SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB40

Annual and transition reports of small business issuers [Section 13 or 15(d), S-B Item 405]

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FILER

CKF BANCORP INC CIK:**930203**| IRS No.: **611267810** | State of Incorp.:**DE** | Fiscal Year End: **1231** Type: **10KSB40** | Act: **34** | File No.: **000-25180** | Film No.: **99573982** SIC: **6035** Savings institution, federally chartered	Mailing Address *PO BOX 400* *DANVILLE KY 40423*	Business Address *340 WEST MAIN ST* *DANVILLE KY 40422* *6062364181*

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

[X] ANNUAL REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ________________

Commission File No. 0-25180

CKF BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	61-1267810
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
340 West Main Street, Danville, Kentucky	40422
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (606) 236-4181

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.01 per share

(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

For the fiscal year ended December 31, 1998, the registrant had $4.8 million in revenues.

As of March 24, 1999, the aggregate market value of voting stock held by non-affiliates was approximately $13.3 million based on the closing sales price of $18.125 per share of the registrant's Common Stock on March 24, 1999, as quoted on the Nasdaq SmallCap Market. For purposes of this calculation, it is assumed that directors, officers and beneficial owners of more than 5% of the registrant's outstanding voting stock are affiliates.

Number of shares of Common Stock outstanding as of March 24, 1999: 893,475

DOCUMENTS INCORPORATED BY REFERENCE

The following lists the documents incorporated by reference and the Part of the Form 10-KSB into which the document is incorporated:

1. Portions of the Annual Report to Stockholders for the fiscal year ended December 31, 1998. (Parts I and II)

2. Portions of Proxy Statement for the 1999 Annual Meeting of Stockholders. (Part III)

PART I

Item 1. Business

General

The Company. CKF Bancorp, Inc., a Delaware corporation (the "Company"), was organized by Central Kentucky Federal Savings Bank, formerly Central Kentucky Federal Savings and Loan Association ("Central Kentucky Federal" or the "Bank") to be a savings institution holding company whose only subsidiaries are the Bank and its subsidiary. The Company was incorporated at the direction of the Board of Directors of the Bank in August 1994. On December 29, 1994, the Bank converted from mutual to stock form as a wholly owned subsidiary of the Company (the "Conversion"). In conjunction with the Conversion, the Company issued 1,000,000 shares of its common stock (the "Common Stock") to the public.

The Company is classified as a unitary savings and loan holding company subject to regulation by the Office of Thrift Supervision ("OTS") of the Department of the Treasury. Prior to its acquisition of the Bank, the Company had no assets and no liabilities and engaged in no business activities. The Company purchased all the capital stock of the Bank issued in the conversion in exchange for 50% of the net conversion proceeds. Since the acquisition, the Company has not engaged in any significant activity other than holding the stock of the Bank and operating the Bank. The Company has no significant assets other than the outstanding capital of the Bank and $1.6 million in bank deposits held by the Bank, which are invested with the Federal Home Loan Bank ("FHLB") of Cincinnati. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiary. On a consolidated basis at December 31, 1998, the Company had total assets of $65.6 million, deposits of $48.9 million, net loans receivable of $57.9 million and stockholders' equity of $13.9 million.

The executive offices of the Company and the Bank are located at 340 West Main Street, Danville, Kentucky 40422, and its telephone number is (606) 236-4181.

The Bank. Central Kentucky Federal was formed in 1886 as a Kentucky-chartered mutual building and loan association. In December 1960, the Bank obtained federal insurance of accounts and became a member of the FHLB of Cincinnati. The Bank converted to a federal mutual savings and loan association in 1969 and changed its name to Central Kentucky Federal Savings and Loan Association. Upon its conversion to stock form in December 1994, the Bank adopted its present name. The Bank operates through one full service office in Danville, Kentucky.

The Bank is principally engaged in the business of accepting deposits from the general public through a variety of deposit programs and investing these funds by originating loans in its market area, which include loans secured by one- to four-family residential properties, loans secured by multi-family residential and commercial properties, construction loans, second mortgage loans on single-family residences, home equity lines of credit and consumer loans, both secured and unsecured, including loans secured by savings accounts.

Deposits of the Bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits for each depositor, and the Bank is a member of the FHLB of Cincinnati, which is one of the 12 district banks comprising the FHLB System. The Bank is subject to comprehensive examination, supervision and regulation by the OTS and the FDIC. Such regulation is intended primarily for the protection of depositors.

Lending Activities

General. Central Kentucky Federal's primary lending activity is the origination of conventional mortgage loans for the purpose of constructing, purchasing or refinancing owner-occupied one- to four-family residential properties in its primary market area. To a lesser extent, Central Kentucky Federal originates multi-family residential, commercial real estate and church loans. Central Kentucky Federal also originates consumer loans.

Central Kentucky Federal has sought to build an interest rate-sensitive loan portfolio by originating adjustable rate mortgage loans ("ARMs"). As of December 31, 1998, 90.6% of the mortgage loan portfolio was comprised of ARMs. Central Kentucky Federal's ARMs have an interest rate that adjusts periodically to the index value of the National Average Contract Mortgage rate for the Purchase of Previously Occupied Homes by Combined Lenders. The interest rates on these loans have an initial adjustment period of between one and seven years, and generally adjust annually thereafter, with a maximum adjustment of 2% per year and 6% over the life of the loan. All mortgage loans originated by Central Kentucky Federal are retained in Central Kentucky Federal's loan portfolio.

The retention of ARMs in the portfolio helps reduce Central Kentucky Federal's exposure to increase in interest rates. However, there are unquantifiable credit risks resulting from potential increased costs to the borrower as a result of repricing of ARMs. It is possible that during periods of rising interest rates, the risk of default on ARMs may increase due to the upward adjustment of interest costs to the borrower. Although ARMs allow Central Kentucky Federal to increase the sensitivity of its asset base to changes in interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate ceiling contained in ARM contracts. Accordingly, there can be no assurance that yields on Central Kentucky Federal's ARMs will adjust sufficiently to compensate for increase in its cost of funds. The Bank intends to continue actively monitoring the interest rate environment, prepayment activity, interest rate risk and other factors in developing its strategy with respect to the volume and pricing of its fixed rate loans and in its lending activities generally.

The Bank is also involved to a limited extent in the origination of fixed-rate mortgage loans on owner-occupied, single-family residential properties. The Bank originated $4.3 million in fixed-rate mortgage loans during the year ended December 31, 1998. See "-- One- to Four-Family Real Estate Lending."

Savings institutions generally are subject to the loan-to-one-borrower lending limits applicable to national banks. With certain limited exceptions, the maximum amount that a savings institution or a national bank may lend to any borrower (including certain related entities of the borrower) at one time may not exceed 15% of the unimpaired capital and surplus of the institution, plus an additional 10% of unimpaired capital and surplus for loans fully secured by readily marketable collateral. Savings institutions are additionally authorized to make loans to one borrower, for any purpose, in an amount not to exceed $500,000 or, by order of the Director of OTS, in an amount not to exceed the lesser of $30,000,000 or 30% of unimpaired capital and surplus to develop residential housing, provided: (i) the purchase price of each single-family dwelling in the development does not exceed $500,000; (ii) the savings institution is in compliance with its fully phased-in capital requirements; (iii) the loans comply with applicable loan-to-value requirements; and (iv) the aggregate amount of loans made under this authority does not exceed 150% of unimpaired capital and surplus. At December 31, 1998, the maximum amount that the Bank could have loaned to any one borrower without prior OTS approval was $2.1 million. At such date, the largest aggregate amount of loans that the Bank had outstanding to any one borrower was $1.2 million.

Loan Portfolio Composition. The following table sets forth selected data relating to the composition of the Bank's loan portfolio by type of loan at the dates indicated. At December 31, 1998, the Bank had no concentrations of loans exceeding 10% of total loans that are not otherwise disclosed below.
<TABLE>
<CAPTION>

	At December 31,			
	1998		1997	
	Amount	%	Amount	%
	(Dollars in thousands)			
<S>	<C>	<C>	<C>	<C>
Real estate loans:				
One- to four-family residential (1)...	$ 45,375	77.63%	$ 44,394	78.75
Multi-family residential	1,008	1.72	1,114	1.98
Non-residential	9,007	15.41	7,804(2)	13.84
Consumer loans:				
Savings account	533	.91	459	.81
Other (3)	2,527	4.33	2,610	4.62
	58,450	100.00%	56,381	100.00%
Less:				
Loans in process	322		299	
Deferred loan fees	68		62	
Allowance for loan losses	148		125	
Total	$ 57,912		$ 55,895	

</TABLE>
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(1) Includes home equity loans. Also includes construction loans that will be converted to permanent loans and which comprised $627,500 and $871,608 at December 31, 1998 and 1997, respectively.

(2) Also includes a construction loan that will be converted to a permanent loan and which amounted to $120,000 at December 31, 1997.

(3) Consists primarily of unsecured loans made to qualified existing depositors of the Bank.

Loan Maturity Schedule. The following table sets forth certain information at December 31, 1998 regarding the dollar amount of loans maturing in the Bank's portfolio based on their contractual terms to maturity, including scheduled repayments of principal. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. The table below does not include any estimate of prepayments, which significantly shorten the average life of all mortgage loans and may cause the Bank's actual repayment experience to differ from that shown below. The tables below exclude deferred loan origination fees and the allowance for loan losses, which are netted against outstanding loan balances at December 31, 1998.

	Due during the year ending December 31,			Due after 3 through 5 years after 12/31/98	Due after 5 through 10 years after 12/31/98	Due after 10 through 20 years after 12/31/98	Due after 20 years after 12/31/98	Total
	1999	2000	2001					
	(In thousands)							
Real estate mortgage(1)	$ 1,058	$ 80	$ 277	$ 1,208	$ 5,033	$23,509	$22,779	$53,944
Real estate construction	305	--	--	--	--	--	--	305
Consumer	1,510	195	235	638	--	--	--	2,578
Commercial	595	6	--	274	371	55	--	1,301
Total	$ 3,468	$ 281	$ 512	$ 2,120	$ 5,404	$23,564	$22,779	$58,128

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(1) Includes home equity loans.

The following table sets forth at December 31, 1998, the dollar amount of all loans due one year or more after December 31, 1998 which have predetermined interest rates or have floating or adjustable interest rates.

	Predetermined Rate	Floating or Adjustable Rates	Total
	(In thousands)		
Real estate mortgage	$ 5,256	$ 47,630	$ 52,886
Consumer	49	1,019	1,068
Commercial	--	706	706
Total	$ 5,305	$ 49,355	$ 54,660

Scheduled contractual principal repayments of loans do not necessarily reflect the actual life of such assets. The average life of long-term loans is substantially less than their contractual terms, due to prepayments. In addition, "due-on-sale" clauses in mortgage loans generally give Central Kentucky Federal the right to declare a loan due and payable in the event, among other things, that a borrower sells the real property subject to the mortgage and the loan is not repaid. Due-on-sale clauses are a means of increasing the rate on existing mortgage loans during periods of rising interest rates and increasing the turnover of mortgage loans in the Bank's portfolio. The average life of mortgage loans tends to increase when current mortgage loan market rates are substantially higher than rates on existing mortgage loans and tends to decrease when current mortgage loan market rates are substantially lower than rates on existing mortgage loans.

