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BOK Financial Corp. (Holding Company)

BOKF N.A. (Lead Bank)

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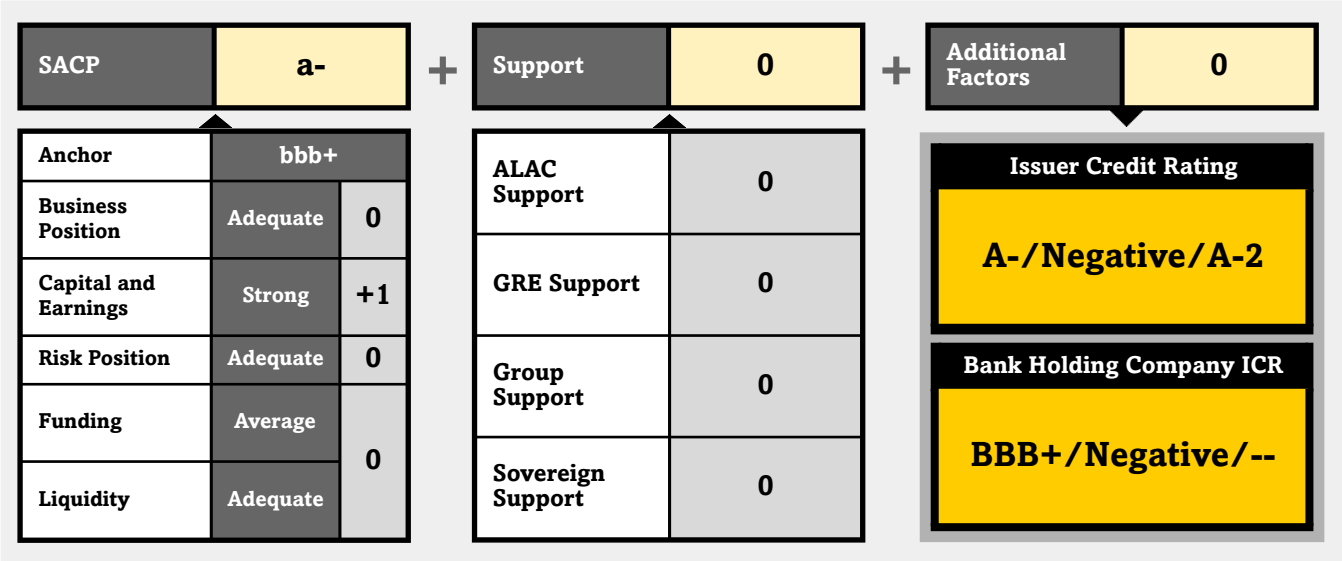
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BOK Financial Corp. (Holding Company)

BOKF N.A. (Lead Bank)



Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> History of strong credit quality, conservative lending policies, and no quarterly net losses Diversified revenue stream, with a stable and very large contribution from fee income Good base of low-cost and non-interest-bearing deposits 	<ul style="list-style-type: none"> Acquisitive business strategy and higher dividends that are a headwind to growth of capital Limited, though improving, geographic diversification High percentage of loans to energy producers, an area that has experienced extreme volatility in recent years

Outlook: Negative

S&P Global Ratings' outlook on BOK Financial (BOK) is negative, based on our concerns that its risk-adjusted capital (RAC) ratio might not rebound sustainably above 10% over the next two years. Although the company's regulatory capital ratios are still high relative to peers', those ratios could face headwinds, including the expected impact from a recently closed acquisition, higher dividends, and the possibility of stock repurchases.

We could lower the ratings on BOK within the next two years if we determine the RAC ratio is unlikely to rebound and remain above 10%. Additionally, if unexpected asset quality problems arrive, we could lower our ratings on the bank.

If BOK successfully integrates its acquisition of CoBiz Financial, the RAC ratio rises and stays above 10%, and the bank maintains strong regulatory capital levels and asset quality and continues to generate strong earnings, we could revise the outlook to stable.

