

PUBLIC DISCLOSURE

March 8, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens Bank of Oklahoma
Certificate Number: 14899**

**8th Street & Kihekah Avenue
Post Office Box 27
Pawhuska, Oklahoma 74056-0027**

**Federal Deposit Insurance Corporation
Division of Supervision and Consumer Protection
1910 Pacific Avenue, 19th Floor
Dallas, Texas 75201**

NOTE: 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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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Citizens Bank of Oklahoma** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **March 8, 2005**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

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

The FDIC rated the institution "Outstanding" at its previous January 28, 1999 evaluation. For this \$49 million, two-office bank, headquartered in the community of Pawhuska, Oklahoma, examiners reviewed the small bank performance factors as follows: lending to borrowers of different incomes and businesses of different sizes, geographic distribution of loans, lending inside the assessment area, loan-to-deposit ratio, and response to CRA-related complaints. Since there were no consumer complaints noted, this factor was not considered. Examiners used commercial and residential mortgage lending to evaluate the bank's lending performance. Examiners weighted commercial loans more heavily than residential loans when arriving at the performance criteria conclusions since it is the largest portion of the loan portfolio. Conclusions for the applicable performance criteria are summarized below. A detailed discussion of each factor is provided elsewhere in this Public Evaluation.

- The institution's average loan-to-deposit ratio of 72 percent reflects a reasonable level of lending, considering the bank's resources, business strategy, assessment area's credit needs, and other assessment area banks' ratios.
- The bank demonstrated an adequate record of granting credit inside its assessment area. This analysis took into consideration the assessment area's size relative to the bank's asset size and office structure.
- The bank exhibited a reasonable penetration of loans to businesses of different sizes and borrowers of differing incomes when compared to assessment area demographics.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area. This conclusion was determined by comparing the bank's lending practices to assessment area demographics.

DESCRIPTION OF INSTITUTION

Citizens Bank of Oklahoma is in the rural community of Pawhuska, Oklahoma, about 150 miles northeast of Oklahoma City. There have been some office location changes since the previous evaluation; the bank sold the Shidler and Bartlesville, Oklahoma branch offices in May 2003, and built a branch office in Tulsa, Oklahoma in September 2004. The main office is in central Osage County and the Tulsa office is in the central section of the city. The hours of operation at each location are reasonable, with both offices having extended lobby hours on Fridays and the drive-in facilities open on Saturdays. Also, there are automatic teller machines at both locations. The bank offers residential, consumer, agricultural, and commercial loans including Small Business Administration guaranteed loans. A variety of deposit accounts and services are also available. Management indicated that implementation of on-line banking was forthcoming.

As of December 31, 2004, management reported total assets of \$48,508,000, total deposits of \$43,366,000, and total equity capital of \$4,703,000. The investment and loan portfolios comprise 13 percent and 71 percent of the total assets, respectively. The loan portfolio is diversified based upon the dollar amount of loans outstanding as reported in the Consolidated Report of Condition dated December 31, 2004. The two primary lending areas are commercial and residential real estate lending. These two categories totaled 63 and 21 percent of total loans by dollar volume, respectively. Table 1 below indicates the bank's loan distribution as of December 31, 2004.

Table 1 – Loan Distribution as of 12/31/2004		
Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	318	1
Secured by Farmland	1,458	4
1-4 Family Residential	7,194	21
Multi-Family (5 or more) Residential	1,677	5
Commercial	7,390	22
Total Real Estate Loans	18,037	53
Commercial and Industrial	14,081	41
Agricultural	394	1
Consumer	1,470	4
Other	220	1
Less: Unearned Income	0	0
Total Loans	34,202	100

Source: Report of Condition.

The institution's financial condition, full line of product offerings, and lack of legal impediments allow management the ability to meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

Citizens Bank of Oklahoma has recently modified its assessment area to include portions of Osage and Tulsa Counties of the Tulsa metropolitan statistical area (MSA). This was done due to the recent opening of the new Tulsa branch office. Osage County is primarily a large rural area while the Tulsa, Oklahoma area is the second largest metropolis in Oklahoma. The Osage County portion of the assessment area consists of 3 moderate-income and 3 middle-income geographies. The main office in Pawhuska is located in one of these moderate-income geographies. The Tulsa County portion consists of a total of 76 tracts; 7 moderate-income, 31 middle-income, and 39 upper-income tracts. The Tulsa office is located in a middle-income tract. There are approximately 25 institutions headquartered in Osage and Tulsa Counties with another 20 banks having branch offices in these two counties. The Glossary, on page 12, provides definitions of geographic and economic terms used in this evaluation.

