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BOK FINANCIAL CORP ET AL
Form 10-Q
May 10, 2006

As filed with the Securities and Exchange Commission on May 10, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from _____ to _____

Commission File No. 0-19341

BOK FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Oklahoma
(State or other jurisdiction
of Incorporation or Organization)

73-1373454
(IRS Employer
Identification No.)

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

74192
(Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: 66,900,597 shares of common stock (\$.00006 par value) as of April 30, 2006.

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Form 10-Q
Quarter Ended March 31, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PERFORMANCE SUMMARY

BOK Financial Corporation ("BOK Financial" or the "Company") reported net income of \$54.7 million, or \$0.81 per diluted share for the first quarter of 2006, compared with \$52.1 million, or \$0.78 per diluted share for the first quarter of 2005. The annualized returns on average assets and shareholders' equity were 1.36% and 14.35%, respectively, for the first quarter of 2006, compared with returns of 1.48% and 14.96%, respectively, for the first quarter of 2005. The increase in net income was attributed to growth in net interest revenue and fees and commission revenue, combined with appreciation in the value of mortgage servicing rights.

Net interest revenue increased \$9.7 million or 9% over 2005 due primarily to loan growth. Average outstanding loan balances for the first quarter of 2006 increased \$1.2 billion or 15% compared with the same period of 2005. Fees and commission revenue increased \$11.0 million, or 14%, over the first quarter of 2005. All categories of fees and commissions increased over the first quarter of 2005. Transaction card revenue and trust revenue grew \$2.0 million and \$1.9 million, respectively. The \$3.4 million increase in other revenue included \$2.5 million of fees earned on margin assets for the first quarter of 2006, compared with \$570 thousand for the same period last year.

The value of mortgage servicing rights appreciated \$7.1 million during the first quarter of 2006 due to rising interest rates and a slow-down in housing turnover. BOK Financial adopted Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets" ("FAS 156"), effective January 1, 2006. FAS 156 allows mortgage servicing rights to be carried at fair value, which permitted the Company to fully recognize this appreciation. The increase in fair value of servicing rights, net of recognized losses on financial instruments held as an economic hedge, contributed \$3.3 million to net income for the first quarter of 2006 compared with \$2.3 million for the same period of 2005. As required by FAS 156, beginning retained earnings were increased by \$383 thousand for the net-of-tax unrecognized appreciation of both mortgage servicing rights and certain financial instruments designated as economic hedges that existed at December 31, 2005.

Operating expenses increased \$15.2 million, or 15%, over the first quarter of 2005. Personnel costs comprised \$12.8 million of the increase due largely to a \$6.4 million increase in incentive compensation and a \$5.5 million increase in

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salaries and wages.

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RESULTS OF OPERATIONS

NET INTEREST REVENUE

Tax-equivalent net interest revenue totaled \$118.8 million for the first quarter of 2006 compared with \$108.9 million for 2005. The increase was due primarily to a \$1.5 billion increase in average earning assets. Average outstanding loan principal grew \$1.2 billion or 15% while average securities increased \$279 million. Growth in average earning assets was funded primarily by a \$1.5 billion or 15% increase in average deposits. In addition to revenue growth due to increased earning assets, net interest revenue for the first quarter of 2005 included \$605 thousand from the collection of foregone interest on a non-performing loan and a \$650 thousand fee on a large commercial loan that paid off during the quarter. Table 1 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.

Net interest margin, the ratio of tax-equivalent net interest revenue to average earning assets, was 3.39% for the first quarter of 2006, compared with 3.46% for the first quarter of 2005 and 3.34% for the fourth quarter of 2005. Net interest margin for the first quarter of 2005 was increased by 4 basis points by the previously mentioned collection of interest on a non-performing loan and fees on a loan payoff. The effect of these credits is excluded from the following discussion. Yields on average earning assets continued to trend upwards due to the effect of rising interest rates. The yield on average earning assets was 6.42%, up 96 basis points compared with the first quarter of 2005 and 30 basis points over the fourth quarter of 2005. The yield on average outstanding loans was 7.35%, an increase of 135 basis points over the first quarter of 2005 and 37 basis points over the preceding quarter. The tax-equivalent yield on securities was 4.64% for the first quarter of 2006, compared with 4.36% for the first quarter of 2005 and 4.47% for the fourth quarter of 2005. Rates paid on average interest-bearing liabilities during the first quarter of 2006 increased 103 basis points over the first quarter of 2005 and 29 basis points over the preceding quarter. Rates paid on deposit accounts, which increased 78 basis points over 2005, continued to lag behind the increases in loan yields. Non-interest bearing funds and the mix of funding sources added 40 basis points to the net interest margin in first quarters of both 2006 and 2005, up four basis points compared to the fourth quarter of 2005.

Our overall objective is to manage the Company's balance sheet to be essentially neutral to changes in interest rate. 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 expected duration of these securities is estimated to be approximately 2.8 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. We have interest rate swaps with a combined notional amount of \$795 million that 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

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reduce the asset-sensitive nature of our balance sheet. We also have interest rate swaps with a notional amount of \$100 million that 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 1 and in the interest rate sensitivity projections as shown in the Market Risk section of this report.

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 Table 1 - Volume / Rate Analysis
 (In thousands)

| | Three Months Ended March 31, 2006 / 2005 | | |
|--|---|----------|-----------------|
| | Change Due To (1) | | |
| | Change | Volume | Yield / Rate |
| ----- | | | |
| Tax-equivalent interest revenue: | | | |
| Securities | \$ 6,312 | \$ 2,867 | \$ 3,445 |
| Trading securities | 18 | (6) | 24 |
| Loans | 47,142 | 19,869 | 27,273 |
| Funds sold and resell agreements | 75 | (74) | 149 |
| ----- | | | |
| Total | 53,547 | 22,656 | 30,891 |
| ----- | | | |
| Interest expense: | | | |
| Transaction deposits | 17,500 | 6,552 | 10,948 |
| Savings deposits | 81 | (7) | 88 |
| Time deposits | 11,659 | 4,302 | 7,357 |
| Federal funds purchased and repurchase agreements | 8,293 | 230 | 8,063 |
| Other borrowings | 3,260 | (804) | 4,064 |
| Subordinated debentures | 2,756 | 2,293 | 463 |
| ----- | | | |
| Total | 43,549 | 12,566 | 30,983 |
| ----- | | | |
| Tax-equivalent net interest revenue | 9,998 | 10,090 | (92) |
| Change in tax-equivalent adjustment | (266) | | |
| ----- | | | |
| Net interest revenue | \$ 9,732 | | |
| ----- | | | |

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

OTHER OPERATING REVENUE

Other operating revenue increased \$11.3 million compared with the first quarter of last year due primarily to an \$11.0 million increase in fees and commission revenue. 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, securities and derivatives, for the first quarter of 2006. We believe that a variety of fee revenue sources provide a stable source of income not affected by changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be

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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.

FEES AND COMMISSIONS REVENUE

Transaction card revenue increased \$2.0 million or 12% in the first quarter of 2006 compared to the same period of the prior year. Check card revenue increased \$1.0 million or 29% while merchant discount fees increased \$739 thousand or 13%. Transaction volumes provided the increased revenue. Growth in check card revenue was distributed among the Oklahoma, New Mexico and Texas markets. Increased merchant discount fees were centered primarily in Oklahoma. ATM network revenue also increased, up \$217 thousand or 3% over the first quarter of 2005.

Trust fees and commissions increased \$1.9 million or 12% for the first quarter of 2006. The fair value of all trust relationships, which is the basis for a significant portion of trust fees, increased to \$29.1 billion at March 31, 2006 compared with \$25.4 billion at March 31, 2005. Revenue from the management of oil and gas properties increased \$509 thousand or 47% while personal trust management fees increased \$646 thousand or 13%. Trust activities in the Oklahoma and Colorado markets provided \$13.2 million and \$2.4 million, respectively, of total trust fees and commissions during the first quarter of 2006. Trust revenue grew 10% in the Oklahoma market and 36% in the Colorado market, respectively, over the first quarter of 2005.

Brokerage and trading revenue increased \$674 thousand or 6% in the first quarter of 2006 compared to the same period of the prior year. Customer hedging revenue increased \$2.3 million, or 189%, to \$3.5 million. Volatility in the energy

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markets prompted our energy customers to more actively hedge their gas and oil production.

Revenue from securities trading activities decreased \$1.7 million, or 25%. Much of the decrease in trading revenue is attributed to increased competition in the market for corporate securities and lower demand caused by the flattening yield curve. Revenue from retail brokerage activities increased \$114 thousand, or 4%, over the same period of 2005.

Service charges on deposit accounts increased \$1.8 million or 8% over the first quarter of 2005. Overdraft fees grew \$2.6 million or 21%. The volume of overdraft items processed increased over last year. Additionally, the per item overdraft charge was increased in the second quarter of 2005. Account service charge revenue decreased \$760 thousand or 10%. This decrease reflected the change in 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.

Mortgage banking revenue, which is discussed more fully in the Line of Business - Mortgage Banking section of this report, increased \$1.2 million or 22% compared with 2005. Net gains on mortgage loans sold totaled \$2.8 million, up \$1.3 million over the first quarter of 2005. Servicing revenue totaled \$4.0 million for the first quarter of 2006, down 3% from last year due to a 4 basis point decrease in average servicing fee rates. A change in the mix of loans serviced for others decreased the average servicing fee rate compared with last year.

Other operating revenue included \$2.5 million of fees earned on margin assets in the first quarter of 2006 and \$570 thousand in the first quarter of 2005. Margin

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assets, which are held primarily as part of the Company's customer derivatives programs, averaged \$249 million for the first quarter of 2006, compared with \$129 million for the first quarter of 2005. The increase in average margin assets reflected growth in the fair value of liability derivative contracts due primarily to increased volatility in energy markets. Fees earned on average margin assets increased from 1.79% in the first quarter of 2005 to 4.13% in the first quarter of 2006. Fee rates earned on margin assets are generally consistent with short-term interest rates.

SECURITIES AND DERIVATIVES

BOK Financial recognized net losses of \$1.2 million on securities for the first quarter of 2006. This included net losses of \$1.9 million on securities held as an economic hedge of mortgage servicing rights. As permitted by FAS 156, certain specifically identified securities held as an economic hedge of mortgage servicing rights were transferred from the available for sale classification to a new classification entitled "Mortgage Trading Securities" as of January 1, 2006. These securities had an aggregate fair value of \$49 million and unrealized gains of \$52 thousand when transferred. The unrealized gain on these securities, less deferred taxes, was recorded as an increase in retained earnings as of the beginning of the first quarter. Mortgage trading securities are carried at fair value with changes in fair value recognized in earnings as they occur. 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. During the first quarter of 2005, BOK Financial recognized net losses on securities of \$2.6 million, including \$2.4 million of losses on securities held as an economic hedge of mortgage servicing rights.

Net losses on derivatives totaled \$309 thousand for the first quarter of 2006, compared with net gains of \$778 thousand in 2005. Net losses in 2006 consisted entirely of fair value adjustments of derivatives used to manage interest rate risk and related hedged liabilities. Net gains on derivatives in the first quarter of 2005 included a gain of \$283 thousand from fair value adjustments of derivative contracts held as economic hedges of mortgage servicing rights and \$495 thousand of net gains from fair value adjustments of derivatives used to manage interest rate risk and related hedged liabilities.

