BOK FINANCIAL CORP ET AL
Form 10-Q
November 13, 2006

As filed with the Securities and Exchange Commission on November 9, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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	73-1373454
(State or other jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
Bank of Oklahoma Tower P.O. Box 2300 Tulsa, Oklahoma	74192
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

Large accelerated filer |X| Accelerated filer |_| Non-accelerated filer |_|

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 66,877,555 shares of common stock ($.00006 par value) as of October 31, 2006.

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Part I. Financial Information

Part II. Other Information

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 $52.7 million, or $0.78 per diluted share for the third quarter of 2006, compared with $50.8 million, or $0.76 per diluted share for the third quarter of 2005. The annualized returns on average assets and shareholders' equity were 1.24% and 12.90%, respectively for 2006, compared with returns of 1.29% and 13.56%, respectively for 2005.

Highlights of the quarter included:

- Average outstanding loans and average deposits increased 14% and 13%, respectively over the third quarter of 2005.

- Net interest revenue grew $11.2 million or 10% over last year's third quarter, 9% annualized over the second quarter of 2006.

- Net interest margin was 3.38%, up from 3.32% in the third quarter of last year and stable throughout 2006.

- Fee income increased $2.7 million or 3% over the third quarter of 2005.

- Fair value of mortgage servicing rights declined $4.2 million, net of hedging gains during the third quarter.

- Other operating expenses increased $9.2 million or 8%, including a $1.8 million non-cash charge related to taxes on a $202 million investment in bank-owned life insurance; personnel costs were up $8.1 million.

- Income tax expense was reduced $2.2 million for the favorable resolution of certain tax issues.

- Non-performing loans, annualized net charge-offs continued to be near historic lows.

Net interest revenue grew $11.2 million or 10% over 2005. Average outstanding loan balances increased $1.2 billion or 14% and average deposits increased $1.3 billion or 13%. Fees and commission revenue increased $2.7 million or 3% over the third quarter of 2005. Total fee revenue, which recently had been growing at a low double digit rate, slowed in most major categories of fees and commissions. Mortgage banking revenue decreased $2.6 million or 27% due largely to lower production volumes.

Operating expenses increased $9.2 million or 8% over the third quarter of 2005, excluding changes in the value of mortgage servicing. Personnel costs increased $8.1 million due largely to a $5.0 million increase in salaries and wages and a $2.8 million increase in incentive compensation.

The fair value of mortgage servicing rights decreased $7.9 million during the third quarter of 2006 due to falling interest rates and increasing prepayment speeds. At the same time, falling interest rates increased the value of securities held as an economic hedge of mortgage servicing rights $3.7 million for a net pre-tax loss of $4.2 million.

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Non-accruing loans totaled $30 million or 0.31% of outstanding loans at September 30, 2006 compared with $37 million or 0.42 % of outstanding loans at September 30, 2005. The combined allowance for loan losses and reserve for off-balance sheet credit losses totaled $127 million or 1.28% of outstanding loans at September 30, 2006 and $127 million or 1.44% of outstanding loans at September 30, 2005. The provision for credit losses was $5.3 million for the third quarter of 2006 and $4.0 million for the same period last year.

Net income for the first nine months of 2006 totaled $162.4 million, up $9.0 million or 6% over 2005. Net interest revenue grew $29.5 million or 9% due primarily to a $1.2 billion increase in average loans. Loan growth was funded by a $1.4 billion increase in average deposits. Net interest margin for the first nine months of 2006 and 2005 was 3.39% and 3.41%, respectively. Fee income increased $20.8 million or 8%. All categories of fee income increased over 2005 except mortgage banking revenue which decreased $2.7 million or 12%. Transaction card revenue increased $5.4 million or 10% due to volume growth while trust fees rose $4.1 million or 9%. Mortgage banking revenue decreased due largely to a reduction in loan production volume which resulted from rising mortgage interest rates over the last nine months. Other revenue grew $9.2 million or 38% due primarily to a $4.0 million increase in fees on margin assets. The fair value of mortgage servicing rights, net of losses on securities held as an economics hedge, increased $2.1 million for the first nine months of 2006. Operating expenses increased $33.1 million or 10% due to a $27.9 million increase in personnel costs.

The Company is establishing a new regional bank in Kansas City. Initial operations are expected to begin in the fourth quarter of 2006.

Results of Operations

Net Interest Revenue

Tax-equivalent net interest revenue increased to $125.8 million for the third quarter of 2006 from $114.1 million for 2005, due primarily to a $1.2 billion or 14% increase in average outstanding loan principal. Average loan growth was funded by a $1.3 billion or 13% increase in average deposits. The excess of average deposits over growth in average loans was used to reduce other borrowings, generally a higher-costing source of funds. 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 3.38% for the third quarter of 2006, compared with 3.32% for the third quarter of 2005 and 3.40% for the second quarter of 2006. Yields on average earning assets continued to trend upwards due to rising market interest rates. The yield on average earning assets was 6.91%, up 108 basis points compared with the third quarter of 2005 and 20 basis points over the preceding quarter. The yield on average outstanding loans was 7.99%, up 133 basis points over the third quarter of 2005 and 31 basis points over the second quarter of 2006. The tax-equivalent yield on securities was 4.68% for the third quarter of 2006, compared with 4.31% for the third quarter of 2005 and 4.77% for the second quarter of 2006.

Rates paid on average interest-bearing liabilities during the third quarter of 2006 increased 114 basis points over the third quarter of 2005 and 25 basis points over the preceding quarter. Rates paid on interest-bearing deposit accounts increased 104 basis points over 2005. The cost of other interest-bearing funds increased 172 basis points compared with the same period last year and 27 basis points from the preceding quarter. Capital, non-interest bearing funds and changes in the mix of funding sources added 45 basis points to the net interest margin in third quarter of 2006 compared with 33 basis points for 2005 and 42 basis points for the second quarter of 2006.

Our overall objective is to manage the Company's balance sheet to be essentially neutral to changes in interest rate. Approximately 78% 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 would be 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 to offset the short-term nature of the majority of the Company's funding sources. The expected duration of these securities is approximately 2.9 years based on a range of interest rate and prepayment assumptions. 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

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notional amount of $797 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 position our balance sheet to be neutral to changes in interest rates. 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 position our balance sheet to be neutral to changes in interest rates.

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 Market Risk section of this report.

Table 1 - Volume / Rate Analysis

(In thousands)

	Three Months Ended September 30, 2006 / 2005			Nine Mont September 30,	
	Change Due To (1)			C	
	Change	Volume	Yield / Rate	Change	V
Tax-equivalent interest revenue:					
Securities	$ 3,942	$ (549)	$ 4,491	$ 16,286	$
Trading securities	55	79	(24)	195	
Loans	52,711	21,748	30,963	147,949	6
Funds sold and resell agreements	263	70	193	589	
Total	56,971	21,348	35,623	165,019	6
Interest expense:					
Transaction deposits	20,603	5,284	15,319	56,929	1
Savings deposits	80	(24)	104	229	
Time deposits	13,285	3,585	9,700	38,243	1
Federal funds purchased and repurchase agreements	9,830	766	9,064	28,055	
Other borrowings	743	(3,380)	4,123	5,529	(
Subordinated debentures	733	(68)	801	5,371	
Total	45,274	6,163	39,111	134,356	2
Tax-equivalent net interest revenue	11,697	15,185	(3,488)	30,663	3
Change in tax-equivalent adjustment	(547)			(1,208)	
Net interest revenue	$ 11,150			$ 29,455	

(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 $10.7 million compared with the third quarter of last year. Fees and commission revenue increased $2.7 million or 3%. In addition, $3.7 million of securities gains were recognized in the third quarter of 2006 compared with securities losses of $4.7 million in the third quarter of 2005. Securities gains and losses related primarily to economic hedges of our mortgage servicing rights.

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 third quarter of 2006. We believe that a variety of fee revenue sources provide an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile. We expect continued growth in other operating revenue through offering new products and services and by expanding into new markets. However, increased competition and saturation in our existing markets could affect the rate of future increases.

Fees and commissions revenue

Transaction card revenue increased $1.4 million or 8%. Check card revenue increased $775 thousand or 19% while ATM network revenue increased $784 thousand or 10% over the third quarter of 2005. During the third quarter of 2006, the

Company signed agreements to place ATMs in 140 convenience stores in Oklahoma, Texas, Missouri and Kansas. Growth in check card revenue was distributed among all markets. Merchant discount fees decreased $146 thousand or 2% compared with the third quarter of 2005.

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Trust fees and commissions increased $725 thousand or 4% for the third quarter of 2006. The fair value of all trust assets, which is the basis for a significant portion of trust fees increased to $29.7 billion at September 30, 2006 compared with $27.6 billion at September 30, 2005. Personal trust management fees, which provide 30% of total trust fees and commissions increased $288 thousand or 6%. Employee benefit plan management fees, which provide 20% of total trust fees, were unchanged from 2005. Net fees from mutual fund advisory and administrative services, which provide 20% of total trust fees, were down $97 thousand or 3%. In addition, revenue from the management of oil and gas properties and other real estate increased $319 thousand or 28%.

Trust activities in the Oklahoma and Colorado markets provided $12.6 million and $2.1 million, respectively, of total trust fees and commissions during the third quarter of 2006. Trust revenue grew $218 thousand or 2% in the Oklahoma market and $233 thousand or 13% in the Colorado market.

Brokerage and trading revenue decreased $408 thousand or 4%. Much of the decrease in trading revenue is attributed to increased competition in the market and lower demand caused by the flattening yield curve. Customer hedging revenue increased $513 thousand or 21% to $3.0 million. Volatility in the energy markets prompted our energy customers to more actively hedge their gas and oil production. Revenue from securities trading activities decreased $1.3 million or 20%. Revenue from retail brokerage activities increased $340 thousand or 12% over the same period of 2005.

Service charges on deposit accounts increased $703 thousand or 3% over the third quarter of 2005. Overdraft fees grew $915 thousand or 5% due to increased volume. Account service charge revenue decreased $206 thousand or 12%. 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 decreased $2.6 million or 27% compared with 2005. Net gains on mortgage loans sold totaled $2.9 million, down $2.6 million from the third quarter of 2005. Servicing revenue totaled $4.0 million for the third quarter of 2006, unchanged from the same period last year.

Other operating revenue included $2.9 million of fees earned on margin assets in the third quarter of 2006 and $2.4 million in the third quarter of 2005. Margin assets which are held primarily as part of the Company's customer derivatives programs averaged $265 million for the third quarter of 2006, compared with $296 million for the third quarter of 2005. Fees earned on average margin assets increased to 4.33% in the third quarter of 2006 from 3.27% in the third quarter of 2005. Fee rates earned on margin assets are generally consistent with short-term interest rates.

Other operating revenue also included investment banking revenue of $2.1 million and $812 thousand in the third quarters of 2006 and 2005, respectively. A recently created tax exempt leasing unit provided $716 thousand of investment banking revenue in the third quarter of 2006.