Table 2 – Demographic & Economic Characteristics of the Assessment Area	
Assessment Area Population	290,590
<u>Tulsa MSA Median Family Income:</u>	
2000 Median Family Income	\$41,500
2004 Estimated Median Family Income(*)	\$53,100
<u>Percentage of Families by Income Level:</u>	
Low-Income	15%
Moderate-Income	16%
Middle-Income	20%
Upper-Income	49%
<u>Number of Total Housing Units:</u>	
1-4 Family Residential	91,497
Multi-Family	36,424
Mobile Home or Trailer	2,881
Other	64
Owner-Occupied Housing Units	72,186
Occupied Rental Housing Units	49,533
Vacant Housing Units	9,147
<u>Percentage of Total Housing Units:</u>	
1-4 Family Residential	68%
Multi-Family	30%
Mobile Home or Trailer	2%
Other	1%**
Owner-Occupied Housing Units	55%
Occupied Rental Housing Units	38%
Vacant Housing Units	7%

Source: 2000 US Census; * this figure is based on estimates from the Department of Housing and Urban Development (HUD); ** represents less than 1 percent

Based upon 2004 Bureau of Labor Statistics Data for the Tulsa MSA, educational and health services represent the largest employment industry with 13 percent, professional and business services was second largest at 12.3 percent, and the next largest category was manufacturing

with 12.2 percent. Dun and Bradstreet data indicates that 81 percent of businesses have less than 10 employees and 89 percent of the businesses have gross annual revenues of \$1 million or less.

The unemployment rate in Osage County at year end 2004 was 5.3 percent. This rate has increased from 3.4 percent in 2001 but has decreased from a high of 6.7 percent last year. The Oklahoma state average during the same time has been from 4.7 to 5.5 percent. There has been fluctuating employment growth in Osage County since 2001 with a current growth rate of 1.6 percent. The state of Oklahoma as a whole has seen small, positive employment growth in three of the last four years. The Bureau of Labor Statistics indicate the largest employers in Osage County is the Pawhuska Public Schools, the John Zink Company (environmental controls), and Baker Petrolite Corporation.

The unemployment rate in Tulsa County at year end 2004 was 4.8 percent. This rate has decreased in the last two years. There has been no employment growth in this area since 2001 except for 2004 with nearly a 2 percent increase, while Oklahoma as a whole has seen some employment growth for the most part in the last four years. According to the Bureau of Labor Statistics, three of the largest employers in Tulsa County are American Airlines, the Hillcrest Healthcare System, and Williams Inc., the telecommunications giant.

Two previously conducted community contacts were utilized in conjunction with this evaluation. Neither had a very positive outlook of the economy of the assessment area but did indicate that local banks provide for credit needs in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Examination Methodologies and Loan Sample Universe

Management provided a database listing all outstanding loans originated since the previous evaluation in 1999. There were 521 loans originated totaling \$47,360,506, and portions of this information was utilized to determine the bank's lending performance.

As discussed previously, the bank's loan portfolio is relatively diversified with commercial loans at 63 percent, residential loans at 21 percent, agricultural loans at 5 percent, and installment loans at 4 percent. Therefore, examiners only reviewed commercial and residential loans for the lending in the assessment area, borrower profile, and geographic distribution sections of this evaluation. Commercial loans were given more weight than residential loans in the performance analysis since it is the largest loan category by dollar volume. Results based on the number of loans were considered more significant than the dollar volume of loans.

The commercial loan universe included 122 loans totaling \$27,420,924 that were originated in the last twelve months. A random sample consisting of 33 commercial loans totaling \$5,201,332 was used for assessment area lending analysis, lending to businesses of different sizes, and geographic distribution. This random sample was based on a 90 percent confidence interval with a 15 percent precision level.

The 1-4 family residential loan universe included 33 loans totaling \$3,386,614 that were originated in the last twelve months. The entire universe was utilized to determine assessment area lending analysis, lending to borrowers of differing incomes, and geographic distribution.

