



PUBLIC DISCLOSURE

OCTOBER 24, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**BANK OF COMMERCE
RSSD# 866859**

**2500 SOUTH CORNWELL
YUKON, OKLAHOMA 73099**

**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**.*

Bank of Commerce (the bank) has a satisfactory record of meeting the credit needs of its assessment area (AA), including low- and moderate-income (LMI) families and neighborhoods, in a manner consistent with its resources and operating philosophy.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examination Council (FFIEC) Interagency Small Bank Examination Procedures. Four of the five criteria used in evaluating the lending performance of small banks were relevant to this review and are listed below:

- Net Loan-to-Deposit Ratio (NLTD)
- Lending Inside the AA
- Geographic Distribution of Loans
- Lending to Borrowers of Different Income Levels and to Businesses of Different Revenue Sizes

The bank's responsiveness to complaints under the CRA, the fifth criterion used to assess small bank performance, was not evaluated because the bank had not received any such complaints.

Conclusions for the four performance criteria were based on data compiled from a statistically derived sample of loan files reviewed for the bank's major product lines. The commercial loan sample included 31 loans originated between February 26, 2011 and August 26, 2011. The residential real estate sample included all of the 171 loans originated from January 1, 2009 to December 31, 2010, derived from the bank's Home Mortgage Disclosure Act (HMDA) Loan/Application Register (LAR). The major product lines were determined through a review of the Report of Condition and Income (Call Report) and a review of loan originations since the bank's prior CRA examination dated September 24, 2007. The bank received a satisfactory rating at this review.

During the examination, interviews were conducted with community members to ascertain the credit needs of the AA, its local economic conditions, and the availability of community development opportunities. Community contacts included a representative from a local small business development center and a regional housing service organization.

DESCRIPTION OF INSTITUTION

As of June 30, 2011, the bank was a \$167,202M financial institution headquartered in Yukon, Oklahoma, a suburb of Oklahoma City. In December 2009, the bank changed its name from Canadian State Bank to Bank of Commerce to better align with a related financial institution

that shares common majority ownership. The bank offers a diverse array of loan products and services throughout its AA, which consists of Canadian and Oklahoma Counties. It also operates four full-service locations, all within Canadian County. One branch is located in a moderate-income census tract, while the other three locations are located in middle-income census tracts. The bank maintains a network of nine cash-dispensing only automated teller machines, all within Canadian County.

Based on the June 30, 2011 Call Report, the bank reported total loans of \$115,451M; of which, commercial loans ranked highest, accounting for 62.1 percent of the loan portfolio. Table 1 below illustrates the distribution of the bank's loan portfolio by product type.

Loan Type	Amount (\$000)	Percent of Total
Commercial	71,716	62.1
Real Estate	22,329	19.3
Agricultural	18,490	16.0
Consumer	2,383	2.1
Other	533	0.5
Total Gross Loans	115,451	100.0

According to the June 30, 2010 Federal Deposit Insurance Corporation Deposit Market Share Report, the bank had a 0.7 percent share of deposits, ranking 25th of 54 financial institutions operating within Canadian and Oklahoma Counties. Its competition includes similarly-situated community banks, as well as numerous larger financial institutions that have a statewide and/or nationwide presence along with a vast network of resources.

The analysis of the bank's CRA performance considered its financial capacity, local demographic and economic conditions, and the competitive banking environment in which it operates. The bank has no financial or legal impediments that prevent it from fulfilling its responsibilities under the CRA.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's AA is comprised of Canadian and Oklahoma Counties, both of which are part of the Oklahoma City, Oklahoma Metropolitan Statistical Area (MSA). The AA's economy is highly dependent upon the oil and gas industry, as numerous natural resource exploration corporations are headquartered in Oklahoma City. In addition, there is a significant military presence in the AA. Tinker Air Force Base is the largest employer within the AA. Other significant industries include governmental and educational-related entities. Interviews with community contacts revealed that the character of the AA changes significantly, from urban to rural, the farther one moves from the urban center of Oklahoma City. Similarly, small

businesses become more prevalent, the farther that one moves from the urban corridor of the city.