One- to Four-Family Real Estate Lending. The primary emphasis of the Bank's lending activity is the origination of loans secured by first mortgages on owner-occupied, one- to four-family residential properties. At December 31, 1998, $45.4 million, or 77.63%, of the Bank's gross loan portfolio consisted of loans secured by one- to four-family residential real properties which were owner-occupied, single-family residences primarily located in the Bank's market area and construction loans that are originated for subsequent conversion into permanent financing secured by the underlying residential property.

Central Kentucky Federal offers 20-year term, fixed rate mortgage loans and ARMs. At December 31, 1998, $5.4 million, or 9.3%, of Central Kentucky Federal's loan portfolio consisted of 20 year or less term, fixed rate loans.

Central Kentucky Federal offers four types of residential ARMs, all of which are tied to the National Average Contract Mortgage Rate for the Purchase of Previously Occupied Homes by Combined Lenders index. The ARMs' adjustment periods range from one to seven years, with interest rate adjustments of not more than 2% per year and a limit on adjustments over the life of the loan of not more than 6%.

The Bank's adjustable-rate residential mortgage loans are for terms of up to 30 years, amortized on a monthly basis, with principal and interest due each month. Residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms. Borrowers may refinance or prepay loans at their option without penalty.

The Bank's lending policies generally limit the maximum loan-to-value ratio on mortgage loans secured by owner-occupied properties to 80% of the lesser of the appraised value or purchase price. The maximum loan-to-value ratio on mortgage loans secured by non-owner-occupied properties and/or used for refinancing purposes is 80%. The Bank does originate some loans on owner-occupied single-family residences with loan-to-value ratios as high as 89.9%. In each case, for those loans with a loan-to-value ratio in excess of 80%, the Bank also charges an additional .5% over the otherwise available interest rate, plus a loan fee of .5% rather than $250.

Central Kentucky Federal also originates, to a limited extent, fixed-rate mortgage loans on owner-occupied, single-family residential properties with terms to maturity of up to 20 years. Central Kentucky Federal originated $4.3 million in fixed rate single-family mortgage loans with a maximum term of 20 years during 1998 and such loans amounted to $5.4 million, or 9.3%, of the Bank's loan portfolio at December 31, 1998. All such loans were held as long-term investments, and none were held for sale.

Construction Lending. Central Kentucky Federal engages in construction lending involving loans to qualified borrowers for construction of one- to four-family residential and commercial properties, with the intent of such loans converting to permanent financing upon completion of construction. These properties are primarily located in the Bank's market area. At December 31, 1998, the Bank's loan portfolio included $305,000 of net loans secured by properties under construction, all of which were construction/permanent loans structured to become permanent loans upon the completion of construction. All construction loans are secured by a first lien on the property under construction. Loan proceeds are disbursed in increments as construction progresses and as inspections warrant. Construction/permanent loans generally have adjustable or fixed interest rates and are underwritten in accordance with the same terms and requirements as the Bank's permanent mortgages, except the loans generally provide for

disbursement in stages during a construction period of up to six months, during which period the borrower is not required to make monthly payments. Accrued interest must be paid at completion of construction and monthly payments start being paid one month from the date the loan is converted to permanent financing. Borrowers must satisfy all credit requirements which would apply to the Bank's permanent mortgage loan financing for the subject property and must execute a Construction Loan Agreement with the Bank.

Construction financing generally is considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the development. If the estimate of value proves to be inaccurate, the Bank may be confronted, at or prior to the maturity of the loan, with a project having a value which is insufficient to assure full repayment. The ability of a developer to sell developed lots or completed dwelling units will depend on, among other things, demand, pricing, availability of comparable properties and economic conditions. The Bank has sought to minimize this risk by limiting construction lending to qualified borrowers in the Bank's market area and by limiting the aggregate amount of outstanding construction loans.

Multi-Family and Commercial Real Estate Lending. The multi-family and commercial real estate loans originated by the Bank have generally been made to individuals, small businesses and partnerships and have primarily been secured by first mortgages on apartment buildings, office buildings, churches and other properties. The Bank benefits from originating such loans due to the higher origination fees and interest rates, as well as shorter terms to maturity, than can be obtained from one- to four-family residential mortgage loans. Central Kentucky Federal's multi-family residential and commercial real estate loans generally have terms of 20 years and have adjustable rates and loan-to-value ratios not exceeding 80%. At December 31, 1998, loans on commercial real estate properties constituted approximately $9.0 million, or 15.41%, respectively, of the Bank's gross loan portfolio.

Multi-family and commercial real estate lending entails significant additional risks as compared to one- to four-family residential lending. For example, such loans typically involve large loans to single borrowers or related borrowers, the payment experience on such loans is typically dependent on the successful operation of the project, and these risks can be significantly affected by the supply and demand conditions in the market for commercial property and multi-family residential units. To minimize these risks, Central Kentucky Federal generally limits itself to its market area and to borrowers with which it has substantial experience or who are otherwise well known to the Bank. It is the Bank's current practice to obtain personal guarantees and current financial statements from all principals obtaining commercial real estate loans. Substantially all of the properties securing the Bank's commercial real estate loans are inspected by the Bank's lending personnel before the loan is made. The Bank also obtains appraisals on each property in accordance with applicable regulations. If such loans later become delinquent, the Bank contacts and works with the borrower to resolve the delinquency before initiating foreclosure proceedings.

Consumer Lending. Central Kentucky Federal does not emphasize consumer lending although it does originate such loans on a regular basis. The Bank originates consumer loans on a secured and unsecured basis and generally requires a pre-existing relationship with the Bank. The Bank generally makes certificate of deposit loans for terms of up to six months for up to 90% of the face amount of the certificate. The interest rate charged on these loans is the prevailing market rate but not less than one percent above the rate paid on the certificate, and interest is billed on a quarterly basis. These loans are payable on demand and the account must be assigned to the Bank as collateral for the loan. At December 31, 1998, consumer loans amounted to $3.1 million, or 5.24%, of the Bank's gross loan portfolio.

Consumer loans generally involve more risk than first mortgage one- to four-family residential real estate loans. Repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance as a result of damage, loss or depreciation, and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, loan collections are dependent on the borrower's

continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Further, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered. These loans may also give rise to claims and defenses by a borrower against the Bank, and a borrower may be able to assert against the Bank claims and defenses which it has against the seller of the underlying collateral. In underwriting consumer loans, the Bank considers the borrower's credit history, an analysis of the borrower's income, expenses and ability to repay the loan and the value of the collateral. The Bank's risks associated with consumer loans are further minimized by the modest amount of consumer loans made by the Bank.

Loan Solicitation and Processing. Loan originations are derived from a number of sources. Residential mortgage, consumer and other loan originations primarily come from walk-in customers and referrals by realtors, depositors and borrowers. Loan applications may be taken by the President or Vice President of Lending of the Bank, and are then submitted to the Bank's Loan Committee consisting of the President, Vice President of Lending and two members of the Board of Directors. Upon receipt of a loan application from a prospective borrower, a credit report and verifications are ordered to verify specific information relating to the loan applicant's employment, income and credit standing. An appraisal of the real estate intended to secure the proposed loan is undertaken by an independent appraiser approved by the Bank. All mortgage loans are required to be presented to the Loan Committee for final approval. All unsecured consumer loans over $50,000 must be approved by the Board of Directors. Consumer loans less than $50,000 may be approved by the President and Vice President of Lending, or individually if less than $25,000, and are presented at the next meeting of the Board of Directors for ratification.

Loan applicants are promptly notified of the decision of the Bank. Interest rates on approved loans are subject to change if the loan is not funded within 30 days after approval for residential mortgage loans and for consumer loans. If an approved loan is not funded within 30 days, the applicant must re-apply. It has been management's experience that substantially all approved loans are funded. Fire and casualty insurance, as well as flood insurance, are required for all loans as appropriate, and a title opinion is required for loans secured by real estate. The requirement of a title opinion rather than title insurance is a standard practice in the Bank's market area because of the desire by financial institutions to use attorneys familiar with the land recordation process and also because such opinions are generally less costly than insurance. To minimize its exposure from a faulty opinion, the Bank requires that attorneys providing opinions maintain a minimum amount of malpractice insurance against deficiencies in such opinions. The Bank has never experienced a loss arising from a deficient title opinion.

Originations, Purchases and Sales of Loans. The following table sets forth certain information with respect to originations of loans during the periods indicated. During such periods, no loans were sold.

	Year Ended December 31,	
	1998	1997
	(In thousands)	
Loans originated		
Real estate:		
Construction	$ 1,317	$ 1,820
One- to four-family	12,186	7,044
Multi-family		306
Non-residential and other	1,033	1,177
Consumer loans	3,401	3,015
Total loans originated	$17,937	$13,362
Loans purchased:		
Real estate loans:		
Conventional loans	$ --	$ --
Other loans	--	890
Total loans purchased	$ --	$ 890

Central Kentucky Federal has never sold any of its loans. The Bank also does not service any loans for other lenders.

Interest Rates and Loan Fees. Interest rates charged by the Bank on mortgage loans are primarily determined by competitive loan rates offered in its market area. Mortgage loan rates reflect factors such as general interest rate levels, the supply of money available to the savings industry and the demand for such loans. These factors are in turn affected by general economic conditions, the monetary policies of the Federal government, including the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), the general supply of money in the economy, tax policies and governmental budget matters.

In addition to the interest earned on loans, the Bank receives fees in connection with loan commitments and originations, loan modifications, late payments and fees for miscellaneous services related to its loans. The Bank charges a processing fee for its adjustable rate mortgage loans and fixed rate mortgage loans. All fee income is recognized by the Bank in accordance with guidelines established by Statement of Financial Accounting Standards ("SFAS") No. 91.

To the extent that loans are originated or acquired for the portfolio, SFAS No. 91 limits immediate recognition of loan origination or acquisition fees as revenues and requires that such income (net of certain loan origination or acquisition costs) be recognized over the estimated life of such loans and thereby reduces the amount of revenue recognized by Central Kentucky Federal at the time such loans are originated or acquired. At December 31, 1998, the Bank had received $68,000 of loan fees, net of loan origination costs, that had been deferred and were being recognized as income over the estimated lives of the related loans.