Rationale

Our ratings on BOK reflect the company's consistent profitability and maintenance of strong capital ratios over three decades, diversified revenue stream, and management stability. Counterbalancing these rating strengths are the bank's geographic concentration and the high proportion of energy loans to total loans of 17% as of June 30.

Our view of BOK's business position reflects its limited geographic diversity and its heightened exposure to risky assets such as energy exploration and production loans. These factors are partially offset by its good mix of revenues and track record of stable credit quality. Our capital and earnings assessment is centered on our projection that capital ratios will gradually rebound to strong levels, the company's strong quality of capital, and its historically good earnings performance. Our view of BOK's risk position balances its relatively high exposure to energy lending with its strong asset quality and a history of relatively low loan losses. BOK's liquidity and funding assessments are based on its solid core deposit base and liquid balance sheet.

Anchor: Reflects the highly competitive, diverse U.S. economy

Our criteria use the Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor stand-alone credit profile (SACP), the starting point for an issuer credit rating.

Our anchor for a bank operating mainly in the U.S. is 'bbb+', based on an economic risk score of '3' and an industry risk score of '3'. We view the trends for both economic risk and industry risk as stable. The diversified, high-income, and resilient U.S. economy underpins our assessment of economic risk. However, lending areas that have grown quickly in recent years--such as auto and corporate lending--represent potential risks. Our view of industry risk in the U.S. balances the regulatory enhancements made since the financial crisis, its high levels of core deposits, and deep capital markets against the risks and competition in the country's large nonbank financial system.

Table 1

BOK Financial Corp. Key Figures					
--Year-ended Dec. 31--					
(Mil. \$)	2018*	2017	2016	2015	2014
Adjusted assets	33,463.0	31,924.0	32,634.6	31,075.8	28,745.0
Customer loans (gross)	18,181.9	17,330.5	17,433.8	16,206.0	14,476.5
Adjusted common equity	3,035.4	2,883.5	2,835.1	2,835.7	2,873.7
Operating revenues	749.3	1,500.9	1,381.2	1,341.0	1,271.2
Noninterest expenses	466.1	975.7	980.6	874.6	836.8
Core earnings	222.8	353.9	238.9	294.5	298.9

*Data as of June 30.

Business position: Diversified business mix and improving geographical diversity

BOK has a stable market position, a diverse stream of revenues, and a conservative management team. These strengths are partly counteracted by the company's high lending concentration in energy and limited geographical diversity.

We consider BOK's revenue stability to be good since it operates as a relationship-based commercial lender, with a wide offering of fee-based products, including fiduciary and asset management (almost 11% of 2017 revenues), brokerage and trading revenue (nearly 9%), transaction card revenues (8%), deposit service charges (nearly 7%), and mortgage banking (7%). Total noninterest revenue, including some gains and losses, was roughly 45% of total net revenues in 2017, well above most peers.

BOK's lending portfolio is diversified across lending types, with commercial real estate (20% of gross loans as of June 30, 2018), energy (17%), services (17%), residential mortgages and personal lending (17%), retail, manufacturing, and other (15%), and health care (14%). We expect these concentrations to be fairly stable over the next two years, with a possibility that energy lending could expand materially, if line utilization increases in response to higher energy production activities.

The bank is relatively concentrated geographically across its eight-state footprint, as loans to businesses and individuals in Oklahoma were about 20% of the total, and loans in Texas represented approximately 33% of the company's total loan portfolio.

BOK is broadening, making selective bank and nonbank acquisitions outside of its Oklahoma and Texas core. In June 2018, BOK announced a merger agreement with CoBiz Financial, a commercial lender with roughly \$3.8 billion in assets. This acquisition represents about an 11% addition to BOK's assets at June 30, 2018. Based in Denver, Colorado, CoBiz does not have significant energy loan exposures, and therefore we expect some positive lending and geographical diversification for BOK from this merger.

We think BOK's management takes a long-term view for the company--a positive, in our view. George Kaiser, the chairman of BOK, currently holds 60% of the company, and we view his large private ownership stake as a positive rating factor.