Two members of the community were interviewed to gain an understanding of the overall economic conditions and credit needs of the AA. The competitive nature of the banking industry within the AA was discussed by both contacts. The contacts stated that stringent credit standards exist throughout the banking industry, impacting home ownership rates and small business development opportunities within the area. One contact indicated that new loan demand has moderated as consumers appear reluctant to take on new debt for personal or business purposes unless they have the capacity to handle such expenses.

The AA's census tract distribution includes all income levels and is detailed in Table 2. Based on information from the 2009 United States Census Bureau, the median household income (MHI) for the AA was \$52,885. This is higher than the overall state average of \$41,716 and reflects the metropolitan nature of the AA. Poverty levels within the AA mirror the overall state average at 16 percent.

Population growth has been moderate with the greatest growth occurring in Canadian County, which serves as a commuter and bedroom community for Oklahoma City. From 2000 to 2010, the population of Canadian County grew 31.8 percent, while the population of Oklahoma County increased 8.8 percent.

Home ownership rates from 2005 to 2009 averaged 70.0 percent across the AA. This compares favorably to the home ownership rate of 67.9 percent for the state of Oklahoma as a whole. Housing prices in Oklahoma did not experience the precipitous rise and fall cycle that was seen throughout other areas of the country, and therefore, the housing market has remained relatively stable.

Within the Oklahoma City, Oklahoma MSA, unemployment has grown from 3.7 percent in 2008 to 6.6 percent in 2010. The decline in the strength of numerous small businesses within the AA has impacted employment and was confirmed through interviews with community members. Some of the loss in small business employment has been off-set through the growth in the energy sector in Oklahoma City. Overall, unemployment rates in the Oklahoma City, Oklahoma MSA are lower than the United States as a whole and indicative of the relative strength of the AA's economy.

Table 2 summarizes income-related demographic and economic characteristics of the bank's AA based on 2010 Census and Dun & Bradstreet data.

**TABLE 2
BANK'S ASSESSMENT AREA DEMOGRAPHICS**

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	21	8.4	7,057	3.6	2,622	37.2	41,579	21.2
Moderate-income	84	33.5	58,038	29.6	11,166	19.2	35,766	18.2
Middle-income	82	32.6	68,536	34.9	5,662	8.3	41,487	21.1
Upper-income	60	23.9	62,733	31.9	2,031	3.2	77,532	39.5
Unknown-income	4	1.6	0	0.0	0	0.0	0	0.0
Total Assessment Area	251	100.0	196,364	100.0	21,481	10.9	196,364	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low-income	14,484	4,705	2.5	32.5	7,099	49.0	2,680	18.5
Moderate-income	110,568	46,743	25.1	42.3	50,123	45.3	13,702	12.4
Middle-income	113,291	68,027	36.6	60.0	35,825	31.6	9,439	8.3
Upper-income	90,475	66,537	35.8	73.5	19,115	21.1	4,823	5.3
Unknown-income	171	0	0.0	0.0	144	84.2	27	15.8
Total Assessment Area	328,989	186,012	100.0	56.5	112,306	34.1	30,671	9.3
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	2,008	5.3	1,552	4.7	278	10.5	178	8.3
Moderate-income	9,482	25.0	8,086	24.4	799	30.1	597	28.0
Middle-income	12,566	33.1	10,992	33.2	823	31.1	751	35.3
Upper-income	12,859	33.9	11,744	35.4	609	23.0	506	23.8
Unknown-income	1,007	2.7	770	2.3	140	5.3	97	4.6
Total Assessment Area	37,922	100.0	33,144	100	2,649	100.0	2,129	100.0
Percentage of Total Businesses:				87.4		7.0		5.6
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	6	1.3	3	0.7	1	10.0	2	22.2
Moderate-income	39	8.4	35	7.8	3	30.0	1	11.1
Middle-income	197	42.2	192	42.8	4	40.0	1	11.1
Upper-income	222	47.5	215	48.0	2	20.0	5	55.6
Unknown-income	3	0.6	3	0.7	0	0.0	0	0.0
Total Assessment Area	467	100.0	448	100.0	10	100.0	9	100.0
Percentage of Total Farms:				96.0		2.1		1.9

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

The NLTD ratio is reasonable given its size, financial condition, and the credit needs of the AA, averaging 88.0 percent over the past 16 quarters. In comparison, five similarly-situated financial institutions within the bank's AA reported NLTD ratios ranging from 67.9 percent to 102.6 percent, with an average of 88.0 percent, which mirrors the subject bank's NLTD ratio. This reflects the competitive nature of the bank's operating environment and its efforts to meet the credit needs of its community. The bank's average NLTD ratio was also greater than its state and national peer groups, which averaged 73.2 percent and 76.2 percent, respectively, over the same time frame.