Loan-to-Deposit Ratio

Citizens Bank of Oklahoma demonstrated a reasonable level of lending regarding this performance factor. Examiners considered the bank’s size, capacity, lending strategy, assessment area credit needs, and the ratio of other comparable banks when arriving at this conclusion. As of December 31, 2004, the bank's average loan-to-deposit ratio for the twenty-four quarters since the prior evaluation was 72 percent. This is an increase from the 53 percent average ratio at the 1999 evaluation. This increase is due to steady loan growth as well as a large increase in commercial loan volume since the opening of the Tulsa branch office in September 2004. The net loan-to-deposit ratio varied from a high of 89 percent on September 30, 2002, to a low of 53 percent on March 31, 2000. The net loan-to-deposit ratio was 78 percent as of December 31, 2004. Five comparable banks in the assessment area were found for comparison purposes. The data for these banks is depicted in Table 3 below and is presented in alphabetical order.

Table 3 – Net Loan-to-Deposit Ratios (Dollar Volume in Thousands)		
Bank Name and Location	Total Assets as of 12/31/2004	Average Loan-to-Deposit Ratio
Citizens Bank of Oklahoma Pawhuska, Osage County, Oklahoma	\$48,508	72%
Comparable Area Banks		
First BankCentre Broken Arrow, Tulsa County, Oklahoma	\$26,914	76%
First National Bank of Pawhuska Pawhuska, Osage County, Oklahoma	\$31,511	69%
The Exchange Bank Skiatook, Osage County, Oklahoma	\$90,045	83%
Peoples State Bank, Tulsa Tulsa, Tulsa County, Oklahoma	\$68,885	61%
Summit Bank Tulsa, Tulsa County, Oklahoma	\$80,003	96%

Source: Call Reports March 31, 1999 through December 31, 2004.

As noted above, Citizens Bank’s loan-to-deposit ratio is fairly representative of the other listed banks. Comparing the subject bank’s ratio to the other institutions in the assessment area, the loan-to-deposit ratio represents a reasonable response to the assessment area's credit needs.

Lending in the Assessment Area

The institution displayed a satisfactory record of granting loans inside its assessment area. The percentages of the number of loans originated and dollar amount of loans originated received even weighting in the examiner's consideration of this performance factor. The assessment area's size relative to the bank's asset size, its office structure, and the loan products reviewed were also considered when arriving at this conclusion. The data utilized was a sample of 33 commercial loans and all the residential real estate loans originated in the twelve months prior to this evaluation. The following tables depict the distribution of the loans reviewed.

Table 4 – Commercial Loans Inside and Outside the Assessment Area				
Location	#	%	\$ (000's)	%
Inside Assessment Area	27	82	4,229	81
Outside Assessment Area	6	18	972	19
Total	33	100	\$5,201	100

Source: Bank Data

Table 5 - Residential Real Estate Loans Inside and Outside the Assessment Area				
Location	#	%	\$ (000's)	%
Inside Assessment Area	22	67	2,104	62
Outside Assessment Area	11	33	1,283	38
Total	33	100	\$3,387	100

Source: Bank data

The above tables show that a majority of loans and dollar volume of both products reviewed originated in the assessment area. Specifically, 82 percent by number and 81 percent by dollar amount of the bank's commercial loans were within the assessment area. In addition, 67 percent by number and 62 percent by dollar amount of the bank's residential loans were in the assessment area. As mentioned earlier, the bank has an good record of granting loans inside its assessment area.

Lending to Businesses of Different Sizes and Borrowers of Differing Incomes

The distribution of loans to businesses of different revenues and borrowers of differing incomes reflects a reasonable penetration based on the lending performance in both lending products. Conclusions were derived through an analysis of sampled loans originated inside the assessment area with emphasis placed on the loan distribution to smaller-sized businesses and low- and moderate-income borrowers. Examiners reviewed 27 commercial loans and 22 residential loans originated in the last twelve months within the assessment area. In arriving at the overall conclusion, examiners placed more weight on the bank's record regarding commercial lending than residential real estate lending.

Commercial Lending

The institution displayed a reasonable penetration of lending to small businesses. Examiners focused primarily upon gross annual revenues as a direct indication of the bank's efforts at offering credit to smaller businesses.