Table 2

BOK Financial Corp. Business Position					
	--Year-ended Dec. 31--				
(%)	2018*	2017	2016	2015	2014
Loan market share in country of domicile	0.2	0.2	0.2	0.2	N/A
Deposit market share in country of domicile	0.2	0.2	0.2	0.2	N/A
Total revenues from business line (mil. \$)	749.9	1,501.3	1,381.6	1,344.1	1,272.0
Commercial & retail banking/total revenues from business line	79.4	78.0	78.3	78.5	77.6
Trading and sales income/total revenues from business line	2.2	5.7	5.8	6.1	7.3
Corporate finance/total revenues from business line	1.3	1.7	2.5	2.2	1.5
Brokerage/total revenues from business line	0.9	1.0	1.2	1.1	1.8
Insurance activities/total revenues from business line	0.5	1.2	1.5	1.5	1.6
Agency services/total revenues from business line	10.5	10.2	9.2	8.7	9.1
Payments and settlements/total revenues from business line	5.3	2.2	1.6	1.9	1.1
Investment banking/total revenues from business line	3.5	7.4	8.2	8.3	8.8
Return on average common equity (%)	12.5	9.9	7.2	8.8	9.3

*Data as of June 30. N/A--Not applicable.

Capital and earnings: Strong earnings with above-peer retention

BOK maintains a strong capital position, supported by a history of good earnings performance and above-peer retention of earnings. Although BOK's RAC ratio declined to roughly 9.1% as of June 30, 2018, we project that the RAC ratio will rebound to above 10% by the end of 2020. This is based on our assumption that a widening net interest margin, low provision expense, and lower tax rate will allow the company to continue to generate strong profits. In addition, the company has historically paid out only about 50% of earnings for dividends and share buybacks, a lower-than-peers proportion, which we expect will allow BOK's capital ratios to rise gradually over time.

The Oct. 1, 2018, closing of the merger with CoBiz Financial will affect BOK's regulatory capital ratios. Specifically, BOK estimates the merger will reduce the Tier 1 capital ratio, which stood at 11.92% at June 30, 2018, by 70 basis points. We project BOK's capital ratios, including our RAC calculation, will bounce back on higher earnings, and retention in line with historical rates. We expect this will offset slowly rising dividends as well as the possibility of occasional share buybacks under an existing authorization.

As of June 30, 2018, BOK's regulatory ratios were well above regulatory minimum requirements for a well-capitalized institution: the common equity Tier 1 ratio was 11.92%, the Tier 1 leverage ratio was 9.57%, and the total risk-based capital ratio was 13.26%. BOK's tangible equity-to-tangible assets ratio was in line with peers', at 9.21% on June 30. We view BOK's quality of capital as strong since BOK does not have preferred stock.

Over the last 10 years, BOK has paid out dividends of 36% of net income available to common and has conducted share repurchases of just over 14% of earnings, for a total payout just shy of 51%. In the last 12 months, BOK has paid out just 35% of net income, with a 31% dividend payout ratio, and share repurchases of 4% of profits. We view these total payout ratios as well below peers, and we expect the payouts to remain low over our two-year forecast horizon. BOK has a 2.0 million share repurchase authority outstanding and expects to increase its dividend by one cent annually. If BOK exhausts this share repurchase authority in the two years following the merger, we calculate the total

payout will be 42% of our profit forecast, a relatively low rate that should allow the capital ratios to rebuild.

BOK's profitability compares well with regional banking peers. The profit margin over the past 12 months was 24.4% of revenues, core earnings to operating revenues was 29.7% in 2018 to date, and return on assets was 1.36%, all of which are in line with peers. Profits grew 44% in 2017, and we project a 28% increase in 2018, driven by 3.4% revenue growth, flat noninterest expenses, low provisions for loan losses, and especially by a 31% decrease in the income tax expense. Beyond, we expect 12% annual profit growth in the two years ending 2020, with 10% revenue growth, helped by the CoBiz merger.