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 Table 2 - Other Operating Revenue
 (In thousands)

| | Three Months Ended | | | |
|----------------------------------|--------------------|------------------|-------------------|------|
| | March 31, 2006 | Dec. 31, 2005 | Sept. 30, 2005 | |
| Brokerage and trading revenue | \$ 12,010 | \$ 11,116 | \$ 11,366 | \$ 1 |
| Transaction card revenue | 18,508 | 18,988 | 18,526 | 1 |
| Trust fees and commissions | 17,945 | 16,536 | 16,376 | 1 |
| Deposit service charges and fees | 23,986 | 25,222 | 25,619 | 2 |
| Mortgage banking revenue | 6,789 | 7,018 | 9,535 | 8 |
| Other revenue | 10,811 | 10,067 | 9,490 | 8 |
| Total fees and commissions | 90,049 | 88,947 | 90,912 | 8 |
| Gain on sales of assets | 918 | 71 | 81 | |
| Gain (loss) on securities, net | (1,221) | (1,780) | (4,744) | |
| Gain (loss) on derivatives, net | (309) | 106 | 606 | |

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| | | | | | | | | |
|-------------------------------|----|--------|----|--------|----|--------|----|---|
| Total other operating revenue | \$ | 89,437 | \$ | 87,344 | \$ | 86,855 | \$ | 9 |
|-------------------------------|----|--------|----|--------|----|--------|----|---|

OTHER OPERATING EXPENSE

Other operating expense for the first quarter of 2006 totaled \$117.4 million, a \$15.2 million or 15% increase from 2005. This increase resulted primarily from a \$12.8 million increase in personnel expense.

PERSONNEL EXPENSE

Personnel expense totaled \$71.2 million for the first quarter of 2006 compared with \$58.4 million for the first quarter of 2005. Regular compensation expense totaled \$44.0 million, a \$5.5 million or 14% increase over 2005. The increase in regular compensation expense was due to an 8% increase in average regular compensation per full-time equivalent employee and a 6% increase in average staffing. Average staffing increased 12% in Colorado and 5% in both Texas and Oklahoma. In addition, regular compensation expense for the first quarter of 2006 included \$755 thousand for Bank of Arizona, which was acquired in the second quarter of 2005.

Incentive compensation expense includes the recognized costs of cash-based commissions, bonus and incentive programs, stock-based compensation plans and deferred compensation plans. Stock-based compensation plans include both equity and liability awards.

Incentive compensation expense totaled \$15.2 million for the first quarter of 2006, an increase of \$6.4 million over 2005. First quarter 2006 expense for the Company's various cash-based incentive programs totaled \$12.6 million, up \$2.4 million over last year. These programs consist primarily of formula-based plans that determine incentive amounts based on pre-established criteria. Compensation expense for stock-based compensation plans totaled \$2.6 million for the first quarter of 2006 compared with a \$1.5 million credit in 2005. Compensation expense for stock-based compensation plans accounted for as equity awards totaled \$1.5 million in the first quarter of 2006, compared with \$1.2 million in the first quarter of 2005. Expense for equity awards is determined by an award's grant-date fair value and is not affected by subsequent changes in the market value of BOK Financial common stock. Compensation expense for stock-based compensation plans accounted for as liability awards totaled \$1.0 million in the first quarter of 2006, compared with a credit of \$2.6 million in 2005. Expense for liability awards is based on current fair value, including current period changes due to the market value of BOK Financial common stock.

Employee benefit expenses increased \$862 thousand, or 8%, to \$12.0 million. This increase was due primarily to payroll taxes. Expenses for employee medical and other insurance increased \$231 thousand, or 6%, while employee retirement expenses increased \$145 thousand, or 5%. Benefit expenses for the first quarter of 2006 included \$1.8 million of pension expense. This expense will be substantially reduced in future periods by the curtailment of pension plan benefits effective April 1, 2006. Management expects this expense reduction to be largely offset by the cost of enhanced employee thrift plan benefits.

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DATA PROCESSING AND COMMUNICATIONS EXPENSE

Data processing and communication expenses increased \$1.9 million, or 13%, compared to 2005. This expense consists of two broad categories, data processing systems and transaction card processing. Transaction card processing costs increased \$1.1 million, or 19%, consistent with the growth rate in check card

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and merchant discount revenue. Data processing systems costs increased \$844 thousand, or 9%, compared with the first quarter of 2005.

OTHER OPERATING EXPENSES

Mortgage banking expenses decreased \$526 thousand. Costs associated with loan origination and sales activities totaled \$362 thousand in the first quarter of 2006 and \$435 thousand in the first quarter of 2005. Mortgage banking expense also includes changes in the fair value of mortgage servicing rights due to runoff of the underlying loans. Fair value of mortgage servicing rights decreased \$2.7 million in the first quarter of 2006 due to loan runoff. Amortization expense, which also considers the runoff of underlying loans, totaled \$3.2 million in the first quarter of 2005. Additionally, other operating expenses were reduced by \$7.1 million in the first quarter of 2006 and \$5.6 million in the first quarter of 2005 due to increases in the fair value of mortgage servicing rights. These expenses are discussed more fully in the Line of Business - Mortgage Banking section of this report.

Table 3 - Other Operating Expense
(In thousands)

| | Three Months Ended | | | |
|--|--------------------|-------------------|-------------------|-------------------|
| | March 31, 2006 | Dec. 31, 2005 | Sept. 30, 2005 | June 30, 2005 |
| Personnel | \$ 71,232 | \$ 68,666 | \$ 66,533 | \$ 65,333 |
| Business promotion | 4,803 | 5,170 | 4,494 | 3,870 |
| Professional fees and services | 3,914 | 4,534 | 3,951 | 4,492 |
| Net occupancy and equipment | 13,026 | 12,864 | 12,587 | 12,650 |
| Data processing & communications | 16,995 | 18,054 | 17,492 | 16,381 |
| Printing, postage and supplies | 3,905 | 3,976 | 3,846 | 3,629 |
| Net (gains) losses and operating expenses of repossessed assets | 219 | 335 | (387) | 316 |
| Amortization of intangible assets | 1,370 | 1,797 | 1,801 | 1,808 |
| Mortgage banking costs | 3,087 | 3,294 | 4,268 | 3,387 |
| Change in fair value of mortgage servicing rights | (7,081) | - | - | - |
| Provision (recovery) for impairment of mortgage servicing rights | - | (708) | (4,671) | 7,088 |
| Other expense | 5,909 | 5,921 | 7,120 | 7,056 |
| Total other operating expense | \$ 117,379 | \$ 123,903 | \$ 117,034 | \$ 126,010 |

INCOME TAXES

Income tax expense was \$31.2 million, compared with \$29.5 million for the first quarter of 2005. This represented 36% of book taxable income for both periods.

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

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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 Company's overall liquidity needs and interest rate risk. Each line of business borrows funds from and provides funds to the funds management unit

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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.

Consolidated net income provided by the Regional Banking and the Oklahoma Corporate Banking Divisions continued to increase due largely to asset growth. Also, performance by business units that generate deposits for the Company, such as the Oklahoma consumer banking unit, continued to improve due primarily to internal funds pricing credits. The increased value of deposits when short-term interest rates are rising is reflected in the internal transfer pricing credit. The increase in internal transfer pricing credit is offset through the funds management unit.

Table 4 - Net Income by Line of Business

(In thousands)

| | Three months ended March 31, | |
|----------------------------|------------------------------|-----------|
| | 2006 | 2005 |
| Regional banking | \$ 22,769 | \$ 17,349 |
| Oklahoma corporate banking | 18,635 | 15,345 |
| Mortgage banking | 3,237 | 2,257 |
| Oklahoma consumer banking | 8,033 | 4,318 |
| Wealth management | 6,760 | 6,102 |
| Funds management and other | (4,686) | 6,684 |
| Total | \$ 54,748 | \$ 52,055 |

OKLAHOMA CORPORATE BANKING

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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, the Oklahoma Corporate Banking 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 \$18.6 million or 34% to consolidated net income for the first quarter of 2006. This compares to \$15.3 million or 29% of consolidated net income for 2005. Growth in net income provided by this division came primarily from loan growth. Average loans attributed to the Oklahoma Corporate Banking Division were \$4.1 billion for the first quarter of 2006, compared with \$3.6 billion for the first quarter of 2005. Net loans charged off totaled \$364 thousand for the first quarter of 2006, compared with \$397 thousand in the first quarter of 2005. Growth in other operating revenue was due largely to fees earned on margin assets.

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Table 5 - Oklahoma Corporate Banking
(Dollars in Thousands)

| | Three months ended March 31, | |
|----------------------------|------------------------------|--------------|
| | 2006 | 2005 |
| Net interest revenue | \$ 35,359 | \$ 31,966 |
| Other operating revenue | 23,543 | 20,366 |
| Operating expense | 28,039 | 26,821 |
| Net loans charged off | 364 | 397 |
| Net income | 18,635 | 15,345 |
| | | |
| Average assets | \$ 5,318,039 | \$ 4,535,152 |
| Average economic capital | 372,270 | 289,480 |
| | | |
| Return on assets | 1.42% | 1.37% |
| Return on economic capital | 20.30% | 21.50% |
| Efficiency ratio | 47.60% | 51.25% |

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. The Consumer Banking Division contributed \$8.0 million or 15% to consolidated net income for the first quarter of 2006. This compares to \$4.3 million or 8% of consolidated net income for 2005. Average deposits attributed to this Division increased \$182 million, or 7% compared with last year. The value to the Company of these lower-costing retail deposits continues to increase as short-term interest rates rise. Operating revenue increased \$2.5 million or 17% over last year due largely to a \$1.7 million increase in deposit fees and overdraft charges.

Table 6 - Oklahoma Consumer Banking
(Dollars in Thousands)

Three months ended March 31,

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| | ----- | |
|----------------------------|--------------|--------------|
| | 2006 | 2005 |
| | ----- | |
| Net interest revenue | \$ 16,095 | \$ 12,186 |
| Other operating revenue | 17,255 | 14,713 |
| Operating expense | 19,529 | 18,989 |
| Net loans charged off | 722 | 784 |
| Net income | 8,033 | 4,318 |
| Average assets | \$ 2,951,359 | \$ 2,872,501 |
| Average economic capital | 69,670 | 69,360 |
| Return on assets | 1.10% | 0.61% |
| Return on economic capital | 46.76% | 25.25% |
| Efficiency ratio | 58.56% | 70.59% |

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. Consolidated mortgage banking revenue, which is included in other operating revenue, increased \$1.2 million or 22% compared with the first quarter of 2005. Mortgage banking activities contributed \$3.2 million or 6% to consolidated net income in the first quarter of 2006, compared with \$2.3 million or 4% in 2005.

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

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loan servicing sector generally performs best when mortgage rates are relatively high and prepayments are low. The general trend has been toward higher mortgage loan commitment rates, especially in the first quarter of 2006.

LOAN PRODUCTION SECTOR

Loan production revenue totaled \$3.0 million for the first quarter of 2006, including \$2.8 million of capitalized mortgage servicing rights and \$158 thousand of net gains on loans sold. Loan production revenue totaled \$1.5 million for the first quarter of 2005, including \$2.0 million of capitalized mortgage servicing rights. The increase in loan production revenue was due to production volume. Mortgage loans funded in the first quarter of 2006 totaled \$183 million, including \$168 million of loans funded for resale and \$15 million of loans funded for retention by affiliates. Mortgage loans funded in the same period of 2005 totaled \$175 million, including \$117 million of loans funded for resale and \$57 million of loans funded for retention by affiliates. The decrease in loans funded for retention by affiliates was due primarily to increased sales of community development loans in the secondary market. The Company generally retains the rights to service these loans. Approximately 70% of the loans funded during the first quarter of 2006 were to borrowers in Oklahoma. Loan production activities resulted in net pre-tax income of \$160 thousand for the first quarter of 2006 and a net pre-tax loss of \$138 thousand for the first quarter of 2005. The pipeline of mortgage loan applications totaled \$268 million at March 31, 2006, compared to \$233 million at December 31, 2005 and \$250 million at March 31, 2005.

LOAN SERVICING SECTOR

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The loan servicing sector had pre-tax income of \$5.5 million for the first quarter of 2006 compared to pre-tax income of \$3.4 million for the same period of 2005. The fair value of mortgage servicing rights increased during both periods due to rising mortgage commitment rates and related market factors.

A 28 basis point increase in average mortgage commitment rates since December 31, 2005 resulted in a \$7.1 million increase in the value of servicing rights. Rising mortgage commitment rates, along with other market factors, reduced anticipated prepayment speeds and decreased the discount rate used to value the servicing rights. As previously noted, the Company adopted the fair value method of accounting for mortgage servicing rights permitted by FAS 156. By adopting FAS 156 in the first quarter of 2006, the Company was permitted to fully recognize this appreciation. Recognition would have been limited to \$4.2 million of the increase in fair value under the previously required "lower of cost or fair value" accounting standard. Losses of \$1.9 million were recognized from decreases in the fair value of financial instruments held as an economic hedge of the value of the servicing rights.

