



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 6, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Kingston National Bank
Charter Number 9536**

**2 North Main Street
Kingston, Ohio 45644**

**Comptroller of the Currency
Central Ohio Field Office
325 Cramer Creek Court, Suite 101
Dublin, Ohio 43017**

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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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 (CRA) performance of *KINGSTON NATIONAL BANK* prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of January 6, 2003. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR, Part 25.

OVERALL CONCLUSIONS

INSTITUTION'S CRA RATING:

The institution has a **SATISFACTORY** record of meeting community credit needs.

- The bank's 17-quarter average and current loan-to-deposit ratios are reasonable and commensurate with those demonstrated by local peer banks.
- Analysis of the dispersion of the bank's loans in conjunction with its performance context indicate that a substantial majority of loans are made within the identified assessment areas and show good dispersion by borrower income.
- Analysis of the dispersion of the bank's loans by income geography shows that the portion of sampled loans made in moderate-income geographies within the primary assessment area is significantly less than the portion of owner-occupied homes in those areas and does not meet the standards for satisfactory performance. However, this dispersion is understandable considering the proximity of the bank's offices in relation to the moderate-income geographies.

DESCRIPTION OF INSTITUTION:

Kingston National Bank (KNB) is a wholly owned subsidiary of Kingston Bancshares, Inc, a one bank intrastate holding company located in Kingston, Ohio. The main office of KNB is located approximately 50 miles southeast of Columbus, Ohio, in the Village of Kingston, Ohio. The bank's primary business focus is retail/commercial banking and it offers traditional products and services through a total of 3 full service offices. All offices contain an automated teller machine (ATM) to provide 24-hour banking, and the bank also provides a stand-alone ATM located in Chillicothe, Ohio. Overall competition for loans and deposits within the bank's marketing area is moderate, and comes primarily from several local community banks and credit unions, as well as branches of regional institutions. Currently no legal or economic impediments exist that could restrict the institution's ability to serve the community's credit needs. The bank earned a rating of satisfactory at the prior CRA examination completed in July 1998.

As of September 30, 2002, KNB reported total assets of \$120 million, Tier One capital of \$11.4 million, with net loans representing about 69% of assets. Loans for one-to-four family residential housing purposes represented about 32% of gross loans, with the remainder divided among loans having commercial, individual or agricultural purposes. The table below shows the bank's approximate loan mix as of September 30, 2002.

<i>Loan Mix as of September 30, 2002*</i>		
Loan Type	\$ 000s	Percentage
Residential Real Estate	26,698	32
Commercial/Commercial Real estate	27,531	33
Agricultural	21,692	26
Loans to Individuals	<u>7,509</u>	<u>9</u>
Totals	83,430	100

Source: September 30, 2002 Uniform Bank Performance Report

*Based on gross loans as of June 30, 2002

DESCRIPTION OF ASSESSMENT AREAS (AA):

The bank currently has two AAs, with one representing geographies located within Metropolitan Statistical Area (MSA) #1840-Columbus, Ohio housed in Pickaway and Fairfield Counties, and the second AA consisting of Non-MSA geographies in Ross and Hocking Counties. The AAs are contiguous and completely surround the bank's offices. The AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas.

MSA #1840 AA:

AA one (MSA) consists of 36 census tracts of the Columbus, Ohio MSA #1840. Columbus, Ohio is located in Franklin County and the bank's main office is approximately 50 miles south of the Ohio capital. These tracts represent all 12 geographies in Pickaway County and all 24 geographies in Fairfield County. The bank currently has one office within this AA, located in the southeast corner of Fairfield County in the Village of Amanda.

The overall economic condition in the AA is currently stable, with emphasis in manufacturing

and agriculture. Unemployment levels in these two counties of 4.4% in Fairfield County and 4.2% in Pickaway County, as of October 2002, continue to run below the state and national levels of 5.6% and 5.7%, respectively. Current larger employers include Thompson Electronics (RCA), Dupont and several suppliers to Honda American Motors. A community contact states that a primary need in the area is home mortgage loans and felt that these products were readily available within the marketplace.