Table 6 – Distribution of Commercial Loans by Gross Annual Revenues of Businesses					
Gross Annual Revenues (000s)	Distribution of Businesses (% of #) 2004	Commercial Loans in Last 12 Months			
		#	%	\$ (000's)	%
\$0-<\$100	37	8	30	228	5
≥\$100-<\$250	28	7	26	716	17
≥\$250-<\$500	15	3	11	500	12
>\$500-<\$1,000	9	4	15	1,685	40
+ \$1,000	11	5	19	1,100	26
Total	100	27	100	4,229	100

Source: Dun & Bradstreet; 2004-2005 loan samples.

As this table indicates, lending to businesses is weighted toward small businesses with gross annual revenues of less than \$1,000,000. This is evidenced by 81 percent of the sampled loans by number made to businesses with gross annual revenues of less than \$1,000,000. It is also noted that 56 percent of the sampled loans the bank originated were to businesses with less than \$250,000 in gross annual revenues. The bank has started serving more medium and larger sized businesses primarily because the new branch office in Tulsa is generating business with larger operators that are in Tulsa County. The overall analysis indicates the bank is originating reasonable numbers of loans to all sizes of business operations in the assessment area.

Residential Mortgage Lending

The bank’s distribution of residential loans to borrowers of different incomes reflects a reasonable penetration. All 22 residential loans originated in the assessment area in the last twelve months were reviewed to determine distribution of loans to consumers of differing incomes. Examiners emphasized the bank’s total records relative to the demographic data for low- and moderate-income borrowers when arriving at this conclusion.

The 2004 Tulsa, Oklahoma MSA Median Family Income (MFI) of \$53,100 was used for calculation of borrower income levels concerning the residential real estate loans in the MSA Assessment Area. The following chart displays the income levels, percent of MFI used to determine ranges, and the income ranges.

Income Level	Percentage of MFI	2004 RANGE
Low	Less than 50%	Less than \$26,550
Moderate	50% to less than 80%	\$26,550 to less than \$42,480
Middle	80% to less than 120%	\$42,480 to less than \$63,720
Upper	120% and over	\$63,720 and over

Table 7 below reflects the lending distribution of the bank’s residential real estate loans which were originated within the assessment area in the last twelve months. For comparative purposes, the table includes the percentage of families within each income level.

Table 7 – Distribution of Residential Loans by Borrower Income					
Borrower Income Level	% of Total Families	Residential Loans in Last 12 Months			
		#	%	\$ (000’s)	%
Low	15	5	23	334	16
Moderate	16	3	14	119	6
Middle	20	4	18	104	5
Upper	48	10	45	1,547	73
Total	100	22	100	2,104	100

Source: 2000 U.S. Census; 2004-2005 Loan Sample

As illustrated on the previous page, the bank's residential real estate lending to low-income borrowers at 23 percent by number is very favorable to assessment area demographics, in that 15 percent of assessment area families are considered low-income. The lending to moderate-income borrowers is reasonable as the percentage of loans originated closely mirrors the assessment area demographics for this income group as well. It must be noted that 45 percent of the number of loans and 73 percent of the dollar volume was to upper-income borrowers. Bank management expected these high percentages as both offices are now lending in the new assessment area that provides more opportunities to lend to upper-income borrowers in Tulsa County. The dollar amount is skewed by a large loan originated in the Tulsa office that is nearly 50 percent of the upper-income dollar volume. Overall, the distribution of residential lending to borrowers of differing incomes is reasonable given the bank's lending to both low- and moderate-income borrowers mirror or exceeds the assessment area demographics for these two income groups.

Geographic Distribution of Loans

The geographic distribution of the sampled loans reflects a reasonable dispersion throughout the assessment area. This conclusion was derived through an analysis of sampled loans originated inside the assessment area with more emphasis placed on the bank's record regarding commercial lending rather than residential real estate lending since commercial lending is now the bank's primary lending focus.

Commercial Lending

The bank's record of business lending during this evaluation period reflects a good dispersion. Examiners focused on the bank's percentages by number and dollar amount of loans when arriving at this conclusion. Dun and Bradstreet data was used to estimate the dispersion of non-farm businesses within the assessment area. As previously mentioned, there are no low-income geographies in the assessment area.

Table 8 – Distribution of Commercial Loans by Income Category of the Census Tract by Number of Loans					
Census Tract Income Level	% of Businesses 2004	Commercial Loans in Last 12 Months			
		#	%	\$ (000's)	%
Moderate	13	7	26	218	5
Middle	43	14	52	2,036	48
Upper	44	6	22	1,975	47
Total	100	27	100	4,229	100

Source: Dun & Bradstreet; 2004-2005 loan sample.

