BOK FINANCIAL CORP ET AL
Form 10-Q
November 09, 2004

As filed with the Securities and Exchange Commission on November 9, 2004

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, 2004

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 twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

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

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: 59,250,816 shares of common stock ($.00006 par value) as of October 31, 2004.

==

BOK Financial Corporation
Form 10-Q
Quarter Ended September 30, 2004

Index

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Summary of Performance

BOK Financial Corporation ("BOK Financial") recorded net income of $47.8 million or $0.72 per diluted common share for the third quarter of 2004 compared with $38.8 million or $0.58 per diluted common share for the same period of 2003. Prior year earnings per share have been restated for a 3% dividend paid in common shares on May 31, 2004. The annualized returns on average assets and equity were 1.35% and 14.67% for the quarter ended September 30, 2004 compared to returns of 1.20% and 13.26% for the third quarter of 2003. The increase in return on average assets and equity between the two quarters resulted primarily from net income growth. A $44.6 million decrease in average accumulated other comprehensive income, which is a component of shareholders' equity, also contributed to the increase in return on average equity.

Net income increased $9.0 million or 23% due primarily to an $11.9 million increase in net interest revenue and a $3.2 million decrease in provision for loan losses. Net interest revenue increased 12% due to a 16 basis point increase in net interest margin and earning asset growth. The provision for loan losses decreased due to an improvement in credit quality indicators. Fees and commission revenue decreased $1.3 million or 2% primarily due to a 48% reduction in mortgage banking revenue. The decrease in mortgage banking revenue was offset by growth in trust fees and service charges on deposit accounts. Operating expenses increased $23.1 million due primarily to a $22.1 million increase in provision for mortgage servicing rights ("MSRs") impairment related to a significant reversal in the third quarter of 2003. Excluding the MSRs provision, operating expenses increased $984 thousand compared with the third quarter last year. Securities gains during the third quarter of 2004 totaled $2.7 million, including $2.1 million of gains on securities held as economic hedges of MSRs. Gains on the MSRs hedge securities partially offset a $5.9 million provision for impairment of the MSRs for the third quarter of 2004. Net securities and derivatives losses offset by a recovery of the MSRs allowance had minimal effect on the third quarter of 2003. Net income for the third quarter of 2004 also reflected a $3.0 million reduction in income tax expense due to the favorable resolution of state tax issues.

Year-to-date net income totaled $132.5 million or $1.99 per diluted share for 2004 compared with $123.1 million or $1.85 per share for 2003. Net interest revenue grew $26.5 million or 9% due primarily to an $871 million increase in average earning assets. The provision for loan losses for the first nine months of 2004 totaled $16.0 million, which was $11.6 million lower than the same period of 2003. Fees and commissions increased $4.6 million or 2%. Double digit

3

percentage growth in deposit fees, trust and transaction card revenues were offset by a 51% reduction in mortgage banking revenue. Losses on securities and derivatives totaled $5.4 million for the first nine months of 2004. These losses, which primarily resulted from securities held as economic hedges of the MSR portfolio, were partially offset by a $1.3 million recovery in the fair value of MSRs. During the first nine months of 2003, net gains on securities and derivatives totaled $1.0 million and recovery of the provision for impairment of MSRs totaled $20.7 million. Operating expenses increased $7.4 million or 2%, excluding the MSR provision.

Net Interest Revenue

Tax-equivalent net interest revenue totaled $109.5 million for the third quarter of 2004 compared to $97.8 million for the same period of 2003. The increase in net interest revenue was due to an $828 million increase in average earning assets and a 16 basis point increase in net interest margin. The growth in average earning assets included a $534 million increase in outstanding loan balances and a $320 million increase in securities. The growth in average earning assets was funded by a $503 million increase in average interest-bearing deposits and a $516 million increase in average noninterest-bearing demand deposits. Table 1 reflects the effects on net interest revenue of changes in average balances and interest rates for the various types of earning assets and interest-bearing liabilities.

Yields on average earning assets and rates paid on interest-bearing liabilities both increased in the third quarter of 2004 compared to the third quarter of 2003. The net interest margin, the ratio of tax-equivalent net interest revenue to average earning assets, rose to 3.50% from 3.34% for the same period of 2003. The increase in net interest margin was due to yields on earning assets increasing more than rates paid on interest-bearing liabilities. The yield on the loan portfolio increased 24 basis points and the yield on the securities portfolio increased 43 basis points compared to the previous year. Average net loans, which generally have a higher yield than securities, comprised 61% of average earning assets for the third quarters of 2004 compared with 60% for the third quarter of 2003. The remaining average earning assets consisted of securities. The cost of interest-bearing liabilities increased 23 basis points for the same periods. Growth in non-interest bearing funding sources, primarily demand deposit accounts and capital, increased the net interest margin by 7 basis points. The effects of interest rates on asset yields and rates paid for the past five quarters are presented in the Quarterly Financial Summary.

Tax-equivalent net interest revenue for the first nine months of 2004 increased $25.9 million or 9% compared with last year. This increase reflected growth in average earning assets. Average earning assets increased $871 million or 8%, including a $552 million increase in average outstanding loan balances and a $336 million increase in securities. The growth in average earning assets was funded by a $482 million increase in average interest-bearing deposits and a $472 million increase in average noninterest-bearing demand deposit accounts. The net interest margin increased 2 basis points to 3.48%.

Table 1 - Volume / Rate Analysis
(In thousands)

	Three Months Ended September 30, 2004 / 2003			Nine Mont September 30,	
	Change Due To (1)			C	
	Change	Volume	Yield / Rate	Change	V
Tax-equivalent interest revenue:					
Securities	$ 8,097	$ 3,202	$ 4,895	$ 12,093	$ 1
Trading securities	(218)	(102)	(116)	(25)	
Loans	11,168	6,992	4,176	17,292	2
Funds sold and resell agreements	40	(24)	64	(33)	
Total	19,087	10,068	9,019	29,327	3
Interest expense:					
Transaction deposits	2,080	452	1,628	769	
Savings deposits	66	(2)	68	55	
Time deposits	3,804	2,044	1,760	3,810	
Federal funds purchased and repurchase agreements	1,482	(214)	1,696	1,074	
Other borrowings	593	(257)	850	(863)	
Subordinated debentures	(655)	(37)	(618)	(1,429)	
Total	7,370	1,986	5,384	3,416	
Tax-equivalent net interest revenue	11,717	8,082	3,635	25,911	2
Change in tax-equivalent adjustment	136			580	
Net interest revenue	$ 11,853			$ 26,491	

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

BOK Financial follows a strategy of fully utilizing its capital resources by borrowing funds in the capital markets to supplement deposit growth. The proceeds of these borrowed funds are invested in securities. The primary objective of this strategy is to enhance revenue opportunities. This strategy also helps manage overall interest rate risk. Interest rates on these borrowed funds, which generally react quickly to changes in market interest rates, tend to match the effect of changes in interest rates on the loan portfolio. Interest rates earned on the securities purchased with the proceeds of these borrowed funds are affected less quickly by changes in market interest rates. The timing of changes in interest rates earned on securities more closely matches the timing of changes in interest rates paid on deposits. Although this strategy may reduce net interest margin, it provides positive net interest revenue. We estimate that for the third quarter of 2004, this strategy enhanced net interest revenue $12.6 million, compared with $15.1 million for the third quarter of 2003. Excluding this strategy, net interest margin was 3.64% and 3.37% for the third quarters of 2004 and 2003. The average balance of securities purchased and funds borrowed under this strategy was $1.8 billion. As more fully discussed in the Market Risk section of this report, we employ various techniques to manage, within certain parameters, the interest rate and liquidity risks inherent in this strategy. The effectiveness of these techniques is reflected in the overall change in net interest revenue due to changes in interest rates as shown in Table 20.

Other Operating Revenue

Other operating revenue for the third quarter of 2004 increased $17.7 million compared with the third quarter of 2003 due to an $18.9 increase in net gains from securities sales and derivatives. Fees and commissions decreased $1.3 million or 2%. Fees and commissions represented 42% of total revenue, excluding gains and losses on securities and derivatives, in the third quarter of 2004. This is compared with 45% for the same period of 2003. Trust fees and commissions grew $3.3 million or 28% due primarily to an increase in the fair value of assets managed. The fair value of trust assets at September 30, 2004 grew 21% to $23 billion compared to a year ago. The increase in trust fees included $1.4 million from Colorado State Bank and Trust ("CSBT"), which was acquired in the third quarter of 2003. Service charges on deposit accounts increased $3.2 million or 15% and transaction card revenue increased $2.4 million or 17%. Deposit service charges increased due primarily to continued growth in overdraft fees. The growth in transaction card revenue reflected growth in processing volume. Mortgage banking revenue decreased $6.1 million or 48%. Secondary marketing gains decreased $5.3 million due to lower volume of loans funded. Mortgage servicing revenue decreased $856 thousand due to a 13% reduction in the outstanding balance of loans serviced for others. The

5

reduction in mortgage banking revenue is more fully discussed in the Lines of Business - Mortgage Banking section of this report.

BOK Financial recognized net securities gains of $2.7 million during the third quarter of 2004 compared with net losses of $12.0 million during the third quarter of 2003. Net gains on securities designated as an economic hedge of the mortgage servicing portfolio totaled $2.1 million in 2004. Net losses on securities designated as an economic hedge of the mortgage servicing portfolio totaled $2.8 million for the third quarter of 2003.

BOK Financial recognized net gains of $523 thousand during the third quarter of 2004 from sales of securities not used to hedge MSRs, compared with net losses of $9.2 million during the third quarter of 2003. Strategies utilized during the third quarter of 2004 were to maintain the size of the securities portfolio at approximately $4.7 billion and to continue management of extension risk. Management estimates that the securities portfolio has an average life of approximately 3.1 years and an effective duration of approximately 2.8 years. Approximately $485 million of proceeds were generated from securities sales during the third quarter and $176 million was received from maturities. A total of $743 million was invested in the securities portfolio during the quarter. At September 30, 2004, BOK Financial held securities with aggregate gross unrealized losses of $27.2 million caused by changes in market interest rates. These unrealized losses are considered temporary based on the company's ability and management's intent to hold the securities until the values recover. Aggregate gross unrealized gains on securities totaled $24.8 million as of September 30, 2004.