Asset Classification and Allowance for Loan Losses. Federal regulations require savings associations to review their assets on a regular basis and to classify them as "substandard," "doubtful" or "loss," if warranted. Assets classified as substandard or doubtful require the institution to establish general allowances for loan losses. If an asset or portion thereof is classified loss, the insured institution must either establish specified allowances for loan losses in the amount of 100% of the portion of the asset classified loss, or charge off such amount. An asset which does not currently warrant classification but which possesses weaknesses or deficiencies deserving close attention is required to be designated as "special mention." Currently, general loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses do not qualify as regulatory capital. See "Regulation of the Bank -- Regulatory Capital Requirements." OTS examiners may disagree with the insured institution's classifications and amounts reserved. If an institution does not agree with an examiner's classification of an asset, it may appeal this determination to the OTS. Management of the Bank reviews assets on a monthly basis, and at the end of each quarter prepares an asset classification listing in conformity with the OTS regulations, which is reviewed by the Board of Directors. At December 31, 1998, management had no assets classified as special mention, $472,000 of assets classified as substandard, no assets classified as doubtful and no assets classified as loss. For additional information, see " -- Non-Performing Loans and Other Problem Assets." See also " -- Multi-Family and Commercial Real Estate Lending."

In originating loans, the Bank recognizes that credit losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the security for the loan. It is management's policy to maintain an adequate allowance for loan losses based on, among other things, the Bank's and the industry's historical loan loss experience, evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. The Bank increases its allowance for loan losses by charging provisions for loan losses against the Bank's income.

In June 1993, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan." This promulgation, which was amended by SFAS No. 118 as to certain income recognition and disclosure provisions, became effective as to the Company in fiscal 1995. These accounting standards require that impaired loans be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate, or as an alternative, at the loan's observable market price or fair value of the collateral. The Bank's current procedures for evaluating impaired loans result in carrying such loans at the lower of cost or fair value. See Note 3 of Notes to Consolidated Financial Statements. At December 31, 1998, the Bank had identified impaired loans, as defined by SFAS No. 114, totaling $65,000 for which no allowance for loss has been provided.

General allowances are made pursuant to management's assessment of risk in the Bank's loan portfolio as a whole. Specific allowances are provided for individual loans when ultimate collection is considered questionable by management after reviewing the current status of loans which are contractually past due and considering the net realizable value of the security for the loan. Management also reviews individual loans for which full collectibility may not be reasonably assured and evaluates among other things the net realizable value of the underlying collateral. General allowances are included in calculating the Bank's risk-based capital, while specific allowances are not so included. Management continues to actively monitor the Bank's asset quality and to charge off loans against the allowance for loan losses when appropriate or to provide specific loss reserves when necessary. Although management believes it uses the best information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the economic conditions in the assumptions used in making the initial determinations.

While the Bank believes it has established its existing allowances for loan losses in accordance with generally accepted accounting principles, there can be no assurance that regulators, in reviewing the Bank's loan portfolio during future examinations, will not request the Bank to increase its allowance for loan losses, thereby negatively effecting the Bank's financial condition and earnings.

The following table sets forth an analysis of the Bank's allowance for loan losses for the periods indicated.

	Year Ended December 31, 1998	Year Ended December 31, 1997
	(Dollars in thousands)	
Balance at beginning of period	$ 125	$ 107

Loans charged-off	1	--
Recoveries		--
Net loans charged-off	1	--
Provision for loan losses	24	18
Balance at end of period	$ 148	$ 125
Ratio of net charge-offs to average loans outstanding during the period	--%	--%
Ratio of allowance for loan losses to non-performing loans	35.20%	42.80%

The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated. Management believes that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

	At December 31,			
	1998		1997	
	Amount	Percent of Loans in Category to Total Loans	Amount	Percent of Loans in Category to Total Loans
	(Dollars in thousands)			
Real estate - mortgage:				
Residential (2)	$ 148	78.28%	$ 125	77.20%
Commercial	--	15.41	--	14.59
Real estate - construction	--	1.07	--	1.77
Commercial business	--	--	--	1.01
Consumer (3)	--	5.24	--	5.43
Total allowance for loan losses	$ 148	100.00%	$ 125	100.00%

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(1) Before deduction for loans in process, deferred loan fees and allowance for loan losses.
(2) Includes home equity loans.
(3) Includes loans on deposits.

Non-Performing Loans and Other Problem Assets. Management reviews the Bank's loans on a regular basis. The policy of the Bank is to classify in a nonaccrual status any mortgage loan which is past due 90 days or more, and whose loan balance plus accrued interest exceeds 90% of the estimated loan collateral value. Consumer and commercial loans not secured by real estate are charged-off, or any expected loss is reserved after they become more than 90 days past due.

The Bank's collection procedures provide that late payment notices are mailed on the 10th, 20th and last day of the month. After a loan becomes 60 days delinquent, the customer will be contacted by the lending officer with an attempt to collect the delinquent payments or establish a work out plan to remove the loan from the delinquent status. After a loan becomes 90 days or more past due, management will generally initiate legal proceedings, unless a work out plan has been developed with the borrower.

Real estate acquired by the Bank as a result of foreclosure is classified as real estate owned until such time as it is sold. When such property is acquired, it is recorded at the lower of the unpaid principal balance or its fair market value. Any required write-down of the loan to its appraised fair market value upon foreclosure is charged against the allowance for loan losses. Subsequent to foreclosure, in accordance with generally accepted accounting principles, a valuation allowance is established if the carrying value of the property exceeds its fair value net of related selling expenses.

The following table sets forth information with respect to the Bank's nonperforming assets at the dates indicated.

	At December 31, 1998	At December 31, 1997
	(Dollars in thousands)	
Loans accounted for on a non-accrual basis: (1)		
Real Estate:		
Residential	$ 27	$ 54
Consumer	38	12
Total	$ 65	$ 66
Accruing loans which are contractually past due 90 days or more:		
Real Estate:		
Residential	$ 356	$ 227
Commercial	--	--
Consumer	--	--
Total	$ 356	$ 227
Total of non-accrual and 90 days past due loans	$ 421	$ 293
Percentage of total loans	.73%	.52%
Other non-performing assets (2)	$ --	$ --
Restructured loans	$ --	$ --

(1) Non-accrual status denotes any mortgage loan past due 90 days or more and whose loan balance, plus accrued interest exceeds 90% of the estimated loan collateral value, and any consumer or commercial loan more than 90 days past due, whose principal and accrued interest exceeds 90% of the fair value of the collateral. Payments received on a non-accrual loan are either applied to the outstanding principal balance or recorded as interest income, or both, depending on assessment of the collectibility of the loan.
(2) Other non-performing assets represents property acquired by the Bank through foreclosure or repossession. This property is carried at the fair market value, net of any selling expenses.

During the year ended December 31, 1998, additional interest income of $3,144 would have been recorded on loans accounted for on a non-accrual basis if the loans had been current throughout the year. Interest on such loans actually included in income during the year ended December 31, 1998 was $4,158.

At December 31, 1998, there were no loans identified by management, which were not reflected in the preceding table but as to which known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of the borrowers to comply with present loan repayment terms.

Investment Securities

Central Kentucky Federal is permitted under federal law to make certain investments, including investments in securities issued by various federal agencies and state and municipal governments, deposits at the FHLB of Cincinnati, certificates of deposits in federally insured institutions, certain bankers' acceptances and federal funds. The Bank may also invest, subject to certain limitations, in commercial paper having one of the two highest investment ratings of a nationally recognized credit rating agency, and certain other types of corporate debt securities and mutual funds. Federal regulations require the Bank to maintain an investment in FHLB of Cincinnati stock and a minimum amount of liquid assets which may be invested in cash and specified securities. From time to time, the OTS adjusts the percentage of liquid assets which savings institutions are required to maintain. For additional information, see "Regulation of the Bank -- Liquidity Requirements."

The Bank invests in investment securities in order to diversify its assets, manage cash flow, obtain yield and maintain the minimum levels of liquid assets required by regulatory authorities. Such investments generally include purchases of federal funds, federal government and agency securities and qualified deposits in other financial institutions. Investment decisions generally are made by the Investment Committee comprised of Directors Stigall, Hudson and

Bosley.

It is management's intention, and Central Kentucky Federal has the ability, to hold the majority of its investment security portfolio to maturity. In accordance with SFAS No. 115, the Company classifies marketable equity securities as investment securities held for sale. Investment securities in this classification are recorded at market value. At December 31, 1998, the unrealized holding gains of $625,000, less the applicable deferred tax of $215,000, is included as a separate component of retained earnings pursuant to SFAS No. 115. The balance of investment securities being held to maturity are recorded at cost, adjusted for amortization of premiums and accretion of discounts on a method which approximates the interest method over the term of the related security. For further information, see Note 2 of Notes to Consolidated Financial Statements.

The following table sets forth the carrying value of the Bank's investment securities portfolio at the dates indicated.

<TABLE>
<CAPTION>

	At December 31, 1998	At December 31, 1997
	(Dollars in thousands)	
Investment securities available for sale:		
FHLMC capital stock	$ 635	$ 552
Total investment securities available for sale ..	$ 635	$ 552
Investment securities held to maturity:		
U.S. government and agency securities	$1,254	$1,252
Mortgage-backed securities	219	368
FHLB stock	555	517
Common stock of subsidiary	15	15
Total investment securities held to maturity	$2,043	$2,152

</TABLE>

The following table sets forth the scheduled maturities, carrying values, market values and average yields for the Bank's investment portfolio at December 31, 1998.

<TABLE>
<CAPTION>

	One Year or Less		One to Five Years		Five to Ten Years		More than Ten Years	
	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield
				(Dollars in thousands)				
Investment securities available for sale:								
FHLMC securities	$ 635	1.0%	$ --	--%	$ --	--%	$ --	--%
Investment securities held-to-maturity:								
U.S. Government and agency securities	500	6.75	754	5.39	--	--	--	--
Mortgage-backed securities	--	--	219	6.39	--	--	--	--
FHLB stock	--	--	--	--	--	--	555	7.12
Common stock of subsidiary	--	--	--	--	--	--	15	--
Total	500	6.75	973	5.62	--	--	570	6.93
Total Investment securities	$1,135	3.53%	$ 973	5.62%	$ --	--%	$ 570	6.93%

<CAPTION>

	Total Investment Portfolio		
	Carrying Value	Market Value	Average Yield
	(Dollars in thousands)		
Investment securities available for sale:			

FHLMC securities	$ 635	$ 635	1.0%
Investment securities held-to-maturity:			
U.S. Government and agency securities	1,254	1,258	5.93
Mortgage-backed securities	219	220	6.39
FHLB stock	555	555	7.12
Common stock of subsidiary	15	15	--
Total	2,043	2,048	6.26
Total Investment securities	$2,678	$2,683	5.01%

</TABLE>

Deposit Activity and Other Sources of Funds

General. Deposits are the primary source of the Bank's funds for lending and other investment purposes. In addition to deposits, Central Kentucky Federal derives funds from loan principal repayments, maturing investment securities, and interest payments. Loan repayments and interest payments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions.

Deposits. Deposits are attracted principally from within the Bank's primary market area through the offering of a variety of deposit instruments, including passbook and statement accounts and certificates of deposit ranging in term from three months to five years. Deposit account terms vary, principally on the basis of the minimum balance required, the time periods the funds must remain on deposit and the interest rate. The Bank also offers individual retirement accounts ("IRAs").

The Bank's policies are designed primarily to attract deposits from local residents rather than to solicit deposits from areas outside its primary market. The Bank does not accept deposits from brokers due to the volatility and rate sensitivity of such deposits. Interest rates paid, maturity terms, service fees and withdrawal penalties are established by the Bank on a periodic basis. Determination of rates and terms are predicated upon funds acquisition and liquidity requirements, rates paid by competitors, growth goals and federal regulations.