As shown in table 8, the bank’s lending pattern in the moderate-income geographies appears to be significantly greater than the assessment area demographics. However, only 5 percent of the dollar volume was granted in these areas. Also, it should be noted that the assessment area has recently changed and now includes much of Tulsa County which lowered the overall percentage of businesses in moderate-income tracts throughout the assessment area. Further review of the commercial sample revealed that all the loans in the moderate-income tracts were originated from the main office in Pawhuska. This office is located in a moderate-income tract in Osage County. An analysis of the new assessment area revealed that approximately 56 percent of the businesses in Osage County are located in moderate-income geographies. The sample also indicates that the Tulsa office hasn’t originated a loan in any of the moderate-income geographies in the newly expanded assessment area. The Tulsa office is in a middle-income geography and is adjacent to several middle- and upper-income tracts. This explains the large dollar volume of loans in the upper-income areas. Based upon all of the above observations, the bank is adequately lending to businesses in all income geographies in the assessment area.

Residential Mortgage Lending

The bank’s record of residential mortgage lending in moderate-income geographies during this evaluation period reflects a reasonable performance. Examiners focused upon the bank’s data relative to the assessment area demographics when arriving at this conclusion.

Table 9 – Distribution of Residential Loans by Income Category of the Census Tract by Number of Loans					
Census Tract Income Level	% of Total Families	Residential Loans in Last 12 Months			
		#	%	\$(000’s)	%
Moderate	11	9	41	218	10
Middle	45	7	32	418	20
Upper	44	6	27	1,468	70
Total	100	22	100	2,104	100

Source: 2000 U.S. Census; 2004-2005 loan sample.

The above data indicates that 41 percent of the bank’s loans by number were made in moderate-income geographies, which is significantly greater than the percent of assessment area families located in those areas (11%). However, the performance by dollar volume was only 10 percent which is significantly below the other two income level geographies. It should be noted that the assessment area has recently changed that included much of Tulsa County which lowered the percentage of families in moderate-income tracts throughout the assessment area. Further review of the sample revealed that all the loans in the moderate-income tracts were originated from the main office at Pawhuska. This office is located in a moderate-income tract and is surrounded by

two other moderate-income geographies in Osage County. A breakdown of the new assessment area indicated that approximately 46 percent of the families in Osage County reside in moderate-income geographies. Based on this data, it is expected that a higher percentage of loans would exist in the moderate-income tracts compared to the current assessment area demographic data. Based upon all these observations, the lending performance to all income geographies is considered reasonable.

Response to Complaints

The bank has not received any CRA-related complaints since the previous evaluation.

Compliance with Anti-discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the examination.

GLOSSARY

Assessment Area - a geographic area delineated by the bank in accordance with the requirements of the Community Reinvestment Act.

Commercial Loan – a loan included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income. These loans have original amounts of \$1 million or less, and are either secured by non-farm nonresidential properties or are classified as commercial and industrial loans.

Dun & Bradstreet - a leading provider of business information for credit, marketing and purchasing decisions in the U.S. and worldwide.

Geography - a census tract delineated by the U.S. Census Bureau in the most recent decennial census.

Low-Income –

- for a **geography** – this income range is less than 50 percent of the 2000 median family income (MFI) for the Tulsa MSA which was \$41,500.
- for **individuals** – income levels less than 50 percent of the most recent MFI as estimated by the Department of Housing and Urban Development (HUD). The 2004 MFI for the Tulsa MSA was \$53,100.

Median Family Income (MFI) - designated income as determined by the Census Bureau or as adjusted by HUD.

Metropolitan Statistical Area (MSA) - determined by the U.S. Census Bureau. Usually consists of contiguous census tracts comprising one or more counties including a large population nucleus and nearby communities that have a high degree of interaction and which usually have a combined population of greater than 50,000.

Middle -Income - determined using the same methodology as for low-income. The percentage used for middle-income designations is 80 percent to 119 percent.

Moderate -Income - determined using the same methodology as for low-income. The percentage used for moderate-income designations is 50 percent to 79 percent.

Upper-Income - determined using the same methodology as for low-income. The percentage used for upper-income designations is greater than or equal to 120 percent.