Net gains and losses on derivatives represent the mark to market of the derivative portfolio used for interest rate risk management and related hedged liabilities. Discussion regarding the use of derivative instruments as part of the interest rate risk management program is located in the Market Risk section of this report.

Fees and commissions revenue for the first nine months of 2004 increased $4.6

million or 2% compared to the same period of 2003. CSBT contributed $5.6 million to fees and commissions revenue in 2004, including $4.7 million of trust fees. Total trust, deposit and transaction card fees increased 30%, 18% and 18%, respectively. Excluding CSBT, consolidated trust fees grew 16% due to an increase in the fair value of trust assets managed. Service charges on deposit accounts increased due to growth in overdraft fees and transaction card fees increased due to increased processing volumes. Mortgage banking revenue decreased $23.0 million or 51% due to reductions in loan origination and refinancing activities and servicing fee revenue. Net losses on securities totaled $4.1 million for the first nine months of 2004, including losses of $5.7 million on securities designated as economic hedges of MSRs. Net gains on securities totaled $8.1 million for the first nine months of 2003, including gains of $4.8 million from MSRs hedge securities.

Table 2 - Other Operating Revenue
(In thousands)

	Three Months Ended			
	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec 20
Brokerage and trading revenue	$ 10,209	$ 11,166	$ 10,011	$
Transaction card revenue	16,677	16,817	14,724	1
Trust fees and commissions	15,091	13,939	13,709	1
Service charges and fees on deposit accounts	24,292	23,928	22,155	2
Mortgage banking revenue, net	6,606	7,555	7,744	
Leasing revenue	723	860	887	
Other revenue	5,243	5,774	6,624	
Total fees and commissions	78,841	80,039	75,854	7
Gain on sale of assets	78	35	684	
Gain (loss) on securities, net	2,673	(11,005)	4,277	
Gain (loss) on derivatives, net	(506)	201	(995)	(
Total other operating revenue	$ 81,086	$ 69,270	$ 79,820	$ 7

Other Operating Expense

Other operating expense for the quarter ended September 30, 2004 totaled $114.2 million, a $23.1 million increase compared to the third quarter of 2003. Excluding the provision for MSRs impairment, operating expenses for the third quarter of 2004 increased $984 thousand or 1% compared with the same period in 2003. Operating expenses in 2003 were reduced $16.2 million from the recovery in fair value of MSRs. A provision for impairment of MSRs increased operating expenses by $5.9 million in the third quarter of 2004. Operating expenses for the third quarter of 2004 included $5.0 million for CSBT compared with $1.2 million for the same period last year. Personnel expense increased $3.6 million, including $2.2 million from CSBT. Mortgage banking costs, which consisted primarily of MSRs amortization expense, decreased $4.3 million. Variations in mortgage banking costs are more fully discussed in the Lines of Business - Mortgage Banking section of this report.

Personnel expense increased $3.6 million or 6% compared with the third quarter of 2003. Average regular compensation per full-time equivalent employee ("FTE") increased 6% while the number of FTE increased by 14. Incentive compensation expense increased 2% to $14.1 million. Employee benefit costs, which totaled $9.2 million, increased 14% compared to last year due primarily to increases in employee insurance and retirement benefits.

Data processing and communications costs increased $1.9 million or 15%. This increase was due primarily to a $1.2 million increase related to transaction card processing volumes. The CSBT acquisition increased data processing and communications expenses by $182 thousand compared to last year.

Operating expenses for the first nine months of 2004 increased $26.8 million or 9% compared with the same period of 2003. Excluding the provision for mortgage servicing rights, operating expenses increased $7.4 million or 2%. The acquisition of CSBT increased year-to-date operating expenses $13.1 million. Additionally, BOK Financial recognized a $4.1 million charge for the cost of appreciated securities donated to the BOK Charitable Foundation. Personnel expenses increased $14.3 million or 9%, including $7.6 million from CSBT. The remaining increase in personnel costs were primarily due to increased incentive compensation. Data processing expenses increased 19% to $44.8 million due to the same factors that affected the third quarter. Mortgage banking costs decreased $20.0 million or 58% due to lower amortization of mortgage servicing rights.

Table 3 - Other Operating Expense
(In thousands)

	Three Months Ended			
	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 31, 2003
Personnel	$ 60,524	$ 59,810	$ 58,209	$ 58,639
Business promotion	3,671	3,831	3,350	3,773
Contribution of stock to BOK Charitable Foundation	-	-	4,125	-
Professional fees and services	3,658	3,994	3,899	4,312
Net occupancy and equipment	11,733	11,732	11,851	12,066
Data processing & communications	14,918	15,270	14,641	13,869
Printing, postage and supplies	3,770	3,130	3,317	3,589
Amortization of intangible assets	1,991	2,121	2,138	2,588
Mortgage banking costs	3,962	4,433	5,843	6,105
Provision (recovery) for impairment of mortgage servicing rights	5,900	(10,865)	3,703	(2,260)
Other expense	4,075	5,536	5,372	6,065
Total other operating expense	$ 114,202	$ 98,992	$ 116,448	$ 108,746

7

Income Taxes

Income tax expense totaled $22.5 million for the third quarter of 2004 and $68.8 million for the first nine months of 2004. These amounts represented 32% and 34%, respectively, of pre-tax book income. Income tax expense for the third quarter of 2004 was reduced by $3.0 million due to the favorable resolution of state income tax issues during the quarter. Excluding this item, income tax expense would have been 36% of pre-tax book income. Income tax expense for the first nine months of 2004 also included the benefit of contributing appreciated securities to the BOk Charitable Foundation during the first quarter of the year. Excluding both of these items, income tax expense for the first nine months of 2004 would have been $73.0 million or 36% of pre-tax book income.

Lines of Business

BOK Financial operates four principal lines of business under its Bank of Oklahoma ("BOk") franchise: corporate banking, consumer banking, mortgage banking and wealth management. It also operates a fifth principal line of business, regional banking, which includes all banking functions for Bank of Albuquerque, N.A., Bank of Arkansas, N.A., Bank of Texas, N.A., and Colorado State Bank and Trust, N.A. In addition to its lines of business, BOK Financial has a funds management unit. The primary purpose of this unit is to manage the overall liquidity needs and interest rate risk of the company. Each line of business borrows funds from and provides funds to the funds management unit as needed to support their operations.

BOK Financial allocates resources and evaluates performance of its lines of business after allocation of funds, certain indirect expenses, taxes and capital costs. The cost of funds borrowed from the funds management unit by the operating lines of business is transfer priced at rates that approximate market for funds with similar duration. Market rates are generally based on the applicable LIBOR or interest rate swap rates, adjusted for prepayment risk. This method of transfer-pricing funds that support assets of the operating lines of business tends to insulate them from interest rate risk.

The value of funds provided by the operating lines of business to the funds management unit is based on applicable Federal Home Loan Bank advance rates. Deposit accounts with indeterminate maturities, such as demand deposit accounts and interest-bearing transaction accounts, are transfer-priced at a rolling average based on expected duration of the accounts. The expected duration ranges from 90 days for certain rate-sensitive deposits to five years.

Economic capital is assigned to the business units based on an allocation method that reflects management's assessment of risk. Management uses a third-party developed capital allocation model. This model assigns capital based upon credit, operating, interest rate and market risk inherent in the business lines and recognizes the diversification benefits among the units. The level of assigned economic capital is a combination of the risk taken by each business line, based on its actual exposures and calibrated to its own loss history where possible. Additional capital is assigned to the regional banking line of business based on BOK Financial's investment in those entities.

Corporate Banking

The Corporate Banking Division provides loan and lease financing and treasury and cash management services to businesses throughout Oklahoma and surrounding states. In addition to serving the banking needs of small businesses, middle market and larger customers, the Corporate Banking Division has specialized groups that serve customers in the energy, agriculture, healthcare and banking/finance industries and includes the TransFund network. The Corporate Banking Division contributed $15.8 million or 33% to consolidated net income for the third quarter of 2004. This compares to $14.9 million or 39% of consolidated net income for the third quarter of 2003. Other operating revenue increased $1.8 million or 9% due primarily to a $1.2 million increase in revenue from TransFund. Operating expenses increased $3.5 million to $26.5 million for the third quarter of 2004 from $23.0 million for the same period of the prior year. The increase in operating expenses included $1.1 million in TransFund transaction processing costs.

Table 4 - Corporate Banking
(Dollars in Thousands)

	Three months ended Sept. 30,		Nine months ended Se	
	2004	2003	2004	
NIR (expense) from external sources	$ 38,384	$ 36,060	$ 111,125	$
NIR (expense) from internal sources	(6,798)	(6,794)	(17,685)	
Total net interest revenue	31,586	29,266	93,440	
Other operating revenue	22,276	20,476	66,586	
Operating expense	26,535	23,026	74,538	
Net loans charged off	1,467	2,256	5,542	
Net income	15,801	14,945	48,847	
Average assets	$ 4,731,865	$ 4,342,445	$ 4,749,215	$ 4,
Average equity	306,000	319,390	317,810	
Return on assets	1.33%	1.37%	1.37%	
Return on equity	20.54%	18.56%	20.53%	
Efficiency ratio	49.26%	46.29%	46.58%	

Consumer Banking

The 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 Online Banking. Additionally, the division is a significant referral source for the Bank of Oklahoma Mortgage Division ("BOk Mortgage") and BOSC's retail brokerage division. The Consumer Banking Division contributed $4.8 million or 10% to consolidated net income for the third quarter of 2004. This compares to $2.5 million or 6% of consolidated net income for the third quarter of 2003. Other operating revenue increased $2.9 million, or 24% over the third quarter of 2003 due primarily to a $2.1 million increase in deposit account charges.

