



PUBLIC DISCLOSURE

November 13, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**ANADARKO BANK AND TRUST COMPANY
RSSD# 42055**

**110 WEST OKLAHOMA
ANADARKO, OKLAHOMA 73005**

**Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198**

NOTE:

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING: *This institution is rated Satisfactory*

Anadarko Bank and Trust Company (the bank) has a satisfactory record of meeting the credit needs of its assessment area (AA), including low- and moderate-income (LMI) families as well as small businesses and small farms, in a manner consistent with its resources and operating philosophy. Four of the five criteria used to evaluate a small bank's lending performance under the Community Reinvestment Act (CRA) were relevant to this review and are listed as follows:

- Net Loan-to-Deposit (NLTD) Ratio
- Lending Inside the AA
- Lending to Borrowers of Different Income Levels and Businesses and Farms of Different Revenue Sizes
- The geographic distribution of loans among tracts of various income levels

The bank's responsiveness to complaints, the fifth core criterion used to assess a small bank's performance, was not evaluated as the bank has not received any CRA-related complaints since the last evaluation.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council Interagency Small Bank Examination Procedures. The examination included an evaluation of the bank's performance, with contextual consideration given to demographic information of the area in which the bank operates. Conclusions regarding the four lending test criteria were based on data compiled from the bank's major product lines of commercial, agricultural, and consumer residential real estate loans. The major product lines were determined through discussions with bank management, a review of the bank's June 30, 2012 Report of Condition and Income (Call Report), and a review of the number of loan originations since the bank's last CRA examination conducted by the Federal Reserve Bank of Kansas City on August 18, 2008. The bank received a satisfactory rating at that review.

The CRA examination analyzed statistical samples of 32 residential real estate loans from a universe of 89 loans and 31 commercial loans from a universe of 81 loans, both originated in a four-year time period dating back to the last examination. The analysis also included a statistical sample of 27 agricultural loans from a universe of 56 loans, originated in a one-year time period between September 1, 2011 and August 31, 2012.

To augment the evaluation, interviews were conducted with members of the local community to obtain perspective of local economic conditions and to assess the bank's responsiveness to the credit needs of the community. The community contacts included representatives from the local city government and the regional Bureau of Indian Affairs.

DESCRIPTION OF INSTITUTION

The bank is a full-service institution headquartered in Anadarko, Oklahoma, a rural community with approximately 6,800 residents. The city of Anadarko is located in Caddo County, home to over 29,600 residents. Anadarko is approximately 60 miles southwest of Oklahoma City, Oklahoma. The bank’s main office has a drive-up teller window and an automated teller machine (ATM). The bank also operates branches with ATMs in Anadarko, Binger, and Carnegie, Oklahoma.

The bank continues to maintain a large market presence, with approximately \$53,799M in deposits, according to the June 30, 2011 Federal Deposit Insurance Corporation (FDIC) Market Share Report. In addition, the bank ranked 4th among the 11 FDIC-insured institutions operating in Caddo County, holding approximately 11.3 percent of total deposits.

Table 1 provides a breakdown of the bank’s loan portfolio by product as of the June 30, 2012 Call Report. The bank reported total assets of \$65,254M; of which, gross loans represented \$39,532M or 60.6 percent. As illustrated in the table, the bank is primarily a commercial lender, which represents approximately 44.4 percent of its total gross loans by dollar volume. Furthermore, agricultural loans represented the second largest product offering by dollar amount, accounting for 28.5 percent of the bank’s loan portfolio.

TABLE 1 BANK'S LOAN PORTFOLIO AS OF JUNE 30, 2012		
Loan Type	Amount (\$000)	Percent of Total
Commercial	17,560	44.4
Agricultural	11,257	28.5
Real Estate	6,709	16.9
Consumer	713	1.8
Other	3,336	8.4
Total Gross Loans	39,532	100.0

The analysis of the bank's CRA performance considered the bank's financial capacity, local economic conditions, area demographics, and the bank's competitive environment. The bank has the ability to meet the credit needs of its AA based on its asset size, financial condition, resources, and credit product offerings. No financial or legal impediments exist that would prevent the bank from fulfilling its responsibilities under the CRA.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank’s AA remains unchanged from the previous CRA evaluation and is defined as all of Caddo County in central Oklahoma. The AA is rural in nature and comprised of one moderate-income tract and seven middle-income tracts, according to the latest available census data.

The bank's main office and one branch office are located in the moderate-income tract, which comprises the city limits of Anadarko, while the Binger and Carnegie branches are located in middle-income tracts. There are no low- or upper-income tracts in the AA. Moreover, all seven middle-income tracts in the AA are considered distressed tracts according to 2000 Census information.

