counter interest rate, commodity and foreign exchange contracts are based on valuations provided either by third-party dealers in the contracts, quotes provided by independent pricing services, or a third-party provided pricing model.

Loans

The fair value of loans, excluding loans held for sale, are based on discounted cash flow analyses using interest rates currently being offered for loans with similar remaining terms to maturity and credit risk, adjusted for the impact of interest rate floors and ceilings. The fair values of classified loans were estimated to approximate their carrying values less loan loss reserves allocated to these loans of \$15 million and \$28 million at December 31, 2005 and 2004, respectively.

The fair values of residential mortgage loans held for sale are based upon quoted market prices of such loans sold in securitization transactions, including related unfunded loan commitments and hedging transactions.

Deposits

The fair values of time deposits are based on discounted cash flow analyses using interest rates currently being offered on similar transactions. Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," ("FAS 107") defines the estimated fair value of deposits with no stated maturity, which includes demand deposits, transaction deposits, money market deposits and savings accounts, to equal the amount payable on demand. Although market premiums paid reflect an additional value for these low cost deposits, FAS 107 prohibits adjusting fair value for the expected benefit of these deposits. Accordingly, the positive effect of such deposits is not included in this table.

Other Borrowings and Subordinated Debentures

The fair values of these instruments are based upon discounted cash flow analyses using interest rates currently being offered on similar instruments.

Off-Balance Sheet Instruments

The fair values of commercial loan commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. The fair values of these off-balance sheet instruments were not significant at December 31, 2005 and 2004.

Notes to Consolidated Financial Statements

(20) Parent Company Only Financial Statements

Summarized financial information for BOK Financial – Parent Company Only follows:

Balance Sheets

(In Thousands)

	December 31,	
	2005	2004
Assets		
Cash and cash equivalents	\$ 11,074	\$ 13,230
Securities — available for sale	11,910	11,170
Investment in subsidiaries	1,517,047	1,470,405
Other assets	1,729	2,184
Total assets	\$1,541,760	\$1,496,989
Liabilities and Shareholders' Equity		
Other borrowings	\$ —	\$ 95,000
Other liabilities	2,606	3,495
Total liabilities	2,606	98,495
Preferred stock	—	12
Common stock	4	4
Capital surplus	656,579	631,747
Retained earnings	990,422	809,261
Treasury stock	(40,040)	(30,905)
Accumulated other comprehensive loss	(67,811)	(11,625)
Total shareholders' equity	1,539,154	1,398,494
Total liabilities and shareholders' equity	\$1,541,760	\$1,496,989

Statements of Earnings

(In Thousands)

	2005	2004	2003
Dividends, interest and fees received from subsidiaries	\$153,462	\$ 127	\$ 66,165
Other operating revenue	468	35	431
Total revenue	153,930	162	66,596
Interest expense	1,500	2,185	1,771
Professional fees and services	589	486	545
Contribution of stock to BOK Charitable Foundation	—	4,125	—
Other operating expense	22	2	(4)
Total expense	2,111	6,798	2,312
Income (loss) before taxes and equity in undistributed income of subsidiaries	151,819	(6,636)	64,284
Federal and state income tax credit	(682)	(3,953)	(678)
Income (loss) before equity in undistributed income of subsidiaries	152,501	(2,683)	64,962
Equity in undistributed income of subsidiaries	49,004	181,706	93,398
Net income	\$201,505	\$179,023	\$158,360

Notes to Consolidated Financial Statements

Statements of Cash Flows

(In Thousands)

	2005	2004	2003
Cash flows from operating activities:			
Net income	\$ 201,505	\$ 179,023	\$ 158,360
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of subsidiaries	(49,004)	(181,706)	(93,398)
Tax benefit on exercise of stock options	3,583	4,609	1,325
Contribution of stock to BOK Charitable Foundation	—	4,125	—
Write down of equity securities	—	410	—
Change in other assets	(12,337)	(5,138)	(944)
Change in other liabilities	(889)	713	272
Net cash provided by operating activities	142,858	2,036	65,615
Cash flows from investing activities:			
Purchases of available for sale securities	—	(53)	(27)
Investment in subsidiaries	(34,264)	(5,250)	(85,015)
Net cash used by investing activities	(34,264)	(5,303)	(85,042)
Cash flows from financing activities:			
Increase in other borrowings	—	—	105,000
Pay down of other borrowings	(95,000)	—	(95,000)
Issuance of preferred, common and treasury stock, net	7,032	7,132	4,627
Cash dividends	(20,343)	(1,540)	(785)
Other	(2,439)	24	—
Net cash provided (used) by financing activities	(110,750)	5,616	13,842
Net change in cash and cash equivalents	(2,156)	2,349	(5,585)
Cash and cash equivalents at beginning of period	13,230	10,881	16,466
Cash and cash equivalents at end of period	\$ 11,074	\$ 13,230	\$ 10,881
Payment of dividends in common stock	\$ —	\$ 65,899	\$ 58,300
Cash paid for interest	1,698	1,882	1,947