Table 5 - Consumer Banking
(Dollars in Thousands)

	Three months ended Sept. 30,		Nine months ended	
	2004	2003	2004	
NIR (expense) from external sources	$ (5,087)	$ (4,364)	$ (13,418)	$
NIR (expense) from internal sources	16,932	14,674	46,840	
Total net interest revenue	11,845	10,310	33,422	
Other operating revenue	14,806	11,911	41,901	
Operating expense	16,835	16,634	53,151	
Net loans charged off	1,899	1,494	5,165	
Net income	4,838	2,500	10,391	
Average assets	$ 2,700,461	$ 2,491,875	$ 2,721,290	$
Average equity	67,200	58,630	62,120	

Return on assets	0.71%	0.40%	0.51%
Return on equity	28.64%	16.92%	22.34%
Efficiency ratio	63.17%	74.86%	70.56%

Mortgage Banking

BOK Financial engages in mortgage banking activities through BOk Mortgage. These activities include the origination, marketing and servicing of conventional and government-sponsored mortgage loans. Consolidated mortgage banking revenue, which is included in other operating revenue, decreased $6.1 million or 48% compared to the third quarter of 2003. Mortgage servicing revenue decreased $856 thousand due to a 13% decrease in the principal balance of loans serviced for others. Secondary marketing gains fell $5.2 million as the volume of loans funded fell. The decrease in mortgage banking revenue resulted in a $686 thousand loss on mortgage banking operations for the third quarter of 2004. Mortgage banking operations contributed $12.1 million to consolidated net income or 31% of consolidated net income for the third quarter of 2003.

BOK Mortgage is comprised of two sectors, loan production and loan servicing. The loan production sector generally performs best when mortgage interest rates are low and loan origination volumes are high. Conversely, the loan servicing sector generally performs best when mortgage interest rates are relatively high and prepayments are low. Rising interest rates, which began in the second half of 2003 and continued into the third quarter of 2004 significantly reduced the volume of loan applications and funding, which has substantially reduced loan production revenue. As interest rates fell in the latter part of the third quarter, the fair value of MSRs declined and a provision for MSRs impairment was required.

Loan Production Sector

Pre-tax income from loan production decreased to $1.2 million for the third quarter of 2004 compared to $8.1 million for the previous year's third quarter. Operating revenue from loan production was $2.8 million in the third quarter of 2004, including $2.5 million of capitalized mortgage servicing rights, compared to revenue from loan production of $8.0 million in the third quarter of 2003, including $8.1 million of capitalized mortgage servicing rights. Mortgage loans funded totaled $139 million in the third quarter of 2004 compared to $425 million during the same period last year. The decrease in loan production revenue and volume of loans funded reflected the effects of higher interest rates on refinancing activities. Approximately 24% of loans funded during the third quarter of 2004 were for refinanced loans compared to 66% for the third quarter of 2003. The pipeline of mortgage loan applications totaled $230 million at September 30, 2004, down from $232 million at the end of the preceding quarter.

Loan Servicing Sector

The loan servicing sector incurred a pre-tax loss of $3.0 million for the third quarter of 2004 compared to pre-tax income of $11.5 million for the same period of 2003. Falling interest rates during the third quarter of 2004 decreased the fair value of the MSRs and required a $5.9 million provision for MSRs impairment. The provision was partially offset by $2.1 million of gains realized from sales of securities designated as economic hedges. During the third quarter of 2003, the fair value of MSRs increased due to rising interest rates. The increase in fair value required a $16.2 million reversal of the allowance for MSRs impairment. This reversal was partially offset by realized losses of $2.8 million on securities held as an economic hedge of the MSRs.

Amortization expense, which is based on both actual and anticipated loan prepayments, decreased to $3.4 million in 2004 compared to $7.8 million in 2003 due to rising interest rates and a reduction in loan prepayment speeds relative to a year ago.

Servicing revenue totaled $4.5 million in 2004 compared to $5.3 million in 2003. The decrease in servicing revenue was due primarily to a lower outstanding principal balance of loans serviced. The average outstanding balance of loans serviced, including loans serviced for subsidiaries of BOK Financial, was $4.4 billion for the third quarter of 2004 compared to $5.0 billion for the third quarter of 2003. The decrease in loans serviced reflected both the rapid refinancing of mortgage loans and a decision to curtail purchases of mortgage loan servicing.

The valuation allowance for impairment of mortgage servicing rights totaled $16 million at September 30, 2004 compared to $34 million at September 30, 2003. A valuation allowance is provided to reduce the carrying value of servicing rights to the lower of fair value or amortized cost segregated by impairment strata. Impairment strata are determined by interest rate bands and by loan types, either conventional or government-backed. The fair value of servicing rights is based on estimated revenues that will be generated over the servicing period, less estimated costs to

10

service the loans. The valuation allowance may be reversed, in part or in whole, if the fair value of servicing rights in a particular impairment strata increase or if the amortized cost of servicing rights in a particular strata decrease. Fair value may increase if anticipated loan prepayment speeds decrease. Amortized cost of a particular impairment stratum will decrease through amortization. Impairment strata are reviewed quarterly to determine whether the values of the impaired servicing rights are likely to recover. When it becomes probable that the impairment is other than temporary based on an estimate of fair values over a range of interest rates and prepayment speeds, a permanent impairment write-down of the servicing rights is charged against the valuation allowance. A $2.3 million write-down of mortgage servicing rights against the valuation allowance was recorded during the third quarter of 2004.

Table 6 - Mortgage Banking
(Dollars in Thousands)

	Three months ended Sept. 30,		Nine month
	2004	2003	2004
NIR (expense) from external sources	$ 5,573	$ 6,837	$ 16,882
NIR (expense) from internal sources	(2,677)	(1,809)	(8,347)
Total net interest revenue	2,896	5,028	8,535
Capitalized mortgage servicing rights	2,538	8,109	8,793
Other operating revenue	5,460	6,268	16,838
Operating expense	8,172	12,517	27,153
Provision (recovery) for impairment of mortgage servicing rights	5,900	(16,186)	(1,262)
Gains (losses) on financial instruments, net	2,149	(2,824)	(5,731)
Net income (loss)	(686)	12,093	1,419
Average assets	$ 574,781	$ 659,423	$ 565,167
Average equity	25,350	30,930	27,410

Return on assets	(0.47)%	7.28%	0.34%
Return on equity	(10.77)%	155.12%	6.92%
Efficiency ratio	75.01%	64.50%	79.47%

BOK Financial designates a portion of its securities portfolio as an economic hedge against the risk of loss on its mortgage servicing rights. Mortgage-backed securities and U.S. government agency debentures are acquired and held as available for sale when prepayment risks exceed certain levels. To-be-announced securities and other derivative instruments may also be used as part of the economic hedging strategy. Because the fair values of these securities and derivatives are expected to vary inversely to the fair value of the servicing rights, they are expected to offset risk. No special hedge accounting treatment is applicable to either the mortgage servicing rights or the assets designated as an economic hedge. Changes in fair value of available for sale securities are generally recognized in shareholders' equity, net of taxes, and changes in the fair value of derivative instruments are recognized in income.

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

At September 30, 2004, assets with a fair value of $97.7 million were held for the economic hedge program. The interest rate sensitivity of the mortgage servicing rights and assets held as a hedge is modeled over a range of +/- 50 basis points. The pre-tax results of this modeling on reported earnings were:

Table 7 - Interest Rate Sensitivity - Mortgage Servicing
(Dollars in Thousands)

	50 bp increase	50 bp decrease
Anticipated change in:		
Fair value of mortgage servicing rights	$ 6,673	$ (10,881)
Fair value of hedging securities	(4,055)	5,193
Net	$ 2,618	$ (5,688)

11

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 include sales of institutional, investment and retirement products, loans and other services to affluent individuals, businesses, not-for-profit organizations, and governmental agencies. Trust services are primarily provided to clients in Oklahoma, Texas, Arkansas and New Mexico. Trust services provided through Colorado State Bank and Trust are included in the regional banking line of business. Brokerage and trading activities within the wealth management line of business consist of retail sales of mutual funds, securities and annuities, institutional sales of securities and derivatives, bond underwriting and other financial advisory services.

Wealth management contributed $3.6 million or 8% to consolidated net income for the third quarter of 2004 compared to $4.8 million or 12% last year. Operating revenue decreased $2.1 million or 8% compared with the same quarter of 2003. Brokerage and trading revenue decreased $3.8 million or 29% due to lower volumes. Trust revenue increased $2.0 million or 17% due to growth in assets managed.

At September 30, 2004, the wealth management line of business was responsible for trust assets with aggregate market values of $18.1 billion under various fiduciary arrangements, compared to $15.9 billion a year ago. The growth in trust assets reflected increased market value of assets managed in addition to new business generated. Wealth Management has sole or joint discretionary authority over $7.1 billion of trust assets at September 30, 2004 compared to $6.5 billion at September 30, 2003.

Table 8 - Wealth Management
(Dollars in Thousands)

	Three months ended Sept. 30,		Nine months
	2004	2003	2004
NIR (expense) from external sources	$ 897	$ 543	$ 2,970
NIR (expense) from internal sources	2,394	2,330	6,220
Total net interest revenue	3,291	2,873	9,190
Other operating revenue	23,152	25,243	69,384
Operating expense	20,480	20,061	64,716
Net income	3,630	4,838	8,426
Average assets	$ 748,187	$ 714,162	$ 754,665
Average equity	69,470	86,730	70,950
Return on assets	1.93%	2.69%	1.49%
Return on equity	20.79%	22.13%	15.86%
Efficiency ratio	77.45%	71.35%	82.36%

Regional Banking

Regional banks include Bank of Texas, Bank of Albuquerque, Bank of Arkansas, and Colorado State Bank and Trust. Each of these banks provides a full range of corporate and consumer banking services in their respective markets. Small businesses and middle-market corporations are the regional banks' primary customer focus. Regional banks contributed $16.8 million or 35% to consolidated net income for the third quarter of 2004. This compares to $10.6 million or 27% of consolidated net income for the third quarter of 2003.

The contribution of operations in Texas and New Mexico to consolidated net income increased $3.7 million or 51% and $1.3 million or 48%, respectively, compared to the third quarter of last year. The increase in contribution was due primarily to growth in net interest revenue from these operations. Operating expenses in Texas decreased $1.1 million compared to the third quarter of last year. In addition to growth from operations in Texas and New Mexico, CSBT contributed $1.2 million to net income for the third quarter of 2004.

12

The contribution of each of the regional banks is shown separately in Table 9 through Table 12. Average equity for each of the regional banks is based upon assigned economic capital and reflects management's assessment of risk. Invested capital for the regional banks includes additional capital on BOK Financial's investment in those entities.