Securities and derivatives

BOK Financial recognized net gains of $3.7 million on securities for the third quarter of 2006, including net gains of $3.8 million on securities held as an economic hedge of mortgage servicing rights. Securities held as an economic hedge of the mortgage servicing rights are separately identified on the balance sheet as "mortgage trading securities". Mortgage trading securities are carried at fair value; changes in fair value are 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 third quarter of 2005, BOK Financial recognized net losses of $4.7 million, substantially all due to securities held as an economic hedge of mortgage servicing rights. Excluding securities held as an economic hedge of mortgage servicing rights, the Company recognized losses on securities of $39 thousand in the third quarter of 2006 and $58 thousand in the third quarter of 2005.

Net gains on derivatives totaled $379 thousand for the third quarter of 2006, compared with net gains of $606 thousand in 2005. Net gains or losses on derivatives consist of fair value adjustments of derivatives used to manage interest rate risk and the related hedged liabilities.

Year-to-date fees and commissions revenue

Fees and commissions revenue for the first nine months of 2006 totaled $276.8 million, a $20.8 million or 8% increase

over 2005. Transaction card revenue increased $5.4 million or 10% due to volume increases in merchant discounts and debit card transactions. Trust fees and commissions increased $4.1 million or 9% due to increase in asset values and business growth. Other revenue increased $9.2 million or 38%, including $4.0 million from margin account fees.

Table 2 - Other Operating Revenue
(In thousands)

	Three Months Ended			
	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec 20
Brokerage and trading revenue	$ 10,958	$ 11,427	$ 12,010	$ 1
Transaction card revenue	19,939	19,951	18,508	1
Trust fees and commissions	17,101	17,751	17,945	1
Deposit service charges and fees	26,322	26,341	23,986	2
Mortgage banking revenue	6,935	7,195	6,789	
Other revenue	11,756	11,239	10,688	
Total fees and commissions	93,011	93,904	89,926	8
Gain (loss) on sales of assets	475	(269)	1,041	
Gain (loss) on securities, net	3,718	(2,583)	(1,221)	(
Gain (loss) on derivatives, net	379	(172)	(309)	
Total other operating revenue	$ 97,583	$ 90,880	$ 89,437	$ 8

Other Operating Expense

Other operating expense for the third quarter of 2006 totaled $138.8 million, a $21.8 million increase from 2005. The increase in other operating expenses resulted largely from changes in the value of mortgage servicing rights. Depreciation of the fair value of mortgage servicing rights during the third quarter of 2006 increased operating expenses $7.9 million. Appreciation in the value of mortgage servicing rights decreased operating expense by $4.7 million in the third quarter of 2005. Operating expenses increased $9.2 million or 8% over the third quarter or 2005, excluding changes in the value of mortgage servicing due to higher personnel expense.

Personnel expense

Personnel expense totaled $74.6 million for the third quarter of 2006 compared with $66.5 million for the third quarter of 2005.

Regular compensation expense which consists primarily of salaries and wages totaled $45.9 million for the third quarter of 2006, up $5.0 million or 12% increase over 2005. The increase in regular compensation expense was due to a 8% increase in average regular compensation per full-time equivalent employee and a 4% increase in average staffing. Growth in average compensation per full-time equivalent employee reflects the cost of hiring top talent to support expansion in the regional markets, product development, and technology support.

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 $16.5 million for the third quarter of 2006, an increase of $2.8 million or 20% over 2005. Third quarter 2006 expense for the Company's various cash-based incentive programs totaled $13.2 million, up $1.9 million over last year. These programs consist primarily of formula-based plans that determine incentive amounts based on pre-established growth criteria. Compensation expense for stock-based compensation plans totaled $2.8 million for both the third quarters of 2006 and 2005. Compensation expense for stock-based compensation plans accounted for as equity awards totaled $1.6 million in the third quarter of 2006, compared with $1.5 million in the third quarter of 2005. Expense for these awards is determined by 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 $1.2 million in the third quarter of 2006, compared with $965 thousand in 2005. Expense for these liability awards is based on current fair value, including current period changes due to the market value of BOK Financial common stock.

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Employee benefit expenses totaled $11.0 million for the third quarter of 2006 and $10.4 million for the third quarter of 2005. Pension expense decreased $1.8 million due to the curtailment of pension plan benefits as of April 1, 2006. The reduction in pension expense was largely offset by a $1.2 million increase in the cost of enhanced employee thrift plan benefits and a $698 thousand increase in employee insurance costs.

Data processing and communications expense

Data processing and communication expenses decreased $561 thousand, or 3% compared to 2005. This expense consists of two broad categories, data processing systems and transaction card processing. Data processing systems costs decreased $465 thousand, or 4% compared with the third quarter of 2005. The Company negotiated cost reductions on its primary data processing contract during the quarter in exchange for a three-year contract extension. The benefit of these cost reductions will be recognized over the remaining contract term. Transaction card processing costs decreased $97 thousand or 1%.

Other operating expenses

Other expenses increased $1.5 million or 21% compared with the third quarter of 2005 due to a $1.8 million non-cash charge related to taxes on a $202 million investment in bank-owned life insurance. These taxes, which totaled $8.2 million, will be credited to the Company over the next ten years. The third quarter charge reduced the tax asset to its present value of $6.4 million.

Year to date operating expenses totaled $378.3 million, up 10% over 2005. Personnel costs were up $27.9 million or 15%. Salaries and wages increased $14.8 million or 12% due to a 7% increase in average salaries per employee and a 4% increase in the average number of employees. Incentive compensation expense was up $11.3 million. Cash-based incentive programs increased $6.9 million. Stock-based incentive compensation increased $4.4 million.

Table 3 - Other Operating Expense
(In thousands)

	Three Months Ended			
	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 31, 2005
Personnel	$ 74,605	$ 72,369	$ 71,232	$ 68,666
Business promotion	4,401	4,802	4,803	5,170
Professional fees and services	4,734	4,362	3,914	4,534
Net occupancy and equipment	13,222	13,199	13,026	12,864
Data processing & communications	16,931	16,157	16,995	18,054
Printing, postage and supplies	4,182	4,001	3,905	3,976
Net (gains) losses and operating expenses of repossessed assets	34	54	219	335
Amortization of intangible assets	1,299	1,359	1,370	1,797
Mortgage banking costs	2,869	2,839	3,087	3,294
Change in fair value of mortgage servicing rights	7,921	(3,613)	(7,081)	-
Recovery for impairment of mortgage servicing rights	-	-	-	(708)
Other expense	8,612	6,598	5,909	5,921
Total other operating expense	$ 138,810	$ 122,127	$ 117,379	$ 123,903

Income Taxes

Income tax expense was $24.8 million or 32% of book taxable income, compared with $27.8 million or 35% of book taxable income for the third quarter of 2005. The statute of limitations expired on an uncertain tax position during the third quarter of 2006. Income tax expense was reduced by $2.2 million from the reversal of reserves previously established for this uncertainty. In addition, income tax expense in the third quarter of 2006 was reduced by $800 thousand to adjust 2006 estimated year-to-date tax expense.

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Lines of Business

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

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 Division 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 Sept. 30,		Nine m
	2006	2005	200
Regional banking	$ 22,175	$ 18,496	$ 67,67
Oklahoma corporate banking	20,624	17,142	59,04
Mortgage banking	(1,998)	252	2,48
Oklahoma consumer banking	9,470	6,481	26,48
Wealth management	6,146	5,869	19,52
Funds management and other	(3,757)	2,587	(12,82
Total	$ 52,660	$ 50,827	$162,39

Oklahoma Corporate Banking

The Oklahoma Corporate Banking Division provides loan and lease financing and treasury and cash management services to businesses throughout Oklahoma and certain relationships in surrounding states. In addition to serving the banking needs of small businesses, middle market and larger customers, 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 $20.6 million or 39% to consolidated net income for the third quarter of 2006. This compares to $17.1 million or 34% of consolidated net income for 2005. Growth in net income provided by this division came primarily from loan and deposit growth. Average loans attributed to the Oklahoma Corporate Banking Division were $4.3 billion for the third quarter of 2006, compared with $4.1 billion for the third quarter of 2005. Deposits attributed to Oklahoma Corporate Banking averaged $1.8 billion for the third quarter of 2006, up $123 million or 7% over last year. Increased average loans and

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deposits combined to increase net interest revenue $2.2 million or 6%. In addition, other operating revenue increased $730 thousand or 3% due to growth in ATM processing fees. Operating expenses decreased $770 thousand or 3%. Personnel expense increased $1.3 million or 15% due to growth in both regular salaries and incentive compensation. Allocations for shared services decreased $2.7 million.

Table 5 - Oklahoma Corporate Banking
(Dollars in Thousands)

	Three months ended Sept. 30,		Nine mont
	2006	2005	2006
NIR (expense) from external sources	$ 64,390	$ 54,647	$ 187,89
NIR (expense) from internal sources	(26,322)	(18,828)	(74,911
Net interest revenue	38,068	35,819	112,988
Other operating revenue	23,261	22,531	68,535
Gain on sale of assets	-	-	-
Operating expense	29,055	29,825	85,388
Net loans charged off / (recovered)	(1,481)	408	(394
Net income	20,624	17,142	59,048
Average assets	$ 5,318,420	$ 4,808,422	$ 5,220,490
Average economic capital	396,210	348,940	379,500
Return on assets	1.54%	1.41%	1.51
Return on economic capital	20.65%	19.49%	20.80
Economic capital ratio	7.45%	7.26%	7.27
Efficiency ratio	47.38%	51.11%	47.04

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 for the retail brokerage division of BOSC, Inc., a registered broker / dealer. Consumer banking activities outside of Oklahoma are included in the Regional Banking division. The Oklahoma Consumer Banking Division contributed $9.5 million or 18% to consolidated net income for the third quarter of 2006. This compares to $6.5 million or 13% of consolidated net income for 2005. Net interest revenue, which consisted primarily of credits for funds provided to the funds management unit increased $3.4 million or 24%. Average deposits attributed to this Division increased $174 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 $1.1 million or 6% over last year. Check card fees increased $600 thousand or 21% and overdraft charges increased $333 thousand or 3%. Operating expenses decreased $259 thousand or 1%. Personnel expense grew $72 thousand or 1% while allocations for shared services decreased $371 thousand.

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Table 6 - Oklahoma Consumer Banking
(Dollars in Thousands)

	Three months ended Sept. 30,		Nine mont
	2006	2005	2006
NIR (expense) from external sources	$ (16,559)	$ (11,354)	$ (44,84
NIR (expense) from internal sources	34,154	25,553	95,59
Net interest revenue	17,595	14,199	50,74
Other operating revenue	18,579	17,499	53,97
Operating expense	19,883	20,142	59,72
Net loans charged off	816	960	1,72
Net income	9,470	6,481	26,48
Average assets	$ 2,843,512	$ 2,669,817	$ 2,810,43
Average economic capital	66,420	56,500	62,47
Return on assets	1.32%	0.96%	1.2
Return on economic capital	56.57%	45.51%	56.6
Economic capital ratio	2.34%	2.12%	2.2
Efficiency ratio	54.96%	63.54%	57.0

Mortgage Banking

BOK Financial engages in mortgage banking activities through the BOk Mortgage Division of Bank of Oklahoma. These activities include the origination, marketing and servicing of conventional and government-sponsored mortgage loans. Mortgage banking activities lost $2.0 million in the third quarter of 2006, compared with a net profit of $252 thousand in 2005.