During the first quarter of 2005, the allowance for impairment of mortgage servicing rights was reduced by \$5.6 million due to an increase in the fair value of the servicing rights. The reduction in the allowance was partially offset by net losses of \$2.1 million recognized on financial instruments designated as an economic hedge.

Servicing revenue, which is included in mortgage banking revenue on the Consolidated Statements of Earnings, totaled \$4.0 million in the first quarter of 2006 compared with \$4.1 million in 2005. The decrease in servicing revenue reflected a decrease in servicing rates. The average outstanding balance of loans serviced for others was \$4.0 billion during 2006 compared to \$3.8 billion during 2005. However, annualized servicing revenue per outstanding loan principal decreased to 40 basis points for the first quarter of 2006, compared with 44 basis points last year. Increased servicing of community development loans and certain government-sponsored loans caused the decrease in the servicing fee rates. Servicing fees on both of these loan types are less than the portfolio average servicing fee rate.

On March 31, 2006, the Company paid approximately \$6.8 million to acquire the rights to service approximately \$480 million of mortgage loans. Substantially all of these loans are to borrowers in our primary market areas.

The fair value of mortgage servicing rights decreased \$2.7 million during the first quarter of 2006 due to runoff of the underlying loans serviced. This reduction in fair value is included in mortgage banking costs in the Consolidated Statements of Earnings. Prior to the adoption of FAS 156, mortgage servicing rights were amortized in proportion to projected cash flows over the estimated life of the loans serviced. Projected cash flows considered both actual and estimated runoff of the underlying loans serviced. Amortization expense recognized in mortgage banking costs during the first quarter of 2005 totaled \$3.2 million. The decrease in expense related to the runoff of loans serviced primarily reflects lower loan prepayment speeds.

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Table 7 - Mortgage Banking
(Dollars in Thousands)

| | Three months ended March 31, | |
|---------------------------------------|------------------------------|----------|
| | 2006 | 2005 |
| Net interest revenue | \$ 547 | \$ 1,430 |
| Capitalized mortgage servicing rights | 2,835 | 1,981 |

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| | | |
|--|------------|------------|
| Other operating revenue | 4,363 | 4,447 |
| Operating expense | 7,669 | 7,711 |
| Change in fair value of mortgage servicing rights | (7,081) | - |
| Recovery for impairment of mortgage servicing rights | - | (5,624) |
| Losses on financial instruments, net | (1,861) | (2,076) |
| Net income | 3,237 | 2,257 |
| Average assets | \$ 446,434 | \$ 515,648 |
| Average economic capital | 23,070 | 23,300 |
| Return on assets | 2.94% | 1.78% |
| Return on economic capital | 56.90% | 39.29% |
| Efficiency ratio | 99.02% | 98.13% |

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 designated as "mortgage trading securities" when prepayment risks exceed certain levels. Additionally, interest rate 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. These financial instruments are carried at fair value. Beginning January 1, 2006, with the adoption of FAS 156, changes in fair value are recognized in current period income. No special hedge accounting treatment is applicable to either the mortgage servicing rights or the financial instruments designated as an economic hedge.

The Company's 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 March 31, 2006, financial instruments with a fair value of \$65 million were held for the economic hedge program. 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 March 31, 2006, the pre-tax results of this modeling on reported earnings were:

Table 8 - Interest Rate Sensitivity - Mortgage Servicing
(Dollars in Thousands)

| | 50 bp increase | 50 bp decrease |
|---|----------------|----------------|
| | ----- | ----- |
| Anticipated change in: | | |
| Fair value of mortgage servicing rights | \$ 2,663 | \$ (3,717) |
| Fair value of hedging instruments | (2,124) | 2,326 |
| | ----- | ----- |
| Net | \$ 539 | \$ (1,391) |
| | ----- | ----- |

Table 8 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 \$2.7 million while a 50 basis point decrease is expected to reduce value by \$3.7 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

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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 BOSC, Inc., a registered broker / dealer. Trust and private financial services includes sales of institutional, investment

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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 are included in the Wealth Management Division.

Wealth Management contributed \$6.8 million or 12% to consolidated net income for the first quarter of 2006. This compared to \$6.1 million or 12% of consolidated net income for 2005.

Trust and private financial services provided \$5.5 million of net income in 2006, an 18% increase over 2005. At March 31, 2006 and 2005, the wealth management line of business was responsible for trust assets with aggregate market values of \$26.6 billion and \$23.3 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 \$9.5 billion of trust assets at March 31, 2006, compared with \$8.1 billion at March 31, 2005.

Brokerage and trading activities provided \$1.3 million of total net income in the first quarter of 2006 compared to \$1.5 million provided in same period of 2005. Growth in net income from our customer hedging programs was partially offset by a reduction in income from trading activities.

Table 9 - Wealth Management
(Dollars in Thousands)

| | Three months ended March 31, | |
|----------------------------|------------------------------|--------------|
| | 2006 | 2005 |
| Net interest revenue | \$ 8,265 | \$ 5,823 |
| Other operating revenue | 26,217 | 25,016 |
| Operating expense | 23,262 | 20,755 |
| Net income | 6,760 | 6,102 |
| Average assets | \$ 1,723,255 | \$ 1,380,557 |
| Average economic capital | 120,880 | 99,590 |
| Return on assets | 1.59% | 1.79% |
| Return on economic capital | 22.68% | 24.85% |
| Efficiency ratio | 67.46% | 67.30% |

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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. They also include fiduciary services provided by Colorado State Bank and Trust. Small businesses and middle-market corporations are Regional Banking's primary customer focus. Regional Banking contributed \$22.8 million or 42% to consolidated net income during the first quarter of 2006. This compares with \$17.3 million or 33% of consolidated net income for the same period in 2005. Growth in net income contributed by the regional banks came primarily from operations in Colorado. Net income from Colorado was \$3.5 million for the first quarter of 2006, compared with \$792 thousand for the same period of 2005. In addition, net income for 2006 in Texas and New Mexico increased \$2.3 million, or 21%, and \$805 thousand, or 18%, respectively.

Growth in net income from Texas operations resulted from a \$4.0 million increase in net interest revenue. Average earning assets increased \$418 million, or 15%, from the first quarter of 2005. This increase resulted from a \$405 million increase in average loans. The growth in average earning assets was funded primarily by a \$93 million increase in average demand deposits and a \$265 million increase in average interest-bearing deposits.

The increase in net income from New Mexico operations was also based largely on a \$1.1 million increase in net interest revenue. Average earning assets decreased \$132 million. Average loans increased \$59 million while funds sold to the

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funds management unit decreased \$184 million. Average deposits in the New Mexico market increased \$121 million, including \$28 million of demand deposits. Average funds borrowed from external sources decreased \$313 million.

Net income from operations in Colorado was \$3.6 million for the first quarter of 2006, compared with \$792 thousand for the first quarter of 2005. Net interest revenue increased \$2.5 million due primarily to a \$365 million increase in average earning assets. Average loans increased \$78 million while average funds sold to the funds management unit increased \$290 million. The growth in earning assets was funded primarily by a \$286 million increase in interest-bearing deposits. In addition to the effect of revenue growth on net income, net loans charged-off or recovered decreased \$1.7 million compared with the first quarter of 2005.

We continue to expand operations in the Arizona market since the acquisition of Bank of Arizona in the second quarter of 2005. Outstanding loans attributed to the Arizona market averaged \$212 million for the first quarter of 2006, compared with \$92 million of loans acquired in April 2005. Total deposits averaged \$108 million for the first quarter of 2006.

Table 10 - Bank of Texas
(Dollars in Thousands)

| | Three months ended March 31, | |
|-------------------------|------------------------------|-----------|
| | 2006 | 2005 |
| Net interest revenue | \$ 34,788 | \$ 30,745 |
| Other operating revenue | 6,130 | 5,233 |
| Operating expense | 20,267 | 19,096 |

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| | | |
|------------------------------------|--------------|--------------|
| Net loans charged off | 286 | 118 |
| Net income | 13,236 | 10,917 |
| Average assets | \$ 3,545,820 | \$ 3,128,687 |
| Average economic capital | 218,430 | 164,660 |
| Average invested capital | 385,510 | 331,740 |
| Return on assets | 1.51% | 1.42% |
| Return on economic capital | 24.58% | 26.89% |
| Return on average invested capital | 13.92% | 13.35% |
| Efficiency ratio | 49.53% | 53.08% |

Table 11 - Bank of Albuquerque
(Dollars in Thousands)

| | Three months ended March 31, | |
|------------------------------------|------------------------------|--------------|
| | 2006 | 2005 |
| Net interest revenue | \$ 11,749 | \$ 10,680 |
| Other operating revenue | 3,930 | 3,358 |
| Operating expense | 7,112 | 6,759 |
| Net loans charged off | 110 | 144 |
| Net income | 5,167 | 4,362 |
| Average assets | \$ 1,472,394 | \$ 1,605,665 |
| Average economic capital | 76,570 | 81,420 |
| Average invested capital | 95,660 | 100,510 |
| Return on assets | 1.42% | 1.10% |
| Return on economic capital | 27.37% | 21.73% |
| Return on average invested capital | 21.91% | 17.60% |
| Efficiency ratio | 45.36% | 48.15% |

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Table 12 - Bank of Arkansas
(Dollars in Thousands)

| | Three months ended March 31, | |
|------------------------------------|------------------------------|------------|
| | 2006 | 2005 |
| Net interest revenue | \$ 1,543 | \$ 2,186 |
| Other operating revenue | 2,812 | 3,112 |
| Operating expense | 2,949 | 3,197 |
| Net loans charged off | (10) | 10 |
| Net income | 865 | 1,278 |
| Average assets | \$ 198,741 | \$ 258,695 |
| Average economic capital | 13,490 | 11,170 |
| Average invested capital | 13,490 | 11,170 |
| Return on assets | 1.77% | 2.00% |
| Return on economic capital | 26.00% | 46.40% |
| Return on average invested capital | 26.00% | 46.40% |
| Efficiency ratio | 67.72% | 60.34% |

Table 13 - Colorado State Bank and Trust
(Dollars in Thousands)

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| | Three months ended March 31, | |
|------------------------------------|------------------------------|------------|
| | 2006 | 2005 |
| Net interest revenue | \$ 8,525 | \$ 6,043 |
| Other operating revenue | 3,035 | 4,028 |
| Operating expense | 5,961 | 7,147 |
| Net loans charged off | (49) | 1,628 |
| Net income | 3,451 | 792 |
| Average assets | \$ 1,037,770 | \$ 668,653 |
| Average economic capital | 60,560 | 41,040 |
| Average invested capital | 102,540 | 83,030 |
| Return on assets | 1.35% | 0.48% |
| Return on economic capital | 23.11% | 7.82% |
| Return on average invested capital | 13.65% | 3.87% |
| Efficiency ratio | 51.57% | 70.97% |

Table 14 - Bank of Arizona
(Dollars in Thousands)

| | Three months ended March 31, | |
|------------------------------------|------------------------------|--------|
| | 2006 | 2005 |
| Net interest revenue | \$ 2,689 | \$ *** |
| Other operating revenue | 106 | *** |
| Operating expense | 2,552 | *** |
| Net loans charged off | 2 | *** |
| Net income | 50 | *** |
| Average assets | \$ 332,935 | \$ *** |
| Average economic capital | 16,940 | *** |
| Average invested capital | 33,590 | *** |
| Return on assets | 0.06% | *** |
| Return on economic capital | 1.20% | *** |
| Return on average invested capital | 0.60% | *** |
| Efficiency ratio | 91.31% | *** |

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

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FINANCIAL CONDITION

SECURITIES

Securities are classified as either held for investment, available for sale or trading based upon asset/liability management strategies, liquidity and profitability objectives and regulatory requirements. 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. Certain mortgage-backed securities, identified as mortgage trading securities, have been designated as economic hedges of mortgage servicing rights. These securities are carried at

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fair value with changes in fair value recognized in current period income. These securities are held with the intent that gains or losses will offset changes in the fair value of mortgage servicing rights. The Company also maintains a separate trading securities portfolio. Trading portfolio securities, which are also carried at fair value with changes in fair value recognized in current period income, are acquired and held with the intent to sell at a profit to the Company.