Labor and Employment Characteristics

Anadarko is located in an area of Oklahoma dominated by farming and ranching operations. Consequently, agriculture and agriculture-related industries remain a vital part of the local economy. Other than agricultural operations, significant employers in the area include the Anadarko School District, Western Farmers Electric Co-op, Bureau of Indian Affairs, Great Plains Correctional Facility, and the State Department of Human Services. In addition, one community contact stated that recently many local residents have begun commuting daily for higher-paying employment in neighboring communities such as Chickasha and Lawton, Oklahoma.

The AA's farming operations are primarily concentrated in cattle and wheat. According to the United States Department of Agriculture's 2007 Census, out of the 77 counties in the state of Oklahoma, Caddo County ranked 16th in total market value for agricultural crops sold and 17th in market value for livestock production. Due to rising operational costs, agricultural lending continues to be one of the greatest credit needs in the community. However, elevated commodity prices have improved financial conditions for local farmers and ranchers over the past several years, which had decreased the demand for additional lines of credit.

Population Trends and Economic Conditions

The bank's AA is sparsely populated. The city of Anadarko has a population of approximately 6,800 according to 2010 Census data and is the largest city in Caddo County. The cities of Binger and Carnegie, where two of the bank's branch offices are located, have 700 and 1,700 residents, respectively. The AA as a whole experienced a slightly negative migration with a population decrease of 1.8 percent from 2000 to 2010, while the state of Oklahoma's population grew 9.9 percent during the same time period.

Oklahoma's economy has performed above-average despite the national recession and economic downturn beginning in late 2008. According to the Bureau of Labor Statistics, 2011 unemployment levels for the AA at 6.8 depict an improvement from the 2000 Census unemployment estimates of 8.0 percent. The unemployment level for the AA is slightly higher than that of the state at 6.2 percent while still well below the national unemployment rate of 9.0 percent.

Housing Conditions

According to 2000 Census data, the AA housing stock is older with a median age of 34 years compared to that of the state and statewide rural areas at 28 years and 30 years, respectively.

Moreover, the median housing value in the AA is \$44,819 which is much lower than that of the state of Oklahoma and statewide rural areas at \$67,700 and \$54,030, respectively. These factors contribute to AA housing being more affordable than in other areas of the state. However, one community contact stated that much of the current housing stock in the AA is dilapidated and in need of rehabilitation. Census data confirmed this sentiment, depicting that 16.3 percent of the AA housing units are vacant. Therefore, while the housing in the AA may be affordable, the generally poor condition of housing may have contributed to the lower owner-occupancy rate in the AA, which is 56.7 percent compared to that of the rest of the state of Oklahoma at 59.0 percent.

One community contact stated that the city of Anadarko, especially the lower income neighborhoods, is in need of home improvement and rehabilitation loans. In response to this need, the local economic development council has initiated a home rehabilitation program focused on improving more than 100 properties in and around the Anadarko area. The community contact stated that several local institutions are helping to finance the program.

Income Characteristics

Caddo County is primarily middle-income. According to 2000 Census numbers, the median family income (MFI) for the AA is \$32,021, which is less affluent than other rural areas of Oklahoma, at \$35,517. In addition, the AA had a higher concentration of LMI families at 43.6 percent compared to other rural areas of Oklahoma at 38.4 percent. Moreover, Caddo County had a higher percentage of families below the poverty level at 16.7 percent compared to other rural areas of Oklahoma at 13.2 percent. Table 2 illustrates the AA's family income distribution as well as farms and businesses by tract and revenue size.

TABLE 2
BANK'S ASSESSMENT AREA DEMOGRAPHICS

Income Categories	Tract Distribution		Families By Tract Income		Families < Poverty Level as a % of Families by Tract		Families By ¹ Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	1,839	23.0
Moderate-income	1	12.5	1,869	23.4	414	22.2	1,641	20.6
Middle-income	7	87.5	6,113	76.6	922	15.1	1,730	21.7
Upper-income	0	0.0	0	0.0	0	0.0	2,772	34.7
Total AA	8	100.0	7,982	100.0	1,336	16.7	7,982	100.0
	Housing Units By Tract	Housing Type By Tract ¹						
		Owner-Occupied			Rental		Vacant	
		#	% By Tract	% By Unit	#	% By Unit	#	% By Unit
Moderate-income	3,050	1,654	20.5	54.2	986	32.3	410	13.4
Middle-income	10,046	6,399	79.5	63.7	1,918	19.1	1,729	17.2
Total AA	13,096	8,053	100.0	61.5	2,904	22.2	2,139	16.3
	Total Businesses by Tract	Businesses By Tract & Revenue Size ²						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Moderate-income	373	35.3	341	36.9	12	23.1	20	24.7
Middle-income	683	64.7	582	63.1	40	76.9	61	75.3
Total AA	1,056	100.0	923	100.0	52	100.0	81	100.0
Percent of Total Businesses:				87.4		4.9		7.7
	Total Farms by Tract	Farms By Tract & Revenue Size ²						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Moderate-income	16	10.5	16	10.7	0	0.0	0	0.0
Middle-income	136	89.5	134	89.3	2	100.0	0	0.0
Total AA	152	100.0	150	100.0	2	100.0	0	0.0
Percent of Total Farms:				98.7		1.3		0.0

¹ Based on 2000 Census Data.

