BOK FINANCIAL CORP ET AL

## Form 10-Q

August 08, 2008
As filed with the Securities and Exchange Commission on August 8, 2008

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

FORM 10-Q
(Mark One)
|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR $15(\mathrm{~d})$ OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

OR

I_| TRANSITION REPORT PURSUANT TO SECTION 13 OR $15(\mathrm{~d})$ OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from $\qquad$ to $\qquad$

Commission File No. 0-19341

BOK FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

```
            Oklahoma
    (State or other jurisdiction
of Incorporation or Organization)
        Bank of Oklahoma Tower
            P.O. Box 2300
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            Tulsa, Oklahoma 74192
    (Address of Principal Executive Offices) (Zip Code)
(918) 588-6000
(Registrant's telephone number, including area code)

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

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

```
Large accelerated filer |X| Accelerated filer |_| Non-accelerated filer |_|
    Indicate by check mark whether the registrant is a shell company (as
defined in Rule 12b-2 of the Act). Yes |_| No |X|
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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: $67,415,581$ shares of common stock (\$.00006 par value) as of July 31, 2008.

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BOK Financial Corporation Form 10-Q
Quarter Ended June 30, 2008

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

## Performance Summary

BOK Financial Corporation reported a net loss of $\$ 1.2$ million or $\$ 0.02$ per diluted share for the second quarter of 2008. Net income totaled $\$ 53.9$ million or $\$ 0.80$ per diluted share for the second quarter of 2007 and $\$ 62.3$ million or $\$ 0.92$ per diluted share for the first quarter of 2008 . Net income for the six months ended June 30,2008 totaled $\$ 61.1$ million or $\$ 0.90$ per diluted share. Net income for the six months ended June 30,2007 totaled $\$ 106.7$ million or $\$ 1.58$ per diluted share. The Company recognized $\$ 87.0$ million of pre-tax charges for loan and energy derivative credit exposure to SemGroup LP in the second quarter of 2008. These charges reduced net income by approximately $\$ 57.0$ million or $\$ 0.84$ per diluted share.

Highlights of the second quarter of 2008 included:
o Net interest margin was 3.44\% for the second quarter of 2008 , up 13 basis points from both the second quarter of 2007 and the first of 2008 . Net interest revenue increased $18 \%$ over the second quarter of 2007.
o Average outstanding loans increased $10 \%$ over the second quarter of 2007 . Period-end annualized loan growth rate was $8 \%$ since the end of the first quarter of 2008.
o Non-performing assets totaled $\$ 181$ million or $1.45 \%$ of outstanding loans and repossessed assets at June 30,2008 , up from $\$ 126$ million or $1.02 \%$ of outstanding loans and repossessed assets at March 31, 2008 and $\$ 70$ million or $0.60 \%$ of outstanding loans at June 30, 2007.
o Net loans charged off and provision for credit losses were $\$ 39.0$ million
and $\$ 59.3$ million, respectively, for the second quarter of 2008 , including a $\$ 26.0$ million charge off and a $\$ 26.3$ million provision for SemGroup. Net loans charged off and provision for credit losses were $\$ 8.9$ million and $\$ 17.6$ million, respectively for the first quarter of 2008 . Net loans charged off and provision for credit losses were $\$ 5.8$ million and $\$ 7.8$ million, respectively for the second quarter of 2007.
o Fees and commissions revenue totaled $\$ 63.6$ million for the second quarter of 2008, compared with $\$ 97.0$ million for the second quarter of 2007 and $\$ 113.9$ million for the first quarter of 2008. Brokerage and trading revenue, which is a component of fees and commissions revenue, was reduced by a $\$ 60.7$ million charge to adjust the fair value of energy derivative contracts with SemGroup to their estimated fair value.

Net losses on securities, derivatives used by the Company to manage its interest rate risk and mortgage servicing rights totaled $\$ 9.0$ million for the second quarter of 2008 , compared with net losses of $\$ 1.4$ million for the second quarter of 2007 and net gains on securities, derivatives and mortgage servicing rights of $\$ 5.0$ million for the first quarter of 2008 .

No other than temporary impairment charges against the Company's securities portfolio were recognized in the second quarter of 2008 , compared with charges of $\$ 5.3$ million in the first quarter of 2008 . The Company has no equity investments in FNMA or FHLMC.

Credit Exposure to SemGroup, LP and Related Entities

At June 30, 2008, BOK Financial had credit exposure to SemGroup LP and related entities of approximately $\$ 147$ million consisting of $\$ 97$ million from energy derivative contracts and $\$ 50$ million from loans and loan commitments. BOK Financial is a participant in an approximately $\$ 2.4$ billion working capital and term facility to SemGroup; another commercial bank is the lead lender for this facility. The working capital and term facility is secured by SemGroup's inventory and accounts receivable. All of BOK Financial's energy derivative contracts and $\$ 46$ million of the loans and loan commitments to SemGroup are secured by the working capital facility collateral. The $\$ 34$ million outstanding balance of the working capital loan was reduced by a $\$ 26$ million charge off. Included under the working capital and term facility are $\$ 11$ million of letters of credit. BOK Financial also has a $\$ 4$ million participation interest in an $\$ 806$ million loan secured by SemGroup's fixed and other assets.

On July 22, 2008, SemGroup LP and 24 related entities filed for bankruptcy protection. BOK Financial assessed a range of values for SemGroup using information currently available, including information provided by a nationally recognized financial advisor to SemGroup. The range considers both the value of SemGroup as a reorganized entity (going concern value) and its liquidation value. Based on the lower end of the range of values, BOK Financial recognized a $\$ 26.3$ million charge to increase its provision for loan losses and a $\$ 60.7$ million charge against trading revenue to reduce the estimated fair value of energy derivative contracts.

The Company's net remaining credit exposure to SemGroup at June 30, 2008 totaled approximately $\$ 60$ million, including $\$ 37$ million from energy derivative contracts and $\$ 23$ million of loans and loan commitments. Non-accruing loans include $\$ 12$ million from SemGroup. This amount will increase if the amounts due under the energy derivative contracts, primarily in the third quarter of 2008 , are not paid on their contractual settlement dates. Non-accruing loans may also increase if funding is required of all or some of $\$ 11$ million of letters of credit. Mr. Thomas S. Kivisto, President and CEO of SemGroup, LP resigned from
the Board of Directors of BOK Financial and Bank of Oklahoma, N.A. on July 16, 2008. The Company has no direct credit exposure to Mr. Kivisto.

Results of Operations

Net Interest Revenue and Net Interest Margin

Net interest revenue totaled $\$ 158.9$ million for the second quarter of 2008 , up $\$ 24.0$ million or $18 \%$ over the second quarter of 2007 and $\$ 11.8$ million over the first quarter of 2008. Average earning assets increased $\$ 2.1$ billion or $13 \%$ over the second quarter of 2007, including a $\$ 1.2$ billion increase in average outstanding loans and a $\$ 917$ million increase in average securities. Growth in the securities portfolio generally consisted of highly-rated, fixed-rate mortgage-backed securities. These securities were purchased to take advantage of widened spreads caused by short-term disruptions in the mortgage-backed securities markets.

Growth in average earning assets was funded primarily by a $\$ 1.9$ billion or $48 \%$ increase in average federal funds purchased and other borrowed funds. In addition, average deposits were up $\$ 915$ million or $7 \%$ over the second quarter of 2007. Average interest-bearing transaction accounts grew $\$ 1.3$ billion or $20 \%$ and average time deposits decreased $\$ 431$ million or $10 \%$ compared with the second quarter of 2007. Average demand deposits increased $\$ 41$ million or $3 \%$.

Funds generated by growth in deposits and borrowings were also used to fund a $\$ 667$ million increase in average margin assets. Margin assets are placed by the Company to secure its obligations under various derivative contracts. Margin assets are generally reported as a reduction of the derivative liabilities which they secure on the Company's consolidated balance sheet. Fees earned on margin assets are included in fees and commissions revenue.

Net interest margin was $3.44 \%$ for the second quarter of 2008 compared with $3.31 \%$ for both the second quarter of 2007 and the first quarter of 2008 . Widening of the spread between LIBOR and the federal funds rate increased net interest margin. LIBOR is the basis for interest earned on many of our loans. The federal funds rate is the basis for interest paid on many of our interest-bearing liabilities. Yields on average earning assets decreased 139 basis points to $5.61 \%$ and the cost of interest-bearing liabilities decreased 183 basis points to 2. 29\% compared with the second quarter of 2007 . Loan yields decreased 215 basis points to $5.79 \%$ while securities yields increased 24 basis points to $5.14 \%$. Our securities re-price as cash flow received is reinvested at current market rates. The resulting change in yield on the securities portfolio

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occurs more slowly than changes in market rates. The cost of interest bearing deposits decreased 147 basis points to $2.22 \%$ and the cost of funds purchased and other borrowings decreased 288 basis points. Competition for deposits in all our markets limited our ability to move deposit rates down as interest rates declined. The benefit to the net interest margin from earning assets funded by non-interest bearing liabilities was 12 basis points in the second quarter of 2008 compared with 43 basis points in the second quarter of 2007 and 25 basis points in the preceding quarter.

Management regularly models the interest revenue. Based on this decrease slightly over a one-year such as loan spread compression, composition and the previously the federal funds rate may affect this general expectation.

Our overall objective is to manage the Company's balance sheet to be relatively neutral to changes in interest rates. Approximately 67\% of our commercial and commercial real estate loan portfolios are either variable rate or fixed rate that will re-price within one year. These loans are funded primarily by deposit accounts that are either non-interest bearing, or that re-price more slowly than the loans. The result is a balance sheet that would be asset sensitive, which means that assets generally re-price more quickly than liabilities. Among the strategies that we use to achieve a relatively rate-neutral position, we purchase fixed-rate, mortgage-backed securities to offset the short-term nature of the majority of the Company's funding sources. The liability-sensitive nature of this strategy provides an offset to the asset-sensitive characteristics of our loan portfolio. We also use derivative instruments to manage our interest rate risk. Interest rate swaps with a combined notional amount of $\$ 410$ million convert fixed rate liabilities to floating rate based on LIBOR. The purpose of these derivatives is to position our balance sheet to be relatively neutral to changes in interest rates.

The effectiveness of these strategies is reflected in the overall change in net interest revenue due to changes in interest rates as shown in $T a b l e 1$ and in the interest rate sensitivity projections as shown in the Market Risk section of this report.

Table 1 - Volume / Rate Analysis
(In thousands)

| Change Due To (1) |  |  |  |
| :---: | :---: | :---: | :---: |
| Change | Volume | Yield <br> Rate | Change |

Tax-equivalent interest revenue:

| Securities | \$ | 15,267 | \$ | 11,689 | \$ | 3,578 | \$ | 29,114 | \$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Trading securities |  | 786 |  | 652 |  | 134 |  | 1,700 |  |
| Loans |  | (44, 068 ) |  | 20,107 |  | $(64,175)$ |  | $(57,470)$ |  |
| Funds sold and resell agreements |  | (569) |  | 50 |  | (619) |  | (394) |  |
| Total |  | $(28,584)$ |  | 32,498 |  | $(61,082)$ |  | $(27,050)$ |  |
| Interest expense: |  |  |  |  |  |  |  |  |  |
| Transaction deposits |  | $(20,487)$ |  | 7,216 |  | $(27,703)$ |  | $(24,679)$ |  |
| Savings deposits |  | (229) |  | 2 |  | (231) |  | (355) |  |
| Time deposits |  | $(15,229)$ |  | $(4,632)$ |  | $(10,597)$ |  | $(20,636)$ |  |
| Federal funds purchased and repurchase agreements |  | $(17,949)$ |  | 4,339 |  | $(22,288)$ |  | $(27,865)$ |  |
| Other borrowings |  | 2,272 |  | 13,840 |  | $(11,568)$ |  | 4,892 |  |
| Subordinated debentures |  | $(1,003)$ |  | (205) |  | (798) |  | (807) |  |
| Total |  | $(52,625)$ |  | 20,560 |  | $(73,185)$ |  | $(69,450)$ |  |
| Tax-equivalent net interest revenue |  | 24,041 |  | 11,938 |  | 12,103 |  | 42,400 |  |
| Change in tax-equivalent adjustment |  | (15) |  |  |  |  |  | (84) |  |
| Net interest revenue | \$ | 24,026 |  |  |  |  | \$ | 42,316 |  |

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

## Other Operating Revenue

Other operating revenue decreased $\$ 34.6$ million compared with the second quarter of last year. Fees and commission revenue decreased $\$ 33.4$ million. The decrease in fees and commission revenue included a $\$ 60.7$ million charge to write down SemGroup derivative contracts to estimated fair value, partially offset by a $\$ 27.3$ million increase in all other fees and commissions revenue sources. Net losses on securities and derivatives used by the company to manage its interest rate risk during the second quarter of 2008 totaled $\$ 8.2$ million, compared with net losses on securities and derivatives of $\$ 6.4$ million for the second quarter of 2007 . Other operating revenue was down $\$ 64.9$ million from the first quarter of 2008. Fees and commissions revenue decreased $\$ 50.3$ million due primarily to the write down of SemGroup derivative contracts. Net gains on securities and derivatives used by the Company to manage its interest rate risk totaled \$6.7 million for the first quarter of 2008 due primarily to Visa, Inc.'s initial public offering.

Diversified sources of fees and commissions revenue are a significant part of our business strategy and generally represent $40 \%$ to $45 \%$ of our total revenue, excluding gains and losses on asset sales, securities and derivatives. We believe that a variety of fee revenue sources provide an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile.

Fees and commissions revenue

Brokerage and trading activities resulted in a net loss of $\$ 35.5$ million for the second quarter of 2008 due to the $\$ 60.7$ million charge to write down SemGroup derivative contracts to fair value. Excluding this charge and revenue from transactions with SemGroup that may not be recurring, brokerage and trading revenue totaled $\$ 23.3$ million for the second quarter of 2008 , up $\$ 10.6$ million or $84 \%$ over the second quarter of 2007 . Revenue from trading and institutional securities sales totaled $\$ 11.6$ million in the second quarter of 2008 compared with $\$ 5.4$ million in the second quarter of 2007 . Revenue from retail brokerage activities totaled $\$ 6.2$ million for the second quarter of 2008 and $\$ 4.5$ million for the second quarter of 2007 . Customer hedging revenue, excluding the write-down of derivative contracts and revenue from transactions with SemGroup, totaled $\$ 4.0$ million for the second quarter of 2008 and $\$ 2.1$ million for the second quarter of 2007 .

Brokerage and trading revenue, excluding the charge to write down derivative contracts to fair value and revenue from transactions with SemGroup, increased $\$ 469$ thousand or $8 \%$ annualized compared with the first quarter of 2008 . Revenue from trading and institutional securities sales were down $\$ 1.2$ million and revenue from retail brokerage activities were up $\$ 857$ thousand from the first quarter of 2008 . Customer hedging revenue was up $\$ 106$ thousand, excluding revenue from SemGroup transactions. In addition, investment banking revenue for the second quarter of 2008 totaled $\$ 1.4$ million, up $\$ 752$ thousand over the first quarter of 2008.

Transaction card revenue increased $\$ 2.9$ million or $13 \%$ over the second quarter of 2007. ATM network revenue increased $\$ 1.3$ million or $13 \%$ while check card revenue increased $\$ 1.2$ million or $20 \%$ over the second quarter of 2007 due to volume growth. Merchant discount fees increased $\$ 296$ thousand, or $4 \%$ over the second quarter of 2007 . Transaction card revenue for the second quarter of 2008 was up $\$ 2.2$ million over the first quarter of 2008 due largely to seasonal
changes. ATM network fees increased $\$ 948$ thousand and merchant discount fees increased $\$ 602$ thousand due to transaction volumes. Check card revenue was up $\$ 661$ thousand over the previous quarter.

Trust fees and commissions increased $\$ 1.5$ million or $8 \%$ for the second quarter of 2008. The fair value of all trust assets, which is the basis for a significant portion of trust revenue, totaled $\$ 34.4$ billion at June 30,2008 compared with $\$ 33.7$ billion at June 30,2007 . Net fees from mutual fund advisory and administrative services, which provide $21 \%$ of total trust fees and commissions increased $\$ 188$ thousand or $4 \%$. Personal trust management fees, which provide $33 \%$ of total trust fees and commissions increased $\$ 863$ thousand or $14 \%$. Employee benefit plan management fees, which provide $19 \%$ of total trust fees, increased $\$ 359$ thousand or $10 \%$. Trust fees and commissions increased \$144 thousand or $3 \%$ annualized over the first quarter of 2008 . The fair value of all trust assets totaled $\$ 35.5$ billion at March 31,2008 or $3 \%$ more than the fair value of all trust relationships at June 30, 2008.

Deposit service charges and fees totaled $\$ 30.2$ million for the second quarter of 2008, up $\$ 3.4$ million or $13 \%$ over the second quarter of 2007 . Commercial deposit account fees were up $\$ 2.6$ million or $38 \%$ over the same period of 2007 due to a decrease in earnings credit available to commercial deposit customers and an increase in service charges to partially offset higher deposit insurance costs. The earnings credit, which provides a non-cash method for commercial customers to avoid incurring charges for deposit services, decreases when interest rates fall. Overdraft fees grew $\$ 840$ thousand or $5 \%$. Service charges on retail accounts decreased $\$ 53$ thousand or $4 \%$ due to service-charge free deposit products. Deposit service charges increased $\$ 2.5$ million compared with the first quarter of 2008. Overdraft fees were up $\$ 1.5$ million. Overdraft fees are generally lower in the first quarter of each year due to seasonal factors. Commercial deposit account fees were up $\$ 1.0$ million.

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Mortgage banking revenue was up $\$ 3.2$ million or $78 \%$ compared with 2007 . Servicing revenue totaled $\$ 4.3$ million for both the second quarters of 2008 and 2007. The outstanding principal balance of mortgage loans serviced for other totaled $\$ 5.0$ billion at June 30,2008 and $\$ 4.8$ billion at June 30, 2007. Net gains on mortgage loans sold totaled $\$ 2.9$ million, up $\$ 3.2$ million over the second quarter of 2007. Mortgage loans originated totaled $\$ 362$ million for the second quarter of 2008, up $15 \%$ over the same period in 2007.

Margin asset fees totaled $\$ 4.5$ million in the second quarter of 2008 and $\$ 969$ thousand in the second quarter of 2007. Margin assets which are held primarily as part of the Company's customer derivatives programs averaged $\$ 762$ million for the second quarter of 2008 , compared with $\$ 96$ million for the second quarter of 2007. The increase in revenue earned on margin assets is offset by a decrease in net interest revenue due to the costs to fund the margin assets.