The amortized cost of available for sale securities totaled \$4.9 billion at both March 31, 2006 and December 31, 2005. Mortgage-backed securities continued to represent substantially all available for sale securities. 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 effective duration of the mortgage-backed securities portfolio was approximately 2.8 years at March 31, 2006 and at December 31, 2005. Management estimates that the effective duration of the mortgage-backed securities portfolio would extend to 3.1 years assuming a 300 basis point immediate rate shock.

Net unrealized losses on available for sale securities totaled \$148 million at March 31, 2006 compared with net unrealized losses of \$105 million at December 31, 2005 due primarily to rising interest rates. The aggregate gross amount of unrealized losses at March 31, 2006 totaled \$157 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 management's belief, based on currently available information and our evaluation, that the unrealized losses in these securities are temporary.

LOANS

The aggregate loan portfolio at March 31, 2006 totaled \$9.2 billion, a \$62 million increase since December 31, 2005. Net loan growth slowed during the first quarter of 2006 due largely to payoffs in the energy and services sectors of the commercial loan portfolio.

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 Table 15 - Loans
 (In thousands)

| | March 31, 2006 | Dec. 31, 2005 | Sept. 30, 2005 | June 30 2005 |
|---------------------------------|-------------------|------------------|-------------------|-----------------|
| | | | | |
| Commercial: | | | | |
| Energy | \$ 1,367,400 | \$ 1,399,417 | \$ 1,350,835 | \$ 1,278,8 |
| Services | 1,358,194 | 1,425,821 | 1,419,342 | 1,340,4 |
| Wholesale/retail | 850,013 | 793,032 | 804,628 | 777,4 |
| Manufacturing | 519,100 | 514,792 | 484,662 | 483,2 |
| Healthcare | 534,091 | 520,309 | 476,616 | 434,1 |
| Agriculture | 284,277 | 291,858 | 238,950 | 244,6 |
| Other commercial and industrial | 325,746 | 354,706 | 292,657 | 301,0 |

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| | | | | |
|--|--------------|--------------|--------------|------------|
| Total commercial | 5,238,821 | 5,299,935 | 5,067,690 | 4,859,7 |
| ----- | | | | |
| Commercial real estate: | | | | |
| Construction and land development | 686,400 | 638,366 | 605,457 | 542,0 |
| Multifamily | 205,755 | 204,620 | 225,074 | 237,9 |
| Other real estate loans | 1,212,805 | 1,146,916 | 1,142,093 | 1,081,9 |
| ----- | | | | |
| Total commercial real estate | 2,104,960 | 1,989,902 | 1,972,624 | 1,861,8 |
| ----- | | | | |
| Residential mortgage: | | | | |
| Secured by 1-4 family residential properties | 1,177,337 | 1,169,331 | 1,166,559 | 1,151,6 |
| Residential mortgages held for sale | 40,299 | 51,666 | 46,306 | 74,4 |
| ----- | | | | |
| Total residential mortgage | 1,217,636 | 1,220,997 | 1,212,865 | 1,226,0 |
| ----- | | | | |
| Consumer | 640,542 | 629,144 | 630,389 | 566,9 |
| ----- | | | | |
| Total | \$ 9,201,959 | \$ 9,139,978 | \$ 8,883,568 | \$ 8,514,6 |
| ----- | | | | |

The commercial loan portfolio totaled \$5.2 billion at March 31, 2006, down \$61 million during the first quarter of 2006. The services sector of the portfolio totaled \$1.4 billion, or 15% of the Company's total outstanding loans. Loans in this sector of the portfolio decreased \$68 million since December 31, 2005. The services sector consists of a large number of loans to a variety of businesses, including communications, gaming and transportation services. Approximately \$981 million of the services sector is made up of loans with individual balances of less than \$10 million. Energy loans totaled \$1.4 billion or 15% of total loans. Outstanding energy loans decreased \$32 million, or 4%, during the first quarter of 2006. Approximately \$1.1 billion of loans in the energy portfolio 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.

Other notable loan concentrations by primary industry of the borrowers are presented in Table 15.

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 March 31, 2006 and December 31, 2005, the outstanding principal balances of these loans totaled \$1.2 billion and \$1.1 billion, respectively. Substantially all of these loans were to borrowers with local market relationships. BOK Financial serves as the agent lender in approximately 32% of the 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 \$2.1 billion or 23% of the loan portfolio at March 31, 2006. The outstanding balance of commercial real estate loans increased \$115 million, or 6%, since December 31, 2005. Commercial real estate loans grew primarily in the Oklahoma and Texas markets. Construction and land development loans included \$536 million for single family residential lots and

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premises, up \$43 million, or 9%, since December 31, 2005. The major components of other commercial real estate loans were office buildings - \$493 million and retail facilities - \$334 million. Commercial real estate loans secured by retail facilities increased \$28 million, or 9%, during the quarter.

Residential mortgage loans, excluding mortgage loans held for sale, included \$352 million of home equity loans, \$383 million of loans held for business relationship purposes, \$236 million of adjustable rate mortgages and \$185 million of loans held for community development. Consumer loans included \$370 million of indirect automobile loans, up \$13

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million since December 31, 2005. While substantially all of these loans were purchased from dealers in Oklahoma, most of the current quarter's growth was from activities in Arkansas.

Table 16 presents the distribution of the major loan categories among our primary market areas.

 Table 16 - Loans by Principal Market Area

(In thousands)

| | March 31, 2006 | Dec. 31, 2005 | Sept. 30, 2005 | June 30 2005 |
|------------------------------------|-------------------|------------------|-------------------|-----------------|
| ----- | | | | |
| Oklahoma: | | | | |
| Commercial | \$ 3,074,406 | \$ 3,159,683 | \$ 3,101,209 | \$ 3,026,3 |
| Commercial real estate | 936,030 | 862,700 | 890,737 | 856,6 |
| Residential mortgage | 847,848 | 842,757 | 839,344 | 827,4 |
| Residential mortgage held for sale | 40,299 | 51,666 | 46,306 | 74,4 |
| Consumer | 468,920 | 466,180 | 472,899 | 425,3 |
| ----- | | | | |
| Total Oklahoma | \$ 5,367,503 | \$ 5,382,986 | \$ 5,350,495 | \$ 5,210,0 |
| ----- | | | | |
| Texas: | | | | |
| Commercial | \$ 1,420,860 | \$ 1,356,611 | \$ 1,294,606 | \$ 1,182,3 |
| Commercial real estate | 604,413 | 569,921 | 537,576 | 509,4 |
| Residential mortgage | 200,957 | 199,726 | 196,593 | 196,4 |
| Consumer | 87,669 | 89,017 | 89,329 | 90,2 |
| ----- | | | | |
| Total Texas | \$ 2,313,899 | \$ 2,215,275 | \$ 2,118,104 | \$ 1,978,4 |
| ----- | | | | |
| New Mexico: | | | | |
| Commercial | \$ 348,930 | \$ 383,325 | \$ 354,087 | \$ 340,3 |
| Commercial real estate | 228,955 | 232,564 | 223,236 | 219,1 |
| Residential mortgage | 68,810 | 65,784 | 65,203 | 63,8 |
| Consumer | 13,820 | 15,137 | 15,195 | 15,8 |
| ----- | | | | |
| Total Albuquerque | \$ 660,515 | \$ 696,810 | \$ 657,721 | \$ 639,1 |
| ----- | | | | |
| Arkansas: | | | | |
| Commercial | \$ 74,423 | \$ 79,719 | \$ 54,703 | \$ 54,7 |
| Commercial real estate | 80,529 | 75,483 | 85,600 | 76,8 |
| Residential mortgage | 13,069 | 13,044 | 12,097 | 11,6 |
| Consumer | 33,548 | 25,659 | 20,397 | 4,5 |
| ----- | | | | |
| Total Northwest Arkansas | \$ 201,569 | \$ 193,905 | \$ 172,797 | \$ 147,7 |
| ----- | | | | |

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| | | | | | | | | |
|---------------------------|----|-----------|----|-----------|----|-----------|----|-----------|
| Colorado: | | | | | | | | |
| Commercial | \$ | 267,928 | \$ | 270,108 | \$ | 219,208 | \$ | 210,100 |
| Commercial real estate | | 134,771 | | 133,537 | | 132,741 | | 125,100 |
| Residential mortgage | | 20,383 | | 21,918 | | 26,186 | | 27,200 |
| Consumer | | 31,487 | | 27,871 | | 26,126 | | 27,900 |
| ----- | | | | | | | | |
| Total Colorado | \$ | 454,569 | \$ | 453,434 | \$ | 404,261 | \$ | 390,500 |
| ----- | | | | | | | | |
| Arizona: | | | | | | | | |
| Commercial | \$ | 52,274 | \$ | 50,489 | \$ | 43,877 | \$ | 45,900 |
| Commercial real estate | | 120,262 | | 115,697 | | 102,734 | | 74,600 |
| Residential mortgage | | 26,270 | | 26,102 | | 27,136 | | 24,900 |
| Consumer | | 5,098 | | 5,280 | | 6,443 | | 3,000 |
| ----- | | | | | | | | |
| Total Arizona | \$ | 203,904 | \$ | 197,568 | \$ | 180,190 | \$ | 148,600 |
| ----- | | | | | | | | |
| Total BOK Financial loans | \$ | 9,201,959 | \$ | 9,139,978 | \$ | 8,883,568 | \$ | 8,514,600 |
| ----- | | | | | | | | |

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LOAN COMMITMENTS

BOK Financial enters into certain off-balance sheet arrangements in the normal course of business. These arrangements included loan commitments which totaled \$4.7 billion and standby letters of credit which totaled \$495 million at March 31, 2006. Loan commitments may be unconditional obligations to provide financing or conditional obligations that depend on the borrower's financial condition, collateral value or other factors. Standby letters of credit are unconditional commitments to guarantee the performance of our customer to a third party. Since some of these commitments are expected to expire before being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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 BOK Financial 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 rating, these limits are reduced and additional margin collateral is required.

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

Derivative contracts are carried at fair value. At March 31, 2006, the fair value of derivative contracts reported as assets under these programs totaled \$401 million. This included energy contracts with fair values of \$358 million, interest rate contracts with fair values of \$32 million and foreign exchange contracts with fair values of \$10 million. The aggregate fair values of derivative contracts reported as liabilities totaled \$402 million. At December 31, 2005, the fair values of assets and liabilities reported under these programs totaled \$453 million and \$452 million, respectively. 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. The maximum net exposure to any single customer or counterparty totaled \$87 million.

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 March 31, 2006, compared with \$104 million at December 31, 2005 and \$109 million at March 31, 2005. These amounts represented 1.14%, 1.14% and 1.35% of outstanding loans, excluding loans held for sale, at March 31, 2006, December 31, 2005 and March 31, 2005, 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 323% of the outstanding balance of nonperforming loans at March 31, 2006, compared with 413% at December 31, 2005 and 219% at March 31, 2005. Nonperforming loans totaled \$32 million at March 31, 2006, compared with \$25 million at December 31, 2005 and \$50 million at March 31, 2005. Net loans charged off during the first quarter of 2006 totaled \$1.6 million, down from \$7.4 million in the fourth quarter of 2005

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and \$3.2 million for the first quarter of 2005. Net consumer loans charged off, which includes deposit overdraft losses, totaled \$1.1 million for the first quarter of 2006.

The Company considers credit risk from loan commitments and letters of credit in its evaluation of the adequacy of the reserve for loan losses. A separate reserve for off-balance sheet credit risk is maintained. Table 17 presents the trend of reserves for off-balance sheet credit losses and the relationship between the reserve and loan commitments. The relationship between the combined reserve for credit losses and outstanding loans is also presented to facilitate comparison with peer banks and others who have not adopted this 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.

