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BOK Financial Corp. (Holding Company)

BOKF N.A. (Lead Bank)

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SACP	a-	+	Support	0	+	Additional Factors	0

Anchor	bbb+	
Business Position	Adequate	0
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
A-/Negative/A-2

Bank Holding Company Rating
BBB+/Negative/--

Major Rating Factors

Strengths:

- Diversified revenue stream, with 48% contribution from fee income
- Good base of non-interest-bearing deposits and low-cost deposits
- History of strong credit quality and no quarterly losses

Weaknesses:

- High percentage of energy loans
- Limited geographic diversification
- Heightened sensitivity to interest rate risk relative to peers

Outlook: Negative

The negative outlook on BOK Financial Corp., a regional bank holding company based in Tulsa, Okla., is based on the company's recently declining capital ratios and its exposure to energy lending that remains higher than peers'. Although the company's regulatory capital ratios are still high relative to peers'--something we historically have recognized as a key strength--those ratios have fallen in the last three years. This resulted from several factors, including large stock repurchases plus a small acquisition. In addition, our risk-adjusted capital (RAC) ratio has dipped below 10%, and we could lower the ratings on BOK in the next two years, and perhaps sooner, if we determine that it's unlikely the RAC ratio will rebound and rise to 10% or higher.

We could also lower the ratings if BOK's energy portfolio significantly expands, if energy prices decline, or if the Oklahoma or Texas economies weaken. Positively, the company has made progress in reducing its energy exposure--it is mostly exposed to energy production loans, which we view as lower risk than energy services loans--and it has a good track record of managing credit risk. Still, the company has greater direct energy exposure than any other U.S. bank we rate, and we believe an unexpected drop in oil prices could lead to higher credit losses. Its concentrations in Oklahoma and Texas also expose it indirectly to any deterioration in energy prices.

Alternatively, if energy markets stabilize and BOK maintains strong capital levels, above-average asset quality measures, and stable earnings, we could revise the outlook to stable.

Rationale

Our ratings on BOK reflect the company's consistent profitability over more than two decades, diversified mix between spread and non-spread revenues, management stability, and relatively high regulatory capital ratios. Offsetting these rating strengths are its geographic concentration in Oklahoma and Texas, as well as its large exposure to energy-related loans.

BOK has good business and revenue mix, solid performance relative to peers', and a superior market position in Oklahoma, which support its business position. We expect that it will maintain its strong regulatory capital ratios and generally good earnings performance over the next several years, though its RAC ratio, based on our measure, has dipped below 10%. Its large concentration in energy loans weighs on its risk position, though this is balanced by its track record of conservative underwriting and robust asset quality. In addition, BOK has a solid core deposit base and liquid balance sheet.

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

Our criteria use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor stand-alone credit profile, 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.

We view the U.S. as a diversified, high-income economy, with an adaptable and resilient economic structure. We believe the U.S. continues in an expansionary phase, and households appear to have moved beyond their multiyear deleveraging phase and are slightly more receptive to taking on debt, albeit more cautiously than in prior cycles. Our view of credit risk in the economy factors in our expectation that when interest rates normalize, we believe latent loan loss could emerge in banks corporate loan books, from levels that are presently exceptionally low.

Since the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act's passage, we believe the new regulations are reshaping the competitive environment for banks, and that a more stringent focus by U.S. regulators on qualitative factors (for example, risk management and governance) as well as on forward-looking post-stress capital ratios will continue to constrain banks' risk appetite. We view funding risk favorably because U.S. banks typically benefit from a high and stable share of core deposits and deep capital markets. Our assessment of industry risk also considers the ongoing constraints to competitive dynamics from a sizable nonbank sector and the continued prominence of the government-sponsored entities.

Table 1

BOK Financial Corp. Key Figures

		--Year-ended Dec. 31--			
(Mil. $)	**2016***	**2015**	**2014**	**2013**	**2012**
Adjusted assets	32,495.7	31,075.8	28,745.0	26,646.5	27,755.0
Customer loans (gross)	16,873.3	16,206.0	14,476.5	12,947.0	12,551.9
Adjusted common equity	2,925.9	2,835.7	2,873.7	2,702.3	2,448.4
Operating revenues	1,065.1	1,341.0	1,271.2	1,287.6	1,356.6
Noninterest expenses	738.3	874.6	836.8	839.5	826.8
Core earnings	187.5	294.5	298.9	320.0	356.2

*Data as of Sept. 30.