Securities and derivatives

Net gains and losses on securities consisted of the following:

|  | Three Months Ended |  |  |
| :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \text { June } 30 \\ 2008 \end{gathered}$ | $\begin{gathered} \text { March } 31 \\ 2008 \end{gathered}$ | $\begin{gathered} \text { June } 30 \\ 2007 \end{gathered}$ |
| Gain (loss) on portfolio securities | \$ 276 | \$2,947 | \$( 580 ) |
| Gain on Visa, Inc. IPO securities | - | 6,788 | - |
| Other than temporary impairment of equity securities | - | $(5,306)$ | - |
| Gain (loss) on mortgage hedge securities | $(5,518)$ | 191 | $(5,682)$ |

$=====\quad========$

BOK Financial recognized net losses of $\$ 5.2$ million on securities for the second quarter of 2008, net losses on securities of $\$ 6.3$ million for the second quarter of 2007 and net gains on securities of $\$ 4.6$ million for the first quarter of 2008. Mortgage hedge securities held as an economic hedge of the changes in fair value of mortgage servicing rights are carried at fair value. Changes in fair value of these securities are recognized in earnings as they occur. During the first quarter of 2008 , the Company recorded a $\$ 5.3$ million pre-tax other-than-temporary-impairment charge to recognize the decrease in fair value of its holdings of variable-rate perpetual preferred stock issued by seven major banks and brokerage houses. The Company also recognized a $\$ 6.8$ million gain from the partial redemption of Visa, Inc. Class B shares as part of Visa's initial public offering. The Company sold certain available for sale securities during the first quarter of 2008 at a $\$ 2.9$ million gain to reduce prepayment risk in response to falling interest rates.

Net losses on derivatives totaled $\$ 3.0$ million for the second quarter of 2008 and $\$ 183$ thousand for the second quarter of 2007 . Net gains or losses on derivatives consist of fair value adjustments of all derivatives used to manage interest rate risk and the related hedged assets and liabilities when adjustments are permitted by generally accepted accounting principles. Derivative instruments generally consist of interest rate swaps where the Company pays a variable rate based on LIBOR and receives a fixed rate. These swaps generally decrease in value as interest rates rise and increase in value as interest rates fall.

The Company adopted Statement of Financial Accounting Standards No. 159, Fair Value Option ("FAS 159") effective January 1, 2008. FAS 159 provides an option to measure eligible financial assets and financial liabilities at fair value. Certain certificates of deposit that were either currently designated as hedged or had previously been designated as hedged, but no longer met the correlation requirements of Statement of Financial Accounting Standards No. 133 were designated as being reported at fair value when FAS 159 was first adopted. In addition, certain certificates of deposit issued subsequent to the adoption of FAS 159 have been designated as reported at fair value. This determination is made when the certificates of deposit are issued based on the Company's intent to swap the interest rate on the certificates from a fixed rate to a LIBOR-based variable rate.

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Table 2 - Other Operating Revenue (In thousands)

Three Months Ended


| Total fees and commissions | 63,603 | 113,864 | 113,354 | 10 |
| :---: | :---: | :---: | :---: | :---: |
| Gain (loss) on sales of assets | 216 | (35) | $(1,316)$ |  |
| Gain (loss) on securities, net | $(5,242)$ | 4,620 | $(6,251)$ |  |
| Gain (loss) on derivatives, net | $(2,961)$ | 2,113 | 1,529 |  |
| Total other operating revenue | \$ 55,616 | \$ 120,562 | \$ 107,316 | \$ |

## Other Operating Expense

Other operating expense for the second quarter of 2008 totaled $\$ 159.3$ million, up $\$ 25.1$ million or $19 \%$ over the second quarter of 2007 . Changes in the fair value of mortgage servicing rights increased other operating expense \$5.8 million. Personnel costs increased $\$ 9.5$ million or $12 \%$ due largely to incentive compensation costs. Non-personnel expenses, excluding changes in the fair value of mortgage servicing rights, increased $\$ 9.8$ million or $17 \%$ due largely to higher deposit insurance costs and losses on mortgage loans sold with recourse.

## Personnel expense

Personnel expense totaled $\$ 89.6$ million for the second quarter of 2008 and $\$ 80.1$ million for the second quarter of 2007. Regular compensation, which consists of salaries and wages, overtime pay and temporary personnel cost totaled $\$ 54.0$ million, up $\$ 2.2$ million or $4 \%$ over the second quarter of 2007 . The increase in regular compensation expense was due primarily to an increase in average regular compensation per full time equivalent employee. Average staffing levels were up $1 \%$ over the second quarter of last year.

Table 3 - Personnel Expense
(Dollars in thousands)

|  | Three Months Ended |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{aligned} & \text { June } 30, \\ & 2008 \end{aligned}$ |  | $\begin{gathered} \text { March 31, } \\ 2008 \end{gathered}$ |  | $\begin{aligned} & \text { Dec. 31, } \\ & 2007 \end{aligned}$ |  | $\begin{gathered} \text { Sept. } 30 \\ 2007 \end{gathered}$ |  |
| Regular compensation | \$ | 54,024 | \$ | 52,576 | \$ | 52,316 | \$ | 53,592 |
| Incentive compensation: |  |  |  |  |  |  |  |  |
| Cash-based |  | 19,503 |  | 19,287 |  | 19,568 |  | 15,559 |
| Stock-based |  | 2,760 |  | 2,272 |  | 1,794 |  | 2,345 |
| Total incentive compensation |  | 22,263 |  | 21,559 |  | 21,362 |  | 17,904 |
| Employee benefits |  | 13,310 |  | 13,971 |  | 10,834 |  | 11,816 |
| Workforce reduction costs, net |  | - |  | - |  | - |  | 2,499 |
| Total personnel expense | \$ | 89,597 | \$ | 88,106 | \$ | 84,512 | \$ | 85,811 |
| Number of employees (full-time equivalent) |  | 4,137 |  | 4,135 |  | 4,110 |  | 4,299 |

Incentive compensation increased $\$ 6.7$ million or $43 \%$ to $\$ 22.3$ million. Expense for cash-based incentive compensation plans increased $\$ 7.0$ million or $56 \%$. These plans are either intended to provide current rewards to employees who generate
long-term business opportunities to the Company based on growth in loans, deposits, customer relationships and other measurable metrics or intended to compensate employees with commissions on completed transactions. The increase in cash-based incentive compensation over the second quarter of 2007 included a $\$ 3.7$ million increase in commissions related to brokerage and trading revenue.

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The Company also provides stock-based incentive compensation plans. Stock-based compensation plans include both equity and liability awards. Compensation expense related to liability awards decreased $\$ 262$ thousand compared with the second quarter of 2007 . This decrease reflected changes in the market value of BOK Financial common stock. The market value of BOK Financial common stock increased $\$ 1.22$ per share in the second quarter of 2008 and increased $\$ 3.89$ per share in the second quarter of 2007 . Compensation expense for equity awards decreased $\$ 75$ thousand or $5 \%$ compared with the second quarter of 2007 . Expense for equity awards is based on the grant-date fair value of the awards and is unaffected by subsequent changes in fair value.

Employee benefit expense totaled $\$ 13.3$ million, a $\$ 659$ thousand or $5 \%$ increase over 2007. Medical insurance costs were down $\$ 378$ thousand or $9 \%$. The Company self-insures a portion of its employee health care coverage.

Data processing and communications expense

Data processing and communications expense totaled \$19.5 million, up \$1.1 million or $6 \%$ over the second quarter of 2007 . This expense consists of two broad categories, data processing systems and transaction card processing. Data processing costs increased $\$ 674$ thousand or $6 \%$ due to growth in processing volumes and acquisitions during 2007. Transaction card processing costs increased $\$ 447$ thousand or $6 \%$ due to growth in processing volume.

Other operating expenses

Occupancy and equipment expenses totaled $\$ 15.1$ million for the second quarter of 2008, up $\$ 1.2$ million or $9 \%$ over 2007. Growth in occupancy expense was due to 24 new branch locations added in the past year, including 16 added from bank acquisitions during the second quarter of 2007 . Insurance expense increased $\$ 1.9$ million compared to the second quarter of 2007 due to an increase in FDIC insurance premiums. A one-time credit granted to eligible depository institutions by the Federal Deposit Insurance Reform Act of 2005 to offset deposit insurance premiums was largely used in 2007.

Mortgage banking costs included a $\$ 3.4$ million increase in provision for losses on residential mortgage loans sold with recourse. The Company's obligation to repurchase these loans is more-fully discussed in the Loan Commitments section of this report.

Table 4 - Other Operating Expense (In thousands)

|  | $\begin{aligned} & \text { June } 30 \text {, } \\ & 2008 \end{aligned}$ |  | $\begin{gathered} \text { March 31, } \\ 2008 \end{gathered}$ |  | $\begin{aligned} & \text { Dec. 31, } \\ & 2007 \end{aligned}$ |  | $\begin{gathered} \text { Sept. } 30 \\ 2007 \end{gathered}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | 89,597 | \$ | 88,106 | \$ | 84,512 | \$ | 85,811 |
|  | 5,777 |  | 4,639 |  | 6,528 |  | 5,399 |
|  | 6,973 |  | 5,648 |  | 6,209 |  | 5,749 |
|  | 15,100 |  | 15,061 |  | 15,466 |  | 14,752 |


| Insurance |  | 2,626 |  | 3,710 |  | 843 |  | 759 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Data processing \& communications |  | 19,523 |  | 18,893 |  | 19,086 |  | 18,271 |
| Printing, postage and supplies |  | 4,156 |  | 4,419 |  | 4,221 |  | 4,201 |
| Net (gains) losses and operating expenses of repossessed assets |  | (229) |  | 378 |  | 120 |  | 172 |
| Amortization of intangible assets |  | 1,885 |  | 1,925 |  | 2,382 |  | 2,397 |
| Mortgage banking costs |  | 6,054 |  | 5,681 |  | 4,225 |  | 3,877 |
| Change in fair value of mortgage servicing rights |  | 767 |  | 1,762 |  | 3,344 |  | 3,446 |
| Visa retrospective responsibility obligation |  | - |  | $(2,767)$ |  | 2,767 |  | - |
| Other expense |  | 7,039 |  | 5,949 |  | 8,024 |  | 6,184 |
| Total other operating expense | \$ | 159,268 | \$ | 153,404 | \$ | 157,727 | \$ | 151,018 |

Income Taxes
Income tax benefit was $\$ 2.9$ million or $71 \%$ of book taxable loss for the second quarter of 2008 compared with $\$ 29.3$ million or $35 \%$ of book taxable income for the second quarter of 2007 and $\$ 34.4$ million or $36 \%$ of book taxable income for the first quarter of 2008. The effective tax rate for the second quarter of 2008 includes adjustments to estimated income tax expense due to the loss incurred in the second quarter.

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BOK Financial operates in numerous jurisdictions, which requires judgment regarding the allocation of income, expense and earnings under various laws and regulations of each of these taxing jurisdictions. Each jurisdiction may audit our tax returns and may take different positions with respect to these allocations. The reserve for uncertain tax positions was largely unchanged from December 31, 2007.

## Lines of Business

BOK Financial operates five principal lines of business: Oklahoma corporate banking, Oklahoma consumer banking, mortgage banking, wealth management, and regional banking. Mortgage banking activities include loan origination and servicing across all markets served by the Company. Wealth management provides brokerage and trading, private financial services and investment advisory services in all markets. It also provides fiduciary services in all markets except Colorado. Fiduciary services in Colorado are included in regional banking. Regional banking consists primarily of corporate and consumer banking activities in the respective local markets.

In addition to its lines of business, BOK Financial has a funds management unit. The primary purpose of this unit is to manage the Company's overall liquidity needs and interest rate risk. Each line of business borrows funds from and provides funds to the funds management unit as needed to support their operations. Operating results for Funds Management and Other include the effect of interest rate risk positions and risk management activities, the provision for credit losses, tax-exempt income and tax credits and certain executive compensation costs that are not attributed to the lines of business.

BOK Financial allocates resources and evaluates performance of its lines of business after allocation of funds, certain indirect expenses, taxes and capital costs. The cost of funds borrowed from the funds management unit by the operating lines of business is transfer priced at rates that approximate market for funds with similar duration. Market is generally based on the applicable

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LIBOR or interest rate swap rates, adjusted for prepayment risk. This method of transfer-pricing funds that support assets of the operating lines of business tends to insulate them from interest rate risk.

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

Economic capital is assigned to the business units by a capital allocation model that reflects management's assessment of risk. This model assigns capital based upon credit, operating, interest rate and market risk inherent in our business lines and recognizes the diversification benefits among the units. The level of assigned economic capital is a combination of the risk taken by each business line, based on its actual exposures and calibrated to its own loss history where possible. Additional capital is assigned to the regional banking line of business based on our investment in those entities. Return on economic capital excludes amortization of intangible assets.

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Table 5 - Net Income by Line of Business (In thousands)

| Regional banking | \$ 22,532 | \$ 24,332 | \$ 41,78 |
| :---: | :---: | :---: | :---: |
| Oklahoma corporate banking | $(37,860)$ | 19,039 | (17, 40 |
| Mortgage banking | $(3,515)$ | 122 | $(4,49$ |
| Oklahoma consumer banking | 7,635 | 9,079 | 16,88 |
| Wealth management | 9,554 | 6,672 | 19,89 |
| Subtotal | $(1,654)$ | 59,244 | 56,66 |
| Funds management and other | 493 | $(5,381)$ | 4, 44 |
| Total | \$ (1, 161) | \$ 53, 863 | \$ 61,10 |

## Oklahoma Corporate Banking

The Oklahoma Corporate Banking Division provides loan and lease financing and treasury and cash management services to businesses throughout Oklahoma and certain relationships in surrounding states. In addition to serving the banking needs of small businesses, middle market and larger customers, this Division has specialized groups that serve customers in the energy, agriculture, healthcare and banking/finance industries, and includes the TransFund network. The Oklahoma Corporate Banking Division incurred a net loss of $\$ 37.9$ million for the second quarter of 2008 due to its credit exposure from one customer, SemGroup, which declared bankruptcy in mid July 2008. Losses on loans and derivative contracts with SemGroup reduced the Oklahoma Corporate Banking Division's net income for the second quarter of 2008 by $\$ 53.0$ million. This Division contributed $\$ 19.0$ million to consolidated net income in the second quarter of 2007 and $\$ 20.4$ million to consolidated net income in the first quarter of 2008. Excluding SemGroup losses, the Oklahoma Corporate Banking Division's net income for the second quarter of 2008 was $\$ 15.1$ million.

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Net interest revenue decreased $\$ 4.0$ million or $10 \%$. Average earnings assets attributed to this division increased $\$ 93$ million or $2 \%$ over 2007 to $\$ 4.7$ billion. Average loans decreased $\$ 33 \mathrm{million}$ or 1\% to $\$ 4.4$ billion. Average commercial loans decreased $\$ 152$ million or 6\%. The decrease in average commercial loans was partially offset by a $\$ 70$ million increase in average consumer loans, primarily indirect automobile loans, and a $\$ 50$ million increase in average real estate loans. Average funds provided to the funds management unit by the Oklahoma Corporate Banking Division increased \$122 million. Average deposits attributed to the Oklahoma Corporate Banking Division increased \$206 million or $10 \%$ due primarily to growth in treasury services Eurodollar deposit products.

Operating revenue decreased $\$ 57.6$ million due primarily to a $\$ 60.7$ million charge for the decrease in the fair value of derivative contracts with SemGroup. Operating revenue was up $\$ 3.1$ million or $13 \%$ excluding this charge. Operating revenue provided by TransFund increased $\$ 1.4$ million or $15 \%$ and service charges on commercial deposit accounts were up $\$ 1.1$ million or $21 \%$. Operating expenses, which consist primarily of personnel and data processing costs, increased $\$ 2.8$ million or $10 \%$.

Net loans charged off by the Oklahoma Corporate Banking Division totaled $\$ 32.3$ million in the second quarter of 2008 , which included a $\$ 26.0$ million charge off of SemGroup loans. Excluding SemGroup, net loans charged off in the second quarter of 2008 totaled $\$ 6.3$ million or $0.54 \%$ of average loans. Net loans charged off totaled $\$ 3.3$ million or $0.30 \%$ of average loans for the second quarter of 2007 and $\$ 2.2$ million or $0.18 \%$ of average loans for the first quarter of 2008 .

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Table 6 - Oklahoma Corporate Banking
(Dollars in Thousands)

NIR (expense) from external sources
NIR (expense) from internal sources

Net interest revenue

Other operating revenue
Operating expense
Gains on financial instruments, net
Net loans charged off
Net income (loss)

Average assets
Average economic capital

Return on assets
Return on economic capital
Efficiency ratio

|  | 2008 |  | 2007 |  | 2008 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | $\begin{gathered} 49,464 \\ (14,335) \end{gathered}$ | \$ | $\begin{gathered} 62,907 \\ (23,731) \end{gathered}$ | \$ | $\begin{array}{r} 101,87 \\ (30,51 \end{array}$ |
|  | 35,129 |  | 39,176 |  | 71,36 |
|  | $(34,183)$ |  | 23,454 |  | $(10,30$ |
|  | 30,980 |  | 28,156 |  | 60,13 |
|  | - |  | - |  | 4,68 |
|  | 32,271 |  | 3,313 |  | 34,44 |
|  | $(37,860)$ |  | 19,039 |  | (17, 40 |
| \$ | 6,135,980 | \$ | 5,785,263 | \$ | $6,118,10$ |
|  | 461,840 |  | 405,160 |  | 434,28 |
|  | (2.48) \% |  | 1.32\% |  | (0.5 |
|  | (32.97) \% |  | 18.85\% |  | (8.0 |
|  | NM |  | $44.96 \%$ |  | 98.4 |

## Oklahoma Consumer Banking

The Oklahoma Consumer Banking Division provides a full line of deposit, loan and fee-based services to customers throughout Oklahoma through four major

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distribution channels: traditional branches, supermarket branches, the 24-hour ExpressBank call center and the Internet. Additionally, the division is a significant referral source for the Bank of Oklahoma Mortgage Division and BOSC's retail brokerage division. Consumer banking services are offered through 35 locations in Tulsa, 32 locations in Oklahoma City and 16 locations throughout the state.

The Oklahoma Consumer Banking Division contributed net income of $\$ 7.6$ million for the second quarter of 2008, compared to net income of $\$ 9.1$ million for the second quarter of 2007 . Net interest revenue decreased $\$ 2.8$ million or $15 \%$ over 2007 due primarily to deposit spread compression. Average loans attributed to the Oklahoma Consumer Banking Division in 2008 increased $\$ 19$ million or $7 \%$ compared with 2007. Average deposits provided by the Oklahoma Consumer Banking Division grew $\$ 136$ million or $5 \%$ to $\$ 3.0$ billion. Average demand deposits were up $\$ 36$ million or $10 \%$ over 2007. Interest bearing deposits increased $\$ 100$ million or $4 \%$ including a $\$ 229$ million or $21 \%$ increase in interest bearing transaction accounts and a $\$ 129$ million or $9 \%$ decrease in time deposits. Other operating revenue was up $\$ 1.5$ million or $8 \%$ over 2007 largely from check card revenue and overdraft fees. Operating expenses increased $\$ 1.5$ million or $7 \%$ over 2007, including a $\$ 546$ thousand or $7 \%$ increase in personnel expense and a $\$ 946$ thousand or $7 \%$ increase in non-personnel expense. Net loans charged-off, which consist primarily of overdrawn deposit accounts, totaled $\$ 402$ thousand for the second quarter of 2008 and $\$ 801$ thousand for the second quarter of 2007 .