Lending in the Bank's Assessment Area

This lending test evaluates the concentration of loans originated by the bank within its AA. As detailed in Table 3, the bank originates a majority of its small business and HMDA loans within its AA, indicating a satisfactory effort to meet the credit needs of its community.

Geographic Distribution of Loans

This criterion places emphasis on lending to LMI geographies for loans originated within the AA. The bank's geographic distribution of loans is considered reasonable given the economic and demographic conditions within the AA.

HMDA Loans

Table 3 indicates that the bank's penetration of HMDA loans in LMI geographies compared favorably to the AA demographics and far exceeded the aggregate performance of other HMDA reporters in the AA. Overall, the percentage of owner-occupied units in LMI census tracts was 27.6 percent. In 2009, 31.7 percent of the bank's HMDA loans were originated in LMI geographies and in 2010, the bank's level of lending to borrowers in LMI census tracts rose to 39.3 percent. Comparatively, aggregate HMDA reporters operating within Oklahoma and Canadian Counties originated only 13.0 percent of their loans in these tracts. The bank's performance is strong and indicative of its continued efforts to meet the credit needs of all members of its community.

Commercial Loans

The bank's penetration of commercial loans to LMI geographies was substantially lower than the AA demographics. Only 4.3 percent of the bank's commercial loans were originated in LMI census tracts, while the overall percentage of businesses located in these tracts was 30.3 percent. As discussed, the bank operates in a competitive banking environment and has a limited market share within the AA. Both community contacts reiterated that loan competition is fierce and that credit standards have been heightened, impacting banks' ability to lend throughout all areas of the community. The bank does not have a physical presence within the

LMI tracts, which are predominately located in Oklahoma County. Its lack of visibility lessens the bank's ability to effectively compete for lending opportunities to prospective borrowers residing in these tracts. In spite of its limited penetration into the LMI tracts, the bank's performance is considered reasonable.

Lending to Borrowers of Different Income Levels and to Businesses of Different Revenue Sizes

This criterion evaluates the bank's distribution of lending to borrowers of different income levels, particularly LMI individuals. In addition, the level of lending to businesses of different revenue sizes is evaluated, with an emphasis on those businesses with gross annual revenues of \$1 million or less. The bank's overall performance reflects a reasonable distribution of loans to borrowers of different income and gross annual revenue levels. For this lending test, the focus was placed 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.

HMDA Loans

Together, LMI families represented 39.2 percent of all families within the AA. As shown in Table 3, in 2009, the bank's level of lending to LMI families was slightly below, at 26.8 percent. In 2010, the bank's level of lending, at 30.1 percent, reflected improvement and exceeded that of aggregate HMDA reporters operating within Oklahoma and Canadian Counties, at 26.6 percent. The bank's performance indicates that it is reaching all levels of borrowers in spite of tighter credit conditions within the banking industry. Moreover, one of the community contacts indicated that banks in the AA are operating in a very competitive environment, affording borrowers an abundance of lending options.

Commercial Loans

A majority of the commercial loans in the analysis were originated to small businesses, defined as those with gross annual revenues of \$1 million or less. Table 3 notes that 69.6 percent of the bank's loans were made to small businesses, compared to 87.4 percent of small business with reported revenues in the AA, according to Dun & Bradstreet data.

When stratifying the bank's loans by loan size, 73.9 percent of the sampled loans in the AA were originated for \$250,000 or less and 91.3 percent of the loans were originated for \$1 million or less. Generally, smaller loan amounts reflect on a bank's propensity to extend credit to small businesses as they tend to apply for smaller loans.