Annual Financial Summary – Unaudited

Consolidated Daily Average Balances, Average Yields and Rates

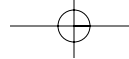
(Dollars in Thousands)

	2005		
	Average Balance	Revenue/ Expense ¹	Yield/ Rate
Assets			
Taxable securities ³	\$ 4,769,666	\$ 205,952	4.34%
Tax-exempt securities ³	226,961	11,587	5.13
Total securities ³	4,996,627	217,539	4.38
Trading securities	15,892	770	4.85
Funds sold and resell agreements	38,521	1,287	3.34
Loans ²	8,489,751	555,520	6.54
Less reserve for loan losses	110,158	—	—
Loans, net of reserve	8,379,593	555,520	6.63
Total earning assets ³	13,430,633	775,116	5.78
Cash and other assets	2,138,222		
Total assets	\$15,568,855		
Liabilities and Shareholders' Equity			
Transaction deposits	\$ 4,402,810	\$ 72,721	1.65%
Savings deposits	159,429	1,106	0.69
Time deposits	3,894,429	136,573	3.51
Total interest-bearing deposits	8,456,668	210,400	2.49
Funds purchased and repurchase agreements	1,936,792	61,606	3.18
Other borrowings	996,266	34,220	3.43
Subordinated debenture	236,589	14,367	6.07
Total interest-bearing liabilities	11,626,315	320,593	2.76
Demand deposits	1,607,702		
Other liabilities	872,992		
Shareholders' equity	1,461,846		
Total liabilities and shareholders' equity	\$15,568,855		
Tax-equivalent Net Interest Revenue³		\$ 454,523	3.02%
Tax-equivalent Net Interest Revenue to Earning Assets³			3.39
Less tax-equivalent adjustment ¹		5,182	
Net Interest Revenue		449,341	
Provision for credit losses		12,441	
Other operating revenue		346,946	
Other operating expense		469,106	
Income before taxes		314,740	
Federal and state income tax		113,235	
Net Income		\$ 201,505	

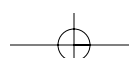
¹ Tax equivalent at the statutory federal and state rates for the periods presented. The taxable equivalent adjustments shown are for comparative purposes.

² The loan averages included loans on which the accrual of interest has been discontinued and are stated net of unearned income. See Note 1 of Notes to the Consolidated Financial Statements for a description of income recognition policy.

³ Yield calculations exclude security trades that have been recorded on trade date with no corresponding interest income.



2004			2003		
Average Balance	Revenue/ Expense ¹	Yield/ Rate	Average Balance	Revenue/ Expense ¹	Yield/ Rate
\$ 4,656,108	\$197,884	4.26%	\$ 4,316,303	\$180,581	4.22%
207,376	11,672	5.64	191,982	12,527	6.59
4,863,484	209,556	4.32	4,508,285	193,108	4.32
16,025	629	3.93	16,975	694	4.09
19,944	353	1.77	26,330	281	1.07
7,644,049	408,785	5.35	7,101,543	376,260	5.30
116,076	—	—	110,791	—	—
7,527,973	408,785	5.43	6,990,752	376,260	5.38
12,427,426	619,323	4.99	11,542,342	570,343	4.96
1,599,461			1,237,074		
\$14,026,887			\$12,779,416		
\$ 3,863,276	\$ 35,517	0.92%	\$ 3,605,539	\$ 31,346	0.87%
169,556	975	0.58	172,938	944	0.55
3,584,496	107,941	3.01	3,439,361	99,639	2.90
7,617,328	144,433	1.90	7,217,838	131,929	1.83
1,611,771	21,140	1.31	1,537,100	15,590	1.01
1,007,237	17,707	1.76	1,051,685	16,682	1.59
152,983	7,761	5.07	154,940	9,477	6.12
10,389,319	191,041	1.84	9,961,563	173,678	1.74
1,805,558			1,309,744		
534,453			348,553		
1,297,557			1,159,556		
\$14,026,887			\$12,779,416		
	\$428,282	3.15%		\$396,665	3.22%
	5,039	3.45		5,170	3.44
	423,243			391,495	
	20,439			35,636	
	308,890			304,853	
	441,224			413,438	
	270,470			247,274	
	91,447			88,914	
	\$179,023			\$158,360	