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Table 7 - Oklahoma Consumer Banking (Dollars in Thousands)

NIR (expense) from external sources
NIR (expense) from internal sources
Net interest revenue

Other operating revenue
Operating expense
Three months ended June 30,
Six mont

|  | 2008 |  | 2007 |  | 2008 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | $(11,537)$ | \$ | $(16,740)$ | \$ | $(26,39$ |
|  | 27,265 |  | 35,224 |  | 58,81 |
|  | 15,728 |  | 18,484 |  | 32,41 |
|  | 20,876 |  | 19,329 |  | 39,94 |
|  | 23,699 |  | 22,207 |  | 45,36 |
|  | - |  | - |  | 1,57 |
|  | 402 |  | 801 |  | 96 |
|  | 7,635 |  | 9,079 |  | 16,88 |
| \$ | 3,036,095 | \$ | 2,905,822 | \$ | 3,013,37 |
|  | 58,230 |  | 66,370 |  | 59,93 |
|  | $1.01 \%$ |  | $1.25 \%$ |  | 1.1 |
|  | $52.74 \%$ |  | $54.87 \%$ |  | 56. |
|  | $64.74 \%$ |  | 58.73\% |  | 62.6 |

## Mortgage Banking

BOK Financial engages in mortgage banking activities through the Bok Mortgage Division of Bank of Oklahoma. These activities include the origination, marketing and servicing of conventional and government-sponsored mortgage loans. BOk Mortgage incurred a net loss of $\$ 3.5$ million in the second quarter of 2008 compared to net income of $\$ 122$ thousand in the second quarter of 2007 . Changes in the fair value of mortgage servicing rights, net of hedging activity, reduced
net income $\$ 3.8$ million in 2008 and $\$ 379$ thousand in 2007. In addition, an increase in the provision for off-balance sheet credit risk on mortgage loans sold with recourse reduced net income $\$ 2.1$ million in the second quarter of 2008.

Mortgage banking activities consisted primarily of two sectors, loan production and loan servicing. The loan production sector generally performs best when mortgage rates are relatively low and loan origination volumes are high. Conversely, the loan servicing sector generally performs best when mortgage rates are relatively high and prepayments are low. The Mortgage Banking Division also holds a permanent portfolio of $\$ 447$ million of residential mortgage loans which generated net income of $\$ 473$ thousand in the second quarter of 2008 .

## Loan Production Sector

Pre-tax loss from loan production totaled $\$ 1.8$ million for the second quarter of 2008 compared with pre-tax income of $\$ 331$ thousand for the second quarter of 2007. Loan production revenue totaled $\$ 3.9$ million in second quarter of 2008 , including $\$ 5.9$ million of capitalized mortgage servicing rights, partially offset by net losses on mortgage loans sold. Loan production revenue totaled $\$ 4.1$ million in second quarter of 2007. Capitalized mortgage servicing rights totaled $\$ 3.6$ million for the second quarter of 2007 . The average initial fair value of servicing rights on mortgage loans funded was $1.61 \%$ for 2008 and $1.46 \%$ for 2007. Mortgage loans funded totaled $\$ 362$ million in second quarter of 2008 and $\$ 315$ million in the second quarter of 2007 . Approximately $60 \%$ and $17 \%$ of the loans funded during the second quarter of 2008 were in Oklahoma and Texas, respectively. The pipeline of mortgage loan applications totaled $\$ 517$ million at June 30, 2008, compared to $\$ 525$ million at March 31, 2008 and $\$ 306$ million at June 30, 2007. Operating expenses, excluding direct loan production costs which are recognized as part of the gain or loss on loans sold, totaled $\$ 6.8$ million in 2008 and $\$ 3.9$ million in 2007 . The increase in operating expenses was due to a $\$ 3.4$ million increase in provision for losses on loans sold with recourse.

## Loan Servicing Sector

The loan servicing sector had a pre-tax loss of $\$ 5.1$ million for the second quarter of 2008 compared with a pre-tax loss of $\$ 552$ thousand for the second quarter of 2007 . The increase in net loss from loan servicing during the second quarter of 2008 was due to ineffectiveness of our economic hedging. We recognized a net pre-tax loss of $\$ 6.3$ million in the second quarter of 2008 and a net pre-tax loss of $\$ 620$ thousand in 2007 from changes in the value of mortgage servicing rights and economic hedging activities. The fair value of securities designated as an economic hedge decreased $\$ 5.5$ million during the second quarter of 2008 , which was largely expected based on changes in market interest rates for mortgage-backed securities. However, changes in mortgage commitment rates, prepayment speed assumptions, discount

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rates and other estimates of future activities decreased the fair value of mortgage servicing rights recognized in earnings by $\$ 767$ thousand in the second quarter of 2008 , which was unexpected. Factors which caused the fair value of our servicing rights to not increase as expected included an increase in prepayment speed of our servicing rights relative to national averages and a decrease in short-term interest rates relative to mortgage commitment rates. During the second quarter of 2007, economic hedge activity produced net losses of $\$ 5.7$ million, which largely offset that quarter's increase in the fair value of servicing rights of $\$ 5.1$ million.

Servicing revenue, including revenue on loans serviced for affiliates, totaled $\$ 4.8$ million in second quarter of 2008 compared to $\$ 4.4$ million in the same period of 2007 . The average outstanding balance of loans serviced, including
loans serviced for affiliates, was $\$ 5.7$ billion during the second quarter of 2008 compared to $\$ 5.2$ billion during 2007 . Servicing revenue per outstanding loan principal was 34 basis points in 2008 compared with 34 basis points in 2007. Servicing costs totaled $\$ 1.8$ million for the second quarter of 2008 and $\$ 2.0$ million for the second quarter of 2007 . At June 30, 2008, the total number of loans serviced by Bok Mortgage was 58,021. Serviced loans delinquent 90 days or more or in process of foreclosure totaled 620 or $1.07 \%$; 366 of these loans are in Oklahoma, 71 are in Arkansas, 51 are in Kansas / Missouri and 38 are in Texas.

The fair value of mortgage servicing rights decreased $\$ 3.4$ million during the second quarter of 2008 and $\$ 3.2$ million during the second quarter of 2007 due to actual runoff of the underlying loans serviced. This reduction in fair value is included in mortgage banking costs in the Consolidated Statement of Earnings.

Table 8 - Mortgage Banking
(Dollars in Thousands)

|  | 2008 |  | 2007 |  | 2008 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | $\begin{aligned} & 11,584 \\ & (8,406) \end{aligned}$ | \$ | $\begin{gathered} 8,529 \\ (7,591) \end{gathered}$ | \$ | $\begin{array}{r} 23,23 \\ (17,52 \end{array}$ |
|  | 3,178 |  | 938 |  | 5,70 |
|  | 5,909 |  | 3,566 |  | 10,31 |
|  | 2,043 |  | 5,654 |  | 5,71 |
|  | 10,444 |  | 9,215 |  | 20,85 |
|  | 767 |  | $(5,061)$ |  | 2,52 |
|  | $(5,518)$ |  | $(5,681)$ |  | (5,32 |
|  | 81 |  | 122 |  | 30 |
|  | $(3,515)$ |  | 122 |  | $(4,49$ |
| \$ | 887,397 | \$ | 684,483 | \$ | 886,43 |
|  | 32,250 |  | 23,890 |  | 28,82 |
|  | (1.59) \% |  | $0.07 \%$ |  | (1.0 |
|  | (43.84) \% |  | 2.05\% |  | (31.3 |
|  | 93.84\% |  | 90.72\% |  | 95.9 |

BOK Financial designated a portion of its securities portfolio as an economic hedge against the risk of changes in the fair value of its mortgage servicing rights. These securities, which are identified as mortgage trading securities are carried at fair value. Changes in fair value are recognized in earnings as they occur. Additionally, mortgage-related derivative contracts may also be designated as an economic hedge of the risk of loss on mortgage servicing rights. Because the fair values of these instruments are expected to vary inversely to the fair value of the servicing rights, they are expected to partially offset risk. No special hedge accounting treatment is applicable to either the mortgage servicing rights or the financial instruments designated as an economic hedge.

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

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At June 30, 2008, financial instruments with a fair value of $\$ 98.3$ million and an unrealized loss of $\$ 1.9$ million were held for the economic hedge program. The interest rate sensitivity of the mortgage servicing rights and securities held as a hedge is modeled over a range of $+/-50$ basis points. At June 30,2008 , the pre-tax results of this modeling on reported earnings were:

Table 9 - Interest Rate Sensitivity - Mortgage Servicing
(Dollars in Thousands)
50 bp increase 50 bp decrease
Anticipated change in:
Fair value of mortgage servicing rights \$ 2,560 $\quad(3,724)$
Fair value of hedging instruments

Net

| $\$$ | 2,560 |
| :---: | :---: | :---: | :---: |
| $(2,661)$ |  |$\quad \$ \quad$| $(3,724)$ |
| :---: |
| 2,671 |

Table 9 shows the non-linear effect of changes in mortgage commitment rates on the value of mortgage servicing rights. A 50 basis point increase in rates is expected to increase the fair value of our servicing rights $\$ 2.6$ million while a 50 basis point decrease is expected to reduce the fair value $\$ 3.7$ million. This considers that there is an upper limit to appreciation in the value of servicing rights as rates rise due to the contractual repayment terms of the loans and other factors. This is much less of a limit of the speed at which mortgage loans may prepay in a declining rate environment.

Modeling changes in the value of mortgage servicing rights due to changes in interest rates assumes stable relationships between mortgage commitment rates and discount rates used to determine the present value of future cash flows. It also assumes a stable relationship between the assumed loan prepayment speeds and actual prepayments of our loans. Changes in market conditions can increase or decrease the discount spread over benchmark rates expected by investors in mortgage servicing rights and actual prepayments may increase or decrease due to factors other than changes in interest rates. These factors and others may cause changes in the value of our mortgage servicing rights to differ from our expectations.

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 and Cavanal Hill Investment Management, Inc., an SEC-registered investment advisor. Cavanal Hill changed its name from AXIA Investment Management, Inc. on June 20, 2008. Trust and private financial services includes sales of institutional, investment and retirement products, loans and other services to affluent individuals, businesses, not-for-profit organizations, and governmental agencies. Trust services are provided primarily to clients throughout Oklahoma, Texas and New Mexico. Additionally, trust services include a nationally competitive, self-directed 401-(k) program and administrative and advisory services to the American Performance family of mutual funds. Brokerage and trading activities within the wealth management line of business consists of retail sales of mutual funds, securities, and annuities, institutional sales of securities and derivatives, bond underwriting and other financial advisory services and customer risk management programs.

Wealth Management contributed net income of $\$ 9.6$ million in the second quarter of 2008. This compared to net income of $\$ 6.7$ million in the second quarter of 2007. Growth in net income was due primarily to increased revenue from trading and institutional securities sales.

Trust and private financial services provided $\$ 3.8$ million of net income in the second quarter of 2008 , down $\$ 1.8$ million from the second quarter of 2007 . Trust fees and commissions for the wealth Management line of business totaled \$18.1 million, up $\$ 1.2$ million or $7 \%$ increase over last year. At June 30, 2008 and 2007, the Wealth Management line of business was responsible for trust assets with aggregate market values of $\$ 31.4$ billion and $\$ 30.8$ billion, respectively, under various fiduciary arrangements. The growth in trust assets reflected increased market value of assets managed in addition to new business generated during the year. We have sole or joint discretionary authority over $\$ 11.9$ billion of trust assets at June 30, 2008 compared to $\$ 11.4$ billion of trust assets at June 30,2007 . The fair value of non-managed assets decreased $\$ 414$ million to $\$ 11.8$ billion at June 30,2008 . Assets held in safekeeping totaled $\$ 7.7$ billion at June 30, 2008. Operating expenses attributed to trust and private financial services totaled $\$ 19.0$ million for the second quarter of 2008 and $\$ 16.9$ million for the second quarter of 2007 . Personnel costs increased $\$ 1.1$ million or $10 \%$ due primarily to staffing increases in the Arizona and Kansas City markets. Non-personnel costs increased $\$ 962$ thousand or $15 \%$ due to increased legal, data processing and safekeeping costs.

Brokerage and trading activities provided $\$ 5.8$ million of net income in 2008 compared to $\$ 1.1$ million in 2007 . Operating revenue increased $\$ 14.5$ million due to brokerage and trading revenue and fees earned on margin assets. Brokerage and trading revenue increased $\$ 9.5$ million due primarily to institutional securities sales, customer derivative revenue and retail brokerage fees. In addition, fees on margin assets were up $\$ 3.2$ million, largely offset by a decrease

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in net interest revenue for the cost to fund margin assets. Operating expenses, which consist primarily of compensation expense increased $\$ 4.0$ million or $34 \%$. Incentive compensation expense which is directly related to revenue growth was up $\$ 4.0$ million.

Table 10 - Wealth Management
(Dollars in Thousands)

NIR (expense) from external sources
NIR (expense) from internal sources

Net interest revenue
Three months ended June 30,

| 2008 |  | 2007 |  |  | 2008 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | 7,911 | \$ | 3,480 | \$ | 10,90 |
|  | $(4,170)$ |  | 4,608 |  | (33 |


| Other operating revenue |  | 47,527 |  | 31,957 |  | 91,40 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Operating expense |  | 34,816 |  | 28,746 |  | 68,21 |
| Net loans charged off |  | 807 |  | 393 |  | 1,19 |
| Net income |  | 9,554 |  | 6,672 |  | 19,89 |
| Average assets | \$ | 2,773,578 | \$ | 1,774,525 | \$ | $2,633,30$ |
| Average economic capital |  | 163,410 |  | 160,850 |  | 153,31 |
| Return on assets |  | 1.39\% |  | 1.51\% |  | 1.5 |

Return on economic capital
Efficiency ratio
$23.52 \%$
$67.91 \%$
$16.64 \%$
$71.78 \%$

## Regional Banking

Regional banking consists primarily of the commercial and consumer banking services provided by Bank of Texas, Bank of Albuquerque, Bank of Arkansas, Colorado State Bank and Trust, Bank of Arizona and Bank of Kansas City in their respective markets. It also includes fiduciary services provided by colorado State Bank and Trust. Small businesses and middle-market corporations are the regional banks' primary customer focus. Regional banking contributed net income of $\$ 22.5$ million during the second quarter of 2008 . This compares with net income of $\$ 24.3$ million during the second quarter of 2007 . Net income for the second quarter of 2008 from operations in Texas and Colorado decreased \$1.4 million and $\$ 1.0$ million, respectively, from the previous year. In addition net income from our Arizona banking operations decreased $\$ 628$ thousand. Net income for the second quarter of 2008 from banking operations in New Mexico and Kansas City was up $\$ 860$ thousand and $\$ 361$ thousand, respectively, over the same period of 2007 .

Decrease in net income provided by Texas operations was due primarily to higher operating costs and an increase in net loans charged-off. Net interest revenue increased $\$ 811$ thousand or $2 \%$. Average earning assets increased $\$ 572$ million, including a $\$ 505$ million or $18 \%$ increase in average loans. Average loans totaled $\$ 3.4$ billion for the second quarter of 2008 and $\$ 2.8$ billion for the second quarter of 2007 . Average corporate banking loans increased $\$ 72$ million or $4 \%$ to $\$ 1.9$ billion. Growth in the average outstanding balances of middle market and indirect automobile loans was partially offset by reductions in the average outstanding balances of energy loans. Average community banking loans totaled $\$ 1.2$ billion, up $\$ 368$ million compared with the second quarter of 2007 . Community banking loans were up in Dallas, Houston and Fort Worth. Average consumer loans increased $\$ 40$ million or $62 \%$ over the second quarter of 2007 , primarily in the Fort Worth market. Average deposits totaled $\$ 3.1$ billion for the second quarter of 2008 and $\$ 2.8$ billion for the second quarter of 2007 . Average corporate banking deposits were down $\$ 187$ million or $14 \%$ to $\$ 615$ million. Average community banking deposits increased $\$ 265$ million to $\$ 1.3$ billion, primarily in the Fort Worth market. Average consumer banking deposits totaled $\$ 1.1$ billion for the second quarter of 2008 , up $\$ 168$ million or $18 \%$. Consumer deposit growth was also primarily in the Fort Worth market. Growth in average loans and deposits in the Fort Worth market includes Worth National Bank, which was acquired on May 31, 2007.

Other operating revenue in the Texas market increased $\$ 1.6$ million or $23 \%$ over 2007 due primarily to a $\$ 1.0$ million increase in deposit fees. Operating expenses were up $\$ 3.1$ million or $13 \%$ including a $\$ 1.0$ milion or $8 \%$ increase in personnel costs and a $\$ 2.1$ million increase in non-personnel expense. Net loans charged off totaled $\$ 987$ thousand or $0.12 \%$ of average loans for the second quarter of 2008 compared with a $\$ 609$ thousand net recovery in 2007.

Net income decreased at our Colorado operations $\$ 1.0$ million or $25 \%$ due primarily to increased operating expenses. Other operating revenue increased $\$ 838$ thousand or $27 \%$ due primarily to growth in trust fees and deposit service charges. Trust fees and commissions totaled $\$ 2.8$ million for the second quarter of 2008, up $\$ 248$ thousand over the second quarter of 2007 . The fair value of trust assets overseen by Colorado State Bank and Trust was $\$ 3.0$ billion at June 30, 2008 up 4\% from June 30,2007 . Deposit fees totaled $\$ 593$ thousand for the second quarter of 2008 and \$296
thousand for the second quarter of 2007. Operating expenses in Colorado increased $\$ 2.5$ million or $35 \%$ over the second quarter of last year. Personnel expenses were up $\$ 781$ thousand and non-personnel operating expenses were up $\$ 1.7$ million. Growth in operating expenses included additional expenses from the First United acquisition late in the second quarter of 2007, including a $\$ 254$ thousand increase in intangible asset amortization.

Average earning assets attributed to our Colorado operations increased \$186 million or $13 \%$ to $\$ 1.7$ billion. Securities and funds sold to the funds management unit increased $\$ 69$ million. Average loans totaled $\$ 811$ million for the second quarter of 2008, up $\$ 118$ million or $17 \%$ over 2007 . Average energy loans in the Colorado market increased $\$ 29$ million or $11 \%$. Commercial real estate loans were up $\$ 63$ million or $34 \%$, including commercial real estate loans acquired with First United Bank in the second quarter of 2007 . Average deposits increased $\$ 164$ million or $18 \%$ to $\$ 1.1$ billion, including consumer deposit growth of $\$ 26$ million or $5 \%$ and wealth management deposit growth of $\$ 120$ million or 46\%.