Table 17 - Summary of Loan Loss Experience

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(In thousands)

| | Three Months Ended | | |
|---|--------------------|------------------|-------------------|
| | March 31, 2006 | Dec. 31, 2005 | Sept. 30, 2005 |
| Reserve for loan losses: | | | |
| Beginning balance | \$ 103,876 | \$ 109,621 | \$ 108,884 |
| Loans charged off: | | | |
| Commercial | 1,242 | 5,772 | 819 |
| Commercial real estate | - | 84 | 730 |
| Residential mortgage | 207 | 226 | 382 |
| Consumer | 2,700 | 3,497 | 3,380 |
| Total | 4,149 | 9,579 | 5,311 |
| Recoveries of loans previously charged off: | | | |
| Commercial | 847 | 826 | 711 |
| Commercial real estate | 40 | 8 | 7 |
| Residential mortgage | 97 | 133 | 21 |
| Consumer | 1,580 | 1,197 | 1,238 |
| Total | 2,564 | 2,164 | 1,977 |
| Net loans charged off | 1,585 | 7,415 | 3,334 |
| Provision for loan losses | 1,852 | 1,670 | 4,071 |
| Additions due to acquisitions | - | - | - |
| Ending balance | \$ 104,143 | \$ 103,876 | \$ 109,621 |
| Reserve for off-balance sheet credit losses: | | | |
| Beginning balance | \$ 20,574 | \$ 17,794 | \$ 17,889 |
| Provision for off-balance sheet credit losses | 1,548 | 2,780 | (95) |
| Additions due to acquisitions | - | - | - |
| Ending balance | \$ 22,122 | \$ 20,574 | \$ 17,794 |
| Total provision for credit losses | \$ 3,400 | \$ 4,450 | \$ 3,976 |
| Reserve for loan losses to loans outstanding at period-end (1) | 1.14% | 1.14% | 1.24% |
| Net charge-offs (annualized) to average loans (1) | 0.07 | 0.33 | 0.16 |
| Total provision for credit losses (annualized) to average loans (1) | 0.15 | 0.20 | 0.19 |
| Recoveries to gross charge-offs | 61.80 | 22.59 | 37.22 |
| Reserve for loan losses as a multiple of net charge-offs (annualized) | 16.43x | 3.50x | 8.22x |
| Reserve for off-balance sheet credit losses to off-balance sheet credit commitments | 0.36% | 0.42% | 0.41% |
| Combined reserves for credit losses to loans outstanding at period-end (1) | 1.38 | 1.37 | 1.44 |

(1) Excludes residential mortgage loans held for sale.

Specific impairment reserves are determined through evaluation of estimated future cash flows and collateral value. At March 31, 2006, specific impairment reserves totaled \$5.0 million on total impaired loans of \$21 million. Required specific impairment reserves increased \$2.3 million from December 31, 2005.

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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 March 31, 2006, the ranges of potential losses for the more significant factors were:

General economic conditions - \$6.4 million to \$10.9 million Concentration in large loans - \$1.4 million to \$2.9 million

The provision for credit losses totaled \$3.4 million for the first quarter of 2006, compared with \$4.4 million for the fourth quarter of 2005 and \$2.0 million for the first quarter of 2005. Factors considered in determining the provision for credit losses included increases in the outstanding balances of classified, criticized and non-performing loans. These factors were partially offset by decreases in the minimum reserve level for certain loan grades based on analysis of long-term loss experience and by reductions in net losses.

NONPERFORMING ASSETS

Information regarding nonperforming assets, which totaled \$40 million at March 31, 2006 and \$34 million at December 31, 2005, is presented in Table 18. Nonperforming assets included non-accrual loans and excluded loans 90 days or more past due but still accruing interest. Non-accrual loans totaled \$32 million at March 31, 2006 and \$25 million at December 31, 2005. Newly identified non-accruing loans totaled \$11 million during the first quarter of 2006. Non-accruing loans decreased \$1 million for loans charged off or foreclosed, and \$3 million for cash payments received.

Table 18 - Nonperforming Assets
(In thousands)

| | March 31, 2006 | Dec. 31, 2005 | Sept. 30, 2005 | June 2005 |
|---|-------------------|------------------|-------------------|------------------|
| Nonaccrual loans: | | | | |
| Commercial | \$ 17,073 | \$ 11,673 | \$ 17,920 | \$ 21,000 |
| Commercial real estate | 6,444 | 5,370 | 10,422 | 11,000 |
| Residential mortgage | 8,057 | 7,347 | 8,531 | 7,000 |
| Consumer | 655 | 772 | 480 | |
| Total nonaccrual loans | 32,229 | 25,162 | 37,353 | 40,000 |
| Other nonperforming assets | 8,196 | 8,476 | 5,069 | 5,000 |
| Total nonperforming assets | \$ 40,425 | \$ 33,638 | \$ 42,422 | \$ 45,000 |
| Ratios: | | | | |
| Reserve for loan losses to nonaccrual loans | 323.13% | 412.83% | 293.48% | 268.00% |
| Combined reserves for credit losses to nonaccrual loans | 391.77 | 494.60 | 341.11 | 312.00 |
| Nonaccrual loans to period-end loans (2) | 0.35 | 0.28 | 0.42 | 0.00 |
| Loans past due (90 days) (1) | \$ 3,919 | \$ 8,708 | \$ 10,027 | \$ 7,100 |
| (1) Includes residential mortgages guaranteed by agencies of the U.S. Government. | \$ 1,595 | \$ 2,021 | \$ 3,646 | \$ 3,700 |
| (2) Excludes residential mortgage loans held for sale. | | | | |

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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, however, causes management concerns as to the borrowers' ability to comply with current repayment terms. These potential problem loans totaled \$23 million at March 31, 2006 and \$28 million at December 31, 2005. The current composition of potential problem loans by primary industry included healthcare - \$12 million, services - \$6 million and real estate - \$3 million.

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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 Express Bank call center. Commercial deposit growth is supported by offering treasury management and lockbox services.

Total deposits averaged \$11.1 billion for the first quarter of 2006, up \$408 million, or 4%, compared with average deposits in the fourth quarter of 2005. The growth in average deposits was driven by a \$976 million increase in total deposits across all of our markets during the fourth quarter. Deposits continued to grow in the New Mexico, Colorado, Arizona and Arkansas markets during the first quarter of 2006. However, following fourth quarter deposit growth of \$471 million in Oklahoma and \$418 million in Texas, deposits decreased by \$153 million and \$52 million, respectively, during the first quarter of 2006.

Average core deposits, which we define as deposits of less than \$100,000, excluding public funds and brokered deposits, increased at an annualized rate of 4%. Average core deposits comprised 49% of total deposits for the first quarter of 2006, down from 50% for the preceding quarter. Deposit accounts with balances in excess of \$100,000 represented 41% and 40% of average deposits for the first quarter of 2006 and the fourth quarter of 2005, respectively.

The distribution of deposit accounts among principal markets is shown in Table 19.

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Table 19 - Deposits by Principal Market Area
(In thousands)

| | March 31, 2006 | Dec. 31, 2005 | Sept. 30, 2005 | June 30 2005 |
|-------------------|-------------------|------------------|-------------------|-----------------|
| Oklahoma: | | | | |
| Demand | \$ 950,582 | \$ 1,003,284 | \$ 959,169 | \$ 1,028,6 |
| Interest-bearing: | | | | |
| Transaction | 2,937,228 | 3,002,610 | 2,411,175 | 2,367,5 |
| Savings | 93,093 | 85,837 | 86,220 | 89,9 |
| Time | 2,623,352 | 2,564,337 | 2,728,224 | 2,450,7 |

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| | | | | |
|------------------------------|---------------|---------------|---------------|------------|
| Total interest-bearing | 5,653,673 | 5,652,784 | 5,225,619 | 4,908,2 |
| Total Oklahoma | \$ 6,604,255 | \$ 6,656,068 | \$ 6,184,788 | \$ 5,936,8 |
| Texas: | | | | |
| Demand | \$ 551,411 | \$ 615,732 | \$ 533,475 | \$ 478,8 |
| Interest-bearing: | | | | |
| Transaction | 1,455,856 | 1,535,570 | 1,299,279 | 1,292,9 |
| Savings | 27,827 | 27,398 | 29,620 | 29,6 |
| Time | 726,530 | 735,731 | 633,785 | 606,5 |
| Total interest-bearing | 2,210,213 | 2,298,699 | 1,962,684 | 1,929,1 |
| Total Texas | \$ 2,761,624 | \$ 2,914,431 | \$ 2,496,159 | \$ 2,407,9 |
| New Mexico: | | | | |
| Demand | \$ 159,125 | \$ 129,289 | \$ 155,517 | \$ 139,1 |
| Interest-bearing: | | | | |
| Transaction | 408,160 | 381,099 | 338,706 | 306,2 |
| Savings | 17,805 | 17,839 | 17,614 | 17,8 |
| Time | 483,428 | 453,314 | 454,561 | 449,1 |
| Total interest-bearing | 909,393 | 852,252 | 810,881 | 773,2 |
| Total New Mexico | \$ 1,068,518 | \$ 981,541 | \$ 966,398 | \$ 912,3 |
| Arkansas: | | | | |
| Demand | \$ 11,629 | \$ 10,429 | \$ 13,772 | \$ 10,8 |
| Interest-bearing: | | | | |
| Transaction | 26,675 | 22,354 | 23,335 | 24,8 |
| Savings | 1,051 | 1,058 | 1,268 | 1,2 |
| Time | 73,082 | 75,034 | 81,510 | 83,3 |
| Total interest-bearing | 100,808 | 98,446 | 106,113 | 109,4 |
| Total Arkansas | \$ 112,437 | \$ 108,875 | \$ 119,885 | \$ 120,3 |
| Colorado: | | | | |
| Demand | \$ 56,419 | \$ 61,647 | \$ 51,978 | \$ 32,0 |
| Interest-bearing: | | | | |
| Transaction | 258,801 | 258,668 | 216,718 | 228,8 |
| Savings | 16,315 | 17,772 | 16,568 | 16,7 |
| Time | 309,068 | 264,020 | 221,753 | 117,1 |
| Total interest-bearing | 584,184 | 540,460 | 455,039 | 362,8 |
| Total Colorado | \$ 640,603 | \$ 602,107 | \$ 507,017 | \$ 394,8 |
| Arizona: | | | | |
| Demand | \$ 55,421 | \$ 45,567 | \$ 42,784 | \$ 60,4 |
| Interest-bearing: | | | | |
| Transaction | 57,400 | 56,994 | 71,510 | 56,6 |
| Savings | 3,380 | 4,111 | 3,862 | 4,7 |
| Time | 4,608 | 5,624 | 6,802 | 6,5 |
| Total interest-bearing | 65,388 | 66,729 | 82,174 | 67,9 |
| Total Arizona | \$ 120,809 | \$ 112,296 | \$ 124,958 | \$ 128,3 |
| Total BOK Financial deposits | \$ 11,308,246 | \$ 11,375,318 | \$ 10,399,205 | \$ 9,900,8 |

BORROWINGS AND CAPITAL

BOK Financial (parent company) has a \$100 million unsecured revolving line of credit with certain banks that expires in December 2010. There was no outstanding principal balance on this credit agreement at March 31, 2006. Interest is based on LIBOR plus a defined margin that is determined by the Company's credit rating or a base rate. 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 and to exceed minimum net worth ratios. BOK Financial met all of the restrictive covenants at March 31, 2006.

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 \$171 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 \$105 million under this policy.

Equity capital for BOK Financial increased \$26 million to \$1.6 billion at March 31, 2006. Retained earnings, net income less cash dividends, provided \$48 million to this increase. Growth in capital from retained earnings was partially offset by a \$26 million increase in accumulated other comprehensive losses due primarily to net unrealized losses on available for sale securities. The remaining increase in capital during the first quarter of 2006 resulted primarily from activity in employee stock options.

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. During the first quarter of 2006, the Company repurchased 61,408 common shares at an average price of \$44.93 per share.

Cash dividends of \$6.7 million or \$0.10 per common share were paid during the first quarter of 2006. On April 25, 2006, the Board of Directors approved a quarterly cash dividend of \$0.15 per common share. The dividend will be payable on or about May 31, 2006 to shareholders of record on May 12, 2006.

