Management's Assessment of Operations and Financial Condition

BOK Financial Corporation ("BOK Financial") is a financial holding company that offers full service banking in Oklahoma, Northwest Arkansas, Dallas and Houston, Texas metropolitan areas and New Mexico. BOK Financial's principal subsidiaries are Bank of Oklahoma, N.A., ("BOk"), Bank of Texas, N.A., Bank of Albuquerque, N.A., and Bank of Arkansas, N.A. Other subsidiaries include BOSC, Inc., a broker/dealer that engages in retail and institutional securities sales and municipal underwriting.

Assessment of Operations

Summary of Performance

BOK Financial recorded net income of $116.3 million or $2.01 per diluted share for 2001 compared to $100.1 million or $1.75 per diluted share for 2000. Prior years' earnings per share have been restated to reflect a 3% stock dividend in 2001. Returns on average assets and average equity were 1.14% and 14.93%, respectively, for 2001 compared to 1.15% and 16.46%, respectively, for 2000. Net income in 2000 included a $3.0 million reduction in income tax expense due to favorable resolution of an Internal Revenue Service examination. Diluted earnings per share were $1.69, return on equity was 16.05%, and return on average assets was 1.12% excluding this resolution.

Net interest revenue grew $57.9 million or 22% during 2001 due primarily to an increase in average earning assets of $1.4 billion. Fees and commissions revenue grew $35.7 million or 18%, which included increases in all major categories of fee income compared to 2000. Gain on sales of securities included gains on sales of securities used as an economic hedge of the mortgage-servicing portfolio. The net impact of these sales and the provision for impairment of the mortgage-servicing portfolio was a gain of $2.8 million. Excluding the securities gains on this hedge, net gains on sales of securities were $17.9 million. Operating expenses increased $32.5 million or 11% excluding $20.7 million from Citizens National Bank of Texas ("CNBT"), which was acquired in January 2001 and $15.6 million provision for impairment of mortgage servicing rights. The provision for loan loss increased $20.4 million to $37.6 million.

Net income for the fourth quarter of 2001 was $30.1 million or $0.52 per diluted common share, an increase of 18% over the same period of 2000. These increases included an increase of $17.8 million or 26% in net interest revenue and a $10.6 million or 20% increase in fees and commissions. These increases were partially offset by a $17.2 million or 23% increase in other operating expense, excluding provisions for impairment of mortgage servicing rights. This increase was due primarily to amortization of mortgage servicing rights.

Net income for 1999 was $89.2 million or $1.55 per diluted common share. Returns on average assets and equity were 1.17% and 16.45%, respectively.

Net Interest Revenue

Tax equivalent net interest revenue totaled $334.8 million for 2001 compared to $276.7 million for 2000. The increase in net interest revenue was primarily due to an increase in average earning assets. Average earning assets increased by $1.4 billion during 2001, most notably average loan growth of $1.1 billion. This growth in loans improved the mix of earning assets since loans generally have higher yields than other types of earning assets. Average loans now comprise 65% of average earning assets compared to 63% in 2000. The growth in average earning assets was funded by a $1.2 billion increase in interest-bearing liabilities, including an $845 million increase in interest-bearing deposits. Table 2 reflects the effect on net interest revenue of changes in average balances and interest rates for the various types of earning assets and interest-bearing liabilities.

Net interest margin, the ratio of net interest revenue to average earning assets, increased from 3.56% in 2000 to 3.64% in 2001. This increase reflects the effect of changes in interest rates on BOK Financial's earning assets and interest-bearing liabilities. BOK Financial's interest-bearing liabilities react more quickly to changes in interest rates than its earning assets, causing the net interest margin to increase during periods of declining interest rates. Management expects the favorable effect of declining interest rates to moderate as yields on earning assets decline and as overall market rates stabilize.