Net income in New Mexico totaled $\$ 5.9$ million for the second quarter of 2008 , up $\$ 860$ thousand or $17 \%$ over the same quarter of 2007 . Net interest revenue increased $\$ 861$ thousand or $7 \%$ and operating revenue was up $\$ 208$ thousand or $5 \%$. Average loans increased $\$ 51$ million or $7 \%$ to $\$ 786$ million for the second quarter of 2008. Average deposits were $\$ 956$ million for the second quarter of 2008 and $\$ 1.0$ billion for 2007. Operating expenses increased $\$ 66$ thousand or 1\% over the second quarter of 2007. Personnel costs in New Mexico increased $\$ 164$ thousand or $5 \%$ and non-personnel operating expense decreased $\$ 98$ thousand.

Net income from banking operations in Arizona decreased $\$ 628$ thousand due primarily to an increase in net loans charged-off. Net loss for the second quarter of 2008 totaled $\$ 148$ thousand compared with net income of $\$ 480$ thousand for the second quarter of 2007 . Net loans charged-off were $\$ 1.3$ million or $0.84 \%$ of average loans for the second quarter of 2008, up from $\$ 1$ thousand in the second quarter of 2007. Net interest revenue grew $\$ 134$ thousand. Average loans increased $\$ 130$ million to $\$ 632$ million. Small business and middle market commercial loans increased $\$ 105$ million compared to the second quarter of 2007. Average commercial real estate loans decreased $\$ 13$ million or $7 \%$ in Phoenix and increased $\$ 40$ million or $25 \%$ in Tucson. Other operating revenue increased $\$ 97$ thousand and operating expenses decreased $\$ 68$ thousand or $2 \%$.

Net income from banking operations in the Kansas City market was up \$361 thousand compared with the second quarter of 2007. Net interest revenue increased $\$ 904$ thousand and other operating revenue was up $\$ 948$ thousand. Average loans increased $\$ 200$ million to $\$ 406$ million due primarily to growth in commercial loans. Average deposits were up $\$ 36$ million to $\$ 89$ million. Operating expenses for the second quarter of 2008 totaled $\$ 3.2$ million, up $\$ 571$ thousand over the second quarter of 2007. Net loans charged off were $\$ 690$ thousand or $0.68 \%$ of average loans for the second quarter of 2008 , up from $\$ 1$ thousand in the second quarter of 2007.

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Table 11 - Bank of Texas
(Dollars in Thousands)
Three months ended June 30,

|  | 2008 |  | 2007 |  | 2008 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | 44,485 | \$ | 45,929 | \$ | 89,44 |
|  | $(5,228)$ |  | $(7,483)$ |  | $(12,21$ |



| Net interest revenue |  | 3,036 |  | 2,470 |  | 5,79 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Other operating revenue |  | 288 |  | 310 |  | 6 |
| Operating expense |  | 1,158 |  | 1,098 |  | 2,22 |
| Gains on financial instruments, net |  | - |  | - |  |  |
| Net loans charged off |  | 782 |  | 264 |  | 1,35 |
| Net income |  | 846 |  | 867 |  | 1,75 |
| Average assets | \$ | 426,386 | \$ | 333,995 | \$ | 419,10 |
| Average economic capital |  | 26,090 |  | 19,430 |  | 22, 22 |
| Average invested capital |  | 26,090 |  | 19,430 |  | 22,22 |
| Return on assets |  | $0.80 \%$ |  | $1.04 \%$ |  | 0.8 |
| Return on economic capital |  | $13.04 \%$ |  | $17.90 \%$ |  | 15.8 |
| Return on average invested capital |  | $13.04 \%$ |  | $17.90 \%$ |  | 15.8 |
| Efficiency ratio |  | $34.84 \%$ |  | $39.50 \%$ |  | 34.4 |

Table 14 - Colorado State Bank and Trust
(Dollars in Thousands)

NIR (expense) from external sources
NIR (expense) from internal sources

Net interest revenue

Other operating revenue
Operating expense
Gains on financial instruments, net
Net loans charged off
Net income

Average assets
Average economic capital
Average invested capital

Return on assets
Return on economic capital
Return on average invested capital
Efficiency ratio

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Table 15 - Bank of Arizona
(Dollars in Thousands)

NIR (expense) from external sources
NIR (expense) from internal sources

Net interest revenue

Three months ended June 30,

| 2008 |  | 2007 |  | 2008 |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | $\begin{aligned} & 14,873 \\ & (4,233) \end{aligned}$ | \$ | $\begin{gathered} 17,734 \\ (7,123) \end{gathered}$ | \$ | $\begin{aligned} & 31,80 \\ & (9,79 \end{aligned}$ |
|  | 10,640 |  | 10,611 |  | 22,01 |
|  | 3,995 |  | 3,157 |  | 7,74 |
|  | 9,727 |  | 7,197 |  | 20,23 |
|  | - |  | - |  |  |
|  | 17 |  | 7 |  | 43 |
|  | 3,004 |  | 4,011 |  | 5,62 |
| \$ | 1,865,368 | \$ | 1,594,657 | \$ | 1,888,79 |
|  | 111,620 |  | 78,030 |  | 110,43 |
|  | 166,920 |  | 133,330 |  | 165,72 |
|  | $0.65 \%$ |  | 1.01\% |  | 0.6 |
|  | 10.82\% |  | $20.62 \%$ |  | 10.2 |
|  | $7.24 \%$ |  | $12.07 \%$ |  | 6.8 |
|  | $66.46 \%$ |  | $52.27 \%$ |  | 68.0 |


| 2008 |  | 2007 |  |  | 2008 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | $\begin{gathered} 8,175 \\ (3,119) \end{gathered}$ | \$ | $\begin{aligned} & 10,185 \\ & (5,263) \end{aligned}$ | \$ | $\begin{aligned} & 16,96 \\ & (6,98 \end{aligned}$ |
|  | 5,056 |  | 4,922 |  | 9,97 |


| Other operating revenue |  | 281 |  | 184 |  | 55 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Operating expense |  | 4,251 |  | 4,319 |  | 8,32 |
| Net loans charged off |  | 1,329 |  | 1 |  | 2,14 |
| Net income (loss) |  | (148) |  | 480 |  |  |
| Average assets | \$ | 638,673 | \$ | 576,311 | \$ | 616,5 |
| Average economic capital |  | 63,910 |  | 50,320 |  | 61,55 |
| Average invested capital |  | 80,560 |  | 66,970 |  | 78,20 |
| Return on assets |  | (0.09) \% |  | $0.33 \%$ |  | 0. |
| Return on economic capital |  | (0.93) \% |  | 3.83\% |  | 0. |
| Return on average invested capital |  | (0.74) \% |  | 2.87\% |  | 0.1 |
| Efficiency ratio |  | 79.65\% |  | 84.59\% |  | 79. |

```
Table 16 - Bank of Kansas City
    (Dollars in Thousands)
```

Three months ended June 30,

|  | 2008 |  | 2007 |  | 2008 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | $\begin{gathered} 4,812 \\ (2,342) \end{gathered}$ | \$ | $\begin{gathered} 4,023 \\ (2,457) \end{gathered}$ | \$ | $\begin{array}{r} 9,76 \\ (5,08 \end{array}$ |
|  | 2,470 |  | 1,566 |  | 4,68 |
|  | 1,703 |  | 755 |  | 2,44 |
|  | 3,170 |  | 2,599 |  | 5,74 |
|  | 690 |  | 1 |  | 2,37 |
|  | 191 |  | (170) |  | (60 |
| \$ | 460,542 | \$ | 258,100 | \$ | 429,15 |
|  | 26,690 |  | 13,330 |  | 26,39 |
|  | 26,690 |  | 13,330 |  | 26,39 |
|  | $0.17 \%$ |  | (0.26) \% |  | (0.2 |
|  | 2.88\% |  | (5.12) \% |  | (4.6 |
|  | 2.88\% |  | (5.12) \% |  | (4. |
|  | 75.96\% |  | 111.98\% |  | 80.5 |

Financial Condition

Securities

Investment securities, which consist primarily of Oklahoma municipal bonds, are carried at cost and adjusted for amortization of premiums or accretion of discounts. At June 30,2008 , investment securities were carried at $\$ 246$ million and had a fair value of $\$ 243$ million. Management has the ability and intent to hold these securities until they mature.

Available for sale securities, which may be sold prior to maturity, are carried at fair value. Unrealized gains or losses, less deferred taxes, are recorded as accumulated other comprehensive income in shareholders' equity. The amortized cost of available for sale securities totaled $\$ 6.0$ billion at June 30, 2008, up $\$ 337$ million compared with March 31, 2008. Mortgage-backed securities represented $97 \%$ of total available for sale securities.

The primary risk of holding mortgage-backed securities comes from extension during periods of rising interest rates or prepayment during periods of falling interest rates. We evaluate this risk through extensive modeling of risk both before

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making an investment and throughout the life of the security. The expected duration of the mortgage-backed securities portfolio was approximately 2.9 years at June 30, 2008. Management estimates that the expected duration would extend to approximately 3.3 years assuming a 300 basis point immediate rate shock. Mortgage-backed securities also have credit risk from delinquency or default of the underlying loans. The Company mitigates this risk by primarily investing in securities issued by U.S. government agencies. Principal and interest payments on the underlying loans are either fully or partially guaranteed. Credit risk on mortgage-backed securities originated by private issuers is mitigated by investment in senior tranches with additional collateral support.

The Company has invested $\$ 46$ million in variable rate perpetual preferred stocks issued by seven major banks and brokerage houses. Although these issuers remain rated investment grade by the major rating agencies and all scheduled dividend payments have been made, the fair values of these stocks declined to $\$ 32$ million at as of June 30, 2008. Cumulative other-than-temporary impairment charges of $\$ 14$ million have been recognized. The fair value of these securities has decreased an additional $\$ 5.1$ million since June 30, 2008.

Net unrealized losses on available for sale securities totaled $\$ 91$ million at June 30, 2008 compared with net unrealized losses of $\$ 28$ million at March 31, 2008. The aggregate gross amount of unrealized losses at June 30, 2008 totaled $\$ 123$ million. Management evaluated the securities with unrealized losses to determine if we believe that the losses were temporary. This evaluation considered factors such as causes of the unrealized losses and prospects for recovery over various interest rate scenarios and time periods. The portfolio does not hold any securities backed by sub-prime mortgage loans, collateralized debt obligations or collateralized loan obligations. Approximately $\$ 416$ million of Alt-A mortgage-backed securities were held at June 30, 2008 with a total unrealized loss of $\$ 29$ million. Approximately $82 \%$ of the Alt-A backed securities, including all Alt-A mortgage-backed securities originated in 2006 and 2007, are AAA rated and are credit enhanced with additional collateral support. Approximately $86 \%$ of all of our Alt-A mortgage-backed securities represent pools of fixed-rate mortgage loans. Management does not believe that any of the unrealized losses were due to credit concerns. We also considered our intent and ability to either hold or sell the securities. It is our belief, based on currently available information and our evaluation, that the unrealized losses in these securities were temporary.

Certain mortgage-backed securities, identified as mortgage trading securities, have been designated as economic hedges of mortgage servicing rights. These securities are carried at fair value with changes in fair value recognized in current period income. These securities are held with the intent that gains or losses will offset changes in the fair value of mortgage servicing rights. The Company also maintains a separate trading portfolio. Trading portfolio securities, which are also carried at fair value with changes in fair value recognized in current period income, are acquired and held with the intent to sell at a profit to the Company.

## Loans

The aggregate loan portfolio before allowance for loan losses totaled \$12.6 billion at June 30, 2008, a $\$ 250$ million or $8 \%$ annualized increase since March 31, 2008. Loan growth was broadly distributed among the various segments of the
portfolio and across all geographic markets.

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## Table 17 - Loans

(In thousands)

| June 30, | March 31, | Dec. 31, |  |
| :---: | :---: | :---: | :---: |
| 2008 | 2008 | 2007 | Sept. |
| 2007 |  |  |  |

Commercial:

| Energy | \$ | 1,895,050 | \$ | 1,966,996 | \$ | 1,954,967 | \$ | 1,852, 6 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Services |  | 1,848,360 |  | 1,784,723 |  | 1,721,143 |  | 1,671, 2 |
| Wholesale/retail |  | 1,226,875 |  | 1,206,224 |  | 1,081,172 |  | 1,039, |
| Manufacturing |  | 542,019 |  | 542,297 |  | 493,185 |  | 536,6 |
| Healthcare |  | 747,434 |  | 733,086 |  | 680,294 |  | 648, 8 |
| Agriculture |  | 253,198 |  | 248,345 |  | 236,860 |  | 259, |
| Other commercial and industrial |  | 525,637 |  | 475,187 |  | 569,884 |  | 501, |
| Total commercial |  | 7,038,573 |  | 6,956,858 |  | 6,737,505 |  | $6,510,3$ |
| Commercial real estate: |  |  |  |  |  |  |  |  |
| Construction and land development |  | 1,021,135 |  | 1,066,096 |  | 1,004,547 |  | 975, |
| Multifamily |  | 251,325 |  | 236,787 |  | 214,388 |  | 234, |
| Other real estate loans |  | 1,555,037 |  | 1,529,041 |  | 1,531,537 |  | 1,575,0 |
| Total commercial real estate |  | 2,827,497 |  | 2,831,924 |  | 2,750,472 |  | 2,785,0 |

Residential mortgage:
Secured by 1-4 family residential
properties $1,607,5971,529,769 \quad 1,531,2961,497,5$


Consumer:


The commercial loan portfolio increased $\$ 82$ million during the second quarter of 2008 to $\$ 7.0$ billion at June 30, 2008. Energy loans totaled $\$ 1.9$ billion or $15 \%$ of total loans. Outstanding energy loans decreased $\$ 72$ million during the second quarter of 2008 , including a $\$ 46$ million decrease in net outstanding balances and a $\$ 26$ million charge off of SemGroup loans. Approximately $\$ 1.6$ billion of energy loans was to oil and gas producers, down from \$1.7 billion at March 31, 2008. The amount of credit available to these customers generally depends on a percentage of the value of their proven energy reserves based on anticipated prices. The energy category also included loans to borrowers involved in the transportation and sale of oil and gas and to borrowers that manufacture
equipment or provide other services to the energy industry. The energy category of our loan portfolio is distributed $\$ 1.0$ billion in Oklahoma, $\$ 576$ million in Texas and $\$ 295$ million in Colorado.

The services sector of the loan portfolio totaled $\$ 1.8$ billion or $15 \%$ of total loans and consists of a large number of loans to a variety of businesses, including communications, gaming and transportation services. Approximately $\$ 1.3$ billion of the services category is made up of loans with individual balances of less than $\$ 10$ million. Approximately $\$ 703$ million of the outstanding balance of services loans is attributed to Texas, $\$ 558$ million to Oklahoma, $\$ 238$ million to New Mexico, $\$ 134$ million to Arizona and $\$ 104$ million to Colorado.

Other notable loan concentrations by primary industry of the borrowers are presented in Table 17.

BOK Financial participates in shared national credits when appropriate to obtain or maintain business relationships with local customers. Shared national credits are defined by banking regulators as credits of more than $\$ 20$ million and with three or more non-affiliated banks as participants. At June 30, 2008, the outstanding principal balance of these loans totaled $\$ 1.7$ billion. Substantially all of these loans are to borrowers with local market relationships. BOK Financial serves as the agent lender in approximately $24 \%$ of its shared national credits, based on dollars committed. The Company's lending policies generally avoid loans in which we do not have the opportunity to maintain or achieve other business relationships with the customer.

Commercial real estate loans totaled $\$ 2.8$ billion or $22 \%$ of the loan portfolio at June 30, 2008. Over the past five years, the percentage of commercial real estate loans to our total loan portfolio ranged from $20 \%$ to $23 \%$. The outstanding balance of commercial real estate loans decreased $\$ 4$ million or $1 \%$ annualized from the previous quarter end. Construction and land development loans decreased $\$ 45$ million to $\$ 1.0$ billion. Loans secured by multifamily

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residential property increased $\$ 15$ million and loans secured by other commercial real estate increased $\$ 26$ million.

Loans secured by land, residential lots and construction totaled \$1.0 billion at June 30, 2008. Approximately $\$ 265$ million of these loans are attributed to the Oklahoma market, $\$ 299$ million to the Texas market, $\$ 180$ million to the Colorado market and $\$ 173$ million to the Arizona market. Other commercial real estate loans totaled $\$ 1.6$ billion at June 30,2008 . The geographic distribution of these loans included $\$ 547$ million in Oklahoma, $\$ 484$ million in Texas, $\$ 186$ million in New Mexico, $\$ 162$ million in Arizona and $\$ 87$ million in Colorado. The major components of other commercial real estate loans were retail facilities $\$ 378$ million, office buildings - \$423 million and industrial facilities - \$180 million.

Residential mortgage loans, excluding loans held for sale, totaled \$1.6 billion, up $\$ 78$ million since March 31, 2008. At June 30, 2008, residential mortgage loans included $\$ 477$ million of home equity loans, $\$ 520$ million of loans held for business relationship purposes, $\$ 447$ million of adjustable rate mortgages and $\$ 138$ million of loans held for community development. Loans held for business relationship purposes increased $\$ 57$ million and adjustable rate mortgage loans increased $\$ 22$ million since March 31, 2008. We have no concentration in sub-prime residential mortgage loans. Our portfolio of adjustable rate mortgage loans is generally underwritten to prime standards and does not include loans with initial rates that are below market.

At June 30, 2008, consumer loans included $\$ 735$ million of indirect automobile loans. Approximately $\$ 476$ million of these loans were purchased from dealers in

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Oklahoma and $\$ 181$ million were purchased from dealers in Arkansas. The remaining $\$ 78$ million were purchased from dealers in Texas. Indirect automobile loans grew $\$ 49$ million since March 31, 2008, including $\$ 27$ million in Texas, $\$ 15$ million in Oklahoma and $\$ 7$ million in Arkansas. Approximately 7\% of the outstanding balance at June 30,2008 is considered near-prime, which is defined as loans to borrowers that had poor credit in the past but have re-established credit over a period of time. We generally do not originate sub-prime indirect automobile loans.