Table 9 - Bank of Texas

(Dollars in Thousands)

	Three months ended Sept. 30,		Nine months
	2004	2003	2004
NIR (expense) from external sources	$ 30,521	$ 26,044	$ 86,009
NIR (expense) from internal sources	(865)	(524)	(2,195)
Total net interest revenue	29,656	25,520	83,814
Other operating revenue	5,750	5,664	16,345
Operating expense	17,578	18,638	53,822
Net loans charged off	991	1,319	3,336
Gains on sales of financial instruments, net	-	-	-
Net income	10,943	7,266	27,990
Average assets	$ 3,000,592	$ 2,738,721	$ 3,021,306
Average equity	158,080	166,150	165,850
Average invested capital	325,160	333,230	332,940
Return on assets	1.45%	1.05%	1.24%
Return on equity	27.54%	17.35%	22.54%
Return on average invested capital	13.39%	8.65%	11.23%
Efficiency ratio	49.65%	59.77%	53.74%

Table 10 - Bank of Albuquerque
(Dollars in Thousands)

	Three months ended Sept. 30,		Nine months
	2004	2003	2004
NIR (expense) from external sources	$ 12,056	$ 10,694	$ 33,801
NIR (expense) from internal sources	(1,269)	(1,046)	(3,306)
Total net interest revenue	10,787	9,648	30,495
Other operating revenue	3,743	3,016	10,750
Operating expense	7,556	7,727	23,027
Net loans charged off	301	428	1,146
Gains on sales of financial instruments, net	-	-	-
Net income	4,078	2,755	10,431
Average assets	$ 1,621,232	$ 1,519,853	$ 1,629,146
Average equity	64,270	67,150	68,390
Average invested capital	83,360	86,240	87,480
Return on assets	1.00%	0.72%	0.86%
Return on equity	25.24%	16.28%	20.37%
Return on average invested capital	19.46%	12.67%	15.93%
Efficiency ratio	52.00%	61.02%	55.83%

13

Table 11 - Bank of Arkansas

(Dollars in Thousands)

	Three months ended Sept. 30, 2004	Three months ended Sept. 30, 2003	Nine months 2004
NIR (expense) from external sources	$ 2,102	$ 2,393	$ 6,570
NIR (expense) from internal sources	(526)	(508)	(1,468)
Total net interest revenue	1,576	1,885	5,102
Other operating revenue	378	297	1,022
Operating expense	1,078	979	3,243
Net loans charged off	25	200	(29)
Net income	520	613	1,778
Average assets	$ 266,951	$ 285,656	$ 269,931
Average equity	11,680	10,300	11,590
Average invested capital	11,680	10,300	11,590
Return on assets	0.77%	0.85%	0.88%
Return on equity	17.71%	23.61%	20.49%
Return on average invested capital	17.71%	23.61%	20.49%
Efficiency ratio	55.17%	44.87%	52.96%

Table 12 - Colorado State Bank and Trust
(Dollars in Thousands)

	Three months ended Sept. 30, 2004	Three months ended Sept. 30, 2003	Nine month 2004
NIR (expense) from external sources	$ 6,187	$ ***	$ 16,743
NIR (expense) from internal sources	(696)	***	(1,619)
Total net interest revenue	5,491	***	15,124
Other operating revenue	1,980	***	6,233
Operating expense	5,403	***	15,679
Net loans charged off	(8)	***	116
Net income	1,233	***	3,399
Average assets	$ 619,483	$ ***	$ 586,593
Average equity	35,310	***	27,500
Average invested capital	77,290	***	69,480
Return on assets	0.79%	***	0.77%
Return on equity	13.89%	***	16.51%
Return on average invested capital	6.35%	***	6.53%
Efficiency ratio	72.32%	***	73.41%

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

Discussion and Analysis of Operations

Loans

The aggregate loan portfolio at September 30, 2004 totaled $7.8 billion and increased $259 million during the quarter. Commercial loans and commercial real estate loans increased $165 million and $32 million, respectively. Residential mortgage loans, including loans held for sale, increased $43 million.

Table 13 - Loans
(In thousands)

	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 3 2003
Commercial:				
Energy	$ 1,097,191	$ 1,079,746	$ 1,107,866	$ 1,231,5
Manufacturing	479,866	485,657	501,296	482,6
Wholesale/retail	737,235	697,761	717,409	668,2
Agricultural	262,171	232,445	228,334	228,2
Services	1,644,884	1,488,963	1,400,521	1,383,8
Other commercial and industrial	277,102	349,129	364,239	342,1
Total commercial	4,498,449	4,333,701	4,319,665	4,336,7
Commercial real estate:				
Construction and land development	467,396	436,727	451,119	436,0
Multifamily	236,240	245,731	253,272	271,1
Other real estate loans	917,488	907,084	914,834	922,8
Total commercial real estate	1,621,124	1,589,542	1,619,225	1,630,0
Residential mortgage:				
Secured by 1-4 family residential properties	1,120,761	1,080,399	1,032,396	1,015,6
Residential mortgages held for sale	82,053	79,034	83,556	56,5
Total residential mortgage	1,202,814	1,159,433	1,115,952	1,072,1
Consumer	461,779	442,424	445,734	444,9
Total	$ 7,784,166	$ 7,525,100	$ 7,500,576	$ 7,483,8

Outstanding loans to energy customers totaled $1.1 billion or 14% of total loans at September 30, 2004. Approximately $956 million of the energy loan portfolio was to oil and gas producers. The amount of credit available to these customers generally depends on the value of their proven energy reserves based on current prices. The energy loan category also included loans to borrowers involved in the transportation of oil and gas and loans to borrowers that manufacture equipment and provide other services to the energy industry. The aggregate outstanding balance of energy loans increased $17 million or 2% during the third quarter. The increase in outstanding energy loan balances reversed a trend of declining energy loan balances since the first of the year as continued high energy prices provided cash flow to the industry. Outstanding loans to the services industry totaled $1.6 billion at September 30, 2004 and increased $156 million during the third quarter. Loans to the services industries now comprise 21% of the total loan portfolio. Services included loans that totaled $276 million to nursing homes and $189 million to the healthcare industry. Loans to the healthcare industry increased $55 million or 41% during the quarter due primarily to a $44 million advance for interim financing. The remainder of the services sector of the loan portfolio is comprised of a large number of loans to small and medium-sized businesses with no notable concentrations. Agriculture loans, which increased $30 million during the quarter, included $216 million of loans to the cattle industry. Other notable loan concentrations by primary industry of the borrowers are presented in Table 13.

Commercial real estate loans totaled $1.6 billion at September 30, 2004 or 21% of the total loan portfolio. Construction and land development loans increased $31 million. Construction and land development loans included $307 million for single-family residential lots and premises. Multifamily real estate loans decreased $9 million or 4% and totaled $236 million or 3% of total loans at September 30, 2004. The major components of other commercial real estate loans were

office buildings at $319 million and retail facilities at $306 million.

Residential mortgage loans, excluding loans held for sale, included $376 million of home equity loans, $280 million of loans held for business relationship, $228 million of adjustable rate mortgage loans and $236 million of loans held for community development. Consumer loans included $223 million of indirect automobile loans. Substantially all of these loans were purchased from dealers in Oklahoma. Approximately 10% of the indirect automobile loan portfolio was considered sub-prime.

While BOK Financial continued to increase geographic diversification through expansion into Texas, New Mexico and Colorado, geographic concentration subjects the loan portfolio to the general economic conditions in Oklahoma. Table 14 presents the distribution of the major loan categories among BOK Financial's principal market areas.

Table 14 - Loans by Principal Market Area
(In thousands)

	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 3 2003
Oklahoma:				
Commercial	$ 2,914,917	$ 2,843,013	$ 2,811,555	$ 2,802,8
Commercial real estate	746,444	795,145	833,317	789,8
Residential mortgage	819,537	770,749	716,512	699,2
Residential mortgage held for sale	82,053	79,034	83,556	56,5
Consumer	343,680	336,057	332,036	324,3
Total Oklahoma	$ 4,906,631	$ 4,823,998	$ 4,776,976	$ 4,672,8
Texas:				
Commercial	$ 994,335	$ 939,471	$ 932,302	$ 963,3
Commercial real estate	467,935	453,724	460,659	477,5
Residential mortgage	195,393	194,760	205,163	204,4
Consumer	87,371	85,742	91,331	101,2
Total Texas	$ 1,745,034	$ 1,673,697	$ 1,689,455	$ 1,746,6

Albuquerque:				
Commercial	$ 331,027	$ 317,647	$ 317,488	$ 297,8
Commercial real estate	195,390	175,537	161,529	175,7
Residential mortgage	64,105	65,184	64,887	66,1
Consumer	11,687	11,251	10,837	11,0
Total Albuquerque	$ 602,209	$ 569,619	$ 554,741	$ 550,8
Northwest Arkansas:				
Commercial	$ 64,789	$ 61,252	$ 58,398	$ 63,4
Commercial real estate	69,075	65,980	59,181	75,4
Residential mortgage	9,022	9,289	8,271	6,2
Consumer	4,998	3,018	2,970	2,6
Total Northwest Arkansas	$ 147,884	$ 139,539	$ 128,820	$ 147,8
Colorado:				
Commercial	$ 193,381	$ 172,318	$ 199,922	$ 209,1
Commercial real estate	142,280	99,156	104,539	111,4
Residential mortgage	32,704	40,417	37,563	39,4
Consumer	14,043	6,356	8,560	5,5
Total Colorado	$ 382,408	$ 318,247	$ 350,584	$ 365,6
Total BOK Financial loans	$ 7,784,166	$ 7,525,100	$ 7,500,576	$ 7,483,8

16

Other Derivatives with Credit Risk

BOK Financial offers programs that permit its customers to hedge various risks. Much of the focus of these programs had been on assisting energy producing customers to hedge against price fluctuations and to take positions through energy derivative contracts. Programs to assist customers in managing their interest rate, foreign exchange and other commodity risks were added during 2003. Each of these programs work essentially the same way. Derivative contracts are executed between the customers and BOk. Offsetting contracts are executed between BOk and selected counterparties to minimize the risk to us of changes in energy prices, interest rates or foreign exchange rates. The counterparty contracts are identical to the customer contracts, except for a fixed pricing spread or fee paid to BOk as compensation for administrative costs, credit risk and profit.

These programs create credit risk for amounts due to BOk from its customers and counterparties. Customer and counterparty credit risks are monitored through existing policies. Margin collateral may be required from customers and counterparties based on assessment of credit risk.