Mortgage banking activities consisted of two sectors, loan production and loan servicing. The loan production sector generally performs best when mortgage rates are relatively low and loan origination volumes are high. Conversely, the loan servicing sector generally performs best when mortgage rates are relatively high and prepayments are low. The general trend toward higher mortgage loan commitment rates in the first half of 2006 shifted to a decrease during the third quarter.

Loan Production Sector

Loan production revenue totaled $3.4 million for the third quarter of 2006, including $3.1 million of capitalized mortgage servicing rights and a $730 thousand net loss on loans sold. Loan production revenue totaled $5.8 million for the third quarter of 2005 due to $5.8 million of capitalized mortgage servicing rights. Mortgage loans funded in the third quarter of 2006 totaled $230 million, including $199 million of loans funded for resale and $30 million of loans funded for retention by affiliates. Mortgage loans funded in the same period of 2005 totaled $247 million. Approximately 67% of the loans funded during the third quarter of 2006 was to borrowers in Oklahoma. Loan production activities resulted in net pre-tax income of $249 thousand for the third quarter of 2006 and net pre-tax income of $2.1 million for the third quarter of 2005. The pipeline of mortgage loan applications totaled $240 million at September 30, 2006, compared with $276 million at June 30, 2006 and $290 million at September 30, 2005.

Loan Servicing Sector

The loan servicing sector had a net pre-tax loss of $3.8 million for the third quarter of 2006 compared to a net pre-tax loss of $1.7 million for the same period of 2005. The fair value of mortgage servicing rights decreased in 2006 due to a decrease in mortgage commitment rates and related factors. The fair value of mortgage servicing rights increased during the third quarter of 2005 due to rising mortgage commitment rates.

Average mortgage commitment rates decreased 52 basis points since June 30, 2006. This decrease in commitment rates combined with increased discount rates and anticipated prepayment speeds to reduce the fair value of mortgage servicing rights by $7.9 million. At the same time, gains of $3.8 million were recognized from increases in the fair value of financial instruments held as an economic hedge of the value of the servicing rights.

During the third quarter of 2005, a $4.7 million reversal of the allowance for impairment of mortgage loan servicing

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rights was recognized. A 50 basis point increase in mortgage interest rates during this period increased the fair value of the servicing rights. The impairment provision reversal was offset by net losses of $5.0 million on financial instruments designated as economic hedges.

Servicing revenue, which is included in mortgage banking revenue on the Consolidated Statements of Earnings, totaled $4.0 million in both the third quarters of 2006 and 2005. The average outstanding balance of loans serviced for others was $4.5 billion during 2006 compared to $3.9 billion during 2005. Annualized servicing revenue per outstanding loan principal decreased to 36 basis points for the third quarter of 2006, compared with 42 basis points last year.

In addition to changes in the fair value of mortgage servicing rights due to anticipated prepayments and other factors, the fair value of mortgage servicing rights decreased $2.5 million during the third quarter of 2006 due to actual 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 adoption of FAS 156 in the first quarter of 2006, 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 third quarter of 2005 totaled $3.8 million. The decrease in expense related to the runoff of loans serviced primarily reflects lower loan prepayment speeds.

Table 7 - Mortgage Banking
(Dollars in Thousands)

	Three months ended Sept. 30, 2006	Three months ended Sept. 30, 2005	Nine mon 2006
NIR (expense) from external sources	$ 6,132	$ 5,119	$ 16,53
NIR (expense) from internal sources	(5,055)	(3,683)	(13,96
Net interest revenue	1,077	1,436	2,569
Capitalized mortgage servicing rights	3,134	5,849	9,302
Other operating revenue	4,258	3,770	13,012
Gain on sale of assets	-	-	-
Operating expense	7,517	10,067	22,514
Change in fair value of mortgage servicing rights	(7,921)	-	2,773
(Recovery) for impairment of mortgage servicing rights	-	(4,671)	-
Gains (losses) on financial instruments, net	3,757	(5,047)	(637
Net income (loss)	(1,998)	252	2,487
Average assets	$ 530,808	$ 532,583	$ 492,222
Average economic capital	25,290	22,340	24,950
Return on assets	(1.49)%	0.19%	0.68
Return on economic capital	(31.34)%	4.48%	13.33
Economic capital ratio	4.76%	4.19%	5.07
Efficiency ratio	88.76%	91.06%	90.48

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. 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.

At September 30, 2006, financial instruments with a fair value of $112 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 September 30, 2006, the pre-tax results of this modeling on reported earnings were:

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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	$ 3,835	$ (4,419)
Fair value of hedging instruments	(3,550)	3,777

Net	$ 285	$ (642)

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 $3.8 million while a 50 basis point decrease is expected to reduce value by $4.4 million. This considers that there is an upper limit to appreciation in the value of servicing rights as rates rise due to the contractual repayment terms of the loans and other factors. There is much less of a limit on the speed at which mortgage loans may prepay in a declining rate environment.

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

Modeling changes in value of the mortgage servicing rights due to changes in interest rates assumes stable relationships between mortgage commitment rates and discount rates used to determine the present value of future cash flows. It also assumes a stable relationship between assumed loan prepayments and actual prepayments of our loans. Based on these assumptions, at June 30, 2006 we expected the value of our servicing rights to decrease $3.7 million if mortgage commitment rates fell 50 basis points. As noted before, mortgage commitment rates fell 52 basis points and the value of our mortgage servicing rights decreased $7.9 million. We believe two factors caused most of the difference between our expectation and the actual results. First, mortgage interest rates have been very volatile over the past six months, rising 36 basis points during the second quarter of 2006, then falling 52 basis points in the third quarter. This volatility increased the discount spread that investors in servicing rights would expect relative to market interest rates by 34 basis points over benchmark rates. The increased discount spread reduced the value of our servicing rights by $1.0 million. Second, actual prepayments of loans we service increased in relation to forecasted prepayment speeds. Historically, our actual prepayments have been approximately 76% of prepayments forecasted based on national trends. Based on a moving average of the most recent twelve-month period, actual prepayments increased to 80%. The increase in prepayment speeds reduced the value of our servicing rights by $3.2 million.

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 and retirement products, loans and other services to affluent individuals, businesses, not-for-profit organizations, and governmental agencies. Wealth management 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 consists 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 $6.1 million or 12% to consolidated net income for the third quarter of 2006. This is compared to $5.9 million or 12% of consolidated net income for 2005. Trust and private financial services provided

$5.4 million of net income in the third quarter of 2006, up 2% over last year. Net income provided by brokerage and trading activities totaled $766 thousand, a $206 thousand or 37% increase compared with the third quarter of 2005.

Average loans attributed to trust and private financial services increased $206 million or 40% compared with the third quarter of 2005. Loan growth was funded by a $108 million increase in average deposits and funds provided by the funds management unit. The increase in loans and deposits combined to increase net interest revenue by $2.1 million or 43%.

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Other operating revenue for the third quarter of 2006 totaled $29.8 million, up $1.8 million or 6% over 2005. Other operating revenue for the wealth management division consists primarily of trust fees and commissions, investment banking revenue and brokerage and trading revenue.

Trust fees and commissions totaled $15.0 million for the third quarter of 2006, a $457 thousand or 3% increase over 2005. At September 30, 2006 and 2005, the wealth management line of business was responsible for trust assets with aggregate market values of $27.2 billion and $25.2 billion, respectively, under various fiduciary arrangements. The growth in trust assets reflected increased market value of assets managed in addition to new business generated during the year. We have sole or joint discretionary authority over $10.1 billion of trust assets at September 30, 2006, compared with $9.1 billion at September 30, 2005.

Investment banking revenue increased $1.3 million over the third quarter of 2005 due the timing of transaction closings and growth in a recently-created tax exempt leasing unit.

Revenue from our customer hedging programs was up $879 thousand or 57% over last year due largely to volatility in energy prices. Retail brokerage fees increased $317 thousand or 11%. This revenue growth was largely offset by a $1.3 million decrease in securities trading profits due to increased competition and a flat yield curve.

Operating expenses totaled $26.6 million for the third quarter of 2006, a $3.4 million or 15% increase over 2005. Personnel costs rose $2.2 million or 15% due primarily to higher costs in trust and private financial services.

Table 9 - Wealth Management
(Dollars in Thousands)

	Three months ended Sept. 30,		Nine mont
	2006	2005	2006
NIR (expense) from external sources	$ 5,516	$ 3,209	$ 10,99
NIR (expense) from internal sources	1,387	1,627	9,08
Net interest revenue	6,903	4,836	20,07
Other operating revenue	29,795	27,987	89,90
Operating expense	26,618	23,220	77,85
Net income	6,146	5,869	19,52
Average assets	$ 1,776,658	$ 1,545,343	$ 1,855,11
Average economic capital	132,530	128,620	126,69
Return on assets	1.37%	1.51%	1.4
Return on economic capital	18.40%	18.10%	20.6

Economic capital ratio	7.46%	8.32%	6.8
Efficiency ratio	72.53%	70.74%	70.7

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 primary customer focus. Regional Banking contributed $22.2 million or 42% to consolidated net income during the third quarter of 2006. This compares with $18.5 million or 36% of consolidated net income for the same period in 2005. Growth in net income contributed by the regional banks came primarily from operations in Texas. Net income from Texas operations increased $1.6 million or 15% compared with the same period of 2005. In addition, net income for 2006 in Colorado, New Mexico and Arizona increased $1.4 million, $402 thousand and $514 thousand, respectively. Net income in Arkansas decreased $250 thousand from last year.

Net income from operations in Colorado was $2.9 million for the third quarter of 2006, compared with $1.5 million for the third quarter of 2005. Net interest revenue increased $2.1 million or 29% due primarily to a $425 million increase in average earning assets. Average loans increased $133 million while average securities increased $292 million. The growth in earning assets was funded primarily by a $276 million increase in deposits and $131 million of borrowings from the funds management unit. Other operating revenue grew $362 thousand or 15% due primarily to trust fees and commissions. At September 30, 2006 and 2005, Colorado regional banking was responsible for trust assets with

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aggregate fair values of $2.6 billion and $2.4 billion, respectively, under various fiduciary arrangements. We have sole or joint discretionary authority over $980 million of trust assets at September 30, 2006, compared with $903 million at September 30, 2005. Operating expenses increased $988 thousand or 15% including a $521 thousand or 18% increase in personnel costs.

Net income from Texas operations totaled $12.8 million for the third quarter of 2006, up $1.6 million or 15% over last year. Net interest revenue grew $4.9 million or 15%. Average earning assets increased $543 million, or 19% from the third quarter of 2005. This increase resulted from a $420 million increase in average loans and a $128 million increase in securities. The growth in average earning assets was funded primarily by a $489 million increase in average deposits. Operating expenses increased $496 thousand or 2%. An $816 thousand or 7% increase in personnel costs and a $457 thousand charge related to taxes on bank-owned life insurance was partially offset by an $836 thousand reduction in higher allocations for shared services. Net loans charged off during the third quarter of 2006 included $1.6 million of commercial overdrafts from a single customer.