Business position: Strong market position in Oklahoma and diversified business mix

BOK has a stable market position, consistent performance, and strong management and strategy. Despite rapid growth, and several economic downturns, BOK has not reported a yearly or quarterly loss over the past 25 years, including during the severe downturn of 2008-2009.

BOK offers a diversified mix of credit, depository, and related financial services. It operates predominantly as a relationship-based commercial lender, with a niche in energy lending, which accounted for a relatively high 15% of its total loan book at year-end 2016. The company also has several nonbank businesses, including broker/dealer, wealth management, and trust operations, which diversify its revenue mix.

The company operates through seven banking divisions in eight states. The bulk of BOK's business is based in Oklahoma, where it has a No. 1 market position in deposits, commercial banking, consumer banking, and electronic funds transfer. As of Dec. 31, 2016, loans to businesses and individuals with collateral primarily located in Texas represented approximately 32% of the total loan portfolio, and loans to businesses and individuals in Oklahoma were about 21% of the total. Much of BOK's loan and deposit growth over the past five years has come from markets outside Oklahoma as management has worked to diversify its business and geographic exposure.

Management has grown its franchise mostly organically, as well as, as necessary, through smaller nonbank or regional bank acquisitions located in faster-growing markets such as Dallas-Fort Worth, Houston, Denver, Phoenix, and Kansas City, Mo. In late 2016, BOK closed the acquisition of MBT Bancshares, a $645 million asset bank based in Kansas City, for an all-cash price of $103 million. Earlier activity included the March 2016 acquisition of Weaver Wealth

Management, a wealth management company based in Fort Worth, Texas, with $340 million in assets under management, and the 2016 purchase of E-Spectrum Advisors, a Dallas-based energy mergers and acquisitions adviser.

George Kaiser, chairman of BOK, currently holds 61% of the company, which he bought in the early 1990s, in a Federal Deposit Insurance Corp.-assisted transaction. We view his large private ownership stake as a positive rating factor since Mr. Kaiser has focused the bank's management on its long-term prospects rather than on quarterly earnings. He does not draw a salary and keeps more than half of his personal wealth outside of the bank. The George Kaiser Family Foundation holds another 5% of the company in a family foundation that is not of direct benefit to the Kaiser family but was set up to support the Tulsa Community Foundation.

Table 2

BOK Financial Corp. Business Position					
		--Year ended Dec. 31--			
(%)	**2016***	**2015**	**2014**	**2013**	**2012**
Loan market share in country of domicile	0.2	0.2	N/A	0.2	0.2
Deposit market share in country of domicile	0.2	0.2	N/A	0.2	0.2
Total revenues from business line (currency in millions)	1,065.4	1,344.1	1,272.0	1,291.1	1,357.9
Commercial and retail banking/total revenues from business line	80.2	78.5	77.6	78.7	81.2
Trading and sales income/total revenues from business line	7.9	6.1	7.3	7.1	7.2
Corporate finance/total revenues from business line	2.6	2.2	1.5	0.7	3.7
Brokerage/total revenues from business line	1.2	1.1	1.8	0.8	0.5
Insurance activities/total revenues from business line	1.5	1.5	1.6	1.4	0.6
Agency services/total revenues from business line	8.8	8.7	9.1	7.4	5.9
Payments and settlements/total revenues from business line	(2.1)	1.9	1.1	3.9	0.9
Investment banking/total revenues from business line	10.5	8.3	8.8	7.7	10.9
Return on equity	7.3	8.8	9.3	10.6	12.3

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

Capital and earnings: Strong, but declining, regulatory capital ratios

We view BOK's capital and earnings as strong, reflecting its high regulatory capital ratios and solid earnings performance over a long period of time.

BOK's capital ratios are high, with tangible common equity to tangible assets of 8.61% and common equity Tier 1, leverage, and total risk-based ratios of 11.21%, 8.72%, and 12.81%, respectively, as of Dec. 31, 2016.

However, BOK's regulatory ratios fell from year-end 2015 and from year-end 2014, after peaking at year-end 2013. One reason has been that BOK's dividend payouts have been relatively high, at 49% of profits in 2016. Second, BOK stepped up its share repurchases, with $67 million of shares bought back in 2016 (1.01 million shares, equal to a 1.6% reduction in shares) and $230 million in 2015 (3.63 million shares, a 5.4% reduction), following years of very limited repurchases. At year-end 2016, BOK had 2.12 million of shares left on its October 2015 authorization. Third, BOK expended $103 million in capital to close the December 2016 acquisition of MBT Bancshares. Finally, BOK's net profits fell 20% in 2016 to $233 million, from $289 million in 2015, because of higher expenses and provisions, negatively affecting capital generation.