A deterioration of the credit standing of one or more counterparties 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, for example, the credit standing of a counterparty deteriorated such that either the fair value of energy production 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, 2004, the fair value derivative contracts reported as assets under these programs totaled $419 million. This included energy contracts with fair values of $412 million, foreign exchange contracts with fair values of $4 million and interest rate contracts with fair values of $3 million. The aggregate fair values of offsetting liability contracts totaled $422 million. Approximately 60% of the fair value of asset contracts was with customers. The credit risk of these assets is generally backed by energy production. The remaining 40% of the fair value of asset contracts was with counterparties. The maximum exposure to any single customer or counterparty totaled $56 million.

Summary of Loan Loss Experience

The reserve for loan losses, which is available to absorb losses inherent in the loan portfolio, totaled $129 million at September 30, 2004 and June 30, 2004 and $127 million at September 30, 2003. These amounts represent 1.68%, 1.73%, and 1.77%, respectively, of total loans, excluding loans held for sale. Losses on loans held for sale, principally mortgage loans accumulated for placement in security pools, are charged to earnings through adjustments in the carrying value. The reserve for loan losses also represented 249% of nonperforming loans at September 30, 2004, compared with 224% at June 30, 2004 and 250% at September 30, 2003. Net loans charged-off during the third quarter totaled $4.8 million, compared to $4.9 million in the second quarter of 2004 and $6.3 million in the third quarter of 2003. Table 15 presents statistical information regarding the reserve for loan losses.

17

Table 15 - Summary of Loan Loss Experience
(In thousands)

	Three Months Ended			
	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 31, 2003
Beginning balance	$ 128,905	$ 129,838	$ 128,639	$ 126,971
Loans charged off:				
Commercial	2,712	2,826	4,188	3,116
Commercial real estate	254	617	-	37
Residential mortgage	392	231	349	594
Consumer	3,521	2,998	3,425	3,802
Total	6,879	6,672	7,962	7,549
Recoveries of loans previously charged off:				
Commercial	811	359	580	111
Commercial real estate	-	4	17	2
Residential mortgage	125	87	20	6
Consumer	1,163	1,302	1,517	1,097
Total	2,099	1,752	2,134	1,216
Net loans charged off	4,780	4,920	5,828	6,333
Provision for loan losses	4,986	3,987	7,027	8,001
Additions due to acquisitions	-	-	-	-
Ending balance	$ 129,111	$ 128,905	$ 129,838	$ 128,639
Reserve to loans outstanding at period-end (1)	1.68%	1.73%	1.75%	1.73%

Net loan losses (annualized) to average loans (1)	0.25	0.26	0.31	0.35

(1) Excludes residential mortgage loans held for sale.

Specific reserves for impairment are determined through evaluation of estimated future cash flows and collateral value. At September 30, 2004, specific impairment reserves totaled $3.7 million on total impaired loans of $45 million.

Nonspecific reserves are maintained for risks beyond factors specific to an individual loan or those identified through migration analysis. A range of potential losses is determined for each factor identified, including general economic conditions and concentration of large loans.

Evaluation of the loan loss reserve requires a significant level of assumptions by management including estimation of future cash flows, collateral values, relevance of historical loss trends to the loan portfolio and assessment of current economic conditions on the borrowers' ability to repay. The required loan loss reserve could be materially affected by changes in these assumptions. The loan loss reserve is adequate to absorb losses inherent in the loan portfolio based upon current conditions and information available to management. However, actual losses may differ significantly due to changing conditions or information that is not currently available.

Nonperforming Assets

Information regarding nonperforming assets, which totaled $58 million at September 30, 2004, $62 million at June 30, 2004 and $59 million at September 30, 2003 is presented in Table 16. Nonperforming assets included nonaccrual loans and excluded loans 90 days or more past due but still accruing interest. Nonaccrual loans decreased $5.8 million during the third quarter of 2004. Newly identified nonaccruing loans totaled $7.5 million. This increase in nonaccruing loans was offset by $9.6 million from cash payments received and $3.2 million from charge-offs and foreclosure.

18

Table 16 - Nonperforming Assets
(In thousands)

	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 20
Nonaccrual loans:				
Commercial	$ 36,526	$ 38,264	$ 30,751	$ 41,
Commercial real estate	8,293	10,208	5,953	2,
Residential mortgage	6,228	8,346	8,649	7,
Consumer	729	792	1,024	1,
Total nonaccrual loans	51,776	57,610	46,377	52,
Other nonperforming assets	6,038	4,776	5,954	7,
Total nonperforming assets	$ 57,814	$ 62,386	$ 52,331	$ 59,
Ratios:				
Reserve for loan losses to nonperforming loans	249.36%	223.75%	279.96%	244.
Nonperforming loans to period-end loans (2)	0.67	0.77	0.63	0.

Loans past due (90 days) (1)	$ 9,173	$ 10,280	$ 16,376	$ 14,9

(1) Includes residential mortgages guaranteed by agencies of the U.S. Government. $ 2,354 $ 3,226 $ 4,420 $ 4,1

(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 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 are not included in nonperforming assets. Known information does, however, cause management to have concerns as to the borrowers' ability to comply with current repayment terms. Potential problem loans totaled $54 million at September 30, 2004 compared to $60 million at June 30, 2004 and $56 million at September 30, 2003. At September 30, 2004, the composition of potential problem loans by primary industry categories included $13 million from the services industries, $12 million from energy and related services, $10 million from healthcare, and $8 million from real estate.

Deposits

Average deposits for the third quarter of 2004 increased $254 million or 3% compared to the second quarter of 2004. Average core deposits, which we define as deposits of less than $100,000 excluding public funds and brokered time deposits, totaled $5.0 billion or 52% of total average deposits. Average core deposits increased $113 million or 2% compared to the second quarter of 2004. Public funds represented 6% of total deposits, a decrease of $76 million or 11% during these same periods. The decrease in public funds was due to the timing of tax receipts. Brokered deposits increased $73 million or 21% and averaged $415 million for the third quarter of 2004. This increase reflected a strategy initiated in the first quarter of 2004 of replacing non-core time deposits with brokered deposits. Because the brokered time deposits have more standardized terms, they can be hedged more effectively. A discussion of the hedging of brokered time deposits with interest rate swaps is included in the Market Risk section of this report. The remaining deposits were comprised of account balances in excess of $100,000. These deposits totaled $3.6 billion or 37% of total average deposits, an increase of 4% over the second quarter of 2004.

The distribution of deposit accounts among BOK Financial's principal markets at each quarter end is shown in Table 17. Total interest-bearing deposits grew by 17% and 4%, respectively, in the Colorado and New Mexico markets. This growth was offset by a 3% reduction in the Oklahoma market.

19

Table 17 - Deposits by Principal Market Area
(In thousands)

	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 31 2003
Oklahoma:				
Demand	$ 1,045,981	$ 1,069,823	$ 1,137,710	$ 1,025,4
Interest-bearing:				

Transaction	2,167,279	2,229,366	2,212,752	2,246,6
Savings	92,275	96,091	101,656	98,6
Time	2,543,292	2,615,179	2,439,732	2,403,2
Total interest-bearing	4,802,846	4,940,636	4,754,140	4,748,5
Total Oklahoma	$ 5,848,827	$ 6,010,459	$ 5,891,850	$ 5,774,0
Texas:				
Demand	$ 587,181	$ 578,727	$ 562,089	$ 421,2
Interest-bearing:				
Transaction	1,118,960	1,124,279	1,087,918	1,213,7
Savings	32,244	34,370	34,734	35,7
Time	581,017	548,001	526,082	505,4
Total interest-bearing	1,732,221	1,706,650	1,648,734	1,754,9
Total Texas	$ 2,319,402	$ 2,285,377	$ 2,210,823	$ 2,176,2
Albuquerque:				
Demand	$ 146,163	$ 135,648	$ 124,557	$ 106,0
Interest-bearing:				
Transaction	345,851	350,453	347,763	370,2
Savings	18,102	19,153	20,306	20,7
Time	385,139	353,650	329,063	317,9
Total interest-bearing	749,092	723,256	697,132	708,9
Total Albuquerque	$ 895,255	$ 858,904	$ 821,689	$ 814,9
Northwest Arkansas:				
Demand	$ 15,242	$ 11,816	$ 12,402	$ 16,3
Interest-bearing:				
Transaction	24,462	21,929	24,003	28,4
Savings	1,302	1,191	1,545	1,3
Time	107,576	112,634	90,699	105,5
Total interest-bearing	133,340	135,754	116,247	135,3
Total Northwest Arkansas	$ 148,582	$ 147,570	$ 128,649	$ 151,7
Colorado:				
Demand	$ 61,865	$ 81,478	$ 84,505	$ 79,4
Interest-bearing:				
Transaction	203,349	166,139	166,179	162,6
Savings	19,085	19,021	19,847	18,3
Time	43,076	41,361	42,032	42,4
Total interest-bearing	265,510	226,521	228,058	223,4
Total Colorado	$ 327,375	$ 307,999	$ 312,563	$ 302,8
Total BOK Financial deposits	$ 9,539,441	$ 9,610,309	$ 9,365,574	$ 9,219,8

Capital

Shareholders' equity increased $98 million during the third quarter of 2004 and totaled $1.4 billion at September 30, 2004. Net income for the quarter provided $47.8 million of the growth in shareholders' equity. The remainder was provided primarily by a $46.0 million increase in accumulated other comprehensive income. The increase in accumulated other comprehensive income resulted from appreciation in the fair value of BOK Financial's portfolio of available for sale securities due to falling interest rates.

BOK Financial and its subsidiary banks are subject to various capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and additional discretionary actions by regulators that could have a material effect on operations. These capital requirements include quantitative measures of assets, liabilities and certain off-balance sheet items. The capital standards are also subject to qualitative judgments by the regulatory agencies about components, risk weightings and other factors. For a banking institution to qualify as well capitalized, as defined by the banking agencies, its risk-based Tier I, Total and Leverage capital ratios must be at least 6%, 10% and 5%, respectively. BOK Financial's capital ratios are presented in Table 18. Additionally, each subsidiary bank exceeds the regulatory definition of well capitalized.