Net income from New Mexico operations increased $402 thousand or 8%. Average earning assets decreased $64 million. Average loans increased $20 million while securities and funds sold to the funds management unit decreased $87 million. Average deposits in the New Mexico market increased $114 million, including $112 million of consumer banking deposits. Average funds borrowed from external sources decreased $143 million as the Company centralized borrowings from external sources in the funds management unit. Operating expenses decreased $232 thousand or 3%.

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 $344 million for the third quarter of 2006, up $166 million from the third quarter of 2005's average of $177 million. Deposits averaged $126 million for both the third quarters of 2006 and 2005. Loan growth was funded by borrowings from the funds management unit. Operating expenses increased $513 thousand or 16%. Personnel costs were up $985 thousand as we continue to build a commercial banking presence in Phoenix and Tucson. Growth in personnel costs was partially offset by a $585 thousand reduction in data processing expense.

Table 10 - Bank of Texas
(Dollars in Thousands)

	Three months ended Sept. 30,		Nine mon
	2006	2005	2006
NIR (expense) from external sources	$ 44,075	$ 36,409	$ 124,2
NIR (expense) from internal sources	(6,386)	(3,576)	(15,9
Net interest revenue	37,689	32,833	108,3
Other operating revenue	6,178	6,094	18,8
Operating expense	21,757	21,261	62,8
Net loans charged off	2,474	501	4,6
Net income	12,775	11,153	38,8
Average assets	$ 3,805,207	$ 3,239,231	$ 3,654,7
Average economic capital	261,770	176,360	233,1
Average invested capital	428,850	343,450	400,2
Return on assets	1.33%	1.37%	1.
Return on economic capital	19.36%	25.09%	22.
Return on average invested capital	11.82%	12.88%	12.
Economic capital ratio	6.88%	5.44%	6.
Efficiency ratio	49.60%	54.62%	49.

Table 11 - Bank of Albuquerque
(Dollars in Thousands)

	Three months ended Sept. 30,		Nine mont
	2006	2005	2006
NIR (expense) from external sources	$ 16,323	$ 14,725	$ 47,98
NIR (expense) from internal sources	(4,478)	(3,106)	(12,48
Net interest revenue	11,845	11,619	35,50
Other operating revenue	4,091	4,062	12,17
Operating expense	7,120	7,352	20,80
Net loans charged off	222	411	97
Net income	5,251	4,849	15,83
Average assets	$ 1,445,371	$ 1,509,170	$ 1,454,65
Average economic capital	74,160	75,000	75,64

Average invested capital	93,250	94,090	94,73
Return on assets	1.44%	1.27%	1.4
Return on economic capital	28.09%	25.65%	28.0
Return on average invested capital	22.34%	20.45%	22.3
Economic capital ratio	5.13%	4.97%	5.2
Efficiency ratio	44.68%	46.88%	43.6

Table 12 - Bank of Arkansas
(Dollars in Thousands)

	Three months ended Sept. 30,		Nine mont
	2006	2005	2006
NIR (expense) from external sources	$ 2,613	$ 2,864	$ 7,517
NIR (expense) from internal sources	(883)	(1,009)	(2,421
Net interest revenue	1,730	1,855	5,096
Other operating revenue	734	780	1,263
Operating expense	1,025	905	2,752
Net loans charged off	88	10	60
Net income	802	1,052	2,143
Average assets	$ 196,527	$ 251,047	$ 193,842
Average economic capital	17,220	11,010	15,030
Average invested capital	17,220	11,010	15,030
Return on assets	1.62%	1.66%	1.48
Return on economic capital	18.48%	37.91%	19.06
Return on average invested capital	18.48%	37.91%	19.06
Economic capital ratio	8.76%	4.39%	7.75
Efficiency ratio	41.60%	34.35%	43.28

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

	Three months ended Sept. 30,		Nine mont
	2006	2005	2006
NIR (expense) from external sources	$ 14,214	$ 9,288	$ 38,63
NIR (expense) from internal sources	(5,046)	(2,196)	(12,00
Net interest revenue	9,168	7,092	26,63
Other operating revenue	2,709	2,347	8,75
Operating expense	7,136	6,148	19,49
Net loans charged off / (recovered)	13	840	(3
Net income	2,889	1,498	9,72
Average assets	$ 1,243,291	$ 809,547	$ 1,145,00
Average economic capital	75,630	50,090	67,11
Average invested capital	117,610	92,070	109,09

Return on assets	0.92%	0.73%	1.1
Return on economic capital	15.16%	11.86%	19.3
Return on average invested capital	9.75%	6.46%	11.9
Economic capital ratio	6.08%	6.19%	5.8
Efficiency ratio	60.08%	65.13%	55.1

Table 14 - Bank of Arizona
(Dollars in Thousands)

	Three months ended Sept. 30,		Nine mont
	2006	2005	2006
NIR (expense) from external sources	$ 7,897	$ 3,612	$ 18,65
NIR (expense) from internal sources	(3,572)	(934)	(7,60
Net interest revenue	4,325	2,678	11,05
Other operating revenue	128	283	41
Operating expense	3,703	3,190	9,46
Net loans charged off	-	2	
Net income (loss)	458	(56)	1,16
Average assets	$ 444,269	$ 271,713	$ 369,22
Average economic capital	30,520	14,390	23,90
Average invested capital	47,170	31,040	40,55
Return on assets	0.41%	(0.08)%	0.4
Return on economic capital	5.95%	(1.54)%	6.5
Return on average invested capital	3.85%	(0.72)%	3.8
Economic capital ratio	6.87%	5.30%	6.4
Efficiency ratio	83.16%	107.73%	82.4

*** 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 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.

The amortized cost of available for sale securities totaled $4.8 billion at September 30, 2006 and $4.9 billion at June 30, 2006. 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 2.9 years at September 30, 2006 and 3.1 years at June 30, 2006. Management estimates that the effective duration of the mortgage-backed securities portfolio would extend to 3.4 years assuming a 300 basis point immediate rate shock.

Net unrealized losses on available for sale securities totaled $121 million at September 30, 2006 compared with net unrealized losses of $187 million at June 30, 2006. The decrease in net unrealized losses during the quarter was due primarily to falling interest rates. The aggregate gross amount of unrealized losses at September 30, 2006 was $127 million, down $74 million from the previous quarter's end. 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. Management does not believe that any of the unrealized losses are due to credit quality concerns. 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.

Bank-Owned Life Insurance

During the third quarter of 2006, the Company invested $202 million in bank-owned life insurance. This investment is expected to provide a long-term source of earnings to support existing employee benefit plans. Substantially all of the funds are held in separate accounts and invested in U.S. government, mortgage-backed and corporate debt securities. The cash surrender value of the life insurance policies is further supported by a stable value wrap, which protects against changes in the fair value of the investments. The cash surrender value of the policies, including the value of the stable value wrap, was $194 million at September 30, 2006. In addition to investment in the separate accounts, $8.2 million of the amount invested paid taxes on the insurance premiums. These taxes will be recovered over a ten-year period. A $6.4 million receivable based on the present value of the taxes was recorded as of September 30, 2006.

Loans

The aggregate loan portfolio at September 30, 2006 totaled $10.0 billion, a $211 million increase since June 30, 2006, a 9% annualized rate. Commercial loans increased $138 million while mortgage and consumer loans increased $35 million and $36 million, respectively. Commercial real estate loans were substantially unchanged during the quarter.

Table 15 - Loans
(In thousands)

	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 31 2005
Commercial:				
Energy	$ 1,538,651	$ 1,514,353	$ 1,367,400	$ 1,399,4
Services	1,432,156	1,405,060	1,358,194	1,425,8
Wholesale/retail	894,608	879,203	850,013	793,0
Manufacturing	598,424	541,592	519,100	514,7
Healthcare	572,911	546,595	534,091	520,3
Agriculture	299,901	292,022	284,277	291,8
Other commercial and industrial	340,925	360,493	325,746	354,7
Total commercial	5,677,576	5,539,318	5,238,821	5,299,9
Commercial real estate:				
Construction and land development	826,077	789,991	686,400	638,3
Multifamily	253,141	228,781	205,755	204,6
Other real estate loans	1,245,941	1,304,164	1,212,805	1,146,9
Total commercial real estate	2,325,159	2,322,936	2,104,960	1,989,9
Residential mortgage:				
Secured by 1-4 family residential properties	1,242,193	1,211,448	1,177,337	1,169,3
Residential mortgages held for sale	58,031	54,026	40,299	51,6
Total residential mortgage	1,300,224	1,265,474	1,217,636	1,220,9
Consumer	702,947	666,740	640,542	629,1
Total	$ 10,005,906	$ 9,794,468	$ 9,201,959	$ 9,139,9

The commercial loan portfolio totaled $5.7 billion at June 30, 2006. Energy loans totaled $1.5 billion or 15% of total loans. Outstanding energy loans increased $24 million, or 6% annualized, during the third quarter of 2006 after increasing $147 million during the preceding quarter. Approximately $1.3 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. The services sector of the portfolio totaled $1.4 billion, or 14% of the Company's total outstanding loans. Loans in this sector of the portfolio increased $27 million or 8% annualized since June 30, 2006. The services sector consists of a large number of loans to a variety of businesses, including communications, gaming and transportation services. Approximately $1.0 billion of the services sector is made up of loans with balances of less than $10 million.

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. The outstanding principal balances of these loans totaled $1.3 billion at September 30, 2006 and $1.2

billion at June 30, 2006. Substantially all of these loans were to borrowers with local market relationships. BOK Financial serves as the agent lender in approximately 28% of the shared national credits, based on dollars committed. Our lending policies generally avoid loans in which we do not have the opportunity to maintain or achieve other business relationships with the customer.

Commercial real estate loans totaled $2.3 billion or 23% of the loan portfolio at September 30, 2006. Construction and land development loans totaled $826 million, up $36 million over June 30, 2006. Construction and land development included $643 million of loans secured by single family residential lots and premises, up $35 million from the previous quarter's end. The major components of other commercial real estate loans were office buildings - $413 million and retail facilities - $364 million.

Residential mortgage loans, excluding mortgage loans held for sale, included $374 million of home equity loans, $392 million of loans held for business relationship purposes, $257 million of adjustable rate mortgages and $167 million of loans held for community development. Consumer loans included $427 million of indirect automobile loans. Indirect

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auto loans have increased $31 million since June 30, 2006. Approximately $366 million of these loans were purchased from dealers in Oklahoma. Growth during the quarter included $16 million from indirect lending activities in Arkansas and $15 million in Oklahoma.