For these reasons, BOK's RAC ratio was 9.74% as of Sept. 30, 2016. We expect that BOK will limit share repurchases in 2017, which could lead to rebuilding of capital. We also expect the company to maintain a healthy capital position commensurate with its balance sheet growth over the next two to three years. BOK does not have holding company double leverage, a positive for its capital.

In our view, BOK's profitability compares favorably with that of regional banking peers. BOK's revenues are less reliant on spread income, with net interest revenues generating 52% of net revenues in 2012-2016. Although the company's net interest margin (NIM) remains relatively low, at 2.66% in 2016, up from 2.60% in 2015--reflecting the high proportion of lower-yielding securities on its balance sheet as well as low interest rates--net interest revenues have been generally stable as the company has increased its total balance of earning assets. We expect the NIM to remain lower than average as the company's large book of securities constrains full returns. Noninterest income represents about half of revenue and includes the contribution of strong brokerage, trust, and mortgage banking income, as well as solid contributions from transaction card and deposit fees. The company's efficiency ratio is typically 60%-65%. BOK's net earnings over the past several years benefited from its good credit quality performance, resulting in no provisions for loan losses in 2010-2014. Provisions rose to $34 million in 2015 and $65 million in 2016. Based on improving energy lending credit quality, we expect provisions to recede to $20 million in 2017.

Table 3

BOK Financial Corp. Capital And Earnings					
		--Year ended Dec. 31--			
(%)	**2016***	**2015**	**2014**	**2013**	**2012**
Tier 1 capital ratio	12.0	12.1	13.3	13.8	12.8
S&P Global Ratings RAC ratio before diversification	9.6	9.7	10.4	10.8	10.2
S&P Global Ratings RAC ratio after diversification	9.2	9.4	9.9	10.3	9.8
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Double leverage	93.9	90.8	84.1	80.4	83.4
Net interest income/operating revenues	51.9	52.5	52.3	52.4	51.9
Fee income/operating revenues	26.1	30.3	31.1	30.4	25.3
Market-sensitive income/operating revenues	14.9	12.6	12.2	13.1	18.6
Noninterest expenses/operating revenues	69.3	65.2	65.8	65.2	60.9
Preprovision operating income/average assets	1.4	1.5	1.5	1.6	2.0
Core earnings/average managed assets	0.8	1.0	1.1	1.2	1.3

*Data as of Sept. 30.

Risk position: Large exposure to energy loans

We believe BOK's risk position is adequate relative to other regional banks, and as with most regional banks, the primary risk BOK faces is credit risk. In addition, because of the size of its securities portfolio, which represented 30% of total assets as of Dec. 31, 2016, and its heavy weighting in residential mortgage-backed securities (RMBS), we view BOK's vulnerability to extension risk amid a rising rate as somewhat higher than that at the typical regional bank.

The company's loan portfolio represented 52% of assets as of year-end 2016. The portfolio is made up of 61% commercial loans, 22% commercial real estate loans, 12% residential real estate, and 5% other consumer loans. BOK has a niche in energy lending, with energy loans accounting for 15% of total loans, or 7.6% of total assets (71% of the sum of equity and reserves), at year-end 2016. Approximately 80% of this portfolio consists of loans to oil and gas producers, and the balance is wholesale and retail sales, services, and manufacturing. Other significant commercial loan types are services (18% of total loans), which include loans to a variety of businesses such as governmental, finance, insurance, educational, services, religious and similar entities, health care, and wholesale.

BOK has a large shared national credit (SNC) portfolio of $3.7 billion, nearly 22% of loans. Banking regulators define SNCs as credits of more than $20 million and with three or more nonaffiliated banks as participants. The company is the lead bank on 17% of its SNC loans, and substantially all are in local markets where BOK can generate additional business relationships with the customer.

BOK's asset quality through the cycle has been strong compared with other regional banks'. Excluding government-guaranteed nonperforming loans, nonaccrual loans represented a healthy 1.36% of loans at year-end 2016. Reserves of $246 million (1.45% of loans) buttress capital and cover nonaccrual loans by 1.1x. The company reported net charge-offs of 21 basis points in 2016, low relative to the peer average of about 30 basis points. In 2015, BOK recorded a net recovery of 2 basis points.

The company has been slightly reducing the size of its securities portfolio to fund loan growth and reduce its interest rate risk. Even so, BOK's securities portfolio accounts for a relatively high 30% of its total assets. We believe the large securities portfolio, as a percentage of earning assets, is introducing additional risk as rates rise. The 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. Management estimates that the duration of the RMBS portfolio is about 3.1 years and that it would extend to 3.4 years assuming an immediate 200-basis-point upward shock in rates. The company manages interest rate exposure to remain fairly neutral to shifts in rates. Currently, management estimates a 200-basis-point increase in rates would decrease net interest income by 0.60%, and a 50-basis-point decline in rates would lower net interest revenues by 2.19%.