Savings deposits in the Bank as of December 31, 1998 were represented by the various types of savings programs described below.

<TABLE>
<CAPTION>

Interest Rate	Minimum Term	Category	Minimum Amount	Balances (In thousands)	Percentage of Total Savings
3.05%	None	NOW Accounts	$ 50	$ 2,884	5.89%
3.05	None	Passbook Statement Accounts	1	3,733	7.63
4.13	None	Money Market Deposits Accounts	2,500	3,188	6.51
3.05	None	Super NOW Accounts	2,500	220	.45
		Certificates of Deposit			
4.49	91 days	3-month Money Market	500	477	.97
4.94	182 days	6-month Money Market	500	5,232	10.69
5.28	12-month	Fixed-Term, Fixed-Rate	500	5,919	12.09
5.59	14-month	Fixed-Term, Fixed Rate	500	4,329	8.85
5.45	18 month	Fixed-Term, Fixed-Rate	500	896	1.83
5.77	18 month	18 month IRA Accounts	500	4,879	9.97
5.58	24 month	Fixed-Term, Fixed-Rate	500	2,786	5.69
5.57	30 month	Fixed-Term, Fixed-Rate	500	1,634	3.35
5.60	36 month	Fixed-Term, Fixed-Rate	500	3,361	6.87
5.78	42 month	Fixed-Term, Fixed-Rate	500	534	1.09
5.85	48 month	Fixed-Term, Fixed-Rate	500	1,231	2.52
6.05	60 month	Fixed-Term, Fixed-Rate	500	7,635	15.60
				$ 48,938	100.00%

</TABLE>

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* Represents weighted average interest rate.

The following tables set forth, for the periods indicated, the average balances and interest rates based on month-end balances for interest-bearing demand deposits and time deposits.

	At December 31, 1998		At December 31, 1997	
	Interest-Bearing Demand Deposits	Time Deposits	Interest-Bearing Demand Deposits	Time Deposits
	(Dollars in thousands)			
Average balance......	$ 9,656	$ 36,920	$ 9,031	$ 33,584
Average rate.........	2.72%	5.64%	2.95%	5.66%

The following table sets forth the change in dollar amount of deposits in the various types of accounts offered by the Bank between the dates indicated.

<TABLE>
<CAPTION>

	Balance at December 31, 1998	% Deposit	Increase (Decrease)	Balance at December 31, 1997	% Deposits	Increase (Decrease)
			(Dollars in thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
NOW accounts	$ 2,884	5.89%	$ 623	$ 2,261	5.23%	$ 136
Passbook and regular savings...	3,733	7.63	302	3,431	7.93	(108)
Money market deposit accounts..	3,188	6.51	331	2,857	6.61	(313)
Super NOW accounts	220	.45	76	144	.33	43
6-month Money Market	5,232	10.69	433	4,799	11.10	(389)
1 year certificates	5,919	12.09	(1,094)	7,013	16.21	(1,196)
18 month IRA accounts	4,879	9.97	(88)	4,967	11.48	265
2 year certificate	2,786	5.69	220	2,566	5.93	(192)
30 month certificates	1,634	3.35	19	1,615	3.73	(160)
3 year certificates	3,361	6.87	846	2,515	5.81	(197)
5 year certificates	7,635	15.60	664	6,971	16.13	1,118
Other	7,467	15.26	3,353	4,114	9.51%	1,414
Total	$48,938	100.00%	$ 5,685	$43,253	100.00%	$ 421

</TABLE>

The following table sets forth the time deposits in the Bank classified by nominal rates at the dates indicated.

	At December 31, 1998	At December 31, 1997
	(In thousands)	
2.01 - 4.00%..............................	$ --	$ --
4.01 - 6.00%..............................	34,021	28,419
6.01 - 8.00%..............................	4,892	6,142
8.01 - 10.00%.............................	--	--
	$ 38,913	$ 34,561

The following table sets forth the amount and maturities of time deposits at December 31, 1998.

	Amount Due				
Rate	Less Than One Year	1-2 Years	2-3 Years	After 3 Years	Total
		(In thousands)			
4.01 - 6.00%...	$ 22,491	$ 5,880	$ 2,893	$ 2,757	$ 34,021

6.01 - 8.00%...	1,779	1,234	87	1,792	4,892
	$ 24,270	$ 7,114	$ 2,980	$ 4,549	$ 38,913

The following table indicates the amount of the Bank's certificates of deposit of $100,000 or more by time remaining until maturity as of December 31, 1998.

Maturity Period	Certificates of Deposits
	(In thousands)
Three months or less......................	$ 2,896
Over three through six months.............	1,073
Over six through twelve months............	3,835
Over twelve months........................	4,574
Total................................	$ 12,378

The following table sets forth the savings deposit activities of the Bank for the periods indicated.

	Year Ended December 31, 1998	1997
	(In thousands)	
Deposits..	$ 55,392	$ 47,340
Withdrawals...	51,296	48,424
Net increase (decrease) before interest credited..	4,096	(1,084)
Interest credited...................................	1,589	1,505
Net increase (decrease) in savings deposits.......	$ 5,685	$ 421

The Bank does not offer premiums for deposits, does not generally offer interest rates on deposits which exceed the average rates offered by other financial institutions in its market area, and usually does not institute promotional programs which result in increased rates being paid on deposits. The Bank does, however, offer above-average rates on certificates of deposit if management believes that the deposit will entail administrative savings by the Bank as well as contribute to the stability of the Bank's core deposit base. These strategies are consistent with management's goals of keeping the Bank's cost of funds at reduced levels and maintaining slow and measurable growth for the Bank.

Borrowings. Savings deposits historically have been the primary source of funds for the Bank's lending and investment activities and for its general business activities. The Bank is authorized, however, to use advances from the FHLB of Cincinnati to supplement its supply of lendable funds and to meet deposit withdrawal requirements. Advances from the FHLB are secured by the Bank's stock in the FHLB and a portion of the Bank's mortgage loans.

The FHLB of Cincinnati functions as a central reserve bank providing credit for savings institutions and certain other member financial institutions. As a member, Central Kentucky Federal is required to own capital stock in the FHLB and is authorized to apply for advances on the security of such stock and certain of its home mortgages and other assets (principally, securities which are obligations of, or guaranteed by, the United States) provided certain standards related to creditworthiness have been met. See "Regulation of the Bank -- Federal Home Loan Bank System."

The following table sets forth certain information regarding borrowings by the Bank at the dates and for the periods indicated.

	At or For the Year Ended December 31, 1998	1997
	(Dollars in thousands)	
Amounts outstanding at end of period:		
FHLB advances (1).........................	$ 2,120	$5,213
Weighted average rate paid................	5.83%	6.90%

	At or For the Year Ended December 31,	
	1998	1997
	(Dollars in thousands)	
Maximum amount of borrowings outstanding at any month end:		
FHLB advances	$ 3,210	$5,213

	At or For the Year Ended December 31,	
	1998	1997
	(Dollars in thousands)	
Approximate average borrowings outstanding with respect to:		
FHLB advances	$ 1,915	$2,898
Approximate weighted average rate paid	5.90%	5.28%

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(1) The Bank makes monthly principal and interest payments of $4,540 with the principal being amortized through the year 2002 on one note, which had a balance of $119,932 at December 31, 1998. The other note for $2,000,000 matures in March of 1999.

Subsidiary Activities

As a federally chartered savings bank, Central Kentucky Federal is permitted to invest an amount equal to 2% of its assets in subsidiaries with an additional investment of 1% of assets where such investment serves primarily community, inner-city, and community development purposes. Under such limitations, as of December 31, 1998 Central Kentucky Federal was authorized to invest up to approximately $1.3 million in the stock of or loans to subsidiaries including the additional 1% investment for community inner-city and community development purposes. Institutions meeting regulatory capital requirements, such as the Bank, may invest up to 50% of their regulatory capital in conforming first mortgage loans to subsidiaries in which they own 10% or more of the capital stock.

The Bank's only service corporation is Central Kentucky Savings and Loan Service Corporation in which its investment was $15,000 at December 31, 1998. The sole purpose of the service corporation is to purchase and hold the required amount of stock of Intrieve, Incorporated ("Intrieve"), pursuant to the Bank's agreement with Savings and Loan Data Corporation, Inc. ("SLDC"), predecessor to Intrieve, for data processing services. Central Kentucky Savings and Loan Service Corporation is otherwise currently inactive.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") requires Savings Association Insurance Fund ("SAIF") insured savings institutions to give the FDIC and the Director of the OTS 30 days' prior notice before establishing or acquiring a new subsidiary, or commencing any new activity through an existing subsidiary. Both the FDIC and the Director of the OTS have authority to order termination of subsidiary activities determined to pose a risk to the safety or soundness of the institution. In addition, capital requirements require savings institutions to deduct the amount of their investments in and extensions of credit to subsidiaries engaged in activities not permissible to national banks from capital in determining regulatory capital compliance. The activities of Central Kentucky Savings and Loan Service Corporation are not impermissible for national banks. See "Regulation of the Bank -- Regulatory Capital Requirements."

Employees

As of December 31, 1998, Central Kentucky Federal had nine full-time employees, none of whom was represented by a collective bargaining agreement. Central Kentucky Federal believes that it enjoys good relations with its personnel.

Competition

The Bank experiences competition both in attracting and retaining savings deposits and in the making of mortgage and other loans. Direct competition for savings deposits in Boyle County comes from one other savings institution, a credit union, and three commercial banks. Significant competition for the Bank's other deposit products and services comes from money market mutual funds, brokerage firms and insurance companies. The primary factors in competing for loans are interest rates and loan origination fees and the range of services offered by various financial institutions. Competition for origination of real estate loans normally comes from savings banks and commercial banks.

Regulation of the Bank

General. As a savings association, Central Kentucky Federal is subject to extensive regulation by the OTS. The lending activities and other investments of the Bank must comply with various federal regulatory requirements. The OTS will periodically examine the Bank for compliance with various regulatory requirements. The FDIC also has the authority to conduct examinations of SAIF members. The Bank must file reports with OTS describing its activities and financial condition. The Bank is also subject to certain reserve requirements promulgated by the Federal Reserve Board. This supervision and regulation is intended primarily for the protection of depositors. Certain of these regulatory requirements are referred to below or appear elsewhere herein.

Federal Home Loan Bank System. The Bank is a member of the FHLB System, which consists of twelve district Federal Home Loan Banks subject to supervision and regulation by the Federal Housing Finance Board ("FHFB"). The Federal Home Loan Banks provide a central credit facility primarily for member institutions. As a member of the FHLB of Cincinnati, the Bank is required to acquire and hold shares of capital stock in the FHLB of Cincinnati in an amount at least equal to 1% of the aggregate unpaid principal of its home mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 1/20 of its advances (borrowings) from the FHLB of Cincinnati, whichever is greater. The FHLB of Cincinnati serves as a reserve or central bank for its member institutions within its assigned district. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes advances to members in accordance with policies and procedures established by the FHFB and the Board of Directors of the FHLB of Cincinnati. Long-term advances may only be made for the purpose of providing funds for residential housing finance.