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

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Table 16 - Loans by Principal Market Area
(In thousands)

	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 31 2005
Oklahoma:				
Commercial	$ 3,213,532	$ 3,212,851	$ 3,074,406	$ 3,159,6
Commercial real estate	1,008,341	1,019,815	936,030	862,7
Residential mortgage	878,870	855,087	847,848	842,7
Residential mortgage held for sale	58,031	54,026	40,299	51,6
Consumer	502,622	479,508	468,920	466,1
Total Oklahoma	$ 5,661,396	$ 5,621,287	$ 5,367,503	$ 5,382,9
Texas:				
Commercial	$ 1,557,361	$ 1,548,545	$ 1,420,860	$ 1,356,6
Commercial real estate	639,327	669,698	604,413	569,9
Residential mortgage	212,114	212,987	200,957	199,7
Consumer	80,836	84,212	87,669	89,0
Total Texas	$ 2,489,638	$ 2,515,442	$ 2,313,899	$ 2,215,2
New Mexico:				
Commercial	$ 387,164	$ 334,984	$ 348,930	$ 383,3
Commercial real estate	219,966	237,020	228,955	232,5
Residential mortgage	76,858	73,281	68,810	65,7

Consumer		13,899		13,404		13,820		15,1
Total Albuquerque	$	697,887	$	658,689	$	660,515	$	696,8
Arkansas:								
Commercial	$	89,849	$	80,539	$	74,423	$	79,7
Commercial real estate		91,158		87,080		80,529		75,4
Residential mortgage		21,923		15,067		13,069		13,0
Consumer		67,206		51,166		33,548		25,6
Total Northwest Arkansas	$	270,136	$	233,852	$	201,569	$	193,9
Colorado:								
Commercial	$	353,657	$	299,380	$	267,928	$	270,1
Commercial real estate		170,081		155,453		134,771		133,5
Residential mortgage		17,656		21,113		20,383		21,9
Consumer		32,647		31,939		31,487		27,8
Total Colorado	$	574,041	$	507,885	$	454,569	$	453,4
Arizona:								
Commercial	$	76,013	$	63,019	$	52,274	$	50,4
Commercial real estate		196,286		153,870		120,262		115,6
Residential mortgage		34,772		33,913		26,270		26,1
Consumer		5,737		6,511		5,098		5,2
Total Arizona	$	312,808	$	257,313	$	203,904	$	197,5
Total BOK Financial loans	$	10,005,906	$	9,794,468	$	9,201,959	$	9,139,9

Loan Commitments

BOK Financial enters into certain off-balance sheet arrangements in the normal course of business. These arrangements included loan commitments which totaled $5.0 billion and standby letters of credit which totaled $473 million at September 30, 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.

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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 from 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.

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 September 30, 2006, the fair value of derivative contracts reported as assets under these programs totaled $321 million. This included energy contracts with fair values of $292 million, interest rate contracts with fair values of $21 million and foreign exchange contracts with fair values of $7 million. The aggregate fair values of derivative contracts reported as liabilities totaled $328 million. Approximately 77% of the fair value of asset contracts was with customers. The credit risk of these contracts is generally backed by energy production. The remaining 23% was with dealer counterparties. The maximum net exposure to any single customer or counterparty totaled $51 million.

Summary of Loan Loss Experience

The reserve for loan losses, which is available to absorb losses inherent in the loan portfolio, totaled $105 million at September 30, 2006 and June 30, 2006, and $110 million at September 30, 2005. These amounts represented 1.06%, 1.07% and 1.24% of outstanding loans, excluding loans held for sale, at September 30, 2006, June 30, 2006 and September 30, 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 347% of outstanding balance of non-accruing loans at September 30, 2006, compared with 337% at June 30, 2006 and 293% at September 30, 2005. Non-accruing loans totaled $30 million at September 30, 2006, compared with $31 million at June 30, 2006 and $37 million at September 30, 2005. Net loans charged off during the third quarter of 2006 totaled $4.3 million, up from $3.8 million in the second quarter of 2006 and $3.3 million for the third quarter of 2005.

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

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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
(In thousands)

	Three Months Ended		
	Sept. 30, 2006	June 30, 2006	March 31, 2006
Reserve for loan losses:			
Beginning balance	$ 104,525	$ 104,143	$ 103,876
Loans charged off:			
Commercial	4,550	2,523	1,242
Commercial real estate	-	-	-
Residential mortgage	230	363	207
Consumer	3,319	2,995	2,700
Total	8,099	5,881	4,149
Recoveries of loans previously charged off:			
Commercial	1,985	720	847
Commercial real estate	276	6	40
Residential mortgage	19	20	97
Consumer	1,523	1,339	1,580
Total	3,803	2,085	2,564
Net loans charged off	4,296	3,796	1,585
Provision for loan losses	5,236	4,178	1,852
Ending balance	$ 105,465	$ 104,525	$ 104,143
Reserve for off-balance sheet credit losses:			
Beginning balance	$ 21,739	$ 22,122	$ 20,574
Provision for off-balance sheet credit losses	18	(383)	1,548
Ending balance	$ 21,757	$ 21,739	$ 22,122
Total provision for credit losses	$ 5,254	$ 3,795	$ 3,400
Reserve for loan losses to loans outstanding at period-end (1)	1.06%	1. 07%	1.14%
Net charge-offs (annualized) to average loans (1)	0.18	0.16	0.07
Total provision for credit losses (annualized) to average loans (1)	0.22	0.16	0.15
Recoveries to gross charge-offs	46.96	35.45	61.80
Reserve for loan losses as a multiple of net charge-offs (annualized)	6.14x	6.88x	16.43x
Reserve for off-balance sheet credit losses to off-balance sheet credit commitments	0.40%	0.41%	0.36%
Combined reserves for credit losses to loans outstanding at period-end (1)	1.28	1.30	1.38

(1) Excludes residential mortgage loans held for sale.

Specific impairment reserves are determined through evaluation of estimated future cash flows and collateral value. At September 30, 2006, specific impairment reserves totaled $3.7 million on total impaired loans of $27.4 million. Required specific impairment reserves were $3.3 million at June 30, 2006.

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 September 30, 2006, the ranges of potential losses for the more significant factors were:

General economic conditions - $4.8 million to $8.5 million
Concentration in large loans - $1.4 million to $2.8 million

The provision for credit losses totaled $5.3 million for the third quarter of 2006, compared with $3.8 million for the second quarter of 2006 and $4.0 million for the third quarter of 2005. Factors considered in determining the provision for credit losses included an increase in net losses during the quarter, partially offset by decreases in the outstanding balances of classified loans. Net losses during the third quarter included $1.6 million of commercial overdraft charge-offs while recoveries included $300 thousand received from the sale of rights to pursue collection of old defaulted loans.

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Nonperforming Assets

Information regarding nonperforming assets, which totaled $41 million at September 30, 2006 and $39 million at June 30, 2006, 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 $30 million at September 30, 2006 and $31 million at June 30, 2006. Newly identified non-accruing loans totaled $6 million during the third quarter of 2006. Non-accruing loans decreased $4 million for loans charged off or foreclosed, and $3 million for cash payments received.

Table 18 - Nonperforming Assets
(In thousands)

	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 20
Nonaccrual loans:				
Commercial	$ 15,061	$ 15,087	$ 17,073	$ 11
Commercial real estate	3,540	4,369	6,444	5
Residential mortgage	7,889	7,604	8,057	7
Consumer	3,986	3,916	655	
Total nonaccrual loans	30,476	30,976	32,229	25
Renegotiated loans	1,064	-	-	
Other nonperforming assets	9,322	8,257	8,196	8
Total nonperforming assets	$ 40,862	$ 39,233	$ 40,425	$ 33
Ratios:				
Reserve for loan losses to nonaccrual loans	346.06%	337.44%	323.13%	412

Combined reserves for credit losses to nonaccrual loans	417.45	407.62	391.77	49
Nonaccrual loans to period-end loans (2)	0.31	0.32	0.35	0
Loans past due (90 days) (1)	$ 5,076	$ 9,630	$ 3,919	$ 8,
(1) Includes residential mortgages guaranteed by agencies of the U.S. Government.	$ 1,784	$ 2,310	$ 1,595	$ 2,

(2) Excludes residential mortgage loans held for sale.

The loan review process also identifies 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 $25 million at September 30, 2006 and $23 million at June 30, 2006. Potential problem loans by primary industry included healthcare - $11 million, services - $6 million and manufacturing - $5 million.

Deposits

Deposit accounts represent our primary funding source. We compete for retail and commercial deposits by offering a broad range of products and services and focusing on customer convenience. Retail deposit growth is supported through our Perfect Banking program, free checking and on-line Billpay services, an extensive network of branch locations and ATMs and a 24-hour Express Bank call center. Commercial deposit growth is supported by offering treasury management and lockbox services.

Total deposits averaged $11.4 billion for the third quarter of 2006, up $171 million, or 6% annualized compared with average deposits in the second quarter of 2006. Average commercial deposits increased $199 million consisting of increases of $163 million in Texas and $39 million in Oklahoma. Average deposits attributed to consumer banking increased $90 million, including $29 million in Colorado, $26 million in New Mexico and $24 million in Oklahoma.

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Average deposits attributed to wealth management decreased $125 million. Oklahoma wealth management deposits decreased $147 million. Funds received in late 2005 had temporarily been held in a deposit account pending reinvestment opportunities. The decrease in wealth management deposits in Oklahoma was partially offset by a $23 million increase in Colorado. In addition, average deposits attributed to mortgage banking, which consisted primarily of escrow funds, increased $13 million.

Core deposits, which we define as deposits of less than $100,000, excluding public funds and brokered deposits, averaged $5.5 billion for the third quarter of 2006, an annualized increase of 6%. Average core deposits comprised 49% of total deposits for the third quarter of 2006. Deposit accounts with balances in excess of $100,000 increased at a 12% annualized rate to $4.7 billion or 42% of total average deposits for the third quarter of 2006. Average public funds decreased $43 million or 26% annualized from seasonal changes based on the timing of tax receipts.

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

Table 19.