Table 18 - Capital Ratios

	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec.3 2003
Average shareholders' equity				
to average assets	9.21%	9.20%	9.24%	9.06
Risk-based capital:				
Tier 1 capital	9.82	9.82	9.44	9.15
Total capital	11.56	11.93	11.59	11.31
Leverage	7.81	7.52	7.36	7.17

During 2002, BOK Financial issued shares of common stock for its purchase of Bank of Tanglewood. In addition, BOK Financial agreed to a limited price guarantee on a portion of the shares issued in this purchase. Pursuant to this guarantee, any holder of BOK Financial common shares issued in this acquisition may annually make a claim for the excess of the guaranteed price and the actual sales price of any shares sold during a 60-day period after each of the first five anniversary dates after October 25, 2002. The maximum annual number of shares subject to this guarantee is 210,069. BOK Financial may elect, in its sole discretion, to issue additional shares of common stock to satisfy any obligation under the price guarantee or to pay cash.

BOK Financial will not be required to issue additional common shares if the market value per share of common stock remains above the highest benchmark price of $42.53. The closing price per share of BOK Financial common stock on September 30, 2004 was $44.61.

21

Market Risk

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

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

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

Interest Rate Risk - Other than Trading

As of September 30, 2004, BOK Financial has approximately 61% of total loans in variable rate loans and a large portion of its liabilities in demand deposit accounts and interest-bearing transaction accounts. Changes in interest rates affect earning assets more rapidly than interest-bearing liabilities in the short term. Management has adopted several strategies to reduce this interest rate sensitivity. As previously noted in the Net Interest Revenue section of this report, management acquires securities that are funded by borrowings in the capital markets. These securities have an expected average duration of approximately 3.0 years while the related funds borrowed have an average duration of 90 days. Securities purchased and funds borrowed under this strategy averaged $1.8 billion during the third quarter of 2004.

BOK Financial uses interest rate swaps in managing its interest rate sensitivity. These products are generally used to more closely match interest on certain loans with funding sources and long-term certificates of deposit with earning assets. During the third quarters of 2004 and 2003, net interest revenue increased $3.5 million and $4.3 million, respectively, from periodic settlements of these contracts.

Interest rate derivatives with notional amounts of $492 million have been designated as fair value hedges of fixed-rate brokered certificates of deposit and debt. During the third quarter of 2004, the fair values of these derivatives increased $6.2 million. The corresponding fair values of the hedged liabilities decreased $6.0 million during this same period. The net effect of these changes in fair values, combined with changes in fair value of interest rate derivatives not designated as hedges for accounting purposes, resulted in a net loss of $507 thousand in the third quarter of 2004. This is compared with a loss of $4.7 million in the third quarter of 2003 from adjustments of interest rate swaps to fair value. No interest rate derivatives were designated as hedges in the prior year. Credit risk from these swaps is closely monitored. Derivative contracts are not used for speculative purposes.

Table 19 - Interest Rate Swaps
(In Thousands)

	Notional Amount	Pay Rate	Receive Rate	Positive Fair Value
Expiration:				
2004	$ 195,000	2.02%	4.09% - 4.20%	$ 417
2005	85,000	1.84%(1)	1.57% - 2.36%	21
2006	93,424	1.84%(1) - 5.43%	1.84%(1) - 4.45%	233
2007	200,000	1.84%(1)	2.75% - 3.17%	5
2008	122,000	1.84%(1) - 4.75%(2)	2.90% - 5.99%	5
2009	65,000	1.84%(1)	3.26% - 4.43%	1,370
2010	10,000	1.84%(1)	3.54% - 3.77%	-
2011	64,226	1.84%(1) - 5.51%	1.84%(1) - 4.10%	29
				$ 2,080

(1) Rates are variable based on LIBOR and reset monthly or quarterly.
(2) Rate is variable based on the National Prime Rate.

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 twelve and 24 months based on eight interest rate scenarios. Three specified interest rate scenarios are used to evaluate interest rate risk. These are a "most likely" rate scenario and two "shock test" scenarios, first assuming a sustained parallel 200 basis point increase and second assuming a sustained parallel 100 basis point decrease in interest rates. Management historically evaluated interest rate sensitivity for a sustained 200 basis point decrease in rates. However, these results are not meaningful in the current low-rate environment. An independent source is used to determine the most likely interest rate scenario.

BOK Financial's primary interest rate exposures included the Federal Funds rate, which affects short-term borrowings, and the prime lending rate and the London Interbank Offering Rate, 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 20 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.

23

Table 20 - Interest Rate Sensitivity
(Dollars in Thousands)

	Increase		Decrease	
	200 bp		100 bp	
	2004	2003	2004	2003
Anticipated impact over the next twelve months:				
Net interest revenue	$ 7,635 1.7%	$ 7,711 1.8%	$ (8,748) (1.9)%	$ (5,123) (1.2)%
Net income	$ 4,772 2.6%	$ 4,819 2.9%	$ (5,468) (2.9)%	$ (3,202) (1.9)%
Economic value of equity	$ (74,006) (4.4)%	$ (84,053) (5.9)%	$ (756) 0.0%	$ 8,726 0.6%

Trading Activities

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

A variety of methods are used to manage the interest rate risk of trading activities. These methods include daily marking of all positions to market value, independent verification of inventory pricing, and position limits for each trading activity. Hedges in either the futures or cash markets may be used to reduce the risk associated with some trading programs. The Risk Management Department monitors trading activity daily and reports to senior management and the Risk Oversight and Audit Committee of the BOK Financial Board of Directors any exceptions to trading position limits and risk management policy exceptions.

BOK Financial uses a Value at Risk ("VAR") methodology to measure the market risk inherent in its trading activities. VAR is calculated based upon historical simulations over the past five years using a variance / covariance matrix of interest rate changes. It represents an amount of market loss that is likely to be exceeded only one out of every 100 two-week periods. Trading positions are managed within guidelines approved by the Board of Directors. These guidelines limit the VAR to $1.6 million. At September 30, 2004, the VAR was $165 thousand. The greatest value at risk during the third quarter of 2004 was $553 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.

24

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 and valuation of mortgage servicing rights 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.

Report of Management on Consolidated Financial Statements

Management is responsible for the unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. In management's opinion, the accompanying unaudited consolidated financial statements and all related information in this report contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial conditions, results of operations and cash flows of BOK Financial and its subsidiaries at the dates and for the periods presented.

BOK Financial and its subsidiaries maintain a system of internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States. This system includes written policies and procedures, a corporate code of conduct, an internal audit program and standards for the hiring and training of qualified personnel.

The Board of Directors of BOK Financial maintains a Risk Oversight and Audit Committee consisting of outside directors that meet periodically with management and BOK Financial's internal and independent auditors. The Committee considers the audit and nonaudit services to be performed by the independent auditors, makes arrangements for the internal and independent audits and recommends BOK Financial's selection of independent auditors. The Committee also reviews the results of the internal and independent audits, critical accounting policies and practices, and various shareholder reports and other reports and filings.

The financial information included in this interim report has been prepared by management without audit by an independent registered public accounting firm and should be read in conjunction with BOK Financial's 2003 Form 10-K filed with the Securities and Exchange Commission which contains audited financial statements.

25

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

	Three Months Ended September 30, 2004	2003	2
Interest Revenue			
Loans	$ 104,092	$ 92,883	$ 29
Taxable securities	50,847	42,698	14
Tax-exempt securities	1,861	1,892	
Total securities	52,708	44,590	15
Trading securities	136	280	
Funds sold and resell agreements	91	51	
Total interest revenue	157,027	137,804	45
Interest Expense			
Deposits	37,213	31,263	10
Other borrowings	9,663	7,588	2
Subordinated debentures	1,766	2,421	
Total interest expense	48,642	41,272	13
Net Interest Revenue	108,385	96,532	31
Provision for Loan Losses	4,986	8,220	1
Net Interest Revenue After Loan Loss Provision	103,399	88,312	30
Other Operating Revenue			
Brokerage and trading revenue	10,209	12,220	3
Transaction card revenue	16,677	14,260	4
Trust fees and commissions	15,091	11,762	4
Service charges and fees on deposit accounts	24,292	21,106	7

Mortgage banking revenue, net	6,606	12,735	2
Leasing revenue	723	949	
Other revenue	5,243	7,098	1
Total fees and commissions revenue	78,841	80,130	23
Gain on sales of assets	78	14	
Gain (loss) on securities, net	2,673	(12,007)	(
Loss on derivatives, net	(506)	(4,709)	(
Total other operating revenue	81,086	63,428	23
Other Operating Expense			
Personnel	60,524	56,915	17
Business promotion	3,671	2,912	1
Contribution of stock to BOK Charitable Foundation	-	-	
Professional fees and services	3,658	4,454	1
Net occupancy and equipment	11,733	11,600	3
Data processing and communications	14,918	13,008	4
Printing, postage and supplies	3,770	3,459	1
Amortization of intangible assets	1,991	1,959	
Mortgage banking costs	3,962	8,268	1
Provision (recovery) for impairment of mortgage servicing rights	5,900	(16,186)	(
Other expense	4,075	4,743	1
Total other operating expense	114,202	91,132	32
Income Before Taxes	70,283	60,608	20
Federal and state income tax	22,501	21,792	6
Net Income	$ 47,782	$ 38,816	$ 13
Earnings Per Share:			
Basic	$ 0.79	$ 0.65	$
Diluted	$ 0.72	$ 0.58	$
Average Shares Used in Computation:			
Basic	59,197,676	58,770,968	59,1
Diluted	66,802,600	66,633,574	66,7

See accompanying notes to consolidated financial statements.