Quarterly Financial Summary – Unaudited

Consolidated Daily Average Balances, Average Yields and Rates

(Dollars in Thousands Except Per Share Data)

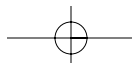
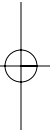
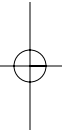
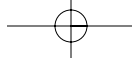
	Three Months Ended					
	December 31, 2005			September 30, 2005		
	Average Balance	Revenue/ Expense ¹	Yield/ Rate	Average Balance	Revenue/ Expense ¹	Yield/ Rate
Assets						
Taxable securities ³	\$ 4,816,263	\$ 53,375	4.44%	\$ 4,800,698	\$ 51,946	4.28%
Tax-exempt securities ³	243,521	3,046	5.05	231,097	2,888	4.96
Total securities ³	5,059,784	56,421	4.47	5,031,795	54,834	4.31
Trading securities	20,595	243	4.68	14,560	171	4.66
Funds sold and resell agreements	57,656	581	4.00	44,882	386	3.41
Loans ²	9,005,546	158,387	6.98	8,635,732	144,954	6.66
Less reserve for loan losses	108,998	—	—	109,840	—	—
Loans, net of reserve	8,896,548	158,387	7.06	8,525,892	144,954	6.75
Total earning assets ³	14,034,583	215,632	6.12	13,617,129	200,345	5.83
Cash and other assets	2,131,047			1,970,746		
Total assets	\$16,165,630			\$15,587,875		
Liabilities and Shareholders' Equity						
Transaction deposits	\$ 4,821,627	\$ 24,075	1.98%	\$ 4,533,912	\$ 18,968	1.66%
Savings deposits	154,316	292	0.75	157,772	280	0.70
Time deposits	4,216,625	40,083	3.77	3,958,948	35,255	3.53
Total interest-bearing deposits	9,192,568	64,450	2.78	8,650,632	54,503	2.50
Funds purchased and repurchase agreements	1,812,752	17,914	3.92	2,067,432	17,738	3.40
Other borrowings	1,049,635	10,807	4.08	1,047,423	9,510	3.60
Subordinated debenture	296,021	4,683	6.28	297,284	4,477	5.97
Total interest-bearing liabilities	12,350,976	97,854	3.14	12,062,771	86,228	2.84
Demand deposits	1,530,504			1,424,102		
Other liabilities	777,111			613,667		
Shareholders' equity	1,507,039			1,487,335		
Total liabilities and shareholders' equity	\$16,165,630			\$15,587,875		
Tax-equivalent Net Interest Revenue³		\$117,778	2.98%		\$114,117	2.99%
Tax-equivalent Net Interest Revenue to Earning Assets³			3.34			3.32
Less tax-equivalent adjustment ¹		1,392			1,289	
Net Interest Revenue		116,386			112,828	
Provision for credit losses		4,450			3,976	
Other operating revenue		87,344			86,855	
Other operating expense		123,903			117,034	
Income before taxes		75,377			78,673	
Federal and state income tax		27,219			27,846	
Net Income		\$ 48,158			\$ 50,827	
Earnings Per Average Common Share Equivalent:						
Net income:						
Basic		\$0.72			\$0.72	
Diluted		\$0.72			\$0.76	

¹ Tax equivalent at the statutory federal and state rates for the periods presented. The taxable equivalent adjustments shown are for comparative purposes.

² The loan averages included loans on which the accrual of interest has been discontinued and are stated net of unearned income. See Note 1 of Notes to the Consolidated Financial Statements for a description of income recognition policy.

³ Yield calculations exclude security trades that have been recorded on trade date with no corresponding interest income.