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

	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 31 2005
Oklahoma:				
Demand	$ 868,502	$ 908,034	$ 950,582	$ 1,003,2
Interest-bearing:				
Transaction	3,001,774	2,732,312	2,937,228	3,002,6
Savings	83,442	88,218	93,093	85,8
Time	2,621,522	2,662,770	2,623,352	2,564,3
Total interest-bearing	5,706,738	5,483,300	5,653,673	5,652,7
Total Oklahoma	$ 6,575,240	$ 6,391,334	$ 6,604,255	$ 6,656,0
Texas:				
Demand	$ 582,014	$ 638,157	$ 551,411	$ 615,7
Interest-bearing:				
Transaction	1,671,993	1,530,491	1,455,856	1,535,5
Savings	25,888	26,370	27,827	27,3
Time	736,316	717,027	726,530	735,7
Total interest-bearing	2,434,197	2,273,888	2,210,213	2,298,6
Total Texas	$ 3,016,211	$ 2,912,045	$ 2,761,624	$ 2,914,4
New Mexico:				
Demand	$ 144,138	$ 147,307	$ 159,125	$ 129,2
Interest-bearing:				
Transaction	434,521	410,166	408,160	381,0
Savings	16,804	16,860	17,805	17,8
Time	481,993	494,426	483,428	453,3
Total interest-bearing	933,318	921,452	909,393	852,2
Total New Mexico	$ 1,077,456	$ 1,068,759	$ 1,068,518	$ 981,5
Arkansas:				
Demand	$ 11,914	$ 11,521	$ 11,629	$ 10,4
Interest-bearing:				
Transaction	19,504	20,577	26,675	22,3
Savings	1,058	1,072	1,051	1,0
Time	61,966	69,418	73,082	75,0
Total interest-bearing	82,528	91,067	100,808	98,4
Total Arkansas	$ 94,442	$ 102,588	$ 112,437	$ 108,8
Colorado:				
Demand	$ 38,264	$ 45,214	$ 56,419	$ 61,6
Interest-bearing:				
Transaction	275,714	245,504	258,801	258,6
Savings	13,037	13,786	16,315	17,7
Time	421,841	379,239	309,068	264,0

Total interest-bearing	710,592	638,529	584,184	540,4
Total Colorado	$ 748,856	$ 683,743	$ 640,603	$ 602,1
Arizona:				
Demand	$ 62,234	$ 73,696	$ 55,421	$ 45,5
Interest-bearing:				
Transaction	74,786	67,841	57,400	56,9
Savings	2,408	2,702	3,380	4,1
Time	4,549	4,077	4,608	5,6
Total interest-bearing	81,743	74,620	65,388	66,7
Total Arizona	$ 143,977	$ 148,316	$ 120,809	$ 112,2
Total BOK Financial deposits	$ 11,656,182	$ 11,306,785	$ 11,308,246	$ 11,375,3

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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 September 30, 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 September 30, 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 $199 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 $129 million under this policy.

Equity capital for BOK Financial totaled $1.7 billion at September 30, 2006, up $87 million during the quarter. Retained earnings, net income less cash dividends provided $43 million of the increase. Accumulated other comprehensive losses decreased $44 million due primarily to a reduction in net unrealized losses on available for sale securities.

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 programs may be suspended or discontinued at any time without prior notice. During the third quarter of 2006, the Company repurchased 71,447 common shares at an average price of $51.82 per share. The Company may repurchase 1.7 million common shares in the future under this program.

Cash dividends of $10.0 million or $0.15 per common share were paid during the third quarter of 2006. On October 31, 2006 the Board of Directors approved quarterly cash dividend of $0.15 per common share. The dividend will be payable on or about November 30, 2006 to shareholders of record on November 13, 2006.

BOK Financial and its subsidiary banks are subject to various capital requirements administered by federal agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that could have material impact on operations. These capital requirements include quantitative measures of assets, liabilities, and off-balance sheet items. The capital standards are also subject to qualitative judgments by the regulators.

For a banking institution to qualify as well capitalized, its Tier 1, Total and Leverage capital ratios must be at least 6%, 10% and 5%, respectively. All of the Company's banking subsidiaries exceeded the regulatory definition of well capitalized. The capital ratios for BOK Financial on a consolidated basis are presented in Table 20.

Table 20 - Capital Ratios	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 31 2005
Average shareholders' equity				
to average assets	9.62%	9.49%	9.51%	9.30
Risk-based capital:				
Tier 1 capital	9.99	10.00	10.16	9.84
Total capital	12.07	12.14	12.41	12.10
Leverage	8.88	8.74	8.60	8.30

Off-Balance Sheet Arrangements

During 2002, BOK Financial agreed to a limited price guarantee on a portion of the common shares issued to purchase the 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 September 30, 2006 was $49.50 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 Committee that operates under policy guidelines established by the Board of Directors. The acceptable negative variation in net interest revenue 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 these earning assets more rapidly than interest bearing liabilities in the short term. Management has adopted several strategies to position the balance sheet to be neutral to interest rate changes. 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 2.9 years based on a range of interest rate and prepayment assumptions.

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 variable-rate loans with funding sources and long-term certificates of deposit with earning assets. During the third quarter of 2006, net interest revenue was reduced by $2.8 million from periodic settlements of these contracts. Net interest revenue was decreased by $367 thousand from periodic settlements of these contracts in the third quarter of 2005. These contracts are carried on the balance sheet at fair value and changes in fair value are reporting in income as derivatives gains or losses. A net gain of $379 thousand was recognized in the third

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quarter of 2006 compared to a net gain of $606 thousand in same period of 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 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 included the Federal Funds rate, which affects short-term borrowings, and the prime lending rate and LIBOR, which are the basis for much of the variable-rate loan pricing. Additionally, mortgage rates directly affect the prepayment speeds for mortgage-backed securities and mortgage servicing rights. Derivative financial instruments and other financial instruments used for purposes other than trading are included in this simulation. The model incorporates assumptions regarding the effects of changes in interest rates and account balances on indeterminable maturity deposits based on a combination of historical analysis and expected behavior. The impact of planned growth and new business activities is factored into the simulation model. The effects of changes in interest rates on the value of mortgage servicing rights are excluded from Table 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	$ (7,038)	$ 9,378	$ 8,485	(5,426)	$
	(1.4)%	1.9%	1.6%	(1.1)%	

Trading Activities

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

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

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

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limit the VAR to $1.8 million. At September 30, 2006, the VAR was $717 thousand. The greatest value at risk during the quarter was $717 thousand.

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 September 30, 2006	2005
Interest Revenue		
Loans	$ 197,423	$ 144,747
Taxable securities	54,587	51,946
Tax-exempt securities	2,641	1,833
Total securities	57,228	53,779
Trading securities	180	144
Funds sold and resell agreements	649	386
Total interest revenue	255,480	199,056
Interest Expense		
Deposits	88,471	54,503
Borrowed funds	37,821	27,248
Subordinated debentures	5,210	4,477
Total interest expense	131,502	86,228
Net Interest Revenue	123,978	112,828
Provision for Credit Losses	5,254	3,976
Net Interest Revenue After Provision for Credit Losses	118,724	108,852
Other Operating Revenue		
Brokerage and trading revenue	10,958	11,366
Transaction card revenue	19,939	18,526
Trust fees and commissions	17,101	16,376
Deposit service charges and fees	26,322	25,619
Mortgage banking revenue	6,935	9,535
Other revenue	11,756	8,896
Total fees and commissions	93,011	90,318
Gain on sales of assets	475	675
Gain (loss) on securities, net	3,718	(4,744)
Gain (loss) on derivatives, net	379	606
Total other operating revenue	97,583	86,855
Other Operating Expense		
Personnel	74,605	66,533

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Business promotion	4,401	4,494	
Professional fees and services	4,734	3,951	
Net occupancy and equipment	13,222	12,587	
Data processing and communications	16,931	17,492	
Printing, postage and supplies	4,182	3,846	
Net (gains) losses and operating expenses of repossessed assets	34	(387)	
Amortization of intangible assets	1,299	1,801	
Mortgage banking costs	2,869	4,268	
Change in fair value of mortgage servicing rights	7,921	-	
Recovery for impairment of mortgage servicing rights	-	(4,671)	
Other expense	8,612	7,120	
Total other operating expense	138,810	117,034	
Income Before Taxes	77,497	78,673	
Federal and state income tax	24,837	27,846	
Net Income	$ 52,660	$ 50,827	$
Earnings Per Share:			
Basic	$ 0.79	$ 0.77	$
Diluted	$ 0.78	$ 0.76	$
Average Shares Used in Computation:			
Basic	66,756,458	66,427,447	6
Diluted	67,325,428	67,105,539	6

See accompanying notes to consolidated financial statements.

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Consolidated Balance Sheets
(In Thousands Except Share Data)

	Sept. 30, 2006	December 31, 2005
	(Unaudited)	(Footnote 1)
Assets		
Cash and due from banks	$ 595,566	$ 684,857
Funds sold and resell agreements	31,765	14,465
Trading securities	21,437	18,633
Securities:		
Available for sale	4,283,957	4,821,575
Available for sale securities pledged to creditors	369,512	-
Investment (fair value: September 30, 2006 - $242,052; December 31, 2005 - $243,406; September 30, 2005 - $240,179)	247,510	245,125
Mortgage trading securities	111,753	-
Total securities	5,012,732	5,066,700
Loans	10,005,906	9,139,978
Less reserve for loan losses	(105,465)	(103,876)

Loans, net of reserve	9,900,441	9,036,102
Premises and equipment, net	178,940	179,627
Accrued revenue receivable	108,685	99,874
Intangible assets, net	258,994	263,022
Mortgage servicing rights, net	65,788	54,097
Real estate and other repossessed assets	9,322	8,476
Bankers' acceptances	8,081	33,001
Derivative contracts	322,424	452,878
Cash surrender value of bank-owned life insurance	209,766	9,279
Receivable on unsettled securities trades	868	-
Other assets	391,102	406,058
Total assets	$ 17,115,911	$ 16,327,069
Liabilities and Shareholders' Equity		
Noninterest-bearing demand deposits	$ 1,707,066	$ 1,865,948
Interest-bearing deposits:		
Transaction	5,478,292	5,257,295
Savings	142,637	154,015
Time	4,328,187	4,098,060
Total deposits	11,656,182	11,375,318
Funds purchased and repurchase agreements	2,339,585	1,337,911
Other borrowings	595,506	1,054,298
Subordinated debentures	297,370	295,964
Accrued interest, taxes and expense	83,411	92,219
Bankers' acceptances	8,081	33,001
Due on unsettled security transactions	-	8,429
Derivative contracts	339,284	466,669
Other liabilities	126,574	124,106
Total liabilities	15,445,993	14,787,915
Shareholders' equity:		
Common stock ($.00006 par value; 2,500,000,000 shares authorized; shares issued and outstanding: September 30, 2006 - 68,420,633; December 31, 2005 - 67,904,533; September 30, 2005 - 67,648,551)	4	4
Capital surplus	676,395	656,579
Retained earnings	1,126,445	990,422
Treasury stock (shares at cost: September 30, 2006 - 1,561,361; December 31, 2005 - 1,202,125; September 30, 2005 - 1,127,624)	(57,443)	(40,040)
Accumulated other comprehensive loss	(75,483)	(67,811)
Total shareholders' equity	1,669,918	1,539,154
Total liabilities and shareholders' equity	$ 17,115,911	$ 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	Capital	Retained	Treasury Stock
	Shares	Amount	Shares	Amount	Loss	Surplus	Earnings	Sha
Balances at December 31, 2004	249,975	$ 12	60,421	$ 4	$ (11,625)	$631,747	$809,261	9
Comprehensive income:								
Net income	-	-	-	-	-	-	153,347	
Other comprehensive income, net of tax (1)	-	-	-	-	(33,941)	-	-	
Comprehensive income								
Treasury stock purchase	-	-	-	-	-	-	-	
Exercise of stock options	-	-	307	-	-	7,022	-	
Conversion of preferred stock to common	(249,975)	(12)	6,921	-	-	12	-	
Tax benefit on exercise of stock options	-	-	-	-	-	1,878	-	
Stock-based compensation	-	-	-	-	-	6,078	-	
Cash dividends on:								
Preferred stock	-	-	-	-	-	-	(375)	
Common								