The 1990 census shows that this AA contains a total population of 151,716, with over 68% of this total contained in Fairfield County, specifically the Village of Pickerington and the City of Lancaster. The AA reflects a median family income of \$36,792 and contains about 41,331 families. The HUD 2002 MSA updated median family income is \$59,900. The AA family total is made up of 20% low-income, 20% moderate-income, 25% middle-income and 35% upper-income families. Of the AA's 55,399 housing units, approximately 70% are owner occupied and have an average median value of \$66,390. Of the 36 tracts in this AA, zero are classified as low-income, 9 (25%) are classified as moderate-income, 21 (58%) are classified as middle-income, and 6 (17%) are classified as upper-income geographies. The table below summarizes the AA's income composition by families and geographies.

<i>Families & Geography</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
Families	8,266	20%	8,266	20%	10,333	25%	14,466	35%
Census Tracts	0	0%	9	25%	21	58%	6	17%

Source: 1990 Census Data

Non-MSA AA:

AA two, which consists of 16 block-numbering areas (BNA) located in Ross and Hocking Counties, is the primary AA as it accounts for the majority of bank loans. These BNAs represent all of Ross County and one BNA in the western section of Hocking County. This AA borders the southern portion of the MSA AA discussed above. Although the bank currently has two offices and a stand-alone ATM in Ross County, both offices are located in the same BNA in the northeast corner of the county, very near the Ross/Pickaway County border.

The economic condition within these counties is stable. These two counties are mostly rural with an agricultural focus, but have a fair amount of manufacturing. The unemployment level in both Ross and Hocking Counties is 5.4%, as of October 2002, continue to run below the state and national levels listed above. Larger employers in this AA include Mead Paper, Paccar (Kenworth) and two state penal institutions. A community contact indicated that the AA could use additional starter-homes, and possibly home improvement loans for the older areas.

The 1990 census shows that this AA contains a population of 72,813, with 96% concentrated in Ross County. The census data also shows that the AA contains 19,116 total families and has a median family income of \$30,562. The HUD 2002 Non-MSA statewide median family income for Ohio is \$48,700. The AA family total is made up of 24% low-income, 18% moderate-income, 22% middle-income and 36% upper-income families. Of the AA's 27,602 housing units, about 66% are owner occupied and have an average median value of \$49,005. Of the 16

BNAs in this AA, zero are classified as low-income, five (31%) are classified as moderate-income, ten (63%) are classified as middle-income, and one (6%) is classified as upper-income geographies. The table below summarizes the AA's income composition by families and geographies.

<i>Families & Geography</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
Families	4,587	24%	3,441	18%	4,206	22%	6,882	36%
BNAs	0	0%	5	31%	10	63%	1	6%

Source: 1990 Census Data

CONCLUSIONS ABOUT PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio:

KNB's loan-to-deposit (LTD) ratio of 80% as of September 30, 2002, and average LTD ratio over the last 17 quarters of 76% are reasonable and meet the requirements for satisfactory performance. For analysis purposes, KNB's current and 17-quarter average LTD ratios were compared with a custom peer group consisting of six banks of similar size and purpose competing within the same AAs. The analysis shows that KNB's LTD ratios were within both the peer group's current range of 60% to 79%, and the 17-quarter average range of 63% to 82%.

Lending in Assessment Area:

The bank makes a substantial majority of loans within its identified AAs. The bank's HMDA data for years 2000, 2001 and 2002 was reviewed to determine the level of home loans originated within each AA. This analysis was done using primarily county codes reported on the HMDA reports as the bank's AAs consist mostly of three whole counties and only one additional BNA. This means of analysis was performed because the bank does not report the individual geographies for the Non-MSA areas. The HMDA data shows that approximately 93% of all home loans originated during this period were from inside the bank's identified AAs. The following table details the bank's lending within the AA by the applicable Ohio county.

<i>HMDA Home Loan Originations 2000 – 2002</i>

<i>Total HMDA Loans Made</i>	KNB Combined Assessment Area by Ohio County HMDA Loans Made in AAs					<i>% Made in AA</i>
	Ross	Hocking (#9650 only)	Pickaway	Fairfield	Total Lns in AA	
382	228	31	49	49	357	93%

Source: HMDA Loan Application Registers (LARs) 2000 - 2002

In addition, a sample of 40 commercial and agricultural purpose loans made within the review period was tested for performance in this area. Findings in this area further document that the bank makes a substantial majority of its loans within the identified AAs, as 39 (24 in the MSA AA and 15 in the Non-MSA AA) or 98% of the sampled loans were made inside the identified lending area.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes:

The distribution of residential real estate lending reflects good penetration among individuals of different income levels including low- and moderate-income borrowers and strongly supports overall satisfactory performance. In addition, the bank’s record of lending to business and farms of different sizes is reasonable and further supports the overall conclusion in this area. The information below details the bank’s performance in this area for each of the bank’s AAs.