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Table 18 - Loans by Principal Market Area
(In thousands)

| June 30, | March 31, | Dec. 31, |  |
| :---: | :---: | :---: | :---: |
| 2008 | 2008 | 2007 | Sept. |
| 2007 |  |  |  |

Oklahoma:


Texas:

Commercial
Commercial real estate
Residential mortgage
Consumer

Total Texas

New Mexico:
Commercial
Commercial real estate
Residential mortgage
Consumer

Total New Mexico

Arkansas:
Commercial
Commercial real estate
Residential mortgage
Consumer

Total Arkansas

Colorado:
Commercial
Commercial real estate
Residential mortgage
Consumer

| $2,166,925$ | $\$$ | $2,124,192$ | $\$$ | $1,985,645$ | $\$$ | $1,941,7$ |
| ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| 889,364 | 838,781 |  | 846,303 | 913,9 |  |  |
| 299,996 |  | 262,305 |  | 275,533 | 266,8 |  |
| 204,081 | 168,949 |  | 142,958 | 133,3 |  |  |
|  | $\$$ | $3,560,366$ | $\$$ | $3,394,227$ | $\$$ | $3,250,439$ |


| \$ | 451,225 | \$ | 472,543 | \$ | 473,262 | \$ | 446,5 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 271,177 |  | 258,731 |  | 252,884 |  | 256,9 |
|  | 89,469 |  | 85,834 |  | 84,336 |  | 83, 2 |
|  | 16,977 |  | 14,977 |  | 16,105 |  | 15,7 |
| \$ | 828,848 | \$ | 832,085 | \$ | 826,587 | \$ | 802,6 |


| \$ | 96,775 | \$ | 100,489 | \$ | 106,328 | \$ | 117,9 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 124,049 |  | 130,956 |  | 124,317 |  | 107,5 |
|  | 19,527 |  | 16,621 |  | 16,393 |  | 18, 4 |
|  | 197,979 |  | 180,551 |  | 163,626 |  | 148, 4 |
| \$ | 438,330 | \$ | 428,617 | \$ | 410,664 | \$ | 392,3 |


| 489,844 | $\$$ | 486,525 |  |  |
| ---: | ---: | ---: | ---: | ---: | ---: |
| 276,062 |  | $\$ 1,099$ |  | 490,373 |
| 38,517 |  | 31,011 |  | $\$ 91,2$ |
| 16,367 |  | 17,552 | 26,556 | 247,8 |
|  |  | 16,457 | 26,3 |  |
|  |  | 18,6 |  |  |



| \$ | 207,173 | \$ | 174,360 | \$ | 157,341 | \$ | 147, |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 351,058 |  | 361,567 |  | 342,673 |  | 349, |
|  | 53,321 |  | 50,719 |  | 46,269 |  | 43, |
|  | 5,315 |  | 6,815 |  | 5,522 |  | 5, |
| \$ | 616,867 | \$ | 593,461 | \$ | 551,805 | \$ | 545, |



## Loan Commitments

BOK Financial enters into certain off-balance sheet arrangements in the normal course of business. These arrangements included loan commitments which totaled $\$ 5.6$ billion and standby letters of credit which totaled $\$ 626$ million at June 30, 2008. Loan commitments may be unconditional obligations to provide financing or conditional obligations that depend on the borrower's financial condition, collateral value or other factors. Standby letters of credit are unconditional commitments to guarantee the performance of our customer to a third party. Since some of these commitments are expected to expire before being drawn upon, the total commitment amounts do not necessarily

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represent future cash requirements. Standby letters of credit issued on behalf of customers whose loans are non-performing totaled approximately $\$ 14$ million.

The Company also has off-balance sheet commitments for residential mortgage loans sold with full or partial recourse. These loans consist of first lien, fixed rate residential mortgage loans originated under various community development programs and sold to U.S. government agencies. These loans were underwritten to standards approved by the agencies, including full documentation and focused primarily on first-time homebuyers. However, these loans have a higher risk of delinquency and losses given default than traditional residential mortgage loans. A separate recourse reserve is maintained as part of other liabilities. At June 30, 2008, the principal balance of loans sold subject to recourse obligations totaled $\$ 400$ million. Approximately $\$ 15$ million of these loans were originated in 2008, $\$ 107$ million in 2007 and $\$ 89$ million in 2006 . Substantially all of these loans are to borrowers in our primary markets including $\$ 281$ million to borrowers in Oklahoma, $\$ 45$ million to borrowers in Arkansas, $\$ 23$ million to borrowers in New Mexico, $\$ 19$ million to borrowers in the Kansas City area and $\$ 17$ million to borrowers in Texas. These programs to originate and sell mortgage loans with recourse were discontinued in the first quarter of 2008.

We maintain a separate reserve for this off-balance commitment which totaled
$\$ 7.5$ million at June 30, 2008. Approximately $2.12 \%$ of the loans sold with recourse with an outstanding principal balance of $\$ 8.7$ million were either delinquent more than 90 days, in bankruptcy or in foreclosure. The provision for credit losses on loans sold with recourse, which is included in mortgage banking costs, was $\$ 2.9$ million for the second quarter of 2008. Net losses charged against the reserve totaled $\$ 1.3$ million for the second quarter of 2008 .

Derivatives with Credit Risk

The Company offers programs that permit its customers to hedge various risks, including fluctuations in energy, cattle and other agricultural product prices, interest rates and foreign exchange rates, or to take positions in derivative contracts. Each of these programs work essentially the same way. Derivative contracts are executed between the customers and BOK Financial. Offsetting contracts are executed between the Company and selected counterparties to minimize the risk to us of changes in commodity prices, interest rates or foreign exchange rates. The counterparty contracts are identical to the customer contracts, except for a fixed pricing spread or a fee paid to us as compensation for administrative costs, credit risk and profit.

Our customer energy hedging program is an integral part of our energy lending. This program allows customers that either produce, purchase, store or transport oil and natural gas to hedge their commodity price risk. We believe that a customer's prudent hedging strategy reduces our overall credit exposure. Generally, the fair value of customer contracts will increase or decrease in direct relation to the fair value of their oil or natural gas reserves or their obligations to acquire or deliver energy products. For example, the amount a customer owes us to settle an energy contract may increase as market prices for that commodity increase. The market price for the oil or natural gas owned by that customer will also increase as the market prices for that commodity increase. This relationship is one way our customer energy derivative contracts remain well-secured as energy prices change.

The customer derivative programs create credit risk for potential amounts due to the Company from its customers and from the counterparties. Customer credit risk is monitored through existing credit policies and procedures. The effects of changes in commodity prices, interest rates or foreign exchange rates are evaluated across a range of possible options to determine the maximum exposure we are willing to have individually to any customer. Customers may also be required to provide margin collateral to further limit our credit risk.

Counterparty credit risk is evaluated through existing policies and procedures. This evaluation considers the total relationship between BOK Financial and each of the counterparties. Individual limits are established by management, approved by Credit Administration and reviewed by the Asset / Liability Committee. Margin collateral is required if the exposure between the company and any counterparty exceeds established limits. Based on declines in the counterparties' credit ratings, these limits are reduced and additional margin collateral is required.

A deterioration of the credit standing of one or more of the customers or counterparties to these contracts may result in BOK Financial recognizing a loss as the fair value of the affected contracts may no longer move in tandem with the offsetting contracts. This occurs if the credit standing of the customer or counterparty deteriorated such that either the fair value of underlying collateral no longer supported the contract or the customer or counterparty's ability to provide margin collateral was impaired. At June 30, 2008, the fair value of derivative contracts with SemGroup was reduced to approximately $\$ 37$ million and a charge of $\$ 61$ million was recognized because of their bankruptcy filing on July 22, 2008 and the estimated value of the underlying collateral no longer supported the contracts.

At June 30,2008 , the fair values of derivative contracts reported as assets
under these programs totaled $\$ 1.4$ billion. This included energy contracts with fair values of $\$ 1.3$ billion, interest rate contracts with fair values of $\$ 73$ million,

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agricultural product contracts with fair values of $\$ 12$ million and foreign exchange contracts with fair values of $\$ 18$ million. The aggregate net fair values of derivative contracts reported as liabilities totaled \$1.4 billion. As of January 1, 2008, the Company adopted FASB Staff Position FIN 39-1 which permits offsetting of cash collateral against the fair value of derivative instruments executed with the same counterparty under a master netting agreement. The aggregate net fair value of derivative liabilities at June 30 , 2008 was $\$ 455$ million after offsetting $\$ 990$ million of cash collateral.

Approximately $\$ 1.3$ billion or $98 \%$ of the fair value of asset energy contracts was with customers. Approximately $\$ 989$ million of the fair value of the asset energy contracts are with energy producing customers. Credit risk of these contracts is backed by energy production owned by these customers. Approximately $\$ 252$ million or $20 \%$ of the fair value of energy contracts, including $\$ 37$ million of contracts with SemGroup, are with customers which store or transport energy products. Contracts with the five largest non-energy producing customers, including SemGroup, total approximately $\$ 222$ million. Credit risk of these contracts is backed by physical product and other collateral, including cash margin held by the Company and letters of credit issued by third-party banks for the benefit of the Company. The remaining $2 \%$ of the fair value of asset energy contracts was with dealer counterparties, consisting primarily of highly-rated financial institutions and energy companies. The maximum net exposure to any single customer totaled $\$ 129$ million at June 30, 2008.

At July 31, 2008, the fair value of derivative contracts reported as assets under our customer hedging programs totaled $\$ 748$ million, down $\$ 631$ million from $\$ 1.4$ billion at June 30,2008 due primarily to decreases in energy prices and contractual cash settlements. At July 31, 2008, the fair value of derivative liabilities totaled $\$ 843$ million, down $\$ 602$ million from $\$ 1.4$ billion at June 30, 2008. The decrease in the fair value of derivative liabilities reduced our obligation to place cash margin collateral with our counterparties. Cash margin collateral placed by us to secure our obligations to dealer counterparties decreased $\$ 564$ million during July to $\$ 426$ million at July 31, 2008. The loss in fair value of SemGroup contracts, net of gains on amounts owed to energy dealers on related contracts, decreased $\$ 14.7$ million during July 2008 due to decreases in energy prices. This reduction in net loss increases brokerage and trading revenue in the third quarter. However, the net loss on SemGroup contracts is subject to further changes during the third quarter until the settlement prices on open contracts become fixed. At July 31, 2008, approximately $\$ 160$ million of the fair value of energy contracts are with customers which store or transport energy products. Contracts with the five largest non-energy producing customers, including SemGroup, total approximately $\$ 151$ million. The maximum net exposure to any single customer totaled $\$ 95$ million at July 31, 2008.

## Summary of Loan Loss Experience

BoK Financial maintains separate reserves for loan losses and reserves for off-balance sheet credit risk. Combined, these reserves totaled $\$ 177$ million or $1.41 \%$ of outstanding loans at June 30 , 2008 and $\$ 156$ million or $1.27 \%$ of outstanding loans at March 31, 2008.

The reserve for loan losses, which is available to absorb losses inherent in the loan portfolio, totaled $\$ 154$ million at June 30,2008 compared with $\$ 137$ million at March 31, 2008. These amounts represented $1.23 \%$ and $1.11 \%$ of outstanding loans, excluding loans held for sale, at June 30, 2008 and March 31, 2008, respectively. Losses on loans held for sale, principally mortgage loans

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accumulated for placement into security pools, are charged to earnings through adjustment in the carrying value. The reserve for loan losses also represented $96 \%$ of outstanding balance of nonperforming loans at June 30, 2008 compared to $123 \%$ at March 31, 2008. Net loans charged off during the second quarter of 2008 totaled $\$ 39.0$ million compared to $\$ 8.9$ million in the previous quarter and $\$ 5.8$ million in the second quarter of 2007 . Charge-offs of SemGroup loans were $\$ 26.0$ million. The ratio of net loans charged off to average outstanding loans was $1.26 \%$ for the second quarter of 2008 compared with $0.29 \%$ in first quarter of 2008. Net commercial loan charge-offs, excluding SemGroup and net commercial real estate loan charge-offs increased $\$ 2.9$ million and $\$ 924$ thousand, respectively, compared with the previous quarter. Subsequent to June 30, 2008, the Company recovered $\$ 11.1$ million on two loans charged off in previous years. These recoveries will increase the allowance for loan losses in the third quarter of 2008.

Consumer loan net charge-offs, which includes indirect auto loan and deposit account overdraft losses, totaled $\$ 2.9$ million for the second quarter of 2008 , up $\$ 168$ thousand over the previous quarter. Net charge-offs of indirect auto loans totaled $\$ 1.7$ million for the second quarter of 2008 and $\$ 1.6$ million for the first quarter of 2008. Net indirect auto loans charged off were $\$ 950$ thousand in the Oklahoma market, $\$ 692$ thousand in the Arkansas market and $\$ 56$ thousand in the Texas market. Approximately $1.95 \%$ of the indirect automobile loan portfolio is past due 30 days or more, including 2.03\% in Oklahoma, 2.03\% in Arkansas and 1.27\% in Texas. At March 31, 2008, approximately $1.96 \%$ of the indirect automobile loan portfolio was past due 30 days or more.

The Company considers the credit risk from loan commitments and letters of credit in its evaluation of the adequacy of the reserve for loan losses. A separate reserve for off-balance sheet credit risk is maintained. Table 19 presents the trend of reserves for off-balance sheet credit losses and the relationship between the reserve and loan commitments. The

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relationship between the combined reserve for credit losses and outstanding loans is also presented for comparison with peer banks and others who have not adopted the preferred presentation. The provision for credit losses included the combined charge to expense for both the reserve for loan losses and the reserve for off-balance sheet credit losses. All losses incurred from lending activities will ultimately be reflected in charge-offs against the reserve for loan losses following funds advanced against outstanding commitments and after the exhaustion of collection efforts.

Table 19 - Summary of Loan Loss Experience (In thousands)

Three Months Ended


Reserve for loan losses:

| Beginning balance | \$ | 136,584 | \$ | 126,677 | \$ | 121,932 | \$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Loans charged off: |  |  |  |  |  |  |  |
| Commercial |  | 33,502 |  | 4,244 |  | 2,731 |  |
| Commercial real estate |  | 2,572 |  | 1,602 |  | 1,369 |  |
| Residential mortgage |  | 1,068 |  | 814 |  | 891 |  |
| Consumer |  | 4,384 |  | 4,418 |  | 3,939 |  |
| Total |  | 41,526 |  | 11,078 |  | 8,930 |  |


(1) Excludes residential mortgage loans held for sale.

Specific impairment reserves are determined through evaluation of estimated future cash flows and collateral value. At June 30, 2008, specific impairment reserves totaled $\$ 11.0$ million on total impaired loans of $\$ 139$ million. Specific impairment reserves were $\$ 5.2$ million on total impaired loans of $\$ 90$ million at March 31, 2008.

Nonspecific reserves are maintained for risks beyond factors specific to an individual loan or those identified through migration analysis. A range of potential losses is determined for each risk factor identified. The range of nonspecific reserves for general economic factors includes their effect on our commercial, residential mortgage and consumer loan portfolios. Nonspecific reserves attributed to general economic conditions increased in the second quarter of 2008. Weakness in the economy became more apparent due to rising materials, food and energy prices along with continued weakness in residential real estate markets.

The provision for credit losses totaled $\$ 59.3$ million for the second quarter of 2008, $\$ 17.6$ million for the first quarter of 2008 and $\$ 7.8$ million for the second quarter of 2007. The second quarter of 2008 provision included $\$ 26.3$ million directly related to the Company's loans and loan commitments to SemGroup. Other factors considered in determining
the provision for credit losses included trends in net losses and nonperforming loans, the application of statistical migration factors to loan growth and concentrations in commercial real estate and residential homebuilder loans. In addition, the outstanding balances of criticized and classified loans and potential problem loans increased.

## Nonperforming Assets

Information regarding nonperforming assets, which totaled $\$ 181$ million at June 30, 2008 and $\$ 126$ million at March 31, 2008, is presented in Table 20 . Nonperforming assets included nonaccrual and renegotiated loans and excluded loans 90 days or more past due but still accruing interest. Total nonperforming assets were 1.45\% of period-end loans and repossessed assets at June 30, 2008, up from 1.02\% at March 31, 2008. At June 30, 2008, nonperforming assets excluded $\$ 47$ million of amounts due from SemGroup under derivative contracts and outstanding letters of credit that have not been funded. Amounts due under the derivative contracts will be reclassified as loans and reported as nonperforming if not paid on their contractual settlement dates, primarily in the third quarter of 2008. If all amounts due from SemGroup had been reported as loans at June 30, 2008, nonperforming assets and nonperforming assets as a percent of period-end loans and repossessed assets would have been $\$ 229$ million and $1.82 \%$, respectively.

Nonaccrual loans totaled $\$ 149$ million at June 30,2008 and $\$ 99$ million at March 31, 2008. Newly identified nonaccrual loans totaled $\$ 100$ million during the second quarter, including $\$ 38$ million of loans to SemGroup. Newly identified nonaccrual loans also included $\$ 24$ million of loans to residential homebuilders and $\$ 12$ million to a mortgage lender. Nonaccrual loans decreased $\$ 33$ million for loans charged off and foreclosed, including $\$ 26$ million of loans to SemGroup, and $\$ 16$ million for cash payments received. The net increase in nonaccrual loans to SemGroup during the second quarter of 2008 totaled $\$ 12$ million. Approximately \$12 million of nonaccrual loans are subject to the First United Bank sellers' escrow.

Nonaccrual commercial loans totaled $\$ 70$ million at June 30,2008 and $\$ 42$ million at March 31, 2008. In addition to $\$ 12$ million of nonaccrual loans to SemGroup and a $\$ 12$ million nonaccrual loan to a mortgage lender, nonaccrual commercial loans consisted primarily of loans in the services and manufacturing sectors of the portfolio. None of the other nonaccrual commercial loans exceeded \$10 million. Approximately $\$ 40$ million of nonaccrual commercial loans are to borrowers in the Oklahoma market, $\$ 6$ million are in the Texas market, \$17 million are in the Colorado market and $\$ 4$ million are in the New Mexico market.

Nonaccrual commercial real estate loans totaled $\$ 60$ million at June 30, 2008 and $\$ 40$ million at March 31, 2008. Approximately $\$ 45$ million are loans secured by land and residential lots and construction, including $\$ 30$ million in Arizona ( $\$ 7$ million in Tucson and $\$ 23$ million in Phoenix), $\$ 6$ million in Texas and $\$ 5$ million in Colorado. Other significant nonaccrual commercial real estate loans included $\$ 5.3$ million of retail facilities in New Mexico.

In addition to nonaccrual loans, nonperforming assets included $\$ 12$ million of renegotiated loans and $\$ 21$ million of real estate and other repossessed assets. Renegotiated loans consisted of residential mortgage loans and indirect automobile loans whose original terms have been modified. Approximately $\$ 8.6$ million of renegotiated loans are residential mortgage loans guaranteed by agencies of the U.S. government. Real estate and other repossessed assets included $\$ 8$ million of single family residential properties, $\$ 5$ milion of land and single family lots and construction, $\$ 3$ million of manufacturing facilities and $\$ 2$ million of automobiles. The geographic distribution of real estate and

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other repossessed assets included $\$ 6$ million in Oklahoma, $\$ 3$ million in New Mexico, $\$ 3$ million in Colorado, $\$ 4$ million in Arkansas, $\$ 3$ million in Texas and $\$ 2$ million in Arizona. Approximately $\$ 1.7$ million of real estate and other repossessed assets are subject to the First United Bank sellers' escrow.