Cash dividends on:
Preferred stock
-
-
-
-
-
-
(375)
-
-

Common stock	-	-	-	-	-	-	(13,305)	
Balances at September 30, 2005	-	$ -	67,649	$ 4	$	$ 646,737	$ 948,928	1,1
		(45,566)						
Balances at December 31, 2005	-	$	67,905	$ 4	$	$ 656,579	$990,422	1,2
		-			(67,811)			
Effect of implementing FAS 156, net of income taxes	-	-	-	-	-	-	383	
Comprehensive income:								
Net income	-	-	-	-	-	-	162,392	
Other comprehensive income, net of tax (1)	-	-	-	-	(7,672)	-	-	
Comprehensive income								
Treasury stock purchase	-	-	-	-	-	-	-	2
Exercise of stock options	-	-	516	-	-	12,369	-	1
Tax benefit on exercise of stock options	-	-	-	-	-	2,705	-	
Stock-based compensation	-	-	-	-	-	4,742	-	
Cash dividends on common stock	-	-	-	-	-	-	(26,752)	
Balances at September 30, 2006	-	$ -	68,421	$ 4	$	$ 676,395	$1,126,445	1,5
		(75,483)						

(1)	September 30, 2006	September 30, 2005
Changes in other comprehensive loss:		
Unrealized losses on securities	$(12,401)	$ (56,048)
Unrealized gains (losses) on cash flow hedges	524	(2,046)
Tax benefit on unrealized losses	4,148	20,876
Reclassification adjustment for losses realized and included in net income	87	5,115
Reclassification adjustment for tax benefit on realized losses	(30)	(1,838)
Net change in other comprehensive loss	$(7,672)	$ (33,941)

See accompanying notes to consolidated financial statements.

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

	Nine Months
	2006
Cash Flows From Operating Activities:	
Net income	$ 162,392
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for credit losses	12,449
Change in fair value of mortgage servicing rights	(2,773)
Recovery for mortgage servicing rights impairment	-
Unrealized losses from derivatives	10,825
Tax benefit on exercise of stock options	(2,705)
Change in bank-owned life insurance	1,695
Stock-based compensation	7,779
Depreciation and amortization	29,673
Net accretion of securities discounts and premiums	1,382
Net gain on sale of assets	(9,310)
Mortgage loans originated for resale	(506,582)
Proceeds from sale of mortgage loans held for resale	574,304
Change in trading securities, including mortgage trading securities	(65,025)
Change in accrued revenue receivable	6,750
Change in other assets	(77,579)
Change in accrued interest, taxes and expense	(8,808)
Change in other liabilities	(7,477)
Net cash provided by operating activities	126,990
Cash Flows From Investing Activities:	
Proceeds from maturities of investment securities	56,468
Proceeds from maturities of available for sale securities	515,308
Purchases of investment securities	(59,445)
Purchases of available for sale securities	(589,350)
Proceeds from sales of investment securities	447
Proceeds from sales of available for sale securities	181,007
Loans originated or acquired net of principal collected	(950,823)

Proceeds from (payments on) derivative asset contracts	(36,411)
Investment in bank-owned life insurance	(201,987)
Net change in other investment assets	(4,050)
Proceeds from disposition of assets	78,174
Purchases of assets	(36,467)
Cash and cash equivalents of subsidiaries and branches acquired and sold, net	-
Net cash used in investing activities	(1,047,129)
Cash Flows From Financing Activities:	
Net change in demand deposits, transaction deposits and savings accounts	50,737
Net change in time deposits	223,785
Net change in other borrowings	542,882
Pay down of other borrowings	-
Issuance of subordinated debenture	-
Proceeds from (payments on) derivative liability contracts	34,997
Net change in derivative margin accounts	34,125
Change in amount receivable (due) on unsettled security transactions	(9,297)
Issuance of preferred, common and treasury stock, net	6,688
Tax benefit on exercise of stock options	2,705
Repurchase of common stock	(11,722)
Dividends paid	(26,752)
Net cash provided by financing activities	848,148
Net increase (decrease) in cash and cash equivalents	(71,991)
Cash and cash equivalents at beginning of period	699,322
Cash and cash equivalents at end of period	$ 627,331
Cash paid for interest	$ 353,895
Cash paid for taxes	$ 89,052
Net loans transferred to repossessed real estate and other assets	$ 4,694

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (Liabilities

(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 BOSC, 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. Amounts presented as of December 31, 2005 have been derived from BOK Financial's 2005 Form 10-K.

Newly Adopted and Pending 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 that 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 September 30, 2006 totaled 3,609,303, including 686,887 of vested options and 2,922,416 of unvested options. Management expects that approximately 2.9 million of the unvested options will vest according to their contractual terms. The weighted average exercise prices of vested and unvested options are $26.45 and $40.27, respectively.

The intrinsic value of options exercised during the three and nine months ended September 30, 2006 was $3.6 million and $9.4 million, respectively. The intrinsic value of options exercised during the three and nine months ended September 30, 2005 was $2.8 million and $7.3 million, respectively. The Company received cash proceeds from stock options exercised of $1.0 million and $6.7 million, respectively, in the three and nine months ended September 30, 2006. The Company received cash proceeds from stock options exercised of $0.6 million and $3.8 million, respectively, in the three and nine months ended September 30, 2005.

Stock options are generally awarded annually. The determination of the persons to whom stock options will be awarded and the number of options awarded will be made prior to, and the exercise price of the options will be set at the closing price on, the second business Friday in January.

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. 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.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," ("FAS 157") in September 2006. FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. It does not expand the use of fair value measurement to applications where it is not already required.

The definition of fair value focuses on a hypothetical transaction to either sell an asset or transfer a liability at the measurement date based on assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. A fair value measurement assumes that the transaction occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

FAS 157 also nullifies a portion of EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." The nullified portion of EITF Issue No. 02-3 formed the conceptual basis for our current accounting policy for customer hedging programs.

FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Earlier application is encouraged, provided that interim financial statements have not previously been issued. BOK Financial must adopt FAS 157 as of January 1, 2008 and may choose to adopt FAS 157 as of January 1, 2007. Management is in the process of determining the effect FAS 157 will have on the financial statements.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("FAS 158") in September 2006. FAS 158 requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the change occurs through comprehensive income. The funded status of a benefit plan is defined as the difference between the fair value of plan assets and the benefit obligation measured as of the year-end statement of financial position date. Gains or losses and prior service costs or credits that have not been recognized in net income as components of net periodic benefit costs shall be recognized as a component of other comprehensive income, net of tax. FAS 158 does not change existing generally accepted accounting principles used to determine net periodic benefit costs.

Recognition of the funded status of a defined benefit postretirement plan is effective for employers with publicly traded equity securities, such as BOK Financial, for fiscal years ending after December 15, 2006. Retrospective application of FAS 158 is not permitted.

The effect of FAS 158 on BOK Financial's statement of financial position will not be know until the December 31, 2006 valuation is completed. However, if FAS 158 had been effective at December 31, 2005, the prepaid pension expense asset would have been reduced from $21.9 million to $1.3 million and accumulated other comprehensive losses would have increased from $67.8 million to $80.4 million.

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The Financial Accounting Standards Board issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), in June 2006. FIN 48 requires that an uncertain tax position must be more likely than not of being upheld upon audit by the taxing authority for the benefit to be recognized. The benefit of uncertain tax positions that do not meet this criterion may not be recognized. In addition, FIN 48 requires that the amount of tax benefit that may be recognized for uncertain positions that meet the recognition criterion shall consider the amounts and probabilities of outcomes that could be realized upon settlement.

FIN 48 is effective for fiscal years beginning after December 15, 2006. Management is in the process of determining the effect, if any, the adoption of FIN 48 will have on the financial statements.

(2) Derivatives

The fair values of derivative contracts at September 30, 2006 are as follows (in thousands):

	Assets	Liabilities
Customer Risk Management Programs:		
Interest rate contracts	$21,228	$22,991
Energy contracts	291,794	297,100
Cattle contracts	1,663	1,695
Foreign exchange contracts	6,560	6,560
Total Customer Derivatives	321,245	328,346
Interest Rate Risk Management Programs:		
Interest rate contracts	1,179	10,938
Total Derivative Contracts	$322,424	$339,284

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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 September 30, 2006, BOK Financial owned the rights to service 56,157 mortgage loans with outstanding principal balances of $5.0 billion, including $471 million serviced for affiliates. The weighted average interest rate and remaining term was 6.13% and 277 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 and nine months ended September 30, 2006, mortgage banking revenue includes servicing fee income of $4.0 million and $12.3 million, respectively. For the three and nine months ended September 30, 2005, mortgage banking revenue includes servicing fee income of $4.0 million and $12.3 million, respectively.

Activity in capitalized mortgage servicing rights and related valuation allowance during the nine months ending September 30, 2006 is as follows (in thousands):

	Capitalized Mortgage Servicing Rights			
	Purchased	Originated	Total	Valuation Allowance
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	6,774	9,302	16,076	-
Change in fair value due to loan runoff	(1,798)	(5,910)	(7,708)	-
Change in fair value due to market changes	(238)	3,011	2,773	-
Balance at September 30, 2006 (1)	$ 13,227	$ 52,561	$ 65,788	$ -

(1) Excludes approximately $796,000 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:

	September 30, 2006	December 31, 20
Discount rate - risk-free rate plus a market premium	9.73%	10.85%
Prepayment rate - based upon loan interest rate, original term and loan type	6.00% -18.90%	10.42% - 20
Loan servicing costs - annually per loan based upon		

loan type	$43 - $58	$35 - $4
Escrow earnings rate - indexed to rates paid on deposit accounts with comparable average life	5.45%	5.21%

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Stratification of the mortgage loan servicing portfolio and outstanding principal of loans serviced by interest rate at September 30, 2006 follows (in thousands):

	<5.51%	5.51% - 6.50%	6.51% - 7.50%	> 7.
Fair value	$ 15,759	$ 33,313	$ 13,166	$3
Outstanding principal of loans serviced (1)	$ 1,061,900	$2,206,300	$ 942,700	$ 234

(1) Excludes outstanding principal of $471 million for loans serviced for affiliates and $54 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):

	Nine Months Ended Sept. 30,	
	2006	2005
Proceeds	$ 229,324	$ 1,110,707
Gross realized gains	889	4,750
Gross realized losses	(339)	(9,865)
Related federal and state income tax expense (benefit)	192	(1,838)

(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 nine months ended September 30, 2006 and 2005, net periodic pension cost was approximately $1.8 million and $4.8 million, respectively.

During the second quarter of 2006, the Company made Pension Plan contributions totaling $2.8 million, which funded the remaining maximum contribution for 2005 permitted under applicable regulations. The Company made no other Pension Plan contributions during the nine months ended September 30, 2006.

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.

(6) Shareholders' Equity

On October 31, 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 November 30, 2006 to shareholders of record on November 13, 2006.