26

Consolidated Balance Sheets
(Dollars In Thousands, Except Per Share Data)

	September 30, 2004	December 31, 2003
	(Unaudited)	

Assets		
Cash and due from banks	$ 521,697	$ 629,480
Funds sold and resell agreements	49,674	14,432
Trading securities	12,742	7,823
Securities:		
Available for sale	4,146,873	3,833,449
Available for sale securities pledged to creditors	548,637	685,419
Investment (fair value: September 30, 2004 - $221,350; December 31, 2003 - $191,256; September 30, 2003 - $195,827)	218,886	187,951
Total securities	4,914,396	4,706,819
Loans	7,784,166	7,483,889
Less reserve for loan losses	(129,111)	(128,639)
Loans, net of reserve	7,655,055	7,355,250
Premises and equipment, net	171,617	175,901
Accrued revenue receivable	71,982	74,980
Intangible assets, net	244,483	250,686
Mortgage servicing rights, net	46,227	48,550
Real estate and other repossessed assets	6,038	7,186
Bankers' acceptances	24,105	30,884
Receivable on unsettled security transactions	22,589	-
Derivative contracts	419,882	149,100
Other assets	217,550	130,652
Total assets	$ 14,378,037	$ 13,581,743
Liabilities and Shareholders' Equity		
Noninterest-bearing demand deposits	$ 1,856,432	$ 1,648,600
Interest-bearing deposits:		
Transaction	3,859,901	4,021,808
Savings	163,008	174,729
Time	3,660,100	3,374,726
Total deposits	9,539,441	9,219,863
Funds purchased and repurchase agreements	1,717,639	1,609,668
Other borrowings	1,022,347	1,016,650
Subordinated debentures	153,121	154,332
Accrued interest, taxes and expense	57,228	85,409
Bankers' acceptances	24,105	30,884
Due on unsettled security transactions	-	8,259
Derivative contracts	425,532	149,326
Other liabilities	81,965	78,722
Total liabilities	13,021,378	12,353,113
Shareholders' equity:		
Preferred stock	12	12
Common stock ($.00006 par value; 2,500,000,000 shares authorized; shares issued and outstanding: September 30, 2004 - 60,186,377; December 31, 2003 - 58,055,697; September 30, 2003 - 57,878,009)	4	4
Capital surplus	624,257	546,594
Retained earnings	763,081	698,052
Treasury stock (shares at cost: September 30, 2004 - 950,206; December 31, 2003 - 848,892; September 30, 2003 - 801,192)	(28,714)	(24,491)

Accumulated other comprehensive income (loss)	(1,981)	8,459
Total shareholders' equity	1,356,659	1,228,630
Total liabilities and shareholders' equity	$ 14,378,037	$ 13,581,743

See accompanying notes to consolidated financial statements.

27

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

	Preferred Stock		Common Stock		Accumulated Other Comprehensive			T
	Shares	Amount	Shares	Amount	Income (Loss)	Capital Surplus	Retained Earnings	Sh
Balances at								
December 31, 2002	250,000	$ 25	55,750	$ 3	$ 43,088	$475,054	$598,777	
Comprehensive income:								
Net income	-	-	-	-	-	-	123,058	
Other comprehensive income, net of tax:								
Unrealized gain (loss) on securities available for sale (1)	-	-	-	-	(37,301)	-	-	
Comprehensive income								
Exercise of stock options	-	-	425	-	-	6,324	-	
Tax benefit on exercise of stock options	-	-	-	-	-	2,750	-	
Stock-based compensation	-	-	-	-	-	(2,849)	-	
Cash dividends on preferred stock	-	-	-	-	-	-	(375)	
Dividends paid in shares of common stock:								
Common stock	-	-	1,680	1	-	58,293	(57,585)	
Preferred stock	-	-	23	-	-	750	(750)	
Balances at September 30, 2003	250,000	$ 25	57,878	$ 4	$ 5,787	$540,322	$663,125	
Balances at December 31, 2003	250,000	$ 12	58,056	$ 4	$ 8,459	$546,594	$698,052	
Comprehensive income:								
Net income	-	-	-	-	-	-	132,467	
Other comprehensive income, net of tax:								
Unrealized gain (loss) on securities available for sale (1)	-	-	-	-	(10,440)	-	-	
Comprehensive income								

Exercise of stock options	-	-	381	-	-	6,427	-
Conversion of preferred stock to common	(13)	-	-	-	-	-	-
Tax benefit on exercise of stock options	-	-	-	-	-	4,117	-
Stock-based compensation	-	-	-	-	-	181	-
Cash dividends on preferred stock	-	-	-	-	-	-	(1,500)
Dividends paid in shares of common stock:							
Common stock	-	-	1,749	-	-	66,938	(65,938)
Balances at September 30, 2004	249,987	$ 12	60,186	$ 4	$ (1,981)	$ 624,257	$ 763,081

(1)	Sept. 30, 2004	Sept. 30, 2003
Changes in other comprehensive income:		
Unrealized losses on available for sale securities	$ (21,211)	$ (53,069)
Tax benefit on unrealized losses on available for sale securities	8,293	20,741
Reclassification adjustment for (gains) losses realized and included in net income	4,055	(8,139)
Reclassification adjustment for tax expense (benefit) on realized (gains)losses	(1,577)	3,166
Net change in unrealized gains (losses) on securities	$ (10,440)	$ (37,301)

See accompanying notes to consolidated financial statements.

28

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

	Nine Mont Septemb
	2004
Cash Flows From Operating Activities:	
Net income	$ 132,467
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	16,000
Recovery for mortgage servicing rights	(1,262)
Unrealized losses from derivatives	4,527
Stock-based compensation	7,708
Tax benefit of stock option exercises	4,117
Depreciation and amortization	36,439
Net amortization of financial instrument discounts and premiums	(1,753)
Net gain on sale of assets	(4,822)
Mortgage loans originated for resale	(496,770)
Proceeds from sale of mortgage loans held for resale	509,223
Change in trading securities	(4,919)
Change in accrued revenue receivable	2,998

Change in other operating assets	(33,500)
Change in accrued interest, taxes and expense	(28,181)
Change in other liabilities	36,093
Net cash provided by operating activities	178,365
Cash Flows From Investing Activities:	
Proceeds from maturities of investment securities	57,009
Proceeds from maturities of available for sale securities	714,693
Purchases of investment securities	(88,016)
Purchases of available for sale securities	(2,901,008)
Proceeds from sales of available for sale securities	1,969,077
Loans originated or acquired net of principal collected	(379,988)
Payments on derivative asset contracts	(163,605)
Net change in other investment assets	6,157
Proceeds from disposition of assets	62,273
Purchases of assets	(25,700)
Net cash used by investing activities	(749,108)
Cash Flows From Financing Activities:	
Net change in demand deposits, transaction deposits, money market deposits, and savings accounts	34,204
Net change in certificates of deposit	285,374
Net change in other borrowings	113,668
Proceeds from derivative liability contracts	164,503
Net change in derivative margin accounts	(70,403)
Change in amount due on unsettled security transactions	(30,848)
Issuance of preferred, common and treasury stock, net	3,243
Payment of dividends	(1,539)
Net cash provided by financing activities	498,202
Net change in cash and cash equivalents	(72,541)
Cash and cash equivalents at beginning of period	643,912
Cash and cash equivalents at end of period	$ 571,371
Cash paid for interest	$ 137,839
Cash paid for taxes	$ 63,553
Net loans transferred to repossessed real estate and other assets	$ 4,654
Payment of dividends in common stock	$ 65,899

See accompanying notes to consolidated financial statements.

29

Notes to Consolidated Financial Statements (Unaudited)

(1) Accounting Policies

Basis of Presentation

The Consolidated Financial Statements of BOK Financial Corporation ("BOK

Financial") have been prepared in conformity with accounting principles generally accepted in the United States, including general practices of the banking industry. The consolidated financial statements include the accounts of BOK Financial and its subsidiaries, principally Bank of Oklahoma, N.A. and its subsidiaries ("BOk"), Bank of Texas, N.A., Bank of Arkansas, N.A., Bank of Albuquerque, N.A., Colorado State Bank and Trust, N.A., and BOSC, Inc. Certain prior period amounts have been reclassified to conform to current period classifications.

(2) Mortgage Banking Activities

At September 30, 2004, BOK Financial owned the rights to service 56,767 mortgage loans with outstanding principal balances of $4.4 billion, including $480 million serviced for BOK Financial. The weighted average interest rate and remaining term was 6.32% and 269 months, respectively.

Activity in capitalized mortgage servicing rights and related valuation allowance during the nine months ending September 30, 2004 is as follows (in thousands):

	Capitalized Mortgage Servicing Rights				
	Purchased	Originated	Total	Valuation Allowance	(G
Balance at December 31, 2003	$ 22,380	$ 54,456	$ 76,836	$ (31,995)	$
Additions, net	-	8,793	8,793	-	
Amortization expense	(3,790)	(8,232)	(12,022)	-	
Write-off	(5,836)	(5,945)	(11,781)	15,134	
Recovery (provision) for impairment	-	-	-	1,262	
Balance at Sept. 30, 2004	$ 12,754	$ 49,072	$ 61,826	$ (15,599)	$
Estimated fair value of mortgage servicing rights (1)	$ 9,930	$ 36,935	$ 46,865	-	

(1) Excludes approximately $1.1 million of loan servicing rights on mortgage loans originated pri

Stratification of the mortgage loan servicing portfolio and outstanding principal of loans serviced by interest rate at September 30, 2004 follows (in thousands):

	<5.51%	5.51% - 6.49%	6.50% - 7.49%	=> 7
Cost less accumulated amortization	$ 13,553	$ 23,393	$ 18,955	$
Fair value	$ 12,093	$ 17,520	$ 12,566	$
Impairment (2)	$ 1,682	$ 5,874	$ 6,391	$
Outstanding principal of loans serviced (1)	$ 907,800	$1,400,700	$ 1,111,500	$ 38

(1) Excludes outstanding principal of $480 million for loans serviced for BOK Financial and $93 m
originated prior to FAS 122, for which there are no capitalized mortgage servicing rights.
(2) Impairment is determined by both an interest rate and loan type stratification.

30

(3) 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,	
	2004	2003
Proceeds	$ 1,969,077	$ 4,335,687
Gross realized gains	8,206	27,068
Gross realized losses	12,261	18,929
Related federal and state income tax expense (benefit)	(1,577)	3,166

(4) Employee Benefits

BOK Financial sponsors a defined benefit Pension Plan for all employees who satisfy certain age and service requirements. The following table presents components of net periodic pension cost (dollars in thousands):

	Three Months Ended Sept. 30,		Nine Months End	
	2004	2003	2004	
Service cost	$ 1,563	$ 1,295	$ 4,803	$
Interest cost	579	503	1,737	
Expected return on plan assets	(912)	(739)	(2,726)	
Amortization of prior service cost	15	15	45	
Amortization of net loss	265	205	795	
Net periodic pension cost	$ 1,510	$ 1,279	$ 4,654	$

During the first quarter of 2004, the Company made Pension Plan contributions totaling $7.7 million, which funded the remaining maximum contribution for 2003 permitted under applicable regulations. During the second and third quarters of 2004, the Company made contributions totaling $1.0 million applicable to 2004.

Management has been advised that no minimum contribution will be required for 2004. The maximum allowable contribution has not yet been determined.