Liquidity Requirements. The Bank generally is required to maintain average daily balances of liquid assets (generally, cash, certain time deposits, bankers' acceptances, highly rated corporate debt and commercial paper, securities of certain mutual funds, and specified United States government, state or federal agency obligations) equal to 4% of its net withdrawable accounts plus short-term borrowings either at the end of the preceeding calendar quarter or on an average daily basis during the preceding quarter. The Bank also is required to maintain sufficient liquidity to ensure its safe and sound operation. Monetary penalties may be imposed for failure to meet liquidity requirements. The average daily balance of liquid assets ratio of the Bank for December 31, 1998 was 8.19%.

Qualified Thrift Lender Test. A savings association that does not meet the Qualified Thrift Lender test ("QTL Test") must either convert to a bank charter or comply with the following restrictions on its operations: (i) the institution may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for a national bank; (ii) the branching powers of the institution shall be restricted to those of a national bank; (iii) the institution shall not be eligible to obtain any advances from its FHLB; and (iv) payment of dividends by the institution shall be subject to the rules regarding payment of dividends by a national bank. Upon the expiration of three years from the date the institution ceases to be a Qualified Thrift Lender, it must cease any activity, and not retain any investment not permissible for a national bank and immediately repay any outstanding FHLB advances (subject to safety and soundness considerations).

In order to satisfy, the QTL Test, a savings institution must either satisfy the definition of domestic building and loan institution under the Internal Revenue Code or its Qualified Thrift Investments must represent at least 65% of portfolio assets. Qualified Thrift Investments include investments in residential mortgages, home equity loans, loans made for educational purposes, small business loans, credit card loans and mortgage-backed securities. Portfolio assets are defined as total assets less intangibles, property used by a savings institution in its business and liquidity investments in an amount not exceeding 20% of assets. A savings institution shall be deemed a Qualified Thrift Lender as long as its percentage of Qualified Thrift Investments continues to equal or exceed 65% in at least nine out of each 12 months. A savings institution that fails to maintain QTL status will be permitted to requalify once, and if it fails the QTL Test a second time, it will become immediately subject to all penalties as if all time limits on such penalties had expired. At December 31, 1998, the Bank was in compliance with the QTL Test.

Dividend Limitations. Federal regulations impose additional limitations on the payment of dividends and other capital distributions (including stock repurchases and cash mergers) by the Bank. Under these regulations, a savings institution that, immediately prior to, and on a pro forma basis after giving effect to, a proposed capital distribution, has total capital (as defined by OTS regulation) that is equal to or greater than the amount of its fully phased-in capital requirements (a "Tier 1 Association") is generally permitted, without OTS approval after notice, to make capital distributions during a calendar year in the amount equal to the greater of: (i) 75% of its net income for the previous four quarters; or (ii) up to 100% of its net income to date during the calendar year plus an amount that would reduce by one-half the amount by which its capital-to-assets ratio exceeded regulatory requirements at the beginning

of the calendar year. A savings institution with total capital in excess of current minimum capital ratio requirements (a "Tier 2 Association") is permitted after notice to make capital distributions without OTS approval of up to 75% of its net income for the previous four quarters, less dividends already paid for such period. A savings institution that fails to meet current minimum capital requirements (a "Tier 3 Association") is prohibited from making any capital distributions without the prior approval of the OTS. A Tier 1 Association that has been notified by the OTS that it is in need of more than normal supervision will be treated as either a Tier 2 or Tier 3 Association. The Bank is a Tier 1 Association. Under the OTS' prompt corrective action regulations, the Bank is also prohibited from making any capital distributions if after making the distribution, the Bank would have: (i) a total risk-based capital ratio of less than 8.0%; (ii) a Tier 1 risk-based capital ratio of less than 4.0%; or (iii) a leverage ratio of less than 4.0%. The OTS, after consultation with the FDIC, however, may permit an otherwise prohibited stock repurchase if made in connection with the issuance of additional shares in an equivalent amount and the repurchase will reduce the institution's financial obligations or otherwise improve the institution's financial condition. See "-- Prompt Corrective Regulatory Action."

The OTS has proposed amendments to its capital distribution regulations which would conform OTS regulations to the existing requirements of other banking agencies, as well as simplify the existing OTS regulations. These proposed rules would eliminate the requirement of notifying the OTS when cash dividends of a certain amount will be paid for institutions that will remain at least adequately capitalized. However, applications for capital distributions will be required for all distributions over a specified amount. Notices will still be required for distributions that would "reduce the amount of or retire common or preferred stock, or debt instruments included in the capital.

In addition to the foregoing, earnings of the Bank appropriated to bad debt reserves and deducted for federal income tax purposes are not available for payment of cash dividends or other distributions to the Company without payment of taxes at the then current tax rate by the Bank on the amount of earnings removed from the reserves for such distributions. See " -- Taxation."

Regulatory Capital Requirements. Under OTS capital standards, a savings institution must maintain "tangible" capital equal to 1.5% of adjusted total assets, "core" capital equal to 3% of adjusted total assets and a combination of core and "supplementary" capital equal to 8% of "risk-weighted" assets. In addition, the OTS regulations impose certain restrictions on savings institutions that have a total risk-based capital ratio that is less than 8%, a ratio of Tier 1 capital to risk-weighted assets of less than 4% or a ratio of Tier 1 capital to adjusted total assets of less than 4% (or 3% if the institution is rated Composite 1 under the OTS examination rating system). See "-- Prompt Corrective Regulatory Action." For purposes of this regulation, Tier 1 capital has the same definition as core capital which is defined as common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries, certain nonwithdrawable accounts and pledged deposits and "qualifying supervisory goodwill." Core capital is generally reduced by the amount of the savings institution's intangible assets for which no market exists. Limited exceptions to the deduction of intangible assets are provided for mortgage servicing rights, purchased credit card relationships and qualifying supervisory goodwill held by an eligible savings institution. Tangible capital is given the same definition as core capital but does not include an exception for qualifying supervisory goodwill and is reduced by the amount of all the savings institution's intangible assets with only a limited exception for mortgage servicing rights and purchased credit card relationships.

Both core and tangible capital are further reduced by an amount equal to a percentage of the savings institution's debt and equity investments in subsidiaries engaged in activities not permissible for national banks, other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or holding companies therefor. At December 31, 1998, the Bank had no such investments.

Adjusted total assets are a savings institution's total assets as determined under generally accepted accounting principles, increased for certain goodwill amounts and by a pro-rated portion of the assets of subsidiaries in which the savings institution holds a minority interest (and which are not engaged in activities for which the capital rules require the savings institution to net its debt and equity investments in such subsidiaries against capital), as well as a pro-rated portion of the assets of other subsidiaries for which netting is not fully required under phase-in rules. Adjusted total assets are reduced by the amount of assets that have been deducted from capital, the portion of savings institution's investments in subsidiaries that must be netted against capital under the capital rules and, for purposes of the core capital requirement, qualifying supervisory goodwill. At December 31, 1998, the Bank's adjusted total assets for purposes of core capital requirements were $65.0 million.

In determining compliance with the risk-based capital requirement, a savings institution is allowed to include both core capital and supplementary capital in its total capital, provided the amount of supplementary capital used does not exceed the savings institution's core capital. Supplementary capital is defined to include certain preferred stock issues, nonwithdrawable accounts and pledged deposits that do not qualify as core capital, certain approved subordinated debt, certain other capital instruments and a portion of the savings institution's general loss allowances.

Total core and supplementary capital are reduced by the amount of capital instruments held by other depository institutions pursuant to reciprocal arrangements and by an increasing percentage of the savings institution's high loan-to-value ratio land loans, non-residential construction loans and equity investments other than those deducted from core and tangible capital. As of December 31, 1998, the Bank had no high ratio land or non-residential construction loans and no equity investments for which OTS regulations require a deduction from total capital.

The risk-based capital requirement is measured against risk-weighted assets which equal the sum of each asset and the credit-equivalent amount of each off-balance sheet item after being multiplied by an assigned risk weight. Under the OTS risk-weighting system, one-to-four family first mortgages not more than 90 days past due with loan-to-value ratios under 80% and average annual occupancy rates of at least 80% and certain qualifying loans for the construction of one-to-four-family residences pre-sold to home purchasers are assigned a risk weight of 50%. Consumer and residential construction loans are assigned a risk weight of 100%. Mortgage-backed securities issued, or fully guaranteed as to principal and interest by the FNMA or FHLMC are assigned a 20% risk weight. Cash and U.S. Government securities backed by the full faith and credit of the U.S. Government (such as mortgage-backed securities issued by GNMA) are given a 0% risk weight.

For information with respect to the Bank's compliance with its regulatory capital requirements at December 31, 1998, see Note 9 of Notes to Consolidated Financial Statements.

The risk-based capital requirements of the OTS also require that savings institutions with more than a "normal" level of interest rate risk to maintain additional total capital. A savings institution's interest rate risk is measured in terms of the sensitivity of its "net portfolio value" to changes in interest rates. Net portfolio value is defined, generally, as the present value of expected cash inflows from existing assets and off-balance sheet contracts less the present value of expected cash outflows from existing liabilities. A savings institution is considered to have a "normal" level of interest rate risk exposure if the decline in its net portfolio value after an immediate 200 basis point increase or decrease in market interest rates (whichever results in the greater decline) is less than two percent of the current estimated economic value of its assets. A savings institution with a greater than normal interest rate risk will be required to deduct from total capital, for purposes of calculating its risk-based capital requirement, an amount (the "interest rate risk component") equal to one-half the difference between the institution's measured interest rate risk and the normal level of interest rate risk, multiplied by the economic value of its total assets.

The OTS calculates the sensitivity of a savings institution's net portfolio value based on data submitted by the institution in a schedule to its quarterly Thrift Financial Report and using the interest rate risk measurement model adopted by the OTS. The amount of the interest rate risk component, if any, to be deducted from a savings institution's total capital is based on the institution's Thrift Financial Report filed two quarters earlier. Savings institutions with less than $300 million in assets and a risk-based capital ratio above 12% are generally exempt from filing the interest rate risk schedule with their Thrift Financial Reports. However, the OTS requires any exempt savings institution that it determines may have a high level of interest rate risk exposure to file such schedule on a quarterly basis and may be

subject to an additional capital requirement based upon its level of interest rate risk as compared to its peers. The Bank is exempt from filing the interest rate risk schedule with its Thrift Financial Reports and the OTS has not required it to file such a schedule. The interest rate risk rule did not have a material effect on the Bank's risk based capital at December 31, 1998.

The table below presents the Bank's capital position at December 31, 1998, relative to its various minimum regulatory capital requirements.