MSA #1840 AA:

To determine the bank’s performance in this area, the 97 HMDA reported home loans originated in this AA from 2000 to 2002 were evaluated by borrower income level (one loan for \$10 thousand reported no income data and was removed from this analysis). The analysis shows that the bank made 18 (19%) of its loans to low-income borrowers, 26 (27%) to moderate-income borrowers, 25 (25%) to middle-income borrowers, and 28 (29%) to upper-income borrowers. This dispersion is good when compared to the MSA AA demographics and meets standards for satisfactory performance. The following table demonstrates the bank’s dispersion of home loans by borrower income and compares this dispersion to the AA’s specific family income composition.

<i>MSA #1840 AA Dispersion of Home Loans by Borrower Income vs. AA Family Income Composition</i>	
HMDA Reported Home Loans (\$000’s)	

Income Category	2000		2001		2002*		Total Home Loans		% of MSA AA Families by Income Category
	# of Lns \$ of Lns	%							
Low	7 148	28 9	2 127	6 4	9 423	24 11	18 698	19 8	20%
Moderate	10 667	40 38	8 529	23 16	8 466	22 13	26 1,662	27 19	20%
Middle	4 165	16 10	11 1,045	31 31	10 1,011	27 28	25 2,221	25 25	25%
Upper	4 739	16 43	14 1,659	40 49	10 1,764	27 48	28 4,162	29 48	35%
Totals	25 1,719	100 100	35 3,360	100 100	37 3,664	100 100	97 8,743	100 100	100%

Source: 2000-2002 HMDA LARs & 1990 Census data

*2002 noted 1 approved home loan for \$10M with no income information. This loan was removed from this analysis.

The bank's lending to business of different sizes in the MSA AA is reasonable when compared to the AA business dispersion and further supports satisfactory performance. According to the 1990 census data, 89% of all the MSA AA businesses reported total revenues of under \$1 million, 6% reported revenues of over \$1 million, and 5% did not report revenue. A sample of 24 commercial purpose loans made to businesses or farms in the MSA AA during the review period was tested to determine the annual revenue for each. The sample noted that 20 (83%) of these loans were made to businesses or farms with total annual revenues under \$1 million.

Non-MSA AA:

To determine the bank's performance of lending to borrowers of different incomes in this area, a sample of 30 HMDA reported home loans originated in this AA from 2000 to 2002 was evaluated by borrower income level. Sampling of the HMDA data was performed, as management does not provide the specific BNA for each loan made in this AA, which is their option. This analysis shows that the bank made 5 (17%) of its loans to low-income borrowers, 7 (23%) to moderate-income borrowers, 8 (27%) to middle-income borrowers, and 10 (33%) to upper-income borrowers.

The home loan originations to low-income borrowers are less than the percentage (24%) of low-income families in the AA. However, overall performance is reasonable considering that 18% of all Non-MSA AA households are below the poverty level and would have trouble meeting routine credit criteria, as well as affording the \$49,005 median cost of AA housing. In addition, the bank's level of lending to moderate-income borrowers again compares very favorably with the AA percentage (18%). The following table demonstrates the bank's dispersion of home loans by borrower income and compares this dispersion to the AA's specific family income composition.

<i>Non-MSA AA</i>	
<i>Dispersion of Home Loans by Borrower Income vs. AA Family Income Composition</i>	
	% of Non-
Sampled HMDA Reported Home Loans (\$000's)	

Income Category	2000		2001		2002		Total Home Loans		MSA AA Families by Income Category
	# of Lns \$ of Lns	%	# of Lns \$ of Lns	%	# of Lns \$ of Lns	%	# of Lns \$ of Lns	%	
Low	0 0	0 0	2 13	22 3	3 113	20 9	5 126	17 6	24%
Moderate	3 37	50 13	2 82	22 17	2 130	14 11	7 249	23 13	18%
Middle	1 46	17 17	2 102	22 20	5 248	33 21	8 396	27 20	22%
Upper	2 195	33 70	3 299	34 60	5 721	33 59	10 1,215	33 61	36%
Totals	6 278	100 100	9 496	100 100	15 1,212	100 100	30 1,986	100 100	100%