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Table 20 - Nonperforming Assets
(In thousands)

| June 30, | March 31, | Dec. 31, | Sept |
| :---: | :---: | :---: | :---: |
| 2008 | 2008 | 2007 | 20 |

Nonaccrual loans:


Ratios:

(1) Excludes residential mortgage loans held for sale.
(2) Includes residential mortgages guaranteed by agencies of the U.S. Government. $\$ \quad 1,015 \quad \$ \quad 788 \quad \$ \quad 1,017$ \$ 1 ,
(3) Includes residential mortgages guaranteed by agencies of the U.S. Government.
These loans have been modified to extend $\begin{array}{llll}\text { payment terms and/or reduce interest } & 8,638 & 8,386 & 7,550\end{array}$ rates to current market.
(4) Includes loans subject to First United $\begin{array}{llll}\text { Bank sellers escrow. 11,973 8, } & 812\end{array}$

The loan review process also identified loans that possess more than the normal amount of risk due to deterioration in the financial condition of the borrower or the value of the collateral. Because the borrowers are still performing in accordance with the original terms of the loan agreements, and no loss of principal or interest is anticipated, these loans were not included in Nonperforming Assets. Known information does, however, cause management concern as to the borrowers' ability to comply with current repayment terms. These potential problem loans totaled $\$ 40$ million at June 30, 2008 and $\$ 31$ million at March 31, 2008. The current composition of potential problem loans by primary industry included real estate - $\$ 16$ million, healthcare - $\$ 9$ million and services - \$10 million. Potential problem real estate loans consisted primarily of loans to residential builders in the Arizona market of $\$ 12$ million.

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Deposits

Deposit accounts represent our largest funding source. Average deposits represented approximately $62 \%$ of total liabilities and capital for the second quarter of 2008, down from $67 \%$ for the second quarter of 2007 and $64 \%$ for the first quarter of 2008. The decrease in average deposits relative to other funding sources is due largely to the structuring of our balance sheet to be relatively neutral to changes in interest rates. Other borrowed funds increased to fund an increase in average securities to implement this interest rate risk management strategy and an increase in margin assets. In addition, competition has increased the cost of deposits compared to other funding sources in many of our markets.

Average deposits totaled $\$ 13.3$ billion for the second quarter of 2008 , $\mathrm{a} \$ 915$ million or $7 \%$ increase over the second quarter of 2007 . Average deposits increased $\$ 198$ million or $6 \%$ annualized compared with the first quarter of 2008.

Interest-bearing transaction deposit accounts continued to grow in the second quarter of 2008 , up $\$ 1.3$ billion or $20 \%$ over the second quarter of 2007 and $\$ 244$ million or $13 \%$ annualized over the first quarter of 2008 . Time deposits decreased $\$ 431$ million or $10 \%$ from the second quarter of 2007 and $\$ 149$ million or $14 \%$ annualized from the first quarter of 2008 . Average demand deposits increased $\$ 41$ million or $3 \%$ over the second quarter of 2007 and $\$ 100$ million over the first quarter of 2008.

Core deposits, which we define as deposits of less than $\$ 100,000$, excluding

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public funds and brokered deposits, averaged $\$ 6.5$ billion for the second quarter of 2008 , $\$ 6.4$ billion for the second quarter of 2007 and $\$ 6.5$ billion for the first quarter of 2008. Accounts with balances in excess of $\$ 100,000$ averaged $\$ 5.5$ billion for the second quarter of 2008 , $\$ 4.7$ billion for the second quarter of 2007 and $\$ 5.4$ billion, for the first quarter of 2008.

Average commercial banking deposits totaled $\$ 4.5$ billion for the second quarter of 2008, up $\$ 297$ million or $7 \%$ over the second quarter of last year. The average balance of commercial banking deposits for the second quarter of 2007 was $\$ 4.3$ billion. Commercial deposit growth was primarily centered in Oklahoma and Texas. Consumer deposits averaged $\$ 5.6$ billion for the second quarter of 2008 , up $\$ 312$ million or 6\% over 2007. Average consumer deposit account balances increased $\$ 136$ million or $5 \%$ in Oklahoma and $\$ 169$ million or $18 \%$ in Texas, including deposits acquired with Worth National Bank in the second quarter of 2007 . Wealth management deposit accounts averaged $\$ 2.0$ billion for the second quarter of 2008, a $\$ 416$ million or $27 \%$ increase over 2007 . Approximately $\$ 294$ million of the increase was in the Oklahoma market. The remaining increase was primarily in colorado.

The distribution of deposit accounts among our principal markets is shown in Table 21.

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Table 21 - Deposits by Principal Market Area (In thousands)

| June 30, | March 31, | Dec. 31, | Sept. |
| :---: | :---: | :---: | :---: |
| 2008 | 2008 | 2007 | 2007 |

Oklahoma:

Demand
Interest-bearing:
Transaction
Savings
Time

Total interest-bearing

Total Oklahoma

Texas:
Demand
Interest-bearing:
Transaction
Savings
Time

Total interest-bearing

Total Texas

New Mexico:
Demand
Interest-bearing:
Transaction
Savings
Time

| \$ | 1,003,516 | \$ | 999,214 | \$ | 936,160 | \$ | 717, 4 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 4,449,617 |  | 4,124,046 |  | 3,935,909 |  | 3,473,5 |
|  | 90,100 |  | 88,141 |  | 80,467 |  | 83, |
|  | 2,672,401 |  | 2,230,110 |  | $2,426,822$ |  | 2,725,9 |
|  | 7,212,118 |  | 6,442,297 |  | 6,443,198 |  | 6,282,6 |
| \$ | 8,215,634 | \$ | 7,441,511 | \$ | 7,379,358 | \$ | 7,000,1 |


| \$ | 734,730 | \$ | 651,781 | \$ | 738,105 | \$ | 597, 5 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2,025,052 |  | 1,996,784 |  | 2,050,872 |  | 1,978,9 |
|  | 33,207 |  | 32,191 |  | 34,618 |  | 35, |
|  | 723,146 |  | 759,892 |  | 800,460 |  | 893,0 |
|  | 2,781,405 |  | 2,788,867 |  | 2,885,950 |  | 2,907,2 |
| \$ | 3,516,135 | \$ | 3,440,648 | \$ | 3,624,055 | \$ | 3,504, |


| 99,605 | $\$$ | 103,329 | $\$$ | 93,923 |
| ---: | ---: | ---: | ---: | ---: |
| 486,623 | 492,096 |  | 109,8 |  |
| 16,432 | 16,141 |  | 15,146 | 479,2 |
| 445,505 | 455,861 | 486,868 | 16,4 |  |
|  |  |  | 512,4 |  |

Total interest-bearing

Total New Mexico

Arkansas:
Demand
Interest-bearing:
Transaction
Savings
Time

Total interest-bearing

Total Arkansas

Colorado:
Demand
Interest-bearing:
Transaction
Savings
Time

Total interest-bearing

Total Colorado

Arizona:
Demand
Interest-bearing:
Transaction
Savings Time

Total interest-bearing Total Arizona

Kansas / Missouri:
Demand
Interest-bearing:
Transaction
Savings Time

Total interest-bearing Total Kansas / Missouri

Total BOK Financial deposits

|  | 948,560 | 964,098 |  | 992,241 |  |  | 1,008, |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | 1,048,165 | \$ | 1,067,427 | \$ | 1,086,164 | \$ | 1,117, |


| \$ | 15,322 | \$ | 16,661 | \$ | 9,755 | \$ | 10,2 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 30,344 |  | 25,923 |  | 22,519 |  | 22, 4 |
|  | 895 |  | 945 |  | 883 |  | 9 |
|  | 39,305 |  | 39,803 |  | 40,692 |  | 43, 4 |
|  | 70,544 |  | 66,671 |  | 64,094 |  | 66,7 |
| \$ | 85,866 | \$ | 83,332 | \$ | 73,849 | \$ | 77,0 |


| \$ | 65,647 | \$ | 51,901 | \$ | 60,250 | \$ | 42,1 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 551,310 |  | 577,454 |  | 504,116 |  | 432,1 |
|  | 20,245 |  | 22,233 |  | 23,806 |  | 27,1 |
|  | 423,014 |  | 455,262 |  | 539,523 |  | 608,9 |
|  | 994,569 |  | 1,054,949 |  | 1,067,445 |  | 1,068, 2 |
| \$ | 1,060,216 | \$ | 1,106,850 | \$ | 1,127,695 | \$ | 1,110, |


| \$ | 28,196 | \$ | 28,592 | \$ | 29,807 | \$ | 25,2 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 94,733 |  | 102,564 |  | 82,682 |  | 98,6 |
|  | 1,233 |  | 878 |  | 1,435 |  | 1, 2 |
|  | 6,364 |  | 8,395 |  | 11,603 |  | 13,3 |
|  | 102,330 |  | 111,837 |  | 95,720 |  | 113,1 |
| \$ | 130,526 | \$ | 140,429 | \$ | 125,527 | \$ | 138,4 |


| \$ | 4,923 | \$ | 5,341 | \$ | 7,946 | \$ | 7,8 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 12,576 |  | 9,993 |  | 10,014 |  | 3,1 |
|  | 26 |  | 92 |  | 13 |  |  |
|  | 51,649 |  | 33,837 |  | 24,670 |  | 23,1 |
|  | 64,251 |  | 43,922 |  | 34,697 |  | 26,3 |
| \$ | 69,174 | \$ | 49,263 | \$ | 42,643 | \$ | 34,1 |

$\$ \quad 14,125,716 \quad \$ \quad 13,329,460 \quad \$ \quad 13,459,291 \quad \$ \quad 12,983,0$

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At June 30, 2008, BOK Financial (parent company) had a $\$ 188$ million unsecured revolving line of credit with certain commercial banks that matures in December 2010. The outstanding principal balance of this credit agreement was $\$ 50$ million. Interest is based upon a base rate or LIBOR plus a defined margin determined by the Company's credit rating. This margin ranged from 0.375\% to $1.125 \%$ or a base rate. At June 30, 2008, the margin applicable to borrowings against this line was $0.375 \%$. The base rate was defined as the greater of the daily federal funds rate plus $0.5 \%$ or the SunTrust Bank prime rate. Interest was generally paid monthly. Facility fees were paid quarterly on the unused portion of the commitment at rates that range from $0.100 \%$ to $0.250 \%$ based on the Company's credit rating.

This credit agreement included certain restrictive covenants that limit the Company's ability to borrow additional funds, to make investments and to pay cash dividends on common stock. These covenants also required Bok Financial and subsidiary banks to maintain minimum capital levels and established maximum nonperforming asset levels. BOK Financial met all of the restrictive covenants at June 30, 2008. Subsequent to June 30, all amounts due under this credit agreement were paid and the agreement was terminated at the request of the Company.

On July 21, 2008, the Company entered into a $\$ 188$ million, unsecured revolving credit agreement with George B. Kaiser, its Chairman and principal shareholder. Interest on the outstanding balance is based on one-month LIBOR plus 125 basis points and is payable quarterly. Additional interest in the form of a facility fee is paid quarterly on the unused portion of the commitment at 25 basis points. This agreement has no restrictive covenants, which provides greater flexibility to fund the needs of BOK Financial and its subsidiaries.

The primary source of liquidity for BOK Financial is dividends from subsidiary banks, which are limited by various banking regulations to net profits, as defined, for the preceding two years. Dividends are further restricted by minimum capital requirements. Based on the most restrictive limitations, the subsidiary banks could declare up to $\$ 67$ million of dividends without regulatory approval. Management has developed and the Board of Directors has approved an internal capital policy that is more restrictive than the regulatory capital standards. The subsidiary banks could declare dividends of up to $\$ 18$ million under this policy.

Equity capital for BOK Financial decreased $\$ 50.2$ million to $\$ 1.9$ billion during the second quarter of 2008. Cumulative retained earnings decreased $\$ 16.4$ million due to a $\$ 1.2$ million net loss and $\$ 15.2$ million of cash dividends paid. Accumulated other comprehensive losses increased $\$ 38.7$ million during the second quarter of 2008 due primarily to an increase in net unrealized losses on available for sale securities. Employee stock option transactions increased equity capital $\$ 4.8$ million.

Capital is managed to maximize long-term value to the shareholders. Factors considered in managing capital include projections of future earnings, asset growth and acquisition strategies, and regulatory and debt covenant requirements. Capital management may include subordinated debt issuance, share repurchase and stock and cash dividends.

On April 26, 2005, the Board of Directors authorized a share repurchase program, which replaced a previously authorized program. The maximum of two million common shares may be repurchased. The specific timing and amount of shares repurchased will vary based on market conditions, securities law limitations and other factors. Repurchases may be made over time in open market or privately negotiated transactions. The repurchase program may be suspended or discontinued at any time without prior notice. Since this program began, 709,073 shares have been repurchased by the Company for $\$ 35.4$ million. No shares were repurchased in the second quarter of 2008. In addition, the Company initiated a $10 \mathrm{~b} 5-1$ stock
repurchase plan in the second quarter of 2008 . This plan has subsequently been terminated.

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

For a banking institution to qualify as well capitalized, its Tier 1, Total and Leverage capital ratios must be at least $6 \%$, $10 \%$ and $5 \%$, respectively. All of the Company's banking subsidiaries exceeded the regulatory definitions of well capitalized at June 30, 2008, except Bank of Arizona. The total capital ratio for Bank of Arizona at June 30, 2008 was 9.83\%. Subsequently, $\$ 4$ million of additional capital was contributed, which brought its total capital ratio to 11.48\%. The capital ratios for BOK Financial on a consolidated basis are presented in Table 22.

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| Table 22 - Capital Ratios | $\begin{gathered} \text { June } 30, \\ 2008 \end{gathered}$ | $\begin{gathered} \text { March 31, } \\ 2008 \end{gathered}$ | $\begin{gathered} \text { Dec. 31, } \\ 2007 \end{gathered}$ | $\begin{aligned} & \text { Sept. } \\ & 2007 \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: |
| Average shareholders' equity |  |  |  |  |
| to average assets | 9.19\% | 9.69\% | 9.48\% | 9.42 |
| Tangible capital ratio | $7.15 \%$ | $7.83 \%$ | $7.72 \%$ | 7.67 |
| Risk-based capital: |  |  |  |  |
| Tier 1 capital | 8.86 | 9.38 | 9.38 | 9.30 |
| Total capital | 11.90 | 12.48 | 12.54 | 12.53 |
| Leverage | 7.95 | 8.23 | 8.20 | 8.17 |

## Off-Balance Sheet Arrangements

During the third quarter of 2007, Bank of Oklahoma agreed to guarantee rents totaling $\$ 28.4$ million over 10 years to the City of Tulsa ("City") as owner of a building immediately adjacent to the bank's main office. These rents are due for space rented by third-party tenants in the building as of the date of the agreement. All guaranteed space has been rented since the date of the agreement. At June 30,2008 , rent payments of $\$ 26.7$ million remain subject to this guaranty agreement. In return for this guarantee, Bank of Oklahoma will receive $80 \%$ of net rent as defined in an agreement with the City over the next 10 years from space in the same building that was vacant as of the date of the agreement. The maximum amount that Bank of Oklahoma may receive under this agreement is $\$ 4.5$ million. The fair value of this agreement at inception was zero and no asset or liability is currently recognized in the Company's financial statements.

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. Market risk excludes changes in fair value due to credit of the individual issuers of financial instruments.

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 and agricultural product 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 un-pledged assets, among other things. Compliance with these guidelines is reviewed monthly.

Interest Rate Risk - Other than Trading

As previously noted in the Net Interest Revenue section of this report, management has implemented strategies to manage the Company's balance sheet to be relatively neutral to changes in interest rates over a twelve month period. 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. Two specified interest rate scenarios are used to evaluate interest rate risk against policy guidelines. The first assumes a sustained parallel 200 basis point increase and the second assumes a sustained parallel 100 basis point decrease in interest rates. Management historically evaluated interest rate sensitivity for a sustained 200 basis point decrease in interest rates. However, the results of a 200 basis point decrease in interest rates in the current low-rate environment are not meaningful. The Company also performs a sensitivity analysis based on a "most likely" interest rate scenario, which includes non-parallel shifts in interest rates. An independent source is used to determine the most likely interest rate scenario.

The Company's primary interest rate exposures included the Federal Funds rate, which affects short-term borrowings,

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and the prime lending rate and LIBOR, which are the basis for much of the variable-rate loan pricing. Additionally, mortgage rates directly affect the prepayment speeds for mortgage-backed securities and mortgage servicing rights. Derivative financial instruments and other financial instruments used for purposes other than trading are included in this simulation. The model incorporates assumptions regarding the effects of changes in interest rates and account balances on indeterminable maturity deposits based on a combination of historical analysis and expected behavior. The impact of planned growth and new business activities is factored into the simulation model. The effects of changes in interest rates on the value of mortgage servicing rights are excluded from Table 23 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.

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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 re-pricing characteristics, future cash flows and customer behavior. These assumptions are inherently uncertain and, as a result, the model cannot precisely estimate net interest revenue, net income or economic value of equity or precisely predict the impact of higher or lower interest rates on net interest revenue, net income or economic value of equity. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes, market conditions and management strategies, among other factors.

```
Table 23 - Interest Rate Sensitivity
    (Dollars in Thousands)
```

| 200 bp Increase |  |  |  | 100 bp Decrease |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2008 |  | 2007 | 2008 |  | 2007 |  |
| Anticipated impact over the next twelve months on |  |  |  |  |  |  |  |
| net interest revenue | $\begin{gathered} \$(17,132) \\ (1.1) \% \end{gathered}$ | \$ | $\begin{aligned} & (3,335) \\ & \quad(0.6) \% \end{aligned}$ | \$ | $\begin{array}{r} 7,392 \\ 0.4 \% \end{array}$ | $\begin{aligned} & * * * \\ & * * * \end{aligned}$ | \$ |

***A 100 basis point decrease was not computed in 2007 . A 200 basis point decrease in interest rates was expected to increase net interest revenue by $\$ 1.4$ million or $0.2 \%$.

## Trading Activities

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

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

Management uses a Value at Risk ("VAR") methodology to measure the market risk inherent in its trading activities. VAR is calculated based upon historical simulations over the past five years using a variance / covariance matrix of interest rate changes. It represents an amount of market loss that is likely to be exceeded only one out of every 100 two-week periods. Trading positions are managed within guidelines approved by the Board of Directors. These guidelines limit the VAR to $\$ 1.8$ million. At June 30,2008 , the VAR was $\$ 1.2$ million. The greatest value at risk during the second quarter of 2008 was $\$ 1.8$ million.