	At December 31, 1998	
	Amount	Percent of Assets (1)
	(Dollars in thousands)	
Core Capital	$ 11,162	17.2%
Core Capital Requirement	2,600	4.00
Excess	$ 8,562	13.2%
Risk-Based Capital	$ 11,310	29.4%
Risk-Based Capital Requirement	3,070	8.00
Excess	$ 8,240	21.4%

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(1) Based upon adjusted total assets of $65.0 million for purposes of the tangible and core capital requirements, and risk-weighted assets of $38.4 million for purposes of the risk-based capital requirements.

In addition to requiring generally applicable capital standards for savings institutions, the OTS is authorized to establish the minimum level of capital for a savings institution at such amount or at such ratio of capital-to-assets as the OTS determines to be necessary or appropriate for such institution in light of the particular circumstances of the institution. Such circumstances would include a high degree of exposure to interest rate risk, concentration of credit risk and certain risks arising from non-traditional activity. The OTS may treat the failure of any savings institution to maintain capital at or above such level as an unsafe or unsound practice and may issue a directive requiring any savings institution which fails to maintain capital at or above the minimum level required by the OTS to submit and adhere to a plan for increasing capital. Such an order may be enforced in the same manner as an order issued by the FDIC.

Prompt Corrective Regulatory Action. Under the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"), the federal banking regulators are required to take prompt corrective action if an insured depository institution fails to satisfy certain minimum capital requirements. All institutions, regardless of their capital levels, are restricted from making any capital distribution or paying any management fees if the institution would thereafter fail to satisfy the minimum levels for any of its capital requirements. An institution that fails to meet the minimum level for any relevant capital measure (an "undercapitalized institution") may be: (i) subject to increased monitoring by the appropriate federal banking regulator; (ii) required to submit an acceptable capital restoration plan within 45 days; (iii) subject to asset growth limits; and (iv) required to obtain prior regulatory approval for acquisitions, branching and new lines of businesses. The capital restoration plan must include a guarantee by the institution's holding company that the institution will comply with the plan until it has been adequately capitalized on average for four consecutive quarters, under which the holding company would be liable up to the lesser of 5% of the institution's total assets or the amount necessary to bring the institution into capital compliance as of the date it failed to comply with its capital restoration plan. A "significantly undercapitalized" institution, as well as any undercapitalized institution that did not submit an acceptable capital restoration plan, may be subject to regulatory demands for recapitalization, broader application of restrictions on transactions with affiliates, limitations on interest rates paid on deposits, asset growth and other activities, possible replacement of directors and officers, and restrictions on capital distributions by any bank holding company

controlling the institution. Any company controlling the institution could also be required to divest the institution or the institution could be required to divest subsidiaries. The senior executive officers of a significantly undercapitalized institution may not receive bonuses or increases in compensation without prior approval and the institution is prohibited from making payments of principal or interest on its subordinated debt. In their discretion, the federal banking regulators may also impose the foregoing sanctions on an undercapitalized institution if the regulators determine that such actions are necessary to carry out the purposes of the prompt corrective action provisions. If an institution's ratio of tangible capital to total assets falls below a "critical capital level," the institution will be subject to conservatorship or receivership within 90 days unless periodic determinations are made that forbearance from such action would better protect the deposit insurance fund. Unless appropriate findings and certifications are made by the appropriate federal bank regulatory agencies, a critically undercapitalized institution must be placed in receivership if it remains critically undercapitalized on average during the calendar quarter beginning 270 days after the date it became critically undercapitalized. If a savings association is in compliance with an approved capital plan on the date of enactment of FDICIA, however, it will not be required to submit a capital restoration plan if it is undercapitalized or become subject to the statutory prompt corrective action provisions applicable to significantly and critically undercapitalized institutions prior to July 1, 1994.

Under regulations jointly adopted by the federal banking regulators, a depository institution's capital adequacy for purposes of the FDICIA prompt corrective action rules is determined on the basis of the institution's total risk-based capital ratio (the ratio of its total capital to risk-weighted assets), Tier 1 risk-based capital ratio (the ratio of its core capital to risk-weighted assets) and leverage ratio (the ratio of its core capital to adjusted total assets). Under the regulations, a savings association that is not subject to an order or written directive to meet or maintain a specific capital level will be deemed "well capitalized" if it also has: (i) a total risk-based capital ratio of 10% or greater; (ii) a Tier 1 risk-based capital ratio of 6.0% or greater; and (iii) a leverage ratio of 5.0% or greater. An "adequately capitalized" savings association is a savings association that does not meet the definition of well capitalized and has: (i) a total risk-based capital ratio of 8.0% or greater; (ii) a Tier 1 capital risk-based ratio of 4.0% or greater; and (iii) a leverage ratio of 4.0% or greater (or 3.0% or greater if the savings association has a composite 1 CAMEL rating). An "undercapitalized institution" is a savings association that has (i) a total risk-based capital ratio less than 8.0%; or (ii) a Tier 1 risk-based capital ratio of less than 4.0%; or (iii) a leverage ratio of less than 4.0% (or 3.0% if the association has a composite 1 CAMEL rating). A "significantly undercapitalized" institution is defined as a savings association that has: (i) a total risk-based capital ratio of less than 6.0%; or (ii) a Tier 1 risk-based capital ratio of less than 3.0%; or (iii) a leverage ratio of less than 3.0%. A "critically undercapitalized" savings association is defined as a savings association that has a ratio of "tangible equity" to total assets of less than 2.0%. Tangible equity is defined as core capital plus cumulative perpetual preferred stock (and related surplus) less all intangibles other than qualifying supervisory goodwill and certain purchased mortgage servicing rights. The OTS may reclassify a well capitalized savings association as adequately capitalized and may require an adequately capitalized or undercapitalized association to comply with the supervisory actions applicable to associations in the next lower capital category if the OTS determines, after notice and an opportunity for a hearing, that the savings association is in an unsafe or unsound condition or that the association has received and not corrected a less-than-satisfactory rating for any CAMEL rating category. The Bank is classified as "well-capitalized" under the new regulations.

Deposit Insurance. The Bank is required to pay assessments based on a percent of its insured deposits to the FDIC for insurance of its deposits by the SAIF. Under the Federal Deposit Insurance Act, the FDIC is required to set semi-annual assessments for SAIF-insured institutions to maintain the designated reserve ratio of the SAIF at 1.25% of estimated insured deposits or at a higher percentage of estimated insured deposits that the FDIC determines to be justified for that year by circumstances raising a significant risk of substantial future losses to the SAIF.

The assessment rate for an insured depository institution is determined by the assessment risk classification assigned to the institution by the FDIC based on the institution's capital level and supervisory evaluations. Based on the data reported to regulators for date closest to the last day of the seventh month preceding the semi-annual assessment period, institutions are assigned to one of three capital groups -- well capitalized, adequately capitalized or undercapitalized -- using the same percentage criteria as in the prompt corrective action regulations. See "-- Prompt Corrective Regulatory Action." Within each capital group, institutions are assigned to one of three subgroups on the basis of supervisory evaluations by the institution's primary supervisory authority and such other information as the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance fund.

Under the FDIC's assessment schedule for SAIF deposit insurance, the assessment rate for well-capitalized institutions with the highest supervisory ratings will be reduced to zero and institutions in the highest risk assessment classification will be assessed at the rate of .027% of insured deposits. Until December 31, 1999, however, all SAIF- insured institutions, will be required to pay assessments to the FDIC at the rate of 6.5 basis points to help fund interest payments on certain bonds issued by the Financing Corporation ("FICO") an agency of the federal government established to finance takeovers of insolvent thrifts. During this period, BIF members will be assessed for these obligations at the rate of 1.3 basis points. After December 31, 1999, both BIF and SAIF members will be assessed at the same rate for FICO payments.

Federal Reserve System. Pursuant to regulations of the Federal Reserve Board, all FDIC-insured depository institutions must maintain average daily reserves against their transaction accounts. No reserves are required on the first $4.9 million of transaction accounts maintained; reserves of 3% are required on the next $46.5 million of transaction accounts and a reserve of 10% must be maintained against all remaining transaction accounts. These reserve requirements are subject to adjustment by the Federal Reserve Board. Because required reserves must be maintained in the form of vault cash or in a non-interest bearing account at a Federal Reserve Bank, the effect of the reserve requirement is to reduce the amount of the institution's interest-earning assets.

Transactions with Affiliates. Transactions between savings institutions and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a savings institution is any company or entity which controls, is controlled by or is under common control with the savings institution. In a holding company context, the parent holding company of a savings institution (such as the Company) and any companies which are controlled by such parent holding company are affiliates of the savings institution. Generally, Sections 23A and 23B (i) limit the extent to which the savings institution or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar other types of transactions. In addition to the restrictions imposed by Sections 23A and 23B, no savings institution may (i) loan or otherwise extend credit to an affiliate, except for any affiliate which engages only in activities which are permissible for bank holding companies, or (ii) purchase or invest in any stocks, bonds, debentures, notes or similar obligations of any affiliate, except for affiliates which are subsidiaries of the savings institution. Section 106 of the BHCA which also applies to the Bank prohibits the Bank from extending credit to or offering any other services, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or certain of its affiliates or not obtain services of a competitor of the institution, subject to certain exceptions.

Loans to Directors, Executive Officers and Principal Stockholders. Savings institutions are also subject to the restrictions contained in Section 22(h) of the Federal Reserve Act on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to an executive officer and to a greater than 10% stockholder of a savings institution, and certain affiliated entities of either, may not exceed, together with all other outstanding loans to such person and affiliated entities the institution's loan to one borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus and an additional 10% of such capital and surplus for loans fully secured by certain readily marketable collateral). Section 22(h) also prohibits loans, above amounts prescribed by the appropriate federal banking agency, to directors, executive officers and greater than 10% stockholders of a savings institution, and their respective affiliates, unless such loan is approved in advance by a majority of the board of directors of the institution with any "interested" director not participating in the voting. The Federal Reserve Board has prescribed the loan amount (which includes all other outstanding loans to such person), as to which such prior board of director approval is required, as being the greater of $25,000 or 5% of capital and surplus (up to $500,000). Further, the Federal Reserve Board pursuant to Section 22(h) requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons. Section 22(h) also generally prohibits a depository institution from paying the overdrafts of any of its executive officers or directors. Section 22(g) of the Federal Reserve Act requires that loans to executive officers of depository institutions not be made on terms more favorable than those afforded to other borrowers, requires approval for such extensions of credit by the board of directors of the institution, and imposes reporting requirements for and additional restrictions on the type, amount and terms of credits to such officers. In addition, Section 106 of the BHCA prohibits extensions of credit to executive officers, directors, and greater than 10% stockholders of a depository institution by any other institution which has a correspondent banking relationship with the institution, unless such extension of credit is on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than the normal risk of repayment or present other unfavorable features.