BOK Financial and subsidiary banks are subject to various capital requirements

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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 are presented in Table 20.

| Table 20 - Capital Ratios | March 31, 2006 | Dec. 31, 2005 | Sept. 30, 2005 | June 30, 2005 |
|------------------------------|-------------------|------------------|-------------------|------------------|
| Average shareholders' equity | | | | |
| to average assets | 9.51% | 9.30% | 9.54% | 9.56% |
| Risk-based capital: | | | | |
| Tier 1 capital | 10.16 | 9.85 | 9.71 | 9.84 |
| Total capital | 12.41 | 12.09 | 12.04 | 12.54 |
| Leverage | 8.60 | 8.34 | 8.01 | 8.08 |

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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. Any holder of BOK Financial common shares issued in this acquisition may annually make a claim for the excess of the guaranteed price over 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 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 guaranty.

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 BOK Financial common stock on March 31, 2006 was \$47.55 per share.

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

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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. The average duration of these securities is expected to be approximately 2.8 years based on a range of interest rate and prepayment assumptions. The funds borrowed to purchase these securities generally reprice within 90 days.

BOK Financial also uses interest rate swaps in managing 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. During the first quarter of 2006, net interest revenue was reduced by \$1.9 million from periodic settlements of these contracts. Net interest revenue was increased by \$366 thousand from periodic settlements of these contracts in the first quarter of 2005. 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 loss of \$309 thousand was recognized in 2006 compared to a net gain of \$778 thousand in 2005 from adjustments of these swaps and hedged liabilities to fair value. Credit risk from interest rate swaps is closely monitored as part of our overall process of managing credit exposure to other financial institutions.

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

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guidelines. The first scenario 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, 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

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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 21 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 21 - Interest Rate Sensitivity
(Dollars in Thousands)

| | 200 bp Increase | | 200 bp Decrease | | |
|---|-----------------|----------|-----------------|------|----|
| | 2006 | 2005 | 2006 | 2005 | |
| Anticipated impact over the next twelve months on | | | | | |
| net interest revenue | \$ 6,413 | \$ 7,242 | \$ (4,174) | *** | \$ |
| | 1.2% | 1.6% | (0.8)% | *** | |

***A 200 basis point decrease was not computed in 2005 due to low market interest rates.

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. The Risk Management Department monitors trading activity daily and reports to senior management and the Risk Oversight and Audit Committee of the BOK Financial Board of Directors any exceptions to trading position limits and risk management policy exceptions.

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

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managed within guidelines approved by the Board of Directors. These guidelines limit the VAR to \$1.8 million. At March 31, 2006, the VAR was \$583 thousand. The greatest value at risk during the quarter was \$1.1 million.

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CONTROLS AND PROCEDURES

As required by Rule 13a-15(b), BOK Financial's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by their report, of the effectiveness of the company's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report. As required by Rule 13a-15(d), BOK Financial's management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the company's internal controls over financial reporting to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the company's internal controls over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

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 difference 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.

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Consolidated Statements of Earnings (Unaudited)
(In Thousands Except Share and Per Share Data)

Three Months Ended
March 31,
2006 2005

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INTEREST REVENUE

| | | |
|-----------------------|------------|------------|
| Loans | \$ 165,927 | \$ 118,810 |
| Taxable securities | 55,046 | 49,356 |
| Tax-exempt securities | 2,209 | 1,793 |

Total securities 57,255 51,149

| | | |
|----------------------------------|-----|-----|
| Trading securities | 164 | 181 |
| Funds sold and resell agreements | 239 | 164 |

Total interest revenue 223,585 170,304

INTEREST EXPENSE

| | | |
|-------------------------|--------|--------|
| Deposits | 72,854 | 43,614 |
| Borrowed funds | 28,422 | 16,869 |
| Subordinated debentures | 4,983 | 2,227 |

Total interest expense 106,259 62,710

| | | |
|-----------------------------|---------|---------|
| Net Interest Revenue | 117,326 | 107,594 |
| Provision for Credit Losses | 3,400 | 2,000 |

Net Interest Revenue After Provision for Credit Losses 113,926 105,594

OTHER OPERATING REVENUE

| | | |
|--|--------|--------|
| Brokerage and trading revenue | 12,010 | 11,336 |
| Transaction card revenue | 18,508 | 16,543 |
| Trust fees and commissions | 17,945 | 16,016 |
| Service charges and fees on deposit accounts | 23,986 | 22,173 |
| Mortgage banking revenue | 6,789 | 5,578 |
| Other revenue | 10,811 | 7,397 |

Total fees and commissions 90,049 79,043

| | | |
|---------------------------------|---------|---------|
| Gain on sales of assets | 918 | 972 |
| Loss on securities, net | (1,221) | (2,637) |
| Gain (loss) on derivatives, net | (309) | 778 |

Total other operating revenue 89,437 78,156

OTHER OPERATING EXPENSE

| | | |
|---|---------|---------|
| Personnel | 71,232 | 58,439 |
| Business promotion | 4,803 | 4,430 |
| Professional fees and services | 3,914 | 3,619 |
| Net occupancy and equipment | 13,026 | 12,094 |
| Data processing and communications | 16,995 | 15,099 |
| Printing, postage and supplies | 3,905 | 3,615 |
| Net losses and operating expenses of repossessed assets | 219 | 308 |
| Amortization of intangible assets | 1,370 | 1,537 |
| Mortgage banking costs | 3,087 | 3,613 |
| Change in fair value of mortgage servicing rights | (7,081) | - |
| Recovery for impairment of mortgage servicing rights | - | (5,624) |
| Other expense | 5,909 | 5,029 |

Total other operating expense 117,379 102,159

| | | |
|------------------------------|--------|--------|
| Income Before Taxes | 85,984 | 81,591 |
| Federal and state income tax | 31,236 | 29,536 |

Net Income \$ 54,748 \$ 52,055

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Earnings Per Share:

| | | | | |
|---------|----|------|----|------|
| Basic | \$ | 0.82 | \$ | 0.87 |
| Diluted | \$ | 0.81 | \$ | 0.78 |

Average Shares Used in Computation:

| | | |
|---------|------------|------------|
| Basic | 66,715,396 | 59,432,812 |
| Diluted | 67,260,659 | 66,946,765 |

See accompanying notes to consolidated financial statements.

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Consolidated Balance Sheets
(In Thousands Except Share Data)

| | March 31, 2006 | December 31, 2005 |
|--|-------------------|----------------------|
| | (Unaudited) | |
| ASSETS | | |
| Cash and due from banks | \$ 610,563 | \$ 684,857 |
| Funds sold and resell agreements | 25,720 | 14,465 |
| Trading securities | 26,055 | 18,633 |
| Securities: | | |
| Available for sale | 4,771,401 | 4,821,575 |
| Available for sale securities pledged to creditors | - | - |
| Investment (fair value: March 31, 2006 - \$232,468; December 31, 2005 - \$243,406; March 31, 2005 - \$221,906) | 237,224 | 245,125 |
| Mortgage trading securities | 64,704 | - |
| Total securities | 5,073,329 | 5,066,700 |
| Loans | 9,201,959 | 9,139,978 |
| Less reserve for loan losses | (104,143) | (103,876) |
| Loans, net of reserve | 9,097,816 | 9,036,102 |
| Premises and equipment, net | 177,959 | 179,627 |
| Accrued revenue receivable | 102,759 | 99,874 |
| Intangible assets, net | 261,652 | 263,022 |
| Mortgage servicing rights, net | 68,608 | 54,097 |
| Real estate and other repossessed assets | 8,196 | 8,476 |
| Bankers' acceptances | 35,315 | 33,001 |
| Receivable on unsettled security transactions | - | - |
| Derivative contracts | 401,444 | 452,878 |
| Other assets | 411,353 | 415,337 |
| Total assets | \$ 16,300,769 | \$ 16,327,069 |

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| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
|--|--|---------------|---------------|
| Noninterest-bearing demand deposits | | \$ 1,784,587 | \$ 1,865,948 |
| Interest-bearing deposits: | | | |
| Transaction | | 5,144,120 | 5,257,295 |
| Savings | | 159,471 | 154,015 |
| Time | | 4,220,068 | 4,098,060 |
| ----- | | | |
| Total deposits | | 11,308,246 | 11,375,318 |
| ----- | | | |
| Funds purchased and repurchase agreements | | 1,622,185 | 1,337,911 |
| Other borrowings | | 833,114 | 1,054,298 |
| Subordinated debentures | | 294,130 | 295,964 |
| Accrued interest, taxes and expense | | 92,495 | 92,219 |
| Bankers' acceptances | | 35,315 | 33,001 |
| Due on unsettled security transactions | | 2,142 | 8,429 |
| Derivative contracts | | 419,776 | 466,669 |
| Other liabilities | | 127,931 | 124,106 |
| ----- | | | |
| Total liabilities | | 14,735,334 | 14,787,915 |
| ----- | | | |
| Shareholders' equity: | | | |
| Preferred stock | | - | - |
| Common stock (\$.00006 par value; 2,500,000,000 shares authorized; shares issued and outstanding: March 31, 2006 - 68,214,101; December 31, 2005 - 67,904,533; March 31, 2005 - 60,544,085) | | 4 | 4 |
| Capital surplus | | 666,800 | 656,579 |
| Retained earnings | | 1,038,859 | 990,422 |
| Treasury stock (shares at cost: March 31, 2006 - 1,331,064; December 31, 2005 - 1,202,125; March 31, 2005 - 1,056,048) | | (45,915) | (40,040) |
| Accumulated other comprehensive loss | | (94,313) | (67,811) |
| ----- | | | |
| Total shareholders' equity | | 1,565,435 | 1,539,154 |
| ----- | | | |
| Total liabilities and shareholders' equity | | \$ 16,300,769 | \$ 16,327,069 |
| ----- | | | |

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in
Shareholders' Equity (Unaudited)
(In Thousands)

| | Preferred Stock | | Common Stock | | Accumulated Other Comprehensive Loss | Capital Surplus | Retained Earnings | T -- Sh |
|---|-----------------|--------|--------------|--------|---|--------------------|----------------------|---------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balances at | | | | | | | | |
| December 31, 2004 | 249,975 | \$ 12 | 60,421 | \$ 4 | \$ (11,625) | \$631,747 | \$809,261 | |
| Comprehensive income: | | | | | | | | |
| Net income | - | - | - | - | - | - | 52,055 | |
| Other comprehensive income, net of tax (1) | - | - | - | - | (39,364) | - | - | |
| Comprehensive income | | | | | | | | |

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| | | | | | | | | |
|--|---|---|-----|---|---|---|-------|-------|
| Treasury stock purchase | - | - | - | - | - | - | - | - |
| Exercise of stock options | - | - | 123 | - | - | - | 3,361 | - |
| Tax benefit on exercise of stock options | - | - | - | - | - | - | 418 | - |
| Stock-based compensation | - | - | - | - | - | - | 3,153 | - |
| Cash dividends on preferred stock | - | - | - | - | - | - | - | (375) |

| | | | | | | | | |
|----------------|---------|-------|--------|------|-------------|-----------|-----------|---|
| Balances at | | | | | | | | |
| March 31, 2005 | 249,975 | \$ 12 | 60,544 | \$ 4 | \$ (50,989) | \$638,679 | \$860,941 | 1 |

| | | | | | | | | |
|---|---|------|--------|------|-------------|-----------|-----------|--------|
| Balances at | | | | | | | | |
| December 31, 2005 | - | \$ - | 67,905 | \$ 4 | \$ (67,811) | \$656,579 | \$990,422 | 1 |
| Effect of implementing FAS 156, net of income taxes | - | - | - | - | - | - | - | 383 |
| Comprehensive income: | | | | | | | | |
| Net income | - | - | - | - | - | - | - | 54,748 |
| Other comprehensive income, net of tax (1) | - | - | - | - | (26,502) | - | - | - |