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Controls and Procedures

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As required by Rule $13 a-15(b), \quad B O K$ 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 $13 a-15(d)$, BOK Financial's management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the company's internal controls over financial reporting to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the company's internal controls over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

Forward-Looking Statements

This report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates, and projections about BOK Financial, the financial services industry and the economy in general. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "plans," "projects," variations of such words and similar expressions are intended to identify such forward-looking statements. Management judgments relating to and discussion of the provision and reserve for loan losses involve judgments as to expected events and are inherently forward-looking statements. Assessments that BOK Financial's acquisitions and other growth endeavors will be profitable are necessary statements of belief as to the outcome of future events, based in part on information provided by others that BOK Financial has not independently verified. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what is expressed, implied, or forecasted in such forward-looking statements. Internal and external factors that might cause such a difference include, but are not limited to: (1) the ability to fully realize expected cost savings from mergers within the expected time frames, (2) the ability of other companies on which BOK Financial relies to provide goods and services in a timely and accurate manner, (3) changes in interest rates and interest rate relationships, (4) demand for products and services, (5) the degree of competition by traditional and nontraditional competitors, (6) changes in banking regulations, tax laws, prices, levies, and assessments, (7) the impact of technological advances and (8) trends in customer behavior as well as their ability to repay loans. BOK Financial and its affiliates undertake no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

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

$$
2008 \text { June 30, } 2007
$$

Three Months Ended

Interest Revenue

| Loans | S | 180,177 | $\$$ |
| :--- | ---: | ---: | ---: |
| Taxable securities | 224,215 | 6,223 |  |
| Tax-exempt securities | 2,656 | 2,922 |  |


| Total securities | 78,615 | 63,145 |
| :---: | :---: | :---: |
| Trading securities | 939 | 401 |
| Funds sold and resell agreements | 355 | 924 |
| Total interest revenue | 260,086 | 288,685 |
| Interest Expense |  |  |
| Deposits | 66,114 | 102,059 |
| Borrowed funds | 29,212 | 44,889 |
| Subordinated debentures | 5,821 | 6,824 |
| Total interest expense | 101,147 | 153,772 |
| Net Interest Revenue | 158,939 | 134,913 |
| Provision for Credit Losses | 59,310 | 7,820 |
| Net Interest Revenue After Provision for Credit Losses | 99,629 | 127,093 |
| Other Operating Revenue |  |  |
| Brokerage and trading revenue | $(35,462)$ | 13,317 |
| Transaction card revenue | 25,786 | 22,917 |
| Trust fees and commissions | 20,940 | 19,458 |
| Deposit service charges and fees | 30,199 | 26,797 |
| Mortgage banking revenue | 7,198 | 4,034 |
| Bank-owned life insurance | 2,658 | 2,525 |
| Margin asset fees | 4,460 | 969 |
| Other revenue | 7,824 | 6,947 |
| Total fees and commissions | 63,603 | 96,964 |
| Gain (loss) on sales of assets | 216 | (348) |
| Loss on securities, net | $(5,242)$ | $(6,262)$ |
| Loss on derivatives, net | $(2,961)$ | (183) |
| Total other operating revenue | 55,616 | 90,171 |
| Other Operating Expense |  |  |
| Personnel | 89,597 | 80,054 |
| Business promotion | 5,777 | 5,391 |
| Professional fees and services | 6,973 | 5,963 |
| Net occupancy and equipment | 15,100 | 13,860 |
| Insurance | 2,626 | 693 |
| Data processing and communications | 19,523 | 18,402 |
| Printing, postage and supplies | 4,156 | 4,179 |
| Net losses and operating expenses of repossessed assets | (229) | 192 |
| Amortization of intangible assets | 1,885 | 1,443 |
| Mortgage banking costs | 6,054 | 2,485 |
| Change in fair value of mortgage servicing rights | 767 | $(5,061)$ |
| Visa retrospective responsibility obligation | - | - |
| Other expense | 7,039 | 6,530 |
| Total other operating expense | 159,268 | 134,131 |
| Income (Loss) Before Taxes | $(4,023)$ | 83,133 |
| Federal and state income tax | $(2,862)$ | 29,270 |
| Net Income (Loss) | $(1,161)$ | 53,863 |

Earnings Per Share:


Consolidated Balance Sheets
(In Thousands Except Share Data)

| June 30, | December 31, |
| :---: | ---: |
| 2008 | 2007 |
| $------------------------------1)$ |  |
| (Unaudited) | (Footnote 1) |

Assets

| Cash and due from banks | \$ | 712,324 | \$ | 717,259 |
| :---: | :---: | :---: | :---: | :---: |
| Funds sold and resell agreements |  | 52,005 |  | 173,154 |
| Trading securities |  | 62,532 |  | 45,724 |
| Securities: |  |  |  |  |
| Available for sale |  | 5,439,524 |  | 5,323,001 |
| Available for sale securities pledged to creditors |  | 487,078 |  | 327,539 |
| Investment (fair value: June 30, 2008 - \$242,828; |  |  |  |  |
| December 31, 2007 - \$248,788; |  |  |  |  |
| June 30, 2007 - \$257,455) |  | 245,754 |  | 247,949 |
| Mortgage trading securities |  | 98,269 |  | 154,701 |
| Total securities |  | 6,270,625 |  | 6,053,190 |
| Loans |  | 12,637,982 |  | 12,017,247 |
| Less reserve for loan losses |  | $(154,018)$ |  | $(126,677)$ |
| Loans, net of reserve |  | 12,483,964 |  | $11,890,570$ |
| Premises and equipment, net |  | 266,435 |  | 258,786 |
| Accrued revenue receivable |  | 159,066 |  | 138,243 |
| Intangible assets, net |  | 365,060 |  | 368, 353 |
| Mortgage servicing rights, net |  | 72,103 |  | 70,009 |
| Real estate and other repossessed assets |  | 21,025 |  | 9,475 |
| Bankers' acceptances |  | 16,031 |  | 1,780 |
| Derivative contracts |  | 1,380,876 |  | 502,446 |
| Cash surrender value of bank-owned life insurance |  | 231,527 |  | 229,540 |
| Receivable on unsettled securities trades |  | 39,052 |  | 10,071 |
| Other assets |  | 303,312 |  | 199,101 |
| Total assets | \$ | 22,435,937 | \$ | 20,667,701 |

Liabilities and Shareholders' Equity
Noninterest-bearing demand deposits 1,951,939 \$ \$ 1,875,946
Interest-bearing deposits:

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See accompanying notes to consolidated financial statements.

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

| Accumulated <br> Other |  |
| :---: | :---: |
| Common Stock Comprehensive Capital Retained |  |
| ----------------- |  |
| Shares Amount | Loss |

Balances at
December 31, 2006 68,705 $\$ 4 \quad \$(73,444) \$ 688,861 \$ 1,166,994 \quad 1,637$ (61,393) $\$ 1$

Effect of implementing FAS
157, net of income taxes
-$-\quad-$ Effect of
implementing FIN 48
Comprehensive income:
Net income
Other comprehensive income, net of tax (1) - $(16,083)$
tax (1)

Comprehensive income

Balances at
June $30,2008 \quad 69,812 \quad \$ \quad 4 \quad \$(64,378) \$ 738,403$ \$1,365,456 2,323 \$(97,109) \$1
(1)


See accompanying notes to consolidated financial statements.

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| Consolidated Statements of Cash Flows (Unaudited) <br> (In Thousands) |  |
| :---: | :---: |
|  | 2008 |
| Cash Flows From Operating Activities: |  |
| Net income \$ | 61,104 |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |
| Provision for credit losses | 76,881 |
| Change in fair value of mortgage servicing rights | 2,529 |
| Unrealized losses (gains) from derivatives | 44,815 |
| Tax benefit on exercise of stock options | $(1,132)$ |
| Change in bank-owned life insurance | $(1,987)$ |
| Stock-based compensation | 5,306 |
| Depreciation and amortization | 26,669 |
| Net (accretion) amortization of securities discounts and premiums | $(7,623)$ |
| Net (gain) loss on sale of assets | $(5,537)$ |
| Mortgage loans originated for resale | $(312,668)$ |
| Proceeds from sale of mortgage loans held for resale | 267,175 |
| Change in trading securities, including mortgage trading securities | 40,269 |
| Change in accrued revenue receivable | $(20,823)$ |
| Change in other assets | $(51,427)$ |
| Change in accrued interest, taxes and expense | $(42,639)$ |
| Change in other liabilities | (565) |
| Net cash provided by operating activities | 80,347 |
| Cash Flows From Investing Activities: |  |
| Proceeds from maturities of investment securities | 33,792 |
| Proceeds from maturities of available for sale securities | 541,500 |
| Purchases of investment securities | $(31,737)$ |
| Purchases of available for sale securities | $(2,335,268)$ |
| Proceeds from sales of available for sale securities | 1,470,701 |
| Loans originated or acquired net of principal collected | $(634,746)$ |
| Proceeds from derivative asset contracts | $(77,563)$ |
| Net change in other investment assets | 148 |
| Proceeds from disposition of assets | 34,283 |
| Purchases of assets | $(40,921)$ |
| Cash and equivalents of subsidiaries and branches acquired and sold, net | - |
| Net cash used in investing activities | $(1,039,811)$ |
| Cash Flows From Financing Activities: |  |
| Net change in demand deposits, transaction deposits and savings accounts | 635,679 |
| Net change in time deposits | 31,347 |
| Net change in other borrowings | 1,002,583 |
| Payments on derivative liability contracts | 86,302 |
| Net change in derivative margin accounts | (867,998) |
| Change in amount receivable (due) on unsettled security transactions | $(28,981)$ |
| Issuance of common and treasury stock, net | 6,635 |
| Issuance of subordinated debenture, net | - |
| Tax benefit on exercise of stock options | 1,132 |
| Repurchase of common stock | $(4,655)$ |
| Dividends paid | $(28,664)$ |
| Net cash provided by financing activities | 833,380 |
| Net decrease in cash and cash equivalents | $(126,084)$ |
| Cash and cash equivalents at beginning of period | 890,413 |

```
Cash and cash equivalents at end of period 764,329
```



See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)
(1) Accounting Policies

Basis of Presentation

The unaudited consolidated financial statements of BOK Financial Corporation ("BOK Financial" or "the Company") have been prepared in accordance with accounting principles for interim financial information generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation $S-X$. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The unaudited consolidated financial statements include accounts of Bok Financial and its subsidiaries, principally Bank of Oklahoma, N.A. and its subsidiaries ("BOk"), Bank of Texas, N.A., Bank of Arkansas, N.A., Bank of Albuquerque, N.A., Colorado State Bank and Trust, N.A., Bank of Arizona, N.A., Bank of Kansas City, N.A., and BOSC, Inc. Certain prior period amounts have been reclassified to conform to current period classification.

The financial information should be read in conjunction with BOK Financial's 2007 Form 10-K filed with the Securities and Exchange Commission, which contains audited financial statements. Amounts presented as of December 31, 2007 have been derived from BOK Financial's 2007 Form 10-K.

Newly Adopted and Pending Accounting Policies

The Company adopted Statement of Financial Accounting Standards No. 159, Fair Value Option ("FAS 159") effective January 1, 2008 . FAS 159 provides an option to measure eligible financial assets and financial liabilities at fair value. Certain certificates of deposit that were either currently designated as hedged or had previously been designated as hedged, but no longer met the correlation requirements of Statement of Financial Accounting Standards No. 133 were designated as being reported at fair value. Adoption of FAS 159 increased opening retained earnings for the first quarter of 2008 by $\$ 62$ thousand. Interest expense on certificates of deposit carried at fair value is based on the instruments' contractual interest rates and outstanding principal balances.

As of January 1, 2008, the Company adopted Financial Accounting Standards Board Staff Position FIN 39-1, which permits offsetting of cash collateral against the fair value of derivative instruments executed with the same counterparty under a master netting agreement. The total amount of derivative assets and liabilities at June 30,2008 was reduced by $\$ 10$ million and $\$ 990$ million, respectively, of
cash collateral.

Statement of Financial Accounting Standards No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51," ("FAS 160") amends Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements," to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, FAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. FAS 160 is effective for the Company on January 1 , 2009 and is not expected to have a significant impact on the Company's financial statements.

Statement of Financial Accounting Standards No. 161, "Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133," ("FAS 161") amends and expands the disclosure requirements of FAS 133, "Accounting for Derivative Instruments and Hedging Activities," to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, FAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. FAS 161 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

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(2) Fair Value Measurements

Fair value measurements as of June 30, 2008 are as follows (in thousands):

|  | Quoted Prices | Significant |  |
| :---: | :---: | :---: | :---: |
|  | in Active | Other | Sign |
| Total | Markets for | Observable | Unobs |
|  | Inentical | Inputs | In |
|  | Instruments |  |  |

Assets:

| Trading securities | $\$ 62,532$ | $\$ 13,829$ |
| :--- | ---: | ---: |
| Available for sale securities | $5,926,602$ | $\$ 48,703$ |
| Mortgage trading securities | 98,269 | $5,889,666$ |
| Mortgage servicing rights | 72,103 | 98,269 |
| Derivative contracts | $1,380,876$ | $1,344,256$ |
| Liabilities: |  | 2036 |
| Certificates of deposit | 203,580 | $1,446,425$ |

(1) A reconciliation of the beginning and ending fair value of mortgage servicing rights and disclosures of significant assumptions used to determine fair value are presented in Note 4, Mortgage Banking Activities.
(2) The fair value of derivative contracts with SemGroup, LP was based largely on significant unobservable inputs. On July 22, 2008, SemGroup and 24 related entities filed for bankruptcy protection. BOK Financial assessed a range of values for derivative contracts with SemGroup using information currently available, including information provided by a nationally recognized financial advisor to SemGroup. The range considered both the value of SemGroup as a reorganized entity (going concern value) and its liquidation value. The fair value of derivative contracts was based on the lower end of the range of values. The fair value of derivative contracts with SemGroup totaled $\$ 88.2$ million at March 31, 2008 and $\$ 97.3$ million at June 30,2008 based on significant observable inputs. At June 30,2008 , the fair value of these contracts was written down by $\$ 60.7$ million to $\$ 36.6$ million based on significant unobservable inputs.

The fair value of assets and liabilities based on significant other observable inputs are generally provided to us by third-party pricing services and are based on one or more of the following:

- Quoted prices for similar, but not identical, assets or liabilities in active markets;
o Quoted prices for identical or similar assets or liabilities in inactive markets;
o Inputs other than quoted prices that are observable, such as interest rate and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates;
o Other inputs derived from or corroborated by observable market inputs.
The underlying methods used by the third-party pricing services are considered in determining the primary inputs used to determine fair values.

No significant fair value measurements of significant assets or liabilities measured on a non-recurring basis were made during the first half of 2008 . Assets measured on a non-recurring basis include pension plan assets, which are based on quoted prices in active markets for identical instruments, real property and other assets acquired to satisfy loans, which are based primarily on comparisons of completed sales of similar assets, and goodwill, which is based on significant unobservable inputs.

Certain certificates of deposit were designated as carried at fair value as permitted by FAS 159. These certificates have been converted from fixed interest rates to variable interest rates based on LIBOR with interest rate swaps. The fair value election for these liabilities better represents the economic effect of these instruments on the Company. At June 30, 2008, the fair value and contractual principal amount of these certificates was $\$ 204$ million and $\$ 205$ million, respectively. Change in the fair value of these certificates of deposit resulted in an unrealized gain during the second quarter and first half of 2008 of $\$ 2.2$ million and $\$ 601$ thousand, respectively, which is included in Gain (Loss) on Derivatives, net on the Consolidated Statement of Earnings.

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(3) Derivatives

The fair values of derivative contracts at June 30, 2008 are as follows (in thousands) :

|  | Assets | Liabilities |
| :---: | :---: | :---: |
| Customer Risk Management Programs: |  |  |
| Interest rate contracts | \$73,168 | \$73,296 |
| Energy contracts | 1,281,937 | 1,337,368 |
| Agriculture contracts | 12,054 | 11,949 |
| Foreign exchange contracts | 17,994 | 17,994 |
| CD options | 4,163 | 4,163 |
| Fair value before cash collateral | 1,389,316 | 1,444,770 |
| Less: cash collateral | $(10,000)$ | (990,046) |
| Total Customer Derivatives | $1,379,316$ | 454,724 |
| Interest Rate Risk Management Programs | 1,560 | 1,655 |
| Total Derivative Contracts | \$1,380,876 | \$ 456,379 |

As of January 1, 2008, the Company adopted Financial Accounting Standards Board Staff Position FIN 39-1, which permits offsetting of cash collateral against the fair value of derivative instruments executed with the same counterparty under a master netting agreement. The total amount of derivative assets and liabilities at June 30,2008 were reduced by $\$ 10$ million and $\$ 990$ million, respectively, of cash collateral.

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(4) Mortgage Banking Activities

At June 30, 2008, BOK Financial owned the rights to service 58,021 mortgage loans with outstanding principal balances of $\$ 5.7$ billion, including $\$ 648$ million serviced for affiliates. The weighted average interest rate and remaining term was $6.15 \%$ and 281 months, respectively.

For the three and six months ended June 30, 2008, mortgage banking revenue includes servicing fee income of $\$ 4.3$ million and $\$ 8.6$ million, respectively. For the three and six months ended June 30, 2007, mortgage banking revenue includes servicing fee income of $\$ 4.3$ million and $\$ 8.5$ million, respectively.

Activity in capitalized mortgage servicing rights and related valuation allowance during the six months ending June 30,2008 is as follows (in thousands):

|  | Capitalized Mortgage Servicing Rights |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Purchased |  | Originated |  | Total |  |
| Balance at December 31, 2007 | \$ | 13,906 | \$ | 56,103 | \$ | 70,009 |
| Additions, net |  | - |  | 10,314 |  | 10,314 |
| Change in fair value due to loan runoff |  | $(1,174)$ |  | $(4,517)$ |  | $(5,691)$ |
| Change in fair value due to market changes |  | (509) |  | $(2,020)$ |  | $(2,529)$ |
| Balance at June 30, 2008 | \$ | 12,223 | \$ | 59,880 | \$ | 72,103 |

Fair value is determined by discounting the projected net cash flows. Significant assumptions used to determine fair value are:

| Discount rate - risk-free rate plus a market premium | 9.86\% | $10.02 \%$ |
| :---: | :---: | :---: |
| Prepayment rate - based upon loan interest rate, original term and loan type | $5.3 \%-14.0 \%$ | $6.8 \%-1$ |
| Loan servicing costs - annually per loan based upon loan type | \$43-\$73 | \$43-\$ |
| Escrow earnings rate - indexed to rates paid on deposit accounts with comparable average life | 4.28\% | 5.01\% |

Stratification of the mortgage loan servicing portfolio and outstanding principal of loans serviced by interest rate at June 30, 2008 follows (in thousands) :

$$
<5.51 \% \quad 5.51 \%-6.50 \% \quad 6.51 \%-7.50 \%>7 .
$$


(1) Excludes outstanding principal of $\$ 648$ million for loans serviced for affiliates and $\$ 37$ million of mortgage loans for which there are no capitalized mortgage servicing rights.