Proposed Legislative and Regulatory Changes. On May 13, 1998, the U.S. House of Representatives passed H.R. 10 (the "Act"), the Financial Services

Competition Act of 1998, "which calls for a sweeping modernization of the banking system that would permit affiliations between commercial banks, securities firms, insurance companies and, subject to certain limitations, other commercial enterprises. The stated purposes of the Act are to enhance consumer choice in the financial services marketplace, level the playing field among providers of financial services and increase competition. H.R. 10 removes the restrictions contained in the Glass-Steagall Act of 1933 and the Bank Holding Company Act of 1956, thereby allowing qualified financial holding companies to control banks, securities firms, insurance companies, and other financial firms. Conversely, securities firms, insurance companies and financial firms would be allowed to own or affiliate with a commercial bank. Under the new framework, the Federal Reserve would serve as an umbrella regulator to oversee the new financial holding company structure. Securities affiliates would be required to comply with all applicable federal securities laws, including registration and other requirements applicable to broker-dealers. The Act also provides the insurance affiliates be subject to applicable state insurance regulations and supervision. The Act preserves the thrift charter and all existing thrift powers, but restricts the activities of new unitary thrift holding companies.

At the adjournment of Congress in October 1998, the Senate had not voted on the legislation and the Act had been returned to the Senate Banking Committee for further review A bill similar to the Act was introduced for consideration by Congress in 1999. At this time, it is unknown whether the Act will be enacted, or if enacted, what form the final version of such legislation might take.

Regulation of the Company

General. The Company is a unitary savings and loan holding company within the meaning of the Home Owners' Loan Act. As such, the Company is registered with the OTS and subject to OTS regulations, examinations, supervision and reporting requirements.

Activities Restrictions. The Board of Directors of the Company presently intends to operate the Company as a unitary savings and loan holding company. There are generally no restrictions on the activities of a unitary savings and loan holding company. However, if the director of OTS determines that there is reasonable cause to believe that the continuation by a savings and loan holding company of an activity constitutes a serious risk to the financial safety, soundness, or stability of its subsidiary savings association, the Director of OTS may impose such restrictions as deemed necessary to address such risk and limiting (i) payment of dividends by the savings association, (ii) transactions between the savings association and its affiliates, and (iii) any activities of the savings association that might create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings association. Notwithstanding the above rules as to permissible business activities of unitary savings and loan holding companies, if the savings association subsidiary of such a holding company fails to meet the QTL Test, then such unitary holding company shall also presently become subject to the activities restrictions applicable to multiple holding companies and unless the savings association requalifies as a Qualified Thrift Lender within one year thereafter, register as, and become subject to, the restrictions applicable to a bank holding company.

If the Company were to acquire control of another savings association, other than through merger or other business combination with the Bank, the Company would thereupon become a multiple savings and loan holding company. Except where such acquisition is pursuant to the authority to approve emergency thrift acquisitions and where each subsidiary savings association meets the QTL Test, the activities of the Company and any of its subsidiaries (other than the Bank or other subsidiary savings institutions) would thereafter be subject to further restrictions. The Home Owners' Loan Act, as amended by FIRREA, provides that, among other things, no multiple savings and loan holding company or subsidiary thereof which is not a savings association shall commence or continue for a limited period of time after becoming a multiple savings and loan holding company or subsidiary thereof, any business activity, upon prior notice to, and no objection by the OTS, other than (i) furnishing or performing management services for a subsidiary savings association, (ii) conducting an insurance agency or escrow business, (iii) holding, managing, or liquidating assets owned by or acquired from a subsidiary savings institution, (iv) holding or managing properties used or occupied by a subsidiary savings institution, (v) acting as trustee under deeds of trust, (vi) those activities previously directly authorized by the Federal Savings and Loan Insurance Corporation ("FSLIC") by regulation as of March 5, 1987 to be engaged in by multiple holding companies or (vii) those activities authorized by the Federal Reserve Board as permissible for bank holding companies, unless the Director of OTS by regulation prohibits or limits such activities for savings and loan holding companies. Those activities described in (vii) above must also be approved by the Director of OTS prior to being engaged in by a multiple holding company.

Restrictions on Acquisitions. Savings and loan holding companies are prohibited from acquiring, without prior approval of the Director of OTS, (i) control of any other savings association or savings and loan holding company or substantially all the assets thereof or (ii) more than 5% of the voting shares of a savings association or holding company thereof which is not a subsidiary. Under certain circumstances, a registered savings and loan holding company is permitted to acquire, with the approval of the Director of OTS, up to 15% of the voting shares of an under-capitalized savings association pursuant to a "qualified stock issuance" without that savings association being deemed controlled by the holding company. In order for the shares acquired to constitute a "qualified stock issuance," the shares must consist of previously unissued stock or treasury shares, the shares must be acquired for cash, the savings and loan holding company's other subsidiaries must have tangible capital of at least 6-1/2% of total assets, there must not be more than one common director or officer between the savings and loan holding company and the issuing savings association and transactions between the savings association and the savings and loan holding company and any of its affiliates must conform to Sections 23A and 23B of the Federal Reserve Act. Except with the prior approval of the Director of OTS, no director or officer of a savings and loan holding company or person owning or controlling by proxy or otherwise more than 25% of such company's stock, may also acquire control of any savings association, other than a subsidiary savings association, or of any other savings and loan holding company.

The Director of OTS may only approve acquisitions resulting in the formation of a multiple savings and loan holding company which controls savings associations in more than one state if: (i) the multiple savings and loan holding company involved controls a savings institution which operated a home or branch office in the state of the association

to be acquired as of March 5, 1987; (ii) the acquiror is authorized to acquire control of the savings association pursuant to the emergency acquisition provisions of the Federal Deposit Insurance Act; or (iii) the statutes of the state in which the association to be acquired is located specifically permit institutions to be acquired by state-chartered associations or savings and loan holding companies located in the state where the acquiring entity is located (or by a holding company that controls such state-chartered savings institutions).

OTS regulations permit federal associations to branch in any state or states of the United States and its territories. Except in supervisory cases or when interstate branching is otherwise permitted by state law or other statutory provision, a federal association may not establish an out-of-state branch unless (i) the federal association qualifies as a "domestic building and loan association" under (S)7701(a)(19) of the Internal Revenue Code of 1986, as amended (the "Code") and the total assets attributable to all branches of the association in the state would qualify such branches taken as a whole for treatment as a domestic building and loan association and (ii) such branch would not result in (a) formation of a prohibited multi-state multiple savings and loan holding company or (b) a violation of certain statutory restrictions on branching by savings association subsidiaries of banking holding companies. Federal associations generally may not establish new branches unless the association meets or exceeds minimum regulatory capital requirements. The OTS will also consider the association's record of compliance with the Community Reinvestment Act of 1977 in connection with any branch application.

The Bank Holding Company Act of 1956 authorizes the Federal Reserve Board to approve an application by a bank holding company to acquire control of any savings association. Pursuant to rules promulgated by the Federal Reserve Board, owning, controlling or operating a savings association is a permissible activity for bank holding companies if the savings association engages only in deposit-taking activities and lending and other activities that are permissible for bank holding companies. In approving such an application, the Federal Reserve Board may not impose any restriction on transactions between the savings association and its holding company affiliates except as required by Sections 23A and 23B of the Federal Reserve Act.

A bank holding company that controls a savings association may merge or consolidate the assets and liabilities of the savings association with, or transfer assets and liabilities to, any subsidiary bank which is a member of the BIF with the approval of the appropriate federal banking agency and the Federal Reserve Board. The resulting bank will be required to continue to pay assessments to the SAIF at the rates prescribed for SAIF members on the deposits attributable to the merged savings association plus an annual deposit growth increment. In addition, the transaction must comply with the restrictions on interstate acquisitions of commercial banks under the Bank Holding Company Act of 1956.

Taxation

General. The Company and the Bank file a consolidated tax return for federal income tax purposes, based on a fiscal year ending December 31. Consolidated returns have the effect of eliminating intercompany distributions, including dividends, from the computation of consolidated taxable income for the taxable year in which the distributions occur.

Federal Income Taxation. Thrift institutions are subject to the provisions of the Code in the same general manner as other corporations. However, for tax years prior to December 31, 1996, institutions such as Central Kentucky Federal which meet certain definitional tests and other conditions prescribed by the Code may benefit from certain favorable provisions regarding their deductions from taxable income for annual additions to their bad debt reserve. For purposes of the bad debt reserve deduction, loans were separated into "qualifying real property loans," which generally are loans secured by interests in certain real property, and nonqualifying loans, which are all other loans. The bad debt reserve deduction with respect to nonqualifying loans must be based on actual loss experience. The amount of the bad debt reserve deduction with respect to qualifying real property loans may be based upon actual loss experience (the "experience method") or a percentage of taxable income determined without regard to such deduction (the "percentage of taxable income method").

Earnings appropriated to an institution's bad debt reserve and claimed as a tax deduction are not available for the payment of cash dividends or for distribution to shareholders (including distributions made on dissolution or liquidation), unless such amount is included in taxable income, along with the amount deemed necessary to pay the resulting federal income tax.

On August 20, 1996, the President signed into law the Small Business Jobs Protection Act. Included within this act were provisions repealing the percentage of taxable income method of calculating a thrift's bad debt reserve for tax purposes. This method had permitted thrift institutions, such as the Bank, who satisfied certain definitional tests and other conditions prescribed by the Internal Revenue Code, to deduct an annual addition to their bad debt reserve calculated as a percentage of taxable income. Other financial institutions generally were required to calculate their bad debt deduction based upon actual loss experience (the "experience method"). As a result of the elimination of the percentage of taxable income method, institutions that have utilized such method are required to recapture into taxable income post-1987 reserves in excess of the reserves calculated under the experience method, over period of six years commencing in the first taxable year beginning after December 31, 1995. An institution will be able to defer recapture until up to the third taxable year after December 31, 1995 if the dollar amount of the institution's residential loan originations in each year is not less than the average dollar amount of residential loan originations originated in each of the six most recent years disregarding the years with the highest and lowest originations during such period. For purposes of this test, residential loan originations would not include refinancings and home equity loans.

Beginning with the first taxable year beginning after December 31, 1995 (fiscal 1996 for the Bank), savings institutions, such as the Bank, have been treated the same as commercial banks. Institutions with $500 million or more in assets will only be able to take a tax deduction when a loan is actually charged off. Institutions with less than $500 million in assets will still be permitted to make deductible bad debt additions to reserves, but only using the experience method. The Bank has provided deferred taxes on its post-1987 additions to the bad debt reserve and, as a result, the recapture of the Bank's post-1987 reserves did not have a material adverse effect on the Bank's operations.

Accumulated tax bad debt reserves prior to January 1, 1988 were not required to be recaptured. These tax bad debt reserves for the Bank total approximately $1.5 million and are subject to being taxed at a later date under certain circumstances such as the Bank converting to a type of institution that is not considered a bank for tax purposes. See Note 10 of Notes to Consolidated Financial Statements.

The Company's and the Bank's corporate federal income tax returns have not been audited in the last five years.

State Income Taxation. The Commonwealth of Kentucky imposes no income or franchise taxes on savings institutions. Central Kentucky Federal is subject to an annual Kentucky ad valorem tax. This tax is 0.1% of the Bank's savings accounts, common stock, capital and retained income with certain deductions allowed for amounts borrowed by depositors and for securities guaranteed by the U.S. Government or certain of its agencies. For the fiscal year ended December 31, 1998, the amount of such expense for the Bank was $53,000.