Source: 2000-2002 HMDA LARs & 1990 Census data

The bank's lending to business of different sizes in the Non-MSA AA is reasonable when compared to the AA business dispersion and further supports satisfactory performance. According to the 1990 census data, 88% of all the Non-MSA AA businesses reported total revenues of under \$1 million, 6% reported revenues of over \$1 million, and 6% did not report revenue. With this data in mind, a sample of 15 commercial purpose loans made to businesses and farms in the Non-MSA AA during the review period was tested to determine the annual revenue for each. This sample also noted that 12 (80%) of these loans were made to businesses or farms with total annual revenues under \$1 million.

Geographic Distribution of Loans:

The bank's distribution of loans throughout geographies of different income levels, including low- and moderate-income geographies, does not meet the standards for satisfactory performance. The analysis of the Non-MSA AA (primary AA) shows the sampled loan dispersion for moderate-income tracts to be well below the level of owner occupied units in these areas. However, this situation is understandable given the location of the bank's branches and their distant proximity to the moderate-income geographies. The analysis below details the bank's lending activity in the different income geographies for each identified AA.

MSA AA:

To determine the bank's performance in this area, we again used the 98 HMDA reported home loans originated in this AA from 2000 to 2002, but evaluated them by income geography. This information was then compared against the MSA AA's level of owner-occupied housing units in each income category. This evaluation shows that the bank made 8 (8%) to moderate-income tracts, 84 (86%) to middle-income tracts, and 6 (6%) to upper-income tracts. As the bank has no low-income tracts within this AA, conclusions are based on the penetration of the other three income categories. This dispersion is reasonable when compared with the overall geographic and demographic income composition of the MSA AA and meets standards for satisfactory performance.

The bank's home loan activity in the moderate-income tracts shows below the demographic make-up (15%). However, the bank's nine moderate-income tracts contain only 17% of the AA families, with 14% of that total below the poverty level and probably having trouble meeting standard credit criteria, as well as affording the \$66,390 median housing cost. In addition, the nine moderate-income tracts contain over 34% of all the vacant or boarded up housing units within the entire AA. Of the moderate-income tracts in this AA, five (56%) are located in the City of Lancaster Ohio in Fairfield County. These five areas hold 60% of all moderate-income tract families and 60% of all owner occupied housing units contained in the moderate-income geographies. Admittedly, management stated that they have been unable to penetrate the Lancaster market given the level of competition present. Competition for loans in Lancaster is very strong. Lancaster houses the main offices of several large community banks as well as branches of regional institutions. In addition, management stated that they do not heavily market this area, as the bank's nearest office location is over 10 miles away and the bank's home loan product is generally not competitive with the larger institutions. In general, the combination of these situations would not allow for numerous home loan opportunities in these geographies. The table below details the bank's home loan lending to different income geographies by number and dollars, and compares this activity to the level of owner-occupied housing units in each geography.

MSA #1840 AA									
Dispersion of Home Loans by Geography Income vs. AA Owner Occupied Housing Units									
Income Category	HMDA Reported Home Loans (\$000's)								% of MSA Owner-Occupied Housing Units
	2000		2001		2002		Total Home Loans		
	# of Lns \$ of Lns	%	# of Lns \$ of Lns	%	# of Lns \$ of Lns	%	# of Lns \$ of Lns	%	
Low	NA		NA		NA		NA		NA
Moderate	2 88	8 5	2 271	6 8	4 575	11 16	8 934	8 11	15%
Middle	20 1,014	80 59	32 2,869	91 85	32 2,811	84 76	84 6,694	86 76	64%
Upper	<u>3</u> <u>617</u>	<u>12</u> <u>36</u>	<u>1</u> <u>220</u>	<u>3</u> <u>7</u>	<u>2</u> <u>288</u>	<u>5</u> <u>8</u>	<u>6</u> <u>1,125</u>	<u>6</u> <u>13</u>	21%
Totals	25 1,719	100 100	35 3,360	100 100	38 3,674	100 100	98 8,753	100 100	100%

Source: 2000-2002 HMDA LARs & 1990 Census data

In addition, the sample of 24 commercial loans made in this AA was analyzed to determine the geographic location for each. This information was then compared to the AA's geographic composition by income category detailed earlier. The sample noted that all 24 loans were made in middle-income tracts, with about 40% coming from the census tracts incorporating and surrounding the bank's Amanda office, which is the only office in this AA and in a middle-income tract. The lower level of commercial activity in the moderate-income tracts is attributed again to the level of competition for commercial clients in Lancaster. In addition, the bank tends

to focus on agricultural related loans, which would not be readily available in a more urban market. Overall, the dispersion demonstrated by the commercial loan sample is not reflective of the AA demographics, but is acceptable considering the area logistics, branch location, and competition level.