Comprehensive income

| | | | | | | | | |
|--|---|---|-----|---|---|---|-------|---------|
| Treasury stock purchase | - | - | - | - | - | - | - | - |
| Exercise of stock options | - | - | 309 | - | - | - | 7,554 | - |
| Tax benefit on exercise of stock options | - | - | - | - | - | - | 1,140 | - |
| Stock-based compensation | - | - | - | - | - | - | 1,527 | - |
| Cash dividends on common stock | - | - | - | - | - | - | - | (6,694) |

| | | | | | | | | |
|----------------|---|------|--------|------|-------------|-----------|-------------|---|
| Balances at | | | | | | | | |
| March 31, 2006 | - | \$ - | 68,214 | \$ 4 | \$ (94,313) | \$666,800 | \$1,038,859 | 1 |

| | | | | |
|--|----|----------------|----|----------------|
| (1) | | March 31, 2006 | | March 31, 2005 |
| | | ----- | | ----- |
| Changes in other comprehensive loss: | | | | |
| Unrealized losses on securities | \$ | (42,660) | \$ | (63,729) |
| Unrealized losses on cash flow hedges | | (187) | | (607) |
| Tax benefit on unrealized losses | | 15,567 | | 23,290 |
| Reclassification adjustment for losses realized and included in net income | | 1,221 | | 2,637 |
| Reclassification adjustment for tax benefit on realized losses | | (443) | | (955) |
| | | ----- | | ----- |
| Net change in other comprehensive loss | \$ | (26,502) | \$ | (39,364) |

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows (Unaudited)
(In Thousands)

Three Months En

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| | 2006 |
|---|------------|
| Cash Flows From Operating Activities: | |
| Net income | \$ 54,748 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Provision for credit losses | 3,400 |
| Change in fair value of mortgage servicing rights | (7,081) |
| Recovery for mortgage servicing rights impairment | - |
| Unrealized losses from derivatives | 3,358 |
| Tax benefit on exercise of stock options | (1,140) |
| Stock-based compensation | 2,536 |
| Depreciation and amortization | 10,652 |
| Net accretion of securities discounts and premiums | (1,060) |
| Net (gain) loss on sale of assets | (2,469) |
| Mortgage loans originated for resale | (162,905) |
| Proceeds from sale of mortgage loans held for resale | 176,147 |
| Change in trading securities | (7,422) |
| Change in accrued revenue receivable | (2,885) |
| Change in other assets | 11,777 |
| Change in accrued interest, taxes and expense | 1,416 |
| Change in other liabilities | (13,996) |
| Net cash provided by operating activities | 65,076 |
| Cash Flows From Investing Activities: | |
| Proceeds from maturities of investment securities | 10,828 |
| Proceeds from maturities of available for sale securities | 173,249 |
| Purchases of investment securities | (2,983) |
| Purchases of available for sale securities | (271,202) |
| Proceeds from sales of available for sale securities | 36,576 |
| Loans originated or acquired net of principal collected | (149,739) |
| Proceeds from derivative asset contracts | 2,340 |
| Net change in other investment assets | 410 |
| Proceeds from disposition of assets | 75,196 |
| Purchases of assets | (12,828) |
| Net cash used by investing activities | (138,153) |
| Cash Flows From Financing Activities: | |
| Net change in demand deposits, transaction deposits and savings accounts | (189,080) |
| Net change in time deposits | 122,605 |
| Net change in other borrowings | 63,090 |
| Payments on derivative liability contracts | (1,754) |
| Net change in derivative margin accounts | 25,339 |
| Change in amount receivable (due) on unsettled security transactions | (6,287) |
| Issuance of preferred, common and treasury stock, net | 4,438 |
| Tax benefit on exercise of stock options | 1,140 |
| Repurchase of common stock | (2,759) |
| Dividends paid | (6,694) |
| Net cash provided by financing activities | 10,038 |
| Net decrease in cash and cash equivalents | (63,039) |
| Cash and cash equivalents at beginning of period | 699,322 |
| Cash and cash equivalents at end of period | \$ 636,283 |

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| | | |
|--|----|---------|
| Cash paid for interest | \$ | 105,085 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Cash paid for taxes | \$ | 6,440 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Net loans transferred to repossessed real estate and other assets | \$ | 957 |
| <hr style="border-top: 1px dashed black;"/> | | |

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) ACCOUNTING POLICIES

BASIS OF PRESENTATION

The unaudited consolidated financial statements of BOK Financial Corporation ("BOK Financial" or "the Company") have been prepared in accordance with accounting principles for interim financial information generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The unaudited consolidated financial statements include 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. Certain prior period amounts have been reclassified to conform to current period classification. Reclassification affecting the Consolidated Balance Sheet as of December 31, 2005 included an increase in other assets from \$341 million to \$415 million and accrued interest, taxes and expenses from \$18 million to \$92 million. This reclassification consistently presents deferred tax assets for all periods presented.

The financial information should be read in conjunction with BOK Financial's 2005 Form 10-K filed with the Securities and Exchange Commission, which contains audited financial statements.

NEWLY ADOPTED ACCOUNTING POLICIES

BOK Financial adopted Statement of Financial Accounting Standards No. 123-R, "Share-Based Payments (FAS 123-R) as of January 1, 2006. FAS 123-R requires companies to recognize in income statements the grant-date fair value of stock options and other equity-based compensation issued to employees. Share-based payments that will settle in equity instruments are measured at grant-date fair value and not remeasured for subsequent changes in fair value. FAS 123-R also requires that share-based payments the meet specified criteria to be classified as liability awards and carried at current fair value. Fair value of liability awards are remeasured at each balance sheet date until the award is settled. BOK Financial had previously adopted the preferred income statement recognition methods of the original FAS 123 retroactively to its effective date of December 15, 1994. The adoption of FAS 123-R did not significantly affect the Company's financial statements.

Stock options outstanding at March 31, 2006 totaled 3,877,843, including 1,027,012 of vested options and 2,850,831 of unvested options. Management

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expects that approximately 2.8 million of the unvested options will vest according to their contractual terms. The weighted average exercise prices of vested and unvested options are \$26.99 and \$40.18, respectively.

The intrinsic value of options exercised during the first quarters of 2006 and 2005 was \$4.4 million and \$2.3 million, respectively. The Company received cash proceeds of \$4.6 million in the first quarter of 2006 and \$1.9 million in the first quarter of 2005 from stock options exercised.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets" ("FAS 156") during the first quarter of 2006. FAS 156 permitted companies that service financial assets to elect to carry servicing rights at either fair value or at the lower of amortized cost or fair value. Previously, generally accepted accounting principles required servicing rights to be carried at the lower of amortized cost or fair value. FAS 156 is effective for fiscal years that begin after September 15, 2006. Early adoption is permitted as of the beginning of an entity's fiscal year, provided that the entity has not yet issued any financial statements for that year.

FAS 156 also permitted companies that service financial assets to reclassify securities designated as an economic hedge of the servicing rights from the available for sale classification to trading without tainting management's classification of the remaining available for sale securities portfolio.

Effective January 1, 2006, BOK Financial designated all mortgage loan servicing rights to be carried at fair value.

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An adjustment to initially record servicing rights at fair value increased retained earnings by \$351 thousand, net of income taxes. Additionally, certain specifically-identified securities that had been designated as economic hedges of the mortgage servicing rights were reclassified from available for sale to trading. These securities are identified as "mortgage trading securities" and are separate from the Company's normal securities trading activities. An adjustment to initially record these securities at fair value increased retained earnings by \$32 thousand, net of income taxes.

See Note 3 - Mortgage Banking Activities for additional disclosures required by FAS 156.

(2) DERIVATIVES

The fair values of derivative contracts at March 31, 2006 are as follows (in thousands):

| | Assets | Liabilities |
|---|-----------|-------------|
| | ----- | ----- |
| Customer Risk Management Programs: | | |
| Interest rate contracts | \$32,387 | \$34,089 |
| Energy contracts | 358,286 | 357,092 |
| Cattle contracts | 554 | 563 |
| Foreign exchange contracts | 10,217 | 10,217 |
| ----- | | |
| Total Customer Derivatives | 401,444 | 401,961 |
| Interest Rate Risk Management Programs: | | |
| Interest rate contracts | - | 17,815 |
| ----- | | |
| Total Derivative Contracts | \$401,444 | \$419,776 |
| ----- | | |

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(3) MORTGAGE BANKING ACTIVITIES

BOK Financial implemented Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets" in the first quarter of 2006. An initial adjustment of the mortgage servicing rights to fair value of approximately \$351 thousand, net of income taxes, was recognized as an increase to retained earnings in the same period. Also upon implementation of FAS 156, certain securities designated as an economic hedge of mortgage servicing rights were transferred from the available for sale classification to trading. Approximately \$32 thousand was transferred from accumulated other comprehensive income to retained earnings for the net of tax effect of this reclassification.

At March 31, 2006, BOK Financial owned the rights to service 57,211 mortgage loans with outstanding principal balances of \$5.0 billion, including \$439 million serviced for affiliates. The weighted average interest rate and remaining term was 6.13% and 276 months, respectively.

On March 31, 2006, the Company paid approximately \$6.8 million to acquire the rights to service approximately \$480 million of mortgage loans. Substantially all of these loans are to borrowers in our primary market areas.

For the three months ended March 31, 2006 and 2005, mortgage banking revenue includes servicing fee income of \$4.0 million and \$4.1 million, respectively.

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Activity in capitalized mortgage servicing rights and related valuation allowance during the three months ending March 31, 2006 is as follows (in thousands):

| | Capitalized Mortgage Servicing Rights | | | Valuation Allowance |
|--|---------------------------------------|------------|-----------|------------------------|
| | Purchased | Originated | Total | |
| Balance at | | | | |
| December 31, 2005 | \$ 8,606 | \$ 52,905 | \$ 61,511 | \$ (7,414) |
| Adoption of FAS 156 effective | | | | |
| January 1, 2006 | (117) | (6,747) | (6,864) | 7,414 |
| Additions, net | 6,770 | 2,835 | 9,605 | - |
| Change in fair value due to loan runoff | (535) | (2,190) | (2,725) | - |
| Change in fair value due to market changes | (116) | 7,197 | 7,081 | - |
| Balance at March 31, 2006 (1) | \$ 14,608 | \$ 54,000 | \$ 68,608 | \$ - |

(1) Excludes approximately \$993,000 of loan servicing rights on mortgage loans originated prior to the adoption of FAS 122.

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

| | March 31, 2006 | December 31, 2005 |
|--|----------------|-------------------|
| Discount rate - risk-free rate plus a market premium | 10.11% | 10.85% |

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| | | |
|--|----------------|---------------|
| Prepayment rate - based upon loan interest rate, original term and loan type | 6.50% - 20.20% | 10.42% - 20.3 |
| Loan servicing costs - annually per loan based upon loan type | \$40 - \$63 | \$35 - \$46 |
| Escrow earnings rate - indexed to rates paid on deposit accounts with comparable average life | 5.68% | 5.21% |

Stratification of the mortgage loan servicing portfolio and outstanding principal of loans serviced by interest rate at March 31, 2006 follows (in thousands):

| | <5.51% | 5.51% - 6.50% | 6.51% - 7.50% | => 7 |
|---|--------------|---------------|---------------|------|
| Fair value | \$ 17,671 | \$ 34,681 | \$ 12,198 | \$ |
| Outstanding principal of loans serviced (1) | \$ 1,137,200 | \$ 2,178,600 | \$ 861,300 | \$26 |

(1) Excludes outstanding principal of \$439 million for loans serviced for affiliates and \$62 million of mortgage loans for which there are no capitalized mortgage servicing rights.

(4) DISPOSAL OF AVAILABLE FOR SALE SECURITIES

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

| | Three Months Ended March 31, | |
|---|------------------------------|------------|
| | 2006 | 2005 |
| Proceeds | \$ 36,576 | \$ 330,648 |
| Gross realized gains | 714 | 535 |
| Gross realized losses | (1,935) | (3,172) |
| Related federal and state income tax benefit | (444) | (955) |

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(5) EMPLOYEE BENEFITS

BOK Financial has sponsored a defined benefit Pension Plan for all employees who satisfied certain age and service requirements. During the fourth quarter of 2005, the Company modified the Pension Plan to curtail benefit accruals effective April 1, 2006. During the first quarter of 2006 and 2005, net periodic pension cost was approximately \$1.8 million and \$1.6 million, respectively.