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(5) Disposal of Available for Sale Securities

Sales of available for sale securities resulted in gains and losses as follows (in thousands):

|  | Six Months Ended June 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2008 |  | 2007 |  |
| Proceeds | \$ | 1,470,701 | \$ | 495,026 |
| Gross realized gains |  | 8,507 |  | 1,015 |
| Gross realized losses |  | $(5,284)$ |  | $(2,412)$ |
| Related federal and state income tax expense (benefit) |  | 1,098 |  | (495) |

(6) Employee Benefits

BoK Financial has sponsored a defined benefit Pension Plan for all employees who satisfied certain age and service requirements. Pension Plan benefits were curtailed as of April 1, 2006. The Company recognized no periodic pension cost and made no Pension Plan contributions during the six months ended June 30 , 2008 and June 30, 2007.

Management has been advised that no minimum contribution will be required for 2008. The maximum allowable contribution for 2008 has not yet been determined.
(7) Shareholders' Equity

On July 29, 2008, the Board of Directors of BoK Financial Corporation approved a $\$ 0.225$ per share quarterly common stock dividend. The quarterly dividend will be payable on or about August 29, 2008 to shareholders of record on August 15, 2008.

Dividends declared during the three and six month periods ended June 30,2008 were $\$ 0.225$ per share and $\$ 0.425$ per share, respectively. Dividends declared during the three and six month periods ended June 30,2007 were $\$ 0.20$ per share and $\$ 0.35$ per share, respectively.

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(8) Earnings Per Share

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

| June 30, | June 30, | June 30, |
| :---: | :---: | :---: |
| 2008 | 2007 | 2008 |

Numerator:

| Net income (loss) | \$ (1, 161) | \$ 53,863 | \$ 61,104 |
| :---: | :---: | :---: | :---: |
| Denominator: <br> Denominator for basic earnings per share - weighted average shares <br> Effect of dilutive potential common shares: <br> Employee stock compensation plans (1) | 67,452,181 | $\begin{array}{r} 67,116,902 \\ 489,428 \end{array}$ | $\begin{array}{r} 67,246,250 \\ 363,764 \end{array}$ |
| Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions | 67,452,181 | 67,606,330 | 67,610,014 |
| Basic earnings (loss) per share | \$ (0.02) | \$ 0.80 | \$ 0.91 |
| Diluted earnings (loss) per share | \$ (0.02) | \$ 0.80 | \$ 0.90 |

(1) Excludes employee stock options with exercise prices greater than current market price.

- 850,926

278,812
(9) Reportable Segments

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Reportable segments reconciliation to the Consolidated Financial Statements for the six months ended June 30,2008 is as follows (in thousands):

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

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Reportable segments reconciliation to the Consolidated Financial Statements for the six months ended June 30,2007 is as follows (in thousands):

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

Reportable segments reconciliation to the Consolidated Financial Statements for the three months ended June 30, 2007 is as follows (in thousands):

|  | Net <br> Interest Revenue |  | Other <br> Operating <br> Revenue (1) |  | Other Operating Expense |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Total reportable segments | \$ | 137,892 | \$ | 99,578 | \$ | 130,146 | \$ |
| Unallocated items: |  |  |  |  |  |  |  |
| Tax-equivalent adjustment |  | 2,069 |  | - |  | - |  |
| Funds management and other |  | $(5,048)$ |  | $(2,962)$ |  | 3,985 |  |
| BOK Financial consolidated | \$ | 134,913 | \$ | 96,616 | \$ | 134,131 | \$ |

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

## (10)

Contingent Liabilities
In September 2006, BISYS settled the SEC's two-year investigation of BISYS Fund Services Ohio, Inc. ("BISYS") marketing assistance agreements with 27 different families of mutual funds, including a BISYS marketing arrangement with AXIA which had been terminated effective January 1, 2004. In the SEC settlement, BISYS consented to an order in which the SEC determined that BISYS had "willfully aided and abetted and caused" the 27 investment advisors to (i) violate provisions of the Investment Advisors Act of 1940 that prohibit fraudulent conduct; (ii) violate provisions of the 1940 Act that prohibit the making of any untrue statement of a material fact in a registration statement filed by the mutual fund with the SEC, and (iii) violate provisions of the 1940 Act that require the disclosure and inclusion of all distribution arrangements and expenses in the fund's 12b-1 fee plan ("the SEC BYSIS Order"). AXIA was one of the 27 advisors and the AP Funds one of the 27 mutual fund families to which the SEC referred in its BISYS Order. On October 10, 2006, the Examinations Division of the Securities and Exchange Commission (the "SEC") conducted an examination of AXIA. The examination was concluded in July 2007 with no action taken by the Examinations Division. In August 2007, AXIA settled all claims relating to the BISYS marketing arrangements with the AP Funds for $\$ 2.2$ million and the AP Funds regard the matter as fully concluded. The settlement with the AP Funds is not binding on the SEC.

On April 7, 2008, AXIA and its parent, BOK, received a Wells notice from the regional office of the $S E C$ in Los Angeles indicating that the staff is considering recommending that the SEC bring a civil injunctive action against AXIA and BOK for violations of Section $17(a)$ of the Securities Act of 1955, Section $10(b)$ of the Securities Exchange Act of 1934, Sections 206(1) and (2) of the Investment Advisors Act of 1940, and Sections $12(\mathrm{~b})$ and $34(\mathrm{~b})$ of the Investment Company Act of 1940. BOK and AXIA have been cooperating fully with the SEC in connection with these matters that arose prior to December 31, 2003. BOK and AXIA are not bound by the SEC BISYS Order and disagree with the SEC position as it relates to BOK and AXIA. On May 27, 2008, BOK and AXIA responded to the Wells notice denying the SEC position. On June 26, 2008, BOK and AXIA representatives met with SEC Staff. Nothing further has occurred as of this time.

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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.

During the fourth quarter of 2007, Visa announced that it had recognized liabilities related to antitrust litigation with American Express and Discover and that it was subject to other litigation. As a member of Visa, BOK Financial is obligated for a proportionate share of losses incurred by Visa. A contingent liability was recognized for the Company's share of Visa's litigation liabilities.

During the first quarter of 2008, Visa completed its initial public offering and funded a $\$ 3.0$ billion escrow account for litigation claims including claims by American Express and Discover. BOK Financial recognized a receivable for its proportionate share of this escrow account, which equals the contingent liability previously recognized.

In addition, during the first quarter of 2008 BOK Financial received 410,562 Visa Class B shares. A partial redemption of Class B shares was completed and the Company received $\$ 6.8$ million in cash in exchange for 158,725 Class B shares. The remaining 251,837 Class B shares are convertible into Visa Class A shares at the later of three years after the date of Visa's initial public offering or the final settlement of all covered litigation. The current exchange rate is approximately 0.71 Class A share for each Class B share. However, the Company's Class B shares may be diluted in the future if the escrow fund is not adequate to cover future covered litigation costs. Therefore, under currently issued accounting guidance no value has been currently assigned to the Class B shares and no value may be assigned until the Class B shares are converted into a known number of Class A shares.
(11) Federal and State Income Taxes

The reconciliations of income (loss) attributable to continuing operations at the U.S. federal statutory tax rate to income tax expense are as follows (in thousands):

|  |  | Three Months Ended June 30, |  |  | Six Months Ended June 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2008 |  | 2007 |  | 2008 |  | 2007 |  |
| Amount: |  |  |  |  |  |  |  |  |
| Federal statutory tax | \$ | $(1,408)$ | \$ | 29,097 | \$ | 32,442 | \$ | 57,802 |
| Tax exempt revenue |  | $(1,113)$ |  | $(1,037)$ |  | $(2,225)$ |  | $(2,080)$ |
| Effect of state income taxes, net of federal benefit |  | (78) |  | 1,728 |  | 2,438 |  | 3,456 |
| Utilization of tax credits |  | (296) |  | (290) |  | (592) |  | (580) |
| Bank-owned life insurance |  | (875) |  | (841) |  | $(1,750)$ |  | $(1,668)$ |
| Other, net |  | 908 |  | 613 |  | 1,275 |  | 1,563 |
| Total | \$ | $(2,862)$ | \$ | 29,270 | \$ | 31,588 | \$ | 58,493 |

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|  | June 30, |  | June 30, |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2008 | 2007 | 2008 | 2007 |
| Percent of pretax income: |  |  |  |  |
| Federal statutory tax | 35\% | 35\% | 35\% | 35\% |
| Tax exempt revenue | 28 | (1) | (2) | (1) |
| Effect of state income taxes, net of federal benefit | 2 | 1 | 3 | 1 |
| Utilization of tax credits | 7 | - | (1) | - |
| Bank-owned life insurance | 22 | (1) | (2) | (1) |
| Other, net | (23) | 1 | 1 | 1 |
| Total | 71\% | 35\% | 34\% | 35\% |

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(12) 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 June 30, 2008, outstanding commitments and letters of credit were as follows (in thousands):
June 30,
2008
------------
$\$ 5,600,714$
625,554
10,723
(13) Related Parties

On July 21, 2008, the Company entered into a $\$ 188$ million, unsecured revolving credit agreement with George B. Kaiser, its Chairman and principal shareholder. Interest on the outstanding balance is based on one-month LIBOR plus 125 basis points and is payable quarterly. Additional interest in the form of a facility fee is paid quarterly on the unused portion of the commitment at 25 basis points. This agreement has no restrictive covenants.

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


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

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

| June 30, 2008 |  |  |  |
| :---: | :---: | :---: | :---: |
| Average | Revenue/ | Yield / | Average |
| Balance | Expense (1) | Rate | Balance |

Assets

| Taxable securities (3) | \$ | 6,026,769 | \$ | 75,959 | 5.08\% | \$ | $5,624,43$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Tax-exempt securities (3) |  | 259,410 |  | 4,165 | 6.46 |  | 264,39 |
| Total securities (3) |  | 6,286,179 |  | 80,124 | 5.14 |  | $5,888,82$ |
| Trading securities |  | 74,058 |  | 1,267 | 6.88 |  | 74,95 |
| Funds sold and resell agreements |  | 72,444 |  | 355 | 1.97 |  | 80,73 |
| Loans (2) |  | 12,527,011 |  | 180,424 | 5.79 |  | 12,181,27 |
| Less reserve for loan losses |  | 145,524 |  | - | - |  | 131,70 |
| Loans, net of reserve |  | 12,381,487 |  | 180,424 | 5.86 |  | 12,049,57 |
| Total earning assets (3) |  | 18,814,168 |  | 262,170 | 5.61 |  | 18,094,09 |
| Cash and other assets |  | 2,794,132 |  |  |  |  | $2,402,96$ |
| Total assets | \$ | 21,608,300 |  |  |  | \$ | 20,497,05 |


| Liabilities And Shareholders' Equity Transaction deposits | \$ | 7,717,777 | \$ | 27,755 | 1.45\% | \$ | 7,473,67 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Savings deposits |  | 159,798 |  | 148 | 0.37 |  | 156,95 |
| Time deposits |  | 4,076,167 |  | 38,211 | 3.77 |  | $4,225,14$ |
| Total interest-bearing deposits |  | 11,953,742 |  | 66,114 | 2.22 |  | $11,855,76$ |
| Funds purchased and repurchase agreements |  | 3,126,110 |  | 15,180 | 1.95 |  | 3, 061,78 |
| Other borrowings |  | 2,267,076 |  | 14,032 | 2.49 |  | $1,340,84$ |
| Subordinated debentures |  | 398,336 |  | 5,821 | 5.88 |  | 398, 24 |
| Total interest-bearing liabilities |  | 17,745,264 |  | 101,147 | 2.29 |  | $16,656,63$ |


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

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Three Months Ended

| December 31, 2007 |  |  |  |  | September 30, 2007 |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Revenue/ <br> Expense (1) | Yield / Rate |  | Average Balance |  | Revenue/ <br> Expense (1) | Yield / Rate |  | Average Balance |
| \$ | $\begin{array}{r} 5,633,173 \\ 328,900 \end{array}$ |  | $\begin{array}{r} 68,670 \\ 5,990 \end{array}$ | $\begin{aligned} & 4.86 \% \\ & 7.19 \end{aligned}$ | \$ | $\begin{array}{r} 5,206,482 \\ 360,710 \end{array}$ |  | $\begin{array}{r} 62,531 \\ 5,820 \end{array}$ | $\begin{aligned} & 4.84 \% \\ & 6.44 \end{aligned}$ | \$ | $\begin{array}{r} 5,014,231 \\ 354,956 \end{array}$ |
|  | 5,962,073 |  | 74,660 | 4.99 |  | 5,567,192 |  | 68,351 | 4.95 |  | 5,369,187 |

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|  | 29,303 |  | 489 | 6.62 |  | 24,413 |  | 459 | 7.46 |  | 32,897 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 86,948 |  | 1,303 | 5.95 |  | 101,281 |  | 1,588 | 6.22 |  | 67,057 |
|  | 11,806,242 |  | 223,146 | 7.50 |  | 11,709,638 |  | 232,446 | 7.88 |  | 11,338,140 |
|  | 125,996 |  | - | - |  | 123,059 |  | - | - |  | 118,505 |
|  | 11,680,246 |  | 223,146 | 7.58 |  | 11,586,579 |  | 232,446 | 7.96 |  | 11,219,635 |
|  | 17,758,570 |  | 299,598 | 6.70 |  | 17,279,465 |  | 302,844 | 6.99 |  | 16,688,776 |
|  | 2,224,045 |  |  |  |  | 2,056,910 |  |  |  |  | 1,869,294 |
| \$ | 19,982,615 |  |  |  | \$ | 19,336,375 |  |  |  | \$ | 18,558,070 |
| \$ | 7,016,136 | \$ | 49,358 | 2.79\% | \$ | 6,683,056 | \$ | 50,650 | 3.01\% | \$ | 6,414,014 |
|  | 160,170 |  | 348 | 0.86 |  | 200,362 |  | 410 | 0.81 |  | 158,718 |
|  | 4,544,802 |  | 53,613 | 4.68 |  | 4,798,812 |  | 58,436 | 4.83 |  | 4,507,053 |
|  | 11,721,108 |  | 103,319 | 3.50 |  | 11,682,230 |  | 109,496 | 3.72 |  | 11,079,785 |
|  | 3,158,153 |  | 35,169 | 4.42 |  | 2,603,372 |  | 32,484 | 4.95 |  | 2,627,230 |
|  | 936,353 |  | 11,611 | 4.92 |  | 880,894 |  | 11,789 | 5.31 |  | 866,096 |
|  | 398,109 |  | 5,708 | 5.69 |  | 471,458 |  | 7,166 | 6.03 |  | 410,883 |
|  | 16,213,723 |  | 155,807 | 3.81 |  | 15,637,954 |  | 160,935 | 4.08 |  | 14,983,994 |
|  | 1,293,419 |  |  |  |  | 1,300,280 |  |  |  |  | 1,295,930 |
|  | 580,574 |  |  |  |  | 577,161 |  |  |  |  | 487,400 |
|  | 1,894,899 |  |  |  |  | 1,820,980 |  |  |  |  | 1,790,746 |
| \$ | 19,982,615 |  |  |  | \$ | 19,336,375 |  |  |  | \$ | 18,558,070 |
|  |  | \$ | 143,791 | 2.89\% |  |  | \$ | 141,909 | 2.91\% |  |  |
|  |  |  |  | 3.22 |  |  |  |  | 3.27 |  |  |
|  |  |  | 2,502 |  |  |  |  | 2,464 |  |  |  |
|  |  |  | 141,289 |  |  |  |  | 139,445 |  |  |  |
|  |  |  | 13,200 |  |  |  |  | 7,201 |  |  |  |
|  |  |  | 107,316 |  |  |  |  | 109,372 |  |  |  |
|  |  |  | 157,727 |  |  |  |  | 151,018 |  |  |  |
|  |  |  | 77,678 |  |  |  |  | 90,598 |  |  |  |
|  |  |  | 26,518 |  |  |  |  | 30,750 |  |  |  |
|  |  | \$ | 51,160 |  |  |  | \$ | 59,848 |  |  |  |


| \$ | 0.76 | \$ | 0.89 |
| :---: | :---: | :---: | :---: |

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PART II. Other Information

Item 1. Legal Proceedings

See discussion of legal proceedings at footnote 10 to the consolidated financial statements.

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 March 31, 2008.


35,733
Total
(1) The Company had a stock repurchase plan that was initially authorized by the Company's board of directors on February 24,1998 and amended on May 25, 1999. Under the terms of that plan, the Company could repurchase up to 800,000 shares of its common stock. As of March 31, 2005, the Company had repurchased 638,642 shares under that plan. On April 26, 2005, the Company's board of directors terminated this authorization and replaced it with a new stock repurchase plan authorizing the Company to repurchase up to two million shares of the Company's common stock. As of June 30, 2008, the Company had repurchased 709,073 shares under the new plan.
(2) The Company routinely repurchases mature shares from employees to cover the exercise price and taxes in connection with employee stock option exercises.

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Item 4. Submission of Matters to a Vote of Security Holders

Our Annual Meeting of Shareholders was held on April 29, 2008 (the "Annual Meeting"). At the Annual Meeting, shareholders voted on three matters: (i) to fix the number of directors to be elected at eighteen (18) and to elect eighteen (18) persons as directors for a term of one year or until their successors have been elected and qualified, (ii) to approve the Amended and Restated 2003 Executive Incentive Plan, and (iii) to ratify the selection of Ernst \& Young LLP as the Company's independent auditor for the fiscal year ending December 31, 2008. The shareholders approved these matters by the following votes,
respectively:
(i) Election of eighteen (18) directors for a term of one year:

|  |  | Votes <br> Withheld/ |
| :--- | :---: | ---: |
|  | Votes For | Against |

Gregory S. Allen C. Fred Ball, Jr. Sharon J. Bell Peter C. Boylan III Chester Cadieux III William E. Durrett John W. Gibson V. Burns Hargis E. Carey Joullian IV George B. Kaiser Thomas I. Kivisto tanley A. Lybarger Steven J. Malcolm E. C. Richards

Votes Withheld/ Against
(ii) Approval of the Amended and Restated 2003 Executive

Incentive Plan
$57,852,637$
$2,946,537$

Votes
Withheld/ Against
(iii) Ratification of Ernst \& Young LLP as the independent auditor for the year ending December 31, 2008
$64,543,595$
122,560

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 1A, 3 and 5 are not applicable and have been omitted.

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)
/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
Chief Accounting Officer
```

Date: August 8, 2008