**TABLE 3
SUMMARY OF LENDING PERFORMANCE**

Lending within the Assessment Area

	Inside AA				Outside AA			
	#	%	\$(000)	%	#	%	\$(000)	%
HMDA Purchase	46	83.6	3,832	44.7	9	16.4	4,739	55.3
HMDA Refinance	74	82.2	8,048	77.0	16	17.8	2,399	23.0
HMDA Improvement	23	95.8	668	95.7	1	4.2	30	4.3
HMDA Multi-Family	2	100.0	3,530	100.0	0	0.0	0	0.0
Total HMDA Loans	145	84.8	16,078	69.2	26	15.2	7,168	30.8
Commercial	23	74.2	8,106	57.5	8	25.8	5,988	42.5
TOTAL	168	83.2	24,184	64.8	34	16.8	13,156	35.2

Distribution by Income Level of Geographies

	% of Bank Loans								% of Owner-Occupied Units			
	Low		Moderate		Middle		Upper		Low	Moderate	Middle	Upper
	2009	2010	2009	2010	2009	2010	2009	2010				
HMDA (All)	3.7	1.6	28.0	47.6	37.8	25.4	30.5	25.4	2.5	25.1	36.6	35.8
Aggregate Peer Data		0.7		12.3		32.2		54.8				
	% of Bank Loans								% of Businesses ¹			
	Low		Moderate		Middle		Upper		Low	Moderate	Middle	Upper
	2009	2010	2009	2010	2009	2010	2009	2010				
Commercial	0.0		4.3		2.2		43.5		5.3	25.0	33.1	33.9

Distribution by Borrower Income Level and Revenue Size of Businesses

	% of Bank Loans								% of Families			
	Low		Moderate		Middle		Upper		Low	Moderate	Middle	Upper
	2009	2010	2009	2010	2009	2010	2009	2010				
HMDA ² (All)	8.5	6.3	18.3	23.8	8.5	14.3	46.3	33.3	21.2	18.2	21.1	39.5
Aggregate Peer Data ³		7.7		18.9		20.7		39.6				
Small Business	% of Bank Loans								% of Small Businesses			
	69.6								87.4			

¹ Approximately 2.7 percent of the small businesses within the AA were reported to be in census tracts with unknown revenue levels.

² In 2009 and 2010, 18.4 percent and 22.3 percent of the bank's HMDA loans were reported with unknown borrower income.

³ 13.1 percent of aggregate HMDA loans were reported with unknown borrower income.

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. No apparent signs of discrimination were identified, and the bank was not engaged in any illegal credit practices inconsistent with helping to meet community credit needs.

GLOSSARY OF COMMON CRA TERMS

(For additional information, please see the Definitions section of Regulation BB at 12 CFR 228.12.)

Assessment Area – The geographic area(s) delineated by the bank and used in evaluating the bank’s record of helping to meet the credit needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated tellers machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

Census Tracts – Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Census tracts are designed to be homogenous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons and average about 4,000 inhabitants.

Community Development – Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals; community services targeted to low- and moderate-income individuals; activities that promote economic development by financing businesses or farms that have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, designated distressed or underserved nonmetropolitan middle-income areas or designated disaster areas.

Community Development Loan – A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank):

1. Has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan, and
2. Benefits the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area(s).

Community Development Service – A service that has as its primary purpose community development, is related to the provision of financial services, has not been considered in the evaluation of the bank’s retail banking services, benefits the banks assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area, and has not been claimed by other affiliated institutions.

Consumer Loans – Loans to individuals for household, family, and other personal expenditures. These loans do not include real estate-secured loans.

Dun & Bradstreet Data – Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. The data can be sorted by geographies.

Geography – A census tract delineated by the U.S. Bureau of the Census in the most recent decennial census.

Income Level – Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median family income (**MFI**). In nonMSA areas, the level is based on the statewide, nonMSA median family income.

Low-Income – Less than 50 percent of the area median family income

Moderate-Income – At least 50 percent and less than 80 percent of the area median family income

Middle-Income – At least 80 percent and less than 120 percent of the area median family income

Upper-Income – At least 120 percent or more of the area median family income

LMI – Collectively, low- and moderate-income families or tracts.

Metropolitan Statistical Area (MSA) – The general concept of an MSA is that of a core area containing a large population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Generally, a single city with at least 50,000 inhabitants or an urbanized area with a total population of at least 100,000 would meet the definition of an MSA.

Qualified Investment – A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Small Business – A business with gross annual revenues of \$1 million or less.

Small Farm – A farm with gross annual revenues of \$1 million or less.

Small Loan(s) to Business(es) – A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (“Call Report”). These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s) – A loan included in “loans to small farms” as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500 thousand or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.