² Based on 2010 Dun & Bradstreet Data.

(Note: Total percentages shown may vary by .01percent due to automated rounding differences.)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the CRA is considered satisfactory based on an assessment of its 16-quarter average NLTD ratio, level of lending within its AA to geographies of different income levels, as well as its level of lending within its AA to LMI borrowers and to farms and businesses of different revenue sizes. Data utilized for this analysis included the bank's performance data, aggregate data, area demographic information, and input from members of the local communities.

Net Loan-to-Deposit Ratio

The bank's NLTD ratio was averaged over a 16-quarter period since the previous CRA evaluation and compared with the NLTD ratios of three similarly-situated institutions and that of state, statewide rural and national peer groups over the same period. The bank's NLTD ratio reflected a reasonable effort to extend credit based on its size, financial condition, and the credit needs of its AA. The bank's NLTD ratio of 61.7 percent was higher than two of the three competitor banks whose average NLTD ratios ranged from 36.9 percent to 90.3 percent. Furthermore, the bank's NLTD ratio was less than the state, statewide rural, and national peer group averages of 66.5 percent, 71.3 percent, and 73.6 percent, respectively.

While the bank's NLTD ratio is below the averages of the state, statewide rural, and national peers, the bank's performance is considered reasonable given its competitive lending environment, its conservative lending practices, and the recent decline in demand for agricultural loan products, which have historically comprised a large portion of the bank's portfolio.

Lending in the Bank's Assessment Area

Table 3 represents the volume of loans originated within the bank's AA. As illustrated, a substantial majority of the bank's residential real estate, commercial, and agricultural loans were originated to borrowers within its AA. The analysis focused on the number of originations within the AA rather than the dollar volume, as this is a better representation of the number of applicants served. Of the total number of loans sampled, 81.1 percent of the bank's loans were originated within the AA. The bank's level of lending reflects a reasonable effort to serve the credit needs of its AA.

TABLE 3
SUMMARY OF LENDING PERFORMANCE

Lending within the Assessment Area								
	Inside AA				Outside AA			
	#	%	\$(000)	%	#	%	\$(000)	%
Residential Real Estate	31	96.9	1,981	89.8	1	3.1	226	10.2
Commercial	25	80.6	1,437	43.9	6	19.4	1,833	56.1
Agriculture	17	63.0	831	26.5	10	37.0	2,301	73.5
TOTAL	73	81.1	4,250	49.4	17	18.9	4,361	50.7

Distribution by Income Level of Geographies

This core performance criterion evaluates the bank's distribution of loans among geographies of various income levels. The bank's residential real estate lending activity was compared to the percentage of owner-occupied housing units in each census tract income level. The bank's agricultural and commercial lending activity was compared to the percentage of all farms and businesses located in each census tract income level. As mentioned previously, the AA does not contain any low- or upper-income tracts, and the bank's headquarters is located in the AA's only moderate-income tract. Therefore, contextual consideration was given to the bank's location in evaluating the geographic loan distribution.

Residential Real Estate Loans

The bank's level of consumer residential real estate lending to borrowers in different census tracts is considered excellent relative to area demographics. As indicated in Table 4, the bank originated a majority, or 58.1 percent, of the consumer residential real estate loans to borrowers in the AA's one moderate-income tract, while only 20.5 percent of AA owner-occupied units are located in this tract. In addition, 28.3 percent of the bank's residential real estate lending by dollar volume was made to residents of middle-income tracts, while 79.5 percent of AA owner-occupied units are located in these tracts.

Commercial and Agricultural Loans

The bank's level of commercial and agricultural lending to borrowers in different census tracts is considered excellent relative to area demographics. The bank originated 72.0 percent of its commercial loans to businesses in the AA's one moderate-income tract, while only 35.3 percent of AA businesses are located in this moderate-income tract. Likewise, the bank originated 35.3 percent of its agricultural loans to farms in this moderate-income tract, while only 10.5 percent of AA farms are located in this area. While it is expected that a greater percentage of the bank's lending would be in the moderate-income tract given the bank's headquarters is located in Anadarko (the AA's only moderate-income area), the bank's performance under this

criteria exceeded expectations because the level of lending for each product was more than twice the demographics.