Table 4

BOK Financial Corp. Risk Position

		--Year ended Dec. 31--			
(%)	**2016***	**2015**	**2014**	**2013**	**2012**
Growth in customer loans	5.5	11.9	11.8	3.1	10.0
Total diversification adjustment/S&P Global Ratings RWA before diversification	4.0	4.0	4.7	4.6	3.5
Total managed assets/adjusted common equity (x)	11.3	11.2	10.2	10.1	11.6
New loan loss provisions/average customer loans	0.4	0.2	0.0	(0.2)	(0.1)
Net charge-offs/average customer loans	0.3	(0.0)	(0.0)	0.0	0.1
Gross nonperforming assets/customer loans plus other real estate owned	2.4	2.0	2.5	2.7	3.0
Loan loss reserves/gross nonperforming assets	59.7	67.8	51.9	51.9	56.5

*Data as of Sept. 30.

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

BOK's ratio of customer loans to customer deposits as of Sept. 30 was 80%, below the peer group average of 88%, which is a positive, in our view. BOK's ratio of customer loans to nonbrokered deposits was 84%, below the peer average of 97%. Brokered deposits to total deposits were 6%, in line with peers' average of 7%. BOK's ratio of uninsured deposits to total deposits was 51%, above the peer average of 41%. BOK's short-term wholesale funding as a percentage of its funding base was 26%, well above the 9% peer average. BOK's stable funding ratio was 114%, in line with the 119% peer average.

Other major sources of funds for BOK include repos and Federal Home Loan Bank advances. As of Dec. 31, 2016, the estimated unused credit available to the subsidiary bank from collateralized sources was approximately $5.1 billion.

BOK's cash, interbank deposits, and investment securities totaling $2.7 billion as of Dec. 31, 2016, were 39% of total assets, above the entire banking industry, which stands at about 34%.

As of Dec. 31, 2016, parent company liquidity was also adequate, with $163 million in cash on hand and annual expenses of less than $3 million. Based on the most restrictive limitations as well as management's internal capital policy, BOKF N.A. could declare up to $171 million of dividends without regulatory approval. In mid-2016, the parent company issued $150 million of subordinated debt maturing June 30, 2056.

Table 5

BOK Financial Corp. Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2016***	**2015**	**2014**	**2013**	**2012**
Core deposits/funding base	73.8	78.1	84.3	89.9	91.5
Customer loans (net)/customer deposits	79.2	74.7	68.0	60.8	55.6
Long term funding ratio	76.8	80.9	86.8	92.4	93.8
Stable funding ratio	113.5	123.3	136.6	151.2	161.0
Short-term wholesale funding/funding base	25.5	20.9	14.7	8.4	6.9
Broad liquid assets/short-term wholesale funding (x)	1.6	2.0	3.1	5.6	7.4
Net broad liquid assets/short-term customer deposits	25.9	34.4	46.1	53.4	59.8
Short-term wholesale funding/total wholesale funding	97.6	95.6	93.5	83.7	80.8

*Data as of Sept. 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

- 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
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004

Related Research

- We Expect Positive Trends That Boosted U.S. Regional Bank Profits In The Fourth Quarter To Continue, Feb. 16, 2017
- Various Rating Actions Taken On Several U.S. Regional Banks With Large Energy Exposures, Feb. 10, 2017
- Funding Has Improved For Most U.S. Banks In Recent Years, But Outliers Deserve Further Consideration, Jan. 23, 2017
- Ratings Component Scores For U.S., Canadian, And Bermudian Banks, Dec. 30, 2016
- Rating Actions Taken On Several U.S. Regional Banks With Large Energy Exposures On Expectation For Higher Loan Losses, Feb. 9, 2016

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 March 10, 2017)

BOK Financial Corp.	
Counterparty Credit Rating	BBB+/Negative/--
Subordinated	BBB
Counterparty Credit Ratings History	
09-Feb-2016	BBB+/Negative/--
29-Jan-2015	A-/Negative/--
15-May-2013	A-/Stable/--
Sovereign Rating	
United States of America	AA+/Stable/A-1+
Related Entities	
BOKF N.A.	
Issuer Credit Rating	A-/Negative/A-2

Ratings Detail (As Of March 10, 2017) (cont.)

*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.