Table 3

BOK Financial Corp. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2018*	2017	2016	2015	2014
Tier 1 capital ratio	11.9	12.1	11.2	12.1	13.3
S&P Global Ratings' RAC ratio before diversification	9.1	9.5	8.9	9.7	10.4
S&P Global Ratings' RAC ratio after diversification	8.0	8.3	8.6	9.4	9.9
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Double leverage	96.9	98.1	99.1	90.8	84.1
Net interest income/operating revenues	61.3	56.1	54.1	52.5	52.3
Fee income/operating revenues	31.4	32.1	30.8	30.3	31.1
Market-sensitive income/operating revenues	4.1	9.0	11.3	12.6	12.2
Noninterest expenses/operating revenues	62.2	65.0	71.0	65.2	65.8
Preprovision operating income/average assets	1.7	1.6	1.2	1.5	1.5
Core earnings/average managed assets	1.3	1.1	0.7	1.0	1.1

*Data as of June 30.

Risk position: Long history of high credit quality and low net charge-offs

We view BOK's risk position as adequate relative to other regional banks, balancing a history of relatively low credit losses against large current exposures to energy (17% of loans) and construction (5.5% of loans) as of June 30, as well as relatively high loan growth over the years. BOK also has a large shared national credit (SNC) portfolio of \$3.9 billion (15.5% of lending at June 30), as well as a securities portfolio, which is heavily weighted in residential mortgage-backed securities.

BOK's current credit quality and allowance levels are strong. Excluding government-guaranteed nonperforming loans, nonaccrual loans represented just 0.96% of loans as of June 30, 2018. The reserve for loan losses stood at \$215 million (1.20% of loans), buttressing capital and covering nonaccrual loans of \$165 million by 1.3x--adequate, in our view. The company reported net charge-offs of 16 basis points over the last four quarters, low relative to peers and to industry historical norms.

BOK's through-the-cycle credit performance has also been very good. The company has not reported a yearly or quarterly loss over at least the past 25 years, including during the financial crisis of 2008-2009, as well during the severe energy price downturn of early 2016. Maximum annual net charge-offs in the last decade were \$138 million in 2009, equal to a manageable 1.07% of loans, and the peak loan loss provision was just under \$203 million in 2008. The

company did not record a net profit loss during these periods of stress. In addition, during the energy-price downturn of 2016, the company recorded net charge-offs of just under \$35 million and provisions of \$65 million.

BOK, in our view, carries somewhat higher risk from its investment securities portfolio. Because of the size of its securities portfolio, which represented about 33% of total assets at June 30, and its heavy weighting in residential mortgage-backed securities (RMBS), we view BOK's vulnerability to extension risk when rates rise as somewhat higher than that at the typical regional bank.

BOK's securities portfolio consists primarily of RMBS and commercial mortgage-backed securities (CMBS), the majority of which are issued by U.S. government agencies. Approximately 65% of the available-for-sale portfolio consists of RMBS and 32% of CMBS fully backed by U.S. government agencies.

The company manages interest rate exposure to remain fairly neutral to boosts in rates. As of June 30, 2018, BOK estimates that a 200-basis-point increase in rates would increase net interest income by 0.11%, while a 50-basis-point decline in rates would lower net interest revenues by 1.75%.

Table 4

BOK Financial Corp. Risk Position					
	--Year-ended Dec. 31--				
(%)	2018*	2017	2016	2015	2014
Growth in customer loans	9.8	(0.6)	7.6	11.9	11.8
Total diversification adjustment / S&P Global Ratings' RWA before diversification	13.1	14.5	N/A	N/A	N/A
Total managed assets/adjusted common equity (x)	11.2	11.3	11.7	11.2	10.2
New loan loss provisions/average customer loans	(0.0)	0.0	0.3	0.2	0.0
Net charge-offs/average customer loans	0.1	0.1	0.2	(0.0)	(0.0)
Gross nonperforming assets/customer loans + other real estate owned	1.8	2.1	2.4	2.0	2.5
Loan loss reserves/gross nonperforming assets	67.5	62.9	59.7	67.8	51.9

*Data as of June 30. N/A--Not applicable.