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(7) Earnings Per Share

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

	Three Months Ended		Nine Mont
	Sept. 30, 2006	Sept. 30, 2005	Sept. 30, 2006
Numerator:			
Net income	$ 52,660	$ 50,827	$ 162,392
Preferred stock dividends	-	-	-
Numerator for basic earnings per share - income available to common shareholders	52,660	50,827	162,392
Effect of dilutive securities:			
Preferred stock dividends	-	-	-
Numerator for diluted earnings per share - income available to common shareholders after assumed conversion	$ 52,660	$ 50,827	$ 162,392
Denominator:			
Denominator for basic earnings per share - weighted average shares	66,756,458	66,427,447	66,749,141
Effect of dilutive securities:			
Employee stock compensation plans (1)	568,970	678,092	552,265
Convertible preferred stock	-	-	-
Dilutive potential common shares	568,970	678,092	552,265
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	67,325,428	67,105,539	67,301,406
Basic earnings per share	$ 0.79	$ 0.77	$ 2.43
Diluted earnings per share	$ 0.78	$ 0.76	$ 2.41
(1) Excludes employee stock options with exercise prices greater than current market price.	-	819,444	578,507

(8) Reportable Segments

Reportable segments reconciliation to the Consolidated Financial Statements for the nine months ended September 30, 2006 is as follows (in thousands):

Net	Other	Other

	Interest Revenue	Operating Revenue (1)	Operating Expense	N In
Total reportable segments	$ 373,024	$ 276,158	$ 358,079	$
Unallocated items:				
Tax-equivalent adjustment	4,998	-	-	
Funds management and other	(15,612)	1,930	20,237	
BOK Financial consolidated	$ 362,410	$ 278,088	$ 378,316	$

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

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Reportable segments reconciliation to the Consolidated Financial Statements for the nine months ended September 30, 2005 is as follows (in thousands):

	Net Interest Revenue	Other Operating Revenue(1)	Other Operating Expense	I
Total reportable segments	$ 323,009	$ 265,388	$ 337,302	$
Unallocated items:				
Tax-equivalent adjustment	3,790	-	-	
Funds management and other	6,156	(1,744)	7,901	
BOK Financial consolidated	$ 332,955	$ 263,644	$ 345,203	$

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

(9) Contingent Liabilities

On October 10, 2006, the Securities and Exchange Commission (the "SEC") started a special examination of AXIA Investment Advisers, Inc. ("AXIA"). AXIA is a wholly-owned subsidiary of the Bank of Oklahoma, N.A. and the investment adviser to the American Performance Funds (the "Funds"), a family of mutual funds. The examination is focused on the BISYS Fund Services Ohio, Inc. (`BISYS") marketing assistance agreements with AXIA that were terminated in 2004. In September 2006, BISYS settled the SEC's two-year investigation of it by consenting to an order in which the SEC determined that BISYS had "willfully aided and abetted and caused" (1) the investment advisors to 27 different families of mutual funds to violate provisions of the Investment Advisors Act of 1940 that prohibit fraudulent conduct; (2) the investment advisors to the 27 fund families to violate provisions of the Investment Company Act of 1940 (the "1940 Act") that prohibit the making of any untrue statement of a material fact in a registration statement filed by the mutual fund with the SEC; and (3) the 27 fund families to violate provision of the 1940 Act that require the disclosure and inclusion of all distribution arrangements and expenses in the fund's 12b-1 fee plan. AXIA was one of the 27 advisers, and the Funds one of the mutual fund families, to which the SEC referred. AXIA is not bound by the SEC BISYS Order and disagrees with its findings as they relate to AXIA. Although the SEC's examination of AXIA has just begun, the Company does not expect the examination or any action the SEC may take based upon it to have a material adverse effect on the Company.

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 September 30, 2006, outstanding commitments and letters of credit were as follows (in thousands):

	Sept. 30, 2006
Commitments to extend credit	$ 5,027,486
Standby letters of credit	472,853
Commercial letters of credit	16,493
Commitments to purchase securities	35,012

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

	Nine Months Ended			
	September 30, 2006			
	Average Balance	Revenue/ Expense(1)	Yield /Rate	Average Balance
Assets				
Taxable securities (3)	$ 4,779,427	$ 166,267	4.66 %	$ 4,754,020
Tax-exempt securities (3)	280,700	11,137	5.41	221,392
Total securities (3)	5,060,127	177,404	4.70	4,975,412
Trading securities	20,723	722	4.66	14,506
Funds sold and resell agreements	35,027	1,295	4.94	32,073
Loans (2)	9,485,916	545,082	7.68	8,315,930
Less reserve for loan losses	106,020	-	-	110,823
Loans, net of reserve	9,379,896	545,082	7.77	8,205,107
Total earning assets (3)	14,495,773	724,503	6.69	13,227,09
Cash and other assets	2,070,329			1,697,815
Total assets	$ 16,566,102			$ 14,924,91

Liabilities And Shareholders' Equity				
Transaction deposits	$ 5,380,045	105,575	2.62 %	$ 4,261,66
Savings deposits	151,643	1,043	0.92	161,153
Time deposits	4,233,166	134,733	4.26	3,785,850
Total interest-bearing deposits	9,764,854	241,351	3.30	8,208,672
Funds purchased and repurchase agreements	1,997,804	71,747	4.80	1,978,594
Other borrowings	772,032	28,942	5.01	978,280
Subordinated debentures	293,795	15,055	6.85	216,561
Total interest-bearing liabilities	12,828,485	357,095	3.72	11,382,10
Demand deposits	1,471,014			1,633,718
Other liabilities	686,606			462,472
Shareholders' equity	1,579,997			1,446,616
Total liabilities and shareholders' equity	$ 16,566,102			$ 14,924,91
Tax-Equivalent Net Interest Revenue (3)		367,408	2.97%	
Tax-Equivalent Net Interest Revenue To Earning Assets (3)			3.39	
Less tax-equivalent adjustment (1)		4,998		
Net Interest Revenue		362,410		
Provision for credit losses		12,449		
Other operating revenue		277,900		
Other operating expense		378,316		
Income Before Taxes		249,545		
Federal and state income tax		87,153		
Net Income		$ 162,392		
Earnings Per Average Common Share Equivalent:				
Net Income:				
Basic		$ 2.43		
Diluted		$ 2.41		

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

Three Months Ended

September 30, 2006

	Average Balance	Revenue/ Expense(1)	Yield / Rate	Average Balance
Assets				
Taxable securities (3)	$ 4,694,588	$ 54,589	4.63%	$ 4,783,28
Tax-exempt securities (3)	306,170	4,187	5.43	273,30
Total securities (3)	5,000,758	58,776	4.68	5,056,58
Trading securities	21,721	226	4.13	23,672
Funds sold and resell agreements	51,518	649	5.00	32,04
Loans (2)	9,813,602	197,665	7.99	9,472,30
Less reserve for loan losses	106,474	-	-	106,04
Loans, net of reserve	9,707,128	197,665	8.08	9,366,26
Total earning assets (3)	14,781,125	257,316	6.91	14,478,56
Cash and other assets	2,049,998			2,085,72
Total assets	$ 16,831,123			$ 16,564,29
Liabilities And Shareholders' Equity				
Transaction deposits	$ 5,458,280	$ 39,571	2.88 %	$ 5,353,41
Savings deposits	146,276	360	0.98	153,20
Time deposits	4,314,672	48,540	4.46	4,220,20
Total interest-bearing deposits	9,919,228	88,471	3.54	9,726,81
Funds purchased and repurchase agreements	2,138,749	27,568	5.11	2,118,21
Other borrowings	750,247	10,253	5.42	684,43
Subordinated debentures	293,146	5,210	7.05	292,47
Total interest-bearing liabilities	13,101,370	131,502	3.98	12,821,93
Demand deposits	1,453,163			1,474,83
Other liabilities	657,269			695,41
Shareholders' equity	1,619,321			1,572,10
Total liabilities and shareholders' equity	$ 16,831,123			$ 16,564,29
Tax-Equivalent Net Interest Revenue (3)		$ 125,814	2.93%	
Tax-Equivalent Net Interest Revenue To Earning Assets (3)			3.38	
Less tax-equivalent adjustment (1)		1,836		
Net Interest Revenue		123,978		
Provision for credit losses		5,254		
Other operating revenue		97,583		
Other operating expense		138,810		
Income before taxes		77,497		
Federal and state income tax		24,837		
Net Income		$ 52,660		
Earnings Per Average Common Share Equivalent:				

Net income:		
Basic	$	0.79
Diluted	$	0.78

(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						
March 31, 2006			December 31, 2005			Sept
Average Balance	Revenue/ Expense(1)	Yield / Rate	Average Balance	Revenue/ Expense(1)	Yield / Rate	Average Balance
$ 4,862,313	$ 55,046	4.60%	$ 4,816,263	$ 53,375	4.44%	$ 4,800,698
262,124	3,465	5.36	243,521	3,046	5.05	231,097
5,124,437	58,511	4.64	5,059,784	56,421	4.47	5,031,795
16,722	209	5.07	20,595	243	4.68	14,560
21,181	239	4.58	57,656	581	4.00	44,882
9,164,706	166,148	7.35	9,005,546	158,387	6.98	8,635,732
105,135	-	-	108,998	-	-	109,840
9,059,571	166,148	7.44	8,896,548	158,387	7.06	8,525,892
14,221,911	225,107	6.42	14,034,583	215,632	6.12	13,617,129
2,048,328			2,168,128			1,970,746
$ 16,270,239			$ 16,202,711			$ 15,587,875
$ 5,327,004	$ 31,129	2.37%	$ 4,821,627	$ 24,075	1.98%	$ 4,533,912
155,554	330	0.86	154,316	292	0.75	157,772
4,162,952	41,395	4.03	4,216,625	40,083	3.77	3,958,948
9,645,510	72,854	3.06	9,192,568	64,450	2.78	8,650,632
1,731,983	18,483	4.33	1,812,752	17,914	3.92	2,067,432
882,878	10,007	4.60	1,049,635	10,807	4.08	1,047,423
295,792	4,915	6.74	296,021	4,683	6.28	297,284

12,556,163	106,259	3.43	12,350,976	97,854	3.14	12,062,771
1,485,398			1,530,504			1,424,102
680,897			814,192			613,667
1,547,781			1,507,039			1,487,335
$ 16,270,239			$ 16,202,711			$ 15,587,875
	$ 118,848	2.99%		$ 117,778	2.98%	
						3.05
		3.39			3.34	
	1,522			1,392		
	117,326			116,386		
	3,400			4,450		
	89,437			87,344		
	117,379			123,903		
	85,984			75,377		
	31,236			27,219		
	$ 54,748			$ 48,158		
	$ 0.82			$ 0.72		
	$ 0.81			$ 0.72		

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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 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 September 30, 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)
July 1, 2006 to July 31, 2006	11,618	$50.53	8,796
August 1, 2006 to August 31, 2006	36,919	$53.11	2,651
September 1, 2006 to	61,089	$52.01	60,000

September 30, 2006			
Total	109,626		71,447

(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 September 30, 2006, the Company had repurchased 271,177 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.

BOK FINANCIAL CORPORATION
(Registrant)

Date: November 9, 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