Non-MSA AA:

To determine the bank’s performance in this area, we again used the sample of 30 HMDA reported home loans originated in this AA from 2000 to 2002, but evaluated them by income geography. This information was then compared against the Non-MSA AA’s level of owner-occupied housing units in each income category. This evaluation shows that the bank made 3 (10%) of its loans to moderate-income tracts, 27 (90%) to middle-income borrowers, and zero to upper-income tracts. This dispersion is significantly less than the level of owner occupied housing units in the moderate-income areas, but is understandable given the bank’s office locations. As the bank has no low-income tracts within this AA, conclusions are based on the penetration of the other three income categories. The table below details the bank’s home loan lending to different income geographies by number and dollars, and compares this activity to the level of owner-occupied housing units in each geography.

<i>Non-MSA AA</i>									
<i>Dispersion of Home Loans by Geography Income vs. AA Owner Occupied Housing Units</i>									
Income Category	Sampled HMDA Reported Home Loans (\$000's)								% of Non-MSA Owner Occupied Housing Units
	2000		2001		2002		Total Home Loans		
	# of Lns \$ of Lns	%	# of Lns \$ of Lns	%	# of Lns \$ of Lns	%	# of Lns \$ of Lns	%	
Low	NA		NA		NA		NA		NA
Moderate	1 70	17 25	1 4	11 1	1 70	7 6	3 144	10 7	31%
Middle	5 208	83 75	8 492	89 99	14 1,142	93 94	27 1,842	90 93	62%
Upper	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	6%
Totals	6 278	100 100	9 496	100 100	15 1,212	100 100	30 1,986	100 100	100%

Source: 2000-2002 HMDA LARs & 1990 Census data

The level of lending to the five moderate-income geographies in this AA is well below the AA percentage (31%) and does not meet the standards for satisfactory performance in this AA. However, only 6,243 families (33% of total AA families) live in these five moderate-income tracts, with about 22% of those families living below the poverty line and probably having trouble meeting standard credit criteria. In addition, the five moderate-income tracts contain over 38% of all the vacant or boarded up housing units within the entire AA, and hold 34% of all AA rental units, according to the 1990 census data.

Two of the moderate-income tracts are located in the southern section of the City of Chillicothe

and represent only 11% of all AA families, and only 10% of all AA occupied housing units. The Chillicothe area contains strong competition from several larger community banks based in that community, as well as branches of regional institutions. KNB's nearest full service branch is over 10 miles away, and does not allow the bank to be a significant mortgage lender in the central Chillicothe market. The remaining three moderate-income tracts are located in the southern and western sections of Ross County, which are even further from the bank's branches. These areas are mostly rural, and hold only 21% of all AA families and 22% of AA owner occupied housing, with 19% of the families in these three areas below the poverty level. In addition, the bank's nearest office to these areas is over 25 miles away, which makes marketing efforts very difficult. Management states these customers are generally unwilling to travel that distance for their banking transactions and therefore management has not actively marketed these areas. In general, the combination of the items noted above does not provide for significant home loan opportunities in these geographies.

In addition, the sample of 15 commercial loans made in this AA was analyzed to determine the geographic location for each. This information was then compared to the AA's geographic composition by income category detailed earlier. Overall, the findings were similar to the HMDA sampled loans. This sample demonstrated that 2 (13%) loans were made in moderate-income tracts, 13 (87%) were made in middle-income tracts, and zero was made in upper-income tracts.

Responses to Complaints:

The bank has not received any complaints about its CRA performance during the review period.

Compliance with Antidiscrimination Laws:

An analysis of recent public comments, consumer compliant information, and HMDA lending data was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation. The latest comprehensive fair lending exam was performed in 1998.