Funding and liquidity: A good core deposit base and strong cash position

BOK has a good funding base and an adequate liquidity position, in our view. The company's primary source of funding is core deposits, which make up 76% of its funding base. Core deposits fully fund the loan portfolio, with a loans-to-core deposits ratio of 80.6%, as of June 30. The company supplements its deposit fund with Federal Reserve funds, Federal Home Loan Bank (FHLB) advances, and securities sold under repurchase agreements. Its S&P Global Ratings' stable funding ratio, which measures a bank's ability to fund long-term assets with long-term funding, was a solid 113% as of June 30, 2018.

BOK's balance sheet is sufficiently liquid, in our view. Loans represented less than 53% of total assets as of June 30, 2018, while investment securities and cash totaled 34%. The company's broad liquid assets, as we define them, cover its short-term wholesale funding by 1.7x. Additional sources of liquidity as of June 30 included \$1.5 billion in cash and cash equivalents, \$1.7 billion in unused borrowing capacity from the FHLB, \$4.0 billion in available capacity from the Fed discount window, and \$1.3 billion in unencumbered securities.

As of June 30, 2018, parent company liquidity was also adequate, with \$241 million in cash. Based on the most

restrictive limitations, as well as management's internal capital policy, lead bank BOKF N.A. could declare up to \$248 million of dividends without regulatory approval.

Table 5

BOK Financial Corp. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2018*	2017	2016	2015	2014
Core deposits/funding base	76.2	78.1	79.1	78.1	84.3
Customer loans (net)/customer deposits	80.6	78.0	76.1	74.7	68.0
Long term funding ratio	78.9	80.7	81.5	80.9	86.8
Stable funding ratio	112.7	118.2	115.8	123.3	136.6
Short-term wholesale funding/funding base	23.2	21.3	20.2	20.9	14.7
Broad liquid assets/short-term wholesale funding (x)	1.7	1.9	1.9	2.0	3.1
Net broad liquid assets/short-term customer deposits	25.1	29.8	28.6	34.4	46.1
Short-term wholesale funding/total wholesale funding	97.5	97.1	96.8	95.6	93.5

*Data as of June 30.

Support: None

We do not factor any external support into the ratings on BOK.

Additional rating factors: None

We do not include any additional factors in our analysis.

Related Criteria And Research

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004

Related Research

- Rating Component Scores For U.S., Canadian, And Bermudian Banks (September 2018), Sept. 28, 2018
- Why The Surge In Loans To Nonbank Financial Institutions Is Unlikely To Spell Major Trouble For U.S. Banks, Sept. 13, 2018

- Industry Report Card: U.S. Regional Banks' Second-Quarter Profits Surge On Higher Net Interest Margins and Substantially Lower Tax Rates, Aug. 12, 2018
- U.S. Bank Interest-Rate Sensitivity Tracker: Betas Begin To Climb, July 12, 2018
- How An Accounting Change For U.S. Banks Could Affect Reserves And Ratings, June 1, 2018
- Amid Regulatory Change And Rising Rates, Will U.S. Banks Adjust Their Risk Appetites?, May 21, 2018

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of October 10, 2018)

BOK Financial Corp.

Issuer Credit Rating BBB+/Negative/--
Subordinated BBB

Issuer Credit Ratings History

09-Feb-2016 *Foreign Currency* BBB+/Negative/--
29-Jan-2015 A-/Negative/--
15-May-2013 A-/Stable/--
09-Feb-2016 *Local Currency* BBB+/Negative/--
29-Jan-2015 A-/Negative/--
15-May-2013 A-/Stable/--

Sovereign Rating

United States AA+/Stable/A-1+

Related Entities

BOKF N.A.

Issuer Credit Rating A-/Negative/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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