The Company made no Pension Plan contributions during the first quarter of 2006 and 2005.

Management has been advised that no minimum contribution will be required for 2006. Due to the curtailment, the maximum allowable contribution for 2006 has not yet been determined.

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(6) SHAREHOLDERS' EQUITY

On April 25, 2006, the Board of Directors of BOK Financial Corporation approved a \$0.15 per share quarterly common stock dividend. The quarterly dividend will be payable on or about May 31, 2006 to shareholders of record on May 12, 2006.

(7) EARNINGS PER SHARE

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

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 31, 2006 | March 31, 2005 |
| Numerator: | | |
| Net income | \$ 54,748 | \$ 52,055 |
| Preferred stock dividends | - | (375) |
| | | |
| Numerator for basic earnings per share - income available to common shareholders | 54,748 | 51,680 |
| | | |
| Effect of dilutive securities: | | |
| Preferred stock dividends | - | 375 |
| | | |
| Numerator for diluted earnings per share - income available to common shareholders after assumed conversion | \$ 54,748 | \$ 52,055 |
| | | |
| Denominator: | | |
| Denominator for basic earnings per share - weighted average shares | 66,715,396 | 59,432,812 |
| Effect of dilutive securities: | | |
| Employee stock compensation plans (1) | 545,263 | 593,285 |
| Convertible preferred stock | - | 6,920,668 |
| | | |
| Dilutive potential common shares | 545,263 | 7,513,953 |
| | | |
| Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions | 67,260,659 | 66,946,765 |
| | | |
| Basic earnings per share | \$ 0.82 | \$ 0.87 |
| | | |
| Diluted earnings per share | \$ 0.81 | \$ 0.78 |
| | | |
| (1) Excludes employee stock options with exercise prices greater than current market price. | 1,598,709 | 857,197 |

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(8) REPORTABLE SEGMENTS

Reportable segments reconciliation to the Consolidated Financial Statements for the three months ended March 31, 2006 is as follows (in thousands):

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| | Net Interest Revenue | Other Operating Revenue (1) | Other Operating Expense | |
|----------------------------|----------------------------|-----------------------------------|-------------------------------|----|
| Total reportable segments | \$ 119,560 | \$ 90,226 | \$ 110,259 | \$ |
| Unallocated items: | | | | |
| Tax-equivalent adjustment | 1,522 | - | - | |
| Funds management and other | (3,756) | 741 | 7,120 | |
| BOK Financial consolidated | \$ 117,326 | \$ 90,967 | \$ 117,379 | \$ |

(1) Excluding financial instruments gains/(losses).

Reportable segments reconciliation to the Consolidated Financial Statements for the three months ended March 31, 2005 is as follows (in thousands):

| | Net Interest Revenue | Other Operating Revenue (1) | Other Operating Expense | |
|----------------------------|----------------------------|-----------------------------------|-------------------------------|----|
| Total reportable segments | \$ 101,059 | \$ 82,254 | \$ 104,851 | \$ |
| Unallocated items: | | | | |
| Tax-equivalent adjustment | 1,392 | - | - | |
| Funds management and other | 5,143 | (2,239) | (2,692) | |
| BOK Financial consolidated | \$ 107,594 | \$ 80,015 | \$ 102,159 | \$ |

(1) Excluding financial instruments gains/(losses).

(9) 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.

(10) FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

BOK Financial is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to manage interest rate risk. Those financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in BOK Financial's Consolidated Balance Sheets. Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the notional amount of those instruments.

As of March 31, 2006, outstanding commitments and letters of credit were as follows (in thousands):

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| | March 31, 2006 |
|------------------------------------|-------------------|
| Commitments to extend credit | \$4,660,153 |
| Standby letters of credit | 495,006 |
| Commercial letters of credit | 9,270 |
| Commitments to purchase securities | 4,000 |

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Quarterly Financial Summary - Unaudited
Consolidated Daily Average Balances, Average Yields and Rates
(Dollars in Thousands, Except Per Share Data)

| | Three Months Ended | | | |
|---|----------------------|-------------------------|-----------------|---------------------|
| | March 31, 2006 | | | |
| | Average Balance | Revenue/ Expense (1) | Yield / Rate | Average Balance |
| Assets | | | | |
| Taxable securities (3) | \$ 4,862,313 | \$ 55,046 | 4.60% | \$ 4,816,26 |
| Tax-exempt securities (3) | 262,124 | 3,465 | 5.36 | 243,52 |
| Total securities (3) | 5,124,437 | 58,511 | 4.64 | 5,059,78 |
| Trading securities | 16,722 | 209 | 5.07 | 20,59 |
| Funds sold and resell agreements | 21,181 | 239 | 4.58 | 57,65 |
| Loans (2) | 9,164,706 | 166,148 | 7.35 | 9,005,54 |
| Less reserve for loan losses | 105,135 | - | - | 108,99 |
| Loans, net of reserve | 9,059,571 | 166,148 | 7.44 | 8,896,54 |
| Total earning assets (3) | 14,221,911 | 225,107 | 6.42 | 14,034,58 |
| Cash and other assets | 2,048,328 | | | 2,168,12 |
| Total assets | \$ 16,270,239 | | | \$ 16,202,71 |
| Liabilities And Shareholders' Equity | | | | |
| Transaction deposits | \$ 5,327,004 | \$ 31,129 | 2.37% | \$ 4,821,62 |
| Savings deposits | 155,554 | 330 | 0.86 | 154,31 |
| Time deposits | 4,162,952 | 41,395 | 4.03 | 4,216,62 |
| Total interest-bearing deposits | 9,645,510 | 72,854 | 3.06 | 9,192,56 |
| Funds purchased and repurchase agreements | 1,731,983 | 18,483 | 4.33 | 1,812,75 |
| Other borrowings | 882,878 | 9,939 | 4.57 | 1,049,63 |
| Subordinated debentures | 295,792 | 4,983 | 6.83 | 296,02 |
| Total interest-bearing liabilities | 12,556,163 | 106,259 | 3.43 | 12,350,97 |
| Demand deposits | 1,485,398 | | | 1,530,50 |
| Other liabilities | 680,897 | | | 814,19 |
| Shareholders' equity | 1,547,781 | | | 1,507,03 |

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| | | |
|---|---------------|---------------|
| Total liabilities and shareholders' equity | \$ 16,270,239 | \$ 16,202,711 |
| Tax-Equivalent Net Interest Revenue (3) | \$ 118,848 | 2.99% |
| Tax-Equivalent Net Interest Revenue To Earning Assets (3) | | 3.39 |
| Less tax-equivalent adjustment (1) | 1,522 | |
| Net Interest Revenue | 117,326 | |
| Provision for credit losses | 3,400 | |
| Other operating revenue | 89,437 | |
| Other operating expense | 117,379 | |
| Income before taxes | 85,984 | |
| Federal and state income tax | 31,236 | |
| Net Income | \$ 54,748 | |
| Earnings Per Average Common Share Equivalent: | | |
| Net income: | | |
| Basic | \$ 0.82 | |
| Diluted | \$ 0.81 | |

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

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| Three Months Ended | | | | | | | |
|--------------------|---------------------|--------------|-----------------|---------------------|--------------|-----------------|--|
| September 30, 2005 | | | | June 30, 2005 | | | |
| Average Balance | Revenue/Expense (1) | Yield / Rate | Average Balance | Revenue/Expense (1) | Yield / Rate | Average Balance | |
| \$ 4,800,698 | \$ 51,946 | 4.28% | \$ 4,831,186 | \$ 51,275 | 4.32% | \$ 4,628,233 | |
| 231,097 | 2,888 | 4.96 | 215,360 | 2,810 | 5.23 | 217,571 | |
| 5,031,795 | 54,834 | 4.31 | 5,046,546 | 54,085 | 4.36 | 4,845,804 | |
| 14,560 | 171 | 4.66 | 11,639 | 165 | 5.69 | 17,205 | |
| 44,882 | 386 | 3.41 | 21,170 | 156 | 2.96 | 30,003 | |
| 8,635,732 | 144,954 | 6.66 | 8,341,490 | 133,173 | 6.40 | 7,963,177 | |
| 109,840 | - | - | 111,056 | - | - | 111,955 | |

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| | | | | | | |
|---------------|------------|-------|---------------|------------|-------|---------------|
| 8,525,892 | 144,954 | 6.75 | 8,230,434 | 133,173 | 6.49 | 7,851,222 |
| 13,617,129 | 200,345 | 5.83 | 13,309,789 | 187,579 | 5.68 | 12,744,234 |
| 1,970,746 | | | 1,750,686 | | | 1,474,621 |
| \$ 15,587,875 | | | \$ 15,060,475 | | | \$ 14,218,855 |
| \$ 4,533,912 | \$ 18,968 | 1.66% | \$ 4,323,513 | \$ 16,049 | 1.49% | \$ 3,920,844 |
| 157,772 | 280 | 0.70 | 166,426 | 285 | 0.69 | 159,276 |
| 3,958,948 | 35,255 | 3.53 | 3,710,338 | 31,499 | 3.41 | 3,685,257 |
| 8,650,632 | 54,503 | 2.50 | 8,200,277 | 47,833 | 2.34 | 7,765,377 |
| 2,067,432 | 17,738 | 3.40 | 2,160,031 | 15,764 | 2.93 | 1,704,327 |
| 1,047,423 | 9,510 | 3.60 | 914,968 | 7,224 | 3.17 | 971,616 |
| 297,284 | 4,477 | 5.97 | 200,038 | 2,980 | 5.98 | 150,752 |
| 12,062,771 | 86,228 | 2.84 | 11,475,314 | 73,801 | 2.58 | 10,592,072 |
| 1,424,102 | | | 1,586,248 | | | 1,895,989 |
| 613,667 | | | 558,655 | | | 319,375 |
| 1,487,335 | | | 1,440,258 | | | 1,411,419 |
| \$ 15,587,875 | | | \$ 15,060,475 | | | \$ 14,218,855 |
| | \$ 114,117 | 2.99% | | \$ 113,778 | 3.10% | |
| | | 3.32 | | | 3.45 | |
| | 1,289 | | | 1,245 | | |
| | 112,828 | | | 112,533 | | |
| | 3,976 | | | 2,015 | | |
| | 86,855 | | | 94,591 | | |
| | 117,034 | | | 126,010 | | |
| | 78,673 | | | 79,099 | | |
| | 27,846 | | | 28,634 | | |
| | \$ 50,827 | | | \$ 50,465 | | |
| | \$ 0.77 | | | \$ 0.79 | | |
| | \$ 0.76 | | | \$ 0.75 | | |

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PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to purchases made by

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or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of the Company's common stock during the three months ended March 31, 2006.

| Period | Total Number of Shares Purchased (2) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) |
|---------------------------------------|--------------------------------------|------------------------------|--|
| January 1, 2006 to January 31, 2006 | 57,450 | \$ 46.50 | - |
| February 1, 2006 to February 28, 2006 | 67,387 | \$ 44.96 | 60,868 |
| March 1, 2006 to March 31, 2006 | 4,364 | \$ 47.28 | 540 |
| Total | 129,201 | | 61,408 |

(1) The Company had a stock repurchase plan that was initially authorized by the Company's board of directors on February 24, 1998 and amended on May 25, 1999. Under the terms of that plan, the Company could repurchase up to 800,000 shares of its common stock. As of March 31, 2005, the Company had repurchased 638,642 shares under that plan. On April 26, 2005, the Company's board of directors terminated this authorization and replaced it with a new stock repurchase plan authorizing the Company to repurchase up to two million shares of the Company's common stock. As of March 31, 2006, the Company had repurchased 91,408 shares under the new plan.

(2) The Company routinely repurchases mature shares from employees to cover the exercise price and taxes in connection with employee stock option exercises.

Item 6. Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Items 1, 3, 4, and 5 are not applicable and have been omitted.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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BOK FINANCIAL CORPORATION
(Registrant)

Date: May 10, 2006

/s/ Steven E. Nell

Steven E. Nell
Executive Vice President and
Chief Financial Officer

/s/ John C. Morrow

John C. Morrow
Senior Vice President and Director
of Financial Accounting & Reporting