Table 4 SUMMARY OF LENDING PERFORMANCE					
Distribution of Income by Levels of Geography ³					
Census Tract Income Level	Residential Real Estate				% of Families ¹
	#	\$0	#%	\$%	
Moderate	18	1,420	58.1	71.7	23.4
Middle	13	561	41.9	28.3	76.6
Census Tract Income Level	Commercial Loans				% of Businesses ²
	#	\$0	#%	\$%	
Moderate	18	1,085	72.0	75.5	35.3
Middle	7	352	28.0	24.5	64.7
Census Tract Income Level	Agricultural Loans				% of Farms ²
	#	\$0	#%	\$%	
Moderate	6	185	35.3	22.2	10.5
Middle	11	646	64.7	77.8	89.5

¹ Based on 2000 Census Data.
² Based on 2010 Dun & Bradstreet Data.
³ Only includes known tracts in the AA.
(Note: Total percentages shown may vary by .01percent due to automated rounding differences.)

Distribution by Borrower Income and Revenue Size of Businesses and Farms

This performance criterion evaluates the bank's distribution of lending to borrowers of different income levels, particularly LMI individuals. The bank's consumer residential real estate loans were compared to the percentages of low-, moderate-, middle-, and upper-income families located in the AA. In addition, the analysis also evaluated the bank's level of lending to businesses and farms of different revenue sizes, primarily those with gross annual revenues of \$1 million or less. The bank's commercial lending activity was compared to the percentage of small businesses in the AA, while agricultural lending was compared to the percentage of small farms in the AA. Again, emphasis was placed on the number of originations within the AA rather than the dollar volume. Based on the demographic and economic conditions of the AA, the bank's overall distribution of loans represented a reasonable penetration among individuals of different income levels and businesses and farms of different revenue sizes. Results of the analysis are illustrated in Table 5.

Consumer Residential Real Estate Loans

The bank's level of consumer residential real estate lending to borrowers of different income levels was considered reasonable relative to area demographics. At 38.7 percent, the bank's lending to LMI borrowers is slightly lower than the demographic profile of LMI families in the AA

at 43.6 percent; however, the bank's performance is still considered reasonable based on contextual factors. While the bank's level of lending to moderate-income borrowers exceeded demographics in the AA by 5.2 percent, lending to low-income borrowers was 10.1 percent below area demographics. Both community contacts stated that many of the area's low-income residents qualify for government guaranteed mortgage products through local Native American Tribal organizations. These products feature lenient underwriting standards and often require little down payment. Moreover, the community contacts stated that over the last decade much of the AA affordable housing has become dilapidated and uninhabitable, which has resulted in an increase in vacant units in and around Anadarko. Due to these factors, the bank's level of residential real estate lending to LMI borrowers is considered reasonable.

Small Business and Small Farm Loans

The bank's level of lending to small businesses in the AA was considered excellent. All of the bank's commercial loans sampled were originated to small businesses while 87.4 percent of all AA businesses are considered small businesses. Likewise, the bank's level of lending to small farms in the AA was considered reasonable. All of the bank's agriculture loans sampled were originated to small farms while 98.7 percent of all AA farms are considered small farms. Furthermore, the bank's commitment to fund smaller businesses and farms is demonstrated by its volume of small dollar loans as 96.0 percent of the commercial loans and 100.0 percent of agricultural loans sampled were for loan amounts of \$250,000 or less. These are loan amounts typically requested by small businesses and small farms.

TABLE 5
SUMMARY OF LENDING PERFORMANCE

Distribution by Income Level of Borrower and Revenue Size of Farms

Borrower Income Level	Residential Real Estate				% of Families ¹
	#	\$(000)	#%	\$%	
Low	15	738	4.1	2.1	23.0
Moderate	65	4,779	17.8	13.8	20.6
Middle	93	6,946	25.4	20.0	21.7
Upper	158	17,625	43.2	50.8	34.7
Unknown	35	4,601	9.5	13.3	0.0
Business Revenue	Commercial Loans				% of Businesses by Revenue ²
	#	\$(000)	#%	\$%	
\$1MM or Less	25	1,437	100.0	100.0	87.4
Over \$1MM	0	0	0.0	0.0	4.9
Unknown	0	0	0	0	7.7
Business Revenue	Agricultural Loans				% of Farms by Revenue ²
	#	\$(000)	#%	\$%	
\$1MM or Less	17	831	100.0	100.0	98.7
Over \$1MM	0	0	0.0	0.0	1.3

¹ Based on 2000 Census Data.

² Based on 2010 Dun & Bradstreet Data.

(Note: Total percentages shown may vary by .01 percent due to automated rounding differences.)

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. A review of bank policies and procedures, credit applications, loans and denials, and staff interviews revealed no prohibited practices designed to discourage loan applicants. In addition, the bank has not engaged in any illegal credit practices inconsistent with helping to meet the credit needs of its communities.