31

(5) Earnings Per Share

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

	Three Months Ended		Nine Mont
	Sept. 30, 2004	Sept. 30, 2003 (2)	Sept. 30, 2004
Numerator:			
Net income	$ 47,782	$ 38,816	$ 132,467
Preferred stock dividends	(750)	(375)	(1,500)
Numerator for basic earnings per share - income available to common shareholders	47,032	38,441	130,967
Effect of dilutive securities:			
Preferred stock dividends	750	375	1,500
Numerator for diluted earnings per share - income available to common shareholders after assumed conversion	$ 47,782	$ 38,816	$ 132,467
Denominator:			
Denominator for basic earnings per share - weighted average shares	59,197,676	58,770,968	59,132,074
Effect of dilutive securities:			
Employee stock compensation plans (1)	681,408	904,801	652,130
Convertible preferred stock	6,921,021	6,921,164	6,921,182
Tanglewood market value guarantee	2,495	36,641	17,547
Dilutive potential common shares	7,604,924	7,862,606	7,590,859
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	66,802,600	66,633,574	66,722,933
Basic earnings per share	$ 0.79	$ 0.65	$ 2.21
Diluted earnings per share	$ 0.72	$ 0.58	$ 1.99

(1) Current market price was greater than exercise price on all employee stock options.
(2) Restated for 3% dividend paid in common shares in May 2004.

(6) Reportable Segments

Reportable segments reconciliation to the Consolidated Financial Statements for the nine months ended September 30, 2004 is as follows (in thousands):

	Net Interest Revenue	Other Operating Revenue(1)	Other Operating Expense	Ne
Total reportable segments	$ 279,122	$ 237,852	$ 314,067	$
Unallocated items:				
Tax-equivalent adjustment	3,406	-	-	
Funds management	45,412	(2,417)	9,796	
All others (including eliminations), net	(11,159)	96	5,779	
BOK Financial consolidated	$ 316,781	$ 235,531	$ 329,642	$

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

Reportable segments reconciliation to the Consolidated Financial Statements for the nine months ended September 30, 2003 is as follows (in thousands):

	Net Interest Revenue	Other Operating Revenue(1)	Other Operating Expense	Ne
Total reportable segments	$ 252,215	$ 239,080	$ 286,318	$
Unallocated items:				
Tax-equivalent adjustment	3,986	-	-	
Funds management	44,821	(5,219)	6,473	
All others (including eliminations), net	(10,732)	(2,943)	10,040	
BOK Financial consolidated	$ 290,290	$ 230,918	$ 302,831	$

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

(7) Contingent Liabilities

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

(8) 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, 2004, outstanding commitments and letters of credit were as follows (in thousands):

	Sept. 30, 2004
Commitments to extend credit	$ 3,127,456
Standby letters of credit	527,011
Commercial letters of credit	4,874
Commitments to purchase securities	103,995

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, 2004			
	Average Balance	Revenue/ Expense(1)	Yield /Rate	Average Balance
Assets				
Taxable securities (3)	$ 4,638,302	$ 147,684	4.26%	$ 4,312,2
Tax-exempt securities (3)	203,170	8,721	5.73	192,9
Total securities (3)	4,841,472	156,405	4.32	4,505,1
Trading securities	17,978	522	3.87	16,8
Funds sold and resell agreements	15,898	183	1.54	26,1
Loans (2)	7,566,848	297,493	5.25	7,014,7
Less reserve for loan losses	131,564	-	-	123,0
Loans, net of reserve	7,435,284	297,493	5.34	6,891,6
Total earning assets (3)	12,310,632	454,603	4.94	11,439,9
Cash and other assets	1,510,044			1,183,2
Total assets	$ 13,820,676			$ 12,623,1
Liabilities And Shareholders' Equity				
Transaction deposits	$ 3,870,507	24,738	0.85%	$ 3,510,8
Savings deposits	172,629	744	0.58	170,6
Time deposits	3,558,320	78,355	2.94	3,438,3
Total interest-bearing deposits	7,601,456	103,837	1.82	7,119,7
Funds purchased and repurchase agreements	1,566,234	12,743	1.09	1,489,0
Other borrowings	1,007,762	12,004	1.59	1,058,5
Subordinated debentures	153,099	5,832	5.09	155,0
Total interest-bearing liabilities	10,328,551	134,416	1.74	9,822,4
Demand deposits	1,761,020			1,289,3
Other liabilities	457,197			364,0
Shareholders' equity	1,273,908			1,147,1
Total liabilities and shareholders' equity	$ 13,820,676			$ 12,623,1
Tax-Equivalent Net Interest Revenue (3)		320,187	3.20%	
Tax-Equivalent Net Interest Revenue To Earning Assets (3)			3.48	
Less tax-equivalent adjustment (1)		3,406		
Net Interest Revenue		316,781		

Provision for loan losses		16,000
Other operating revenue		230,176
Other operating expense		329,642
Income Before Taxes		201,315
Federal and state income tax		68,848
Net Income	$	132,467
Earnings Per Share:		
Net Income		
Basic	$	2.21
Diluted	$	1.99

(1) Tax equivalent at the statutory federal and state rates for the periods presented. The taxabl
are for comparative purposes.
(2) The loan averages included loans on which the accrual of interest has been discontinued and a
(3) Yield calculations exclude security trades that have been recorded on trade date with no corr

34

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

Three Months Ended

	September 30, 2004			
	Average Balance	Revenue/ Expense(1)	Yield /Rate	Average Balance
Assets				
Taxable securities (3)	$ 4,652,435	$ 50,847	4.34%	$ 4,667,36
Tax-exempt securities (3)	215,190	2,951	5.46	200,38
Total securities (3)	4,867,625	53,798	4.39	4,867,74
Trading securities	14,956	77	2.05	23,51
Funds sold and resell agreements	23,334	91	1.55	16,28
Loans (2)	7,656,588	104,181	5.41	7,548,25
Less reserve for loan losses	130,896	-	-	131,31
Loans, net of reserve	7,525,692	104,181	5.51	7,416,94
Total earning assets (3)	12,431,607	158,147	5.06	12,324,48
Cash and other assets	1,630,890			1,529,84
Total assets	$ 14,062,497			$ 13,854,32

Liabilities And Shareholders' Equity				
Transaction deposits	$ 3,931,166	$ 9,280	0.94%	$ 3,859,70
Savings deposits	169,398	266	0.62	173,56
Time deposits	3,712,161	27,667	2.97	3,565,32
Total interest-bearing deposits	7,812,725	37,213	1.89	7,598,59
Funds purchased and repurchase agreements	1,458,245	5,048	1.38	1,565,92
Other borrowings	1,003,050	4,615	1.83	1,009,87
Subordinated debentures	152,333	1,766	4.61	152,79
Total interest-bearing liabilities	10,426,353	48,642	1.86	10,327,18
Demand deposits	1,839,311			1,799,24
Other liabilities	501,323			452,78
Shareholders' equity	1,295,510			1,275,10
Total liabilities and shareholders' equity	$ 14,062,497			$ 13,854,32
Tax-Equivalent Net Interest Revenue (3)		$ 109,505	3.20%	
Tax-Equivalent Net Interest Revenue To Earning Assets (3)			3.50	
Less tax-equivalent adjustment (1)		1,120		
Net Interest Revenue		108,385		
Provision for loan losses		4,986		
Other operating revenue		81,086		
Other operating expense		114,202		
Income Before Taxes		70,283		
Federal and state income tax		22,501		
Net Income		$ 47,782		
Earnings Per Share:				
Net income:				
Basic		$ 0.79		
Diluted		$ 0.72		

(1) Tax equivalent at the statutory federal and state rates for the periods presented. The taxabl
are for comparative purposes.
(2) The loan averages included loans on which the accrual of interest has been discontinued and a
(3) Yield calculations exclude security trades that have been recorded on trade date with no corr

35

Three Months Ended						
March 31, 2004			December 31, 2003			Sept
Average Balance	Revenue/ Expense(1)	Yield /Rate	Average Balance	Revenue/ Expense(1)	Yield /Rate	Average Balance

$ 4,594,690	$ 47,516	4.22%	$ 4,421,278	$ 45,838	4.08%	$ 4,360,340
193,808	2,886	5.99	189,829	2,958	6.19	186,827
4,788,498	50,402	4.29	4,611,107	48,796	4.17	4,547,167
15,499	226	5.86	17,325	147	3.37	27,830
7,995	39	1.96	26,730	65	0.96	32,491
7,494,713	96,867	5.20	7,359,126	96,059	5.18	7,122,211
132,494	-	-	129,445	-	-	125,966
7,362,219	96,867	5.29	7,229,681	96,059	5.27	6,996,245
12,174,211	147,534	4.90	11,884,843	145,067	4.83	11,603,733
1,357,791			1,342,042			1,252,896
$ 13,532,002			$ 13,226,885			$ 12,856,629
$ 3,819,981	$ 7,583	0.80%	$ 3,886,546	$ 7,377	0.75%	$ 3,715,035
174,958	243	0.56	179,867	255	0.56	170,796
3,395,785	24,991	2.96	3,442,358	25,094	2.89	3,423,920
7,390,724	32,817	1.79	7,508,771	32,726	1.73	7,309,751
1,675,722	3,964	0.95	1,679,540	3,921	0.93	1,529,721
1,010,414	4,013	1.60	1,031,414	3,815	1.47	1,062,734
154,175	2,336	6.09	154,524	2,216	5.69	154,865
10,231,035	43,130	1.70	10,374,249	42,678	1.63	10,057,071
1,643,638			1,370,088			1,323,641
406,461			284,432			314,583
1,250,868			1,198,116			1,161,334
$ 13,532,002			$ 13,226,885			$ 12,856,629
	$ 104,404	3.20%		$ 102,389	3.20%	
						3.05
		3.47			3.41	
	1,197			1,184		
	103,207			101,205		
	7,027			8,001		
	79,820			71,051		
	116,448			108,746		
	59,552			55,509		
	20,400			20,207		
	$ 39,152			$ 35,302		
	$ 0.66			$ 0.59		

$ 0.59	$ 0.53

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, 2004.

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, 2004 to July 31, 2004	193	$ 40.05	-
August 1, 2004 to August 31, 2004	1,526	$ 41.81	-
September 1, 2004 to September 30, 2004	16,264	$ 45.54	-
Total	17,983		-

(1) The Company has 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 the plan, the Company may repurchase up to 800,000 shares of its common stock. To date, the Company has repurchased 608,942 shares under this 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.

37

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, 2004

/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