June 30, 2005			Three Months Ended March 31, 2005			December 31, 2004		
Average Balance	Revenue/ Expense ¹	Yield/ Rate	Average Balance	Revenue/ Expense ¹	Yield/ Rate	Average Balance	Revenue/ Expense ¹	Yield/ Rate
\$ 4,831,186	\$ 51,275	4.32%	\$ 4,628,233	\$ 49,356	4.32%	\$ 4,709,193	\$ 50,200	4.25%
215,360	2,810	5.23	217,571	2,843	5.30	219,873	2,951	5.37
5,046,546	54,085	4.36	4,845,804	52,199	4.36	4,929,066	53,151	4.30
11,639	165	5.69	17,205	191	4.50	10,208	107	4.17
21,170	156	2.96	30,003	164	2.22	31,994	170	2.11
8,341,490	133,173	6.40	7,963,177	119,006	6.06	7,873,974	111,292	5.62
111,056	—	—	111,955	—	—	114,106	—	—
8,230,434	133,173	6.49	7,851,222	119,006	6.15	7,759,868	111,292	5.71
13,309,789	187,579	5.68	12,744,234	171,560	5.46	12,731,136	164,720	5.15
1,750,686			1,474,621			1,598,935		
<u>\$15,060,475</u>			<u>\$14,218,855</u>			<u>\$14,330,071</u>		
\$ 4,323,513	\$ 16,049	1.49%	\$ 3,920,844	\$ 13,629	1.41%	\$ 3,841,742	\$ 10,779	1.12%
166,426	285	0.69	159,276	249	0.63	160,404	231	0.57
3,710,338	31,499	3.41	3,685,257	29,736	3.27	3,662,455	29,586	3.21
8,200,277	47,833	2.34	7,765,377	43,614	2.28	7,664,601	40,596	2.11
2,160,031	15,764	2.93	1,704,327	10,190	2.42	1,747,391	8,397	1.91
914,968	7,224	3.17	971,616	6,679	2.79	1,005,679	5,703	2.26
200,038	2,980	5.98	150,752	2,227	5.99	152,634	1,929	5.03
11,475,314	73,801	2.58	10,592,072	62,710	2.40	10,570,305	56,625	2.13
1,586,248			1,895,989			1,938,205		
558,655			319,375			453,571		
1,440,258			1,411,419			1,367,990		
<u>\$15,060,475</u>			<u>\$14,218,855</u>			<u>\$14,330,071</u>		
	\$113,778	3.10%		\$108,850	3.06%		\$108,095	3.02%
		3.45			3.46			3.38
	1,245			1,256			1,633	
	112,533			107,594			106,462	
	2,015			2,000			4,439	
	94,591			78,156			78,714	
	126,010			102,159			111,582	
	79,099			81,591			69,155	
	28,634			29,536			22,599	
	<u>\$ 50,465</u>			<u>\$ 52,055</u>			<u>\$ 46,556</u>	
	\$0.79			\$0.87			\$0.78	
	<u>\$0.75</u>			<u>\$0.78</u>			<u>\$0.70</u>	



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BOK Financial Corporation

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BOK Financial Corporation

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Southern Methodist University

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Richard H. Lewis
Personal Investments

Kirk McDonald
CEO, President
Denver Newspaper Corp.

W. Jeffrey Pickryl
Sr. Executive Vice President
BOK Financial Corporation

Gregory K. Symons
Chairman & CEO
CSBT

Shareholder Information

Corporate Headquarters:

Bank of Oklahoma Tower
P.O. Box 2300
Tulsa, Oklahoma 74192
(918) 588-6000

Independent Auditors:

Ernst & Young LLP
1700 One Williams Center
Tulsa, Oklahoma 74172
(918) 560-3600

Legal Counsel:

Frederic Dorwart Lawyers
Old City Hall
124 E. Fourth St.
Tulsa, Oklahoma 74103-5010
(918) 583-9922

Common Shares:

Traded NASDAQ National Market
NASDAQ Symbol: BOKF
Number of common shareholders of record at
December 31, 2005: 1,199

Market Makers:

Archipelago Exchange (The)
Boston Stock Exchange
Citadel Derivatives Group LLC
Citigroup Global Markets Inc.
Credit Research & Trading
Credit Suisse First Boston
Friedman Billings Ramsey & Co
Goldman, Sachs & Co.
GVR Company LLC
Harris Nesbitt Corp.
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Jefferies & Company, Inc.
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Merrill Lynch, Pierce, Fenner
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National Stock Exchange
Piper Jaffray Companies Inc.
Sandler O'Neill & Partners
Schwab Capital Markets
Stephens Inc.
SunTrust Robinson Humphrey Capital Markets
Susquehanna Capital Group
The Robinson Humphrey Co.
UBS Securities LLC

Transfer Agent and Registrar

SunTrust Bank • (800) 568-3476

Address Shareholder Inquiries

Send certificates for transfer and address
changes to:

BY MAIL:

SunTrust Bank
P.O. Box 4625
Atlanta, GA 30303

BY HAND OR OVERNIGHT COURIER:

SunTrust Bank
Stock Transfer Department
58 Edgewood Avenue, Room 225
Atlanta, GA 30303

Copies of BOK Financial Corporation's
Annual Report to Shareholders, Quarterly
Reports and Form 10-K to the Securities and
Exchange Commission are available without
charge upon written request. Analysts,
shareholders and other investors seeking
financial information about BOK Financial
Corporation are invited to contact Stacy C.
Kymes, Senior Vice President, (918) 588-6752.

Information about BOK Financial is also readily
available at our website: www.bokf.com

RELATIONSHIPS DRIVE RESULTS