Item 2. Properties

The following table sets forth the location and certain additional information regarding the Bank's sole office at December 31, 1998.

	Year Opened	Owned or Leased	Square Footage	Net Book Value
340 West Main Street				

Danville, Kentucky	1968	Owned	5,832	$ 546,203

The Bank also installed an automated teller machine ("ATM") at its present location that became operational during the fourth quarter of 1995.

Intrieve, Incorporated, Cincinnati, Ohio, performs data processing and record keeping for Central Kentucky Federal.

Item 3. Legal Proceedings

Although Central Kentucky Federal, from time to time, is involved in various legal proceedings in the normal course of business, there are no material legal proceedings to which Central Kentucky Federal or its subsidiary is a party or to which any of their property is subject.

Item 4. Submission of Matters to Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 1998.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The information contained under the section captioned "Market and Dividend Information" in the Company's Annual Report to Stockholders for the Fiscal Year Ended December 31, 1998 (the "Annual Report") filed as Exhibit 13 hereto is incorporated herein by reference.

Item 6. Selected Financial Data

The information contained in the table captioned "Selected Financial and Other Data" on pages 2 and 3 in the Annual Report is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 4 through 16 in the Annual Report is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements contained on pages 18 through 47 in the Annual Report, which are listed under Item 14 herein, are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

For information concerning the Board of Directors and executive officers who are not directors of the Company, the information contained under the section captioned "Proposal I -- Election of Directors" in the Company's definitive proxy statement for the Company's 1999 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

Information regarding delinquent Form 3, 4 or 5 filers is incorporated herein by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

Item 11. Executive Compensation

The information contained under the section captioned "Proposal I -- Election of Directors -- Executive Compensation and Other Benefits" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the sections captioned "Security Ownership of Certain Beneficial Owners and Management" and "Proposal I -- Election of Directors" in the Proxy Statement.

(c) Changes in Control

Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

Item 13. Certain Relationships and Related Transactions

The information required by this item is incorporated herein by reference to the section captioned "Proposal I -- Election of Directors" in the Proxy Statement.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) List of Documents Filed as Part of this Report

(1) Financial Statements. The following financial statements are incorporated by reference from Item 8 hereof:

Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 1998 and 1997

Consolidated Statements of Income for Each of the Years in the Three-Year Period Ended December 31, 1998

Consolidated Statements of Changes in Stockholders' Equity for Each of the Years in the Three-Year Period Ended December 31, 1998

Consolidated Statements of Cash Flows for Each of the Years in the Three-Year Period Ended December 31, 1998

Notes to Consolidated Financial Statements.

(2) Financial Statement Schedules. All schedules are omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements or related notes.

(3) Exhibits. The following is a list of exhibits filed as part of this Annual Report on Form 10-K and is also the Exhibit Index.

No.	Exhibits	Page in Sequentially Numbered Copy
3.1	Certificate of Incorporation of CKF Bancorp, Inc.	*
3.2	Bylaws of CKF Bancorp, Inc.	*
10.1	CKF Bancorp, Inc. 1995 Stock Option and Incentive Plan	**
10.2(a)	Severance Agreements between Central Kentucky Federal Savings Bank and Thomas R. Poland and Ann L. Hooks	**
(b)	Severance Agreements between CKF Bancorp, Inc. and Thomas R. Poland and Ann L. Hooks	**
10.3(a)	Employment Agreement between Central Kentucky Federal Savings Bank and John H. Stigall	**
(b)	Employment Agreement between CKF Bancorp, Inc.	**

	and John H. Stigall	
10.4	CKF Bancorp, Inc. Employee Recognition Plan	**
13	1998 Annual Report to Stockholders	
21	Subsidiaries of the Registrant	
23	Consent of Accountants	
27	Financial Data Schedule	

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* Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 33-83972).

** Incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1995 (Commission File No. 0-25180).

(b) Reports on Form 8-K. No reports on Form 8-K were filed by the Company during the last quarter of the fiscal year covered by this report on Form 10-KSB.

(c) Exhibits. The exhibits required by Item 601 of Regulation S-K are either filed as part of this Annual Report on Form 10-KSB or incorporated herein by reference.

(d) Financial Statements and Financial Statement Schedules Excluded From Annual Report. There are no financial statements and financial statement schedules which were excluded from the Annual Report pursuant to Rule 14a-3(b)(1) which are required to be included herein.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CKF BANCORP, INC.

March 24, 1999

By: /s/ John H. Stigall

John H. Stigall
President and Chief Executive Officer
(Duly Authorized Representative)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ John H. Stigall — March 24, 1999
John H. Stigall
President, Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Ann L. Hooks — March 24, 1999
Ann L. Hooks
Vice President and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

/s/ Jack L. Bosley, Jr. — March 24, 1999
Jack L. Bosley, Jr.
(Director)

/s/ W. Irvine Fox, Jr. — March 24, 1999
W. Irvine Fox, Jr.
(Director)

/s/ J. T. Goggans — March 24, 1999
J. T. Goggans
(Director)

/s/ W. Banks Hudson, III — March 24, 1999
W. Banks Hudson, III

(Director)

/s/ Yvonne Y. Morley -------------------- Yvonne Y. Morley (Director)	March 24, 1999
/s/ Warren O. Nash ------------------ Warren O. Nash (Director)	March 24, 1999

Exhibit 13

1998 ANNUAL REPORT

CKF Bancorp, Inc.

CKF BANCORP, INC.

CKF Bancorp, Inc., a Delaware corporation (the "Company"), was organized by Central Kentucky Federal Savings Bank, formerly Central Kentucky Federal Savings and Loan Association ("Central Kentucky Federal" or the "Bank") to be a savings institution holding company whose only subsidiaries are the Bank and its subsidiary. On December 29, 1994, the Bank converted from mutual to stock form as a wholly owned subsidiary of the Company. In conjunction with the conversion, the Company issued 1,000,000 shares of its common stock (the "Common Stock") to the public.

The Company is classified as a unitary savings and loan holding company subject to regulation by the Office of Thrift Supervision ("OTS") of the Department of the Treasury. The primary activity of the Company is holding the stock of the Bank and operating the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiary.

Central Kentucky Federal was formed in 1886 as a Kentucky-chartered mutual building and loan association. In December 1960, the Bank obtained federal insurance on deposit accounts and became a member of the Federal Home Loan Bank ("FHLB") of Cincinnati. The Bank converted to a federal mutual savings and loan association in 1969 and changed its name to Central Kentucky Federal Savings and Loan Association. Upon its conversion to stock form in December 1994, the Bank adopted its present name. The Bank operates through one full service office in Danville, Kentucky.

The executive offices of the Company and the Bank are located at 340 West Main Street, Danville, Kentucky 40422, and its telephone number is (606) 236-4181.

MARKET AND DIVIDEND INFORMATION

Market for the Common Stock

Since January 4, 1995, the Common Stock has been listed for trading under the symbol "CKFB" on the Nasdaq SmallCap Market. As of March 1, 1999, there were 901,632 shares of the Common Stock issued and outstanding, held by approximately 445 stockholders of record, excluding beneficial owners in nominee or street name. For further information regarding stock prices and dividends paid, see stock prices and dividends on page 3.

TABLE OF CONTENTS

LETTER TO STOCKHOLDERS

To Our Stockholders,

We are pleased to report the results of the CKF Bancorp, Inc.'s operations for 1998, our fourth full year as a public company.

The consolidated net income for 1998 was $774,000 and amounted to $.98 per weighted average common share outstanding or $.96 per weighted average common share - assuming dilution. This compares to $1.1 million net income and $1.33 per weighted average common share or $1.29 per weighted average common share -

assuming dilution, for the year ended December 31, 1997.

For the year ended December 31, 1998, the Company and the Bank, on a consolidated basis, had $4.6 million in interest income, $2.5 million in interest expense, and $2.1 million in net interest income compared to $2.2 million in net interest income for the year ended December 31, 1997. Non-interest income decreased to $218,000 in 1998, compared to $484,000 in 1997, due primarily to a decrease in the gain on sale of investments. Non-interest expense increased to $1.1 million in 1998 compared to $1.0 million in 1997, due primarily to an increase in legal and professional fees of $119,000. The income tax expense in 1998 was $398,000 compared to $575,000 in 1997.

Total assets at December 31, 1998 were $65.6 million, compared to $62.9 million at December 31, 1997. Deposits were $48.9 million at December 31, 1998, compared to $43.3 million at December 31, 1997. Stockholders' equity was $13.9 million at December 31, 1998, compared to $13.8 million at December 31, 1997. During 1998, $697,000 of equity was used for stock repurchases, and $412,000 was paid out in dividends. On December 31, 1998, stockholders equity was $17.47 per common share, as compared to $17.11 per common share on December 31, 1997, based on the common shares outstanding on those respective dates of 793,890 and 804,096.

Our newly implemented services have been well received by our customers. Our Home Page on the Internet can be found at www.centralkyfsb.com. The Direct Teller, a convenient automated voice response service brings Central Kentucky Federal as close as your telephone. You may call toll free (800) 436-5142 from anywhere, 24 hours a day, 7 days a week, to access your account information and transfer funds between accounts.

We appreciate your interest in CKF Bancorp, Inc. and your continued support.

Sincerely,

John H. Stigall
President and Chief Executive Officer

SELECTED FINANCIAL AND OTHER DATA

Financial Condition Data:

	At December 31, 1998	1997	1996	1995	1994
	(Dollars in thousands)				
Total amount of:					
Assets	$ 65,580	$ 62,865	$ 60,002	$ 56,549	$ 56,375
Loans receivable, net	57,912	55,895	53,182	49,638	45,143
Cash and investment securities	6,681	5,977	5,663	5,898	10,391
Deposits	48,938	43,253	42,832	39,356	40,287
FHLB advances	2,120	5,214	1,252	288	323
Stockholders' equity	13,867	13,763	15,099	16,129	15,273
Number of:					
Real estate loans outstanding/1/	1,160	1,267	1,229	1,196	1,001
Savings accounts	3,644	3,922	3,933	3,696	3,764
Offices open	1	1	1	1	1

/1/ Includes home equity loans.

Operating Data:

	Years Ended December 31, 1998	1997	1996	1995	1994
	(Dollars in thousands)				
Interest income	$ 4,608	$ 4,586	$ 4,328	$ 4,088	$ 3,417
Interest expense	2,506	2,335	2,153	1,930	1,832
Net interest income before provision for loan losses	2,102	2,251	2,175	2,158	1,585
Provision for loan losses	24	18	7	24	--
Non-interest income	218	484	334	43	36
Non-interest expense	1,124	1,025	1,334	1,033	800

Income before federal income tax expense	1,172	1,692	1,168	1,144	821
Federal income tax expense	398	575	408	398	279
Net income	$ 774	$ 1,117	$ 760	$ 746	$ 542

</TABLE>

Key Operating Ratios:

<TABLE>
<CAPTION>

	At or for the Years Ended December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Performance Ratios:					
Return on assets (net income divided by average total assets)	1.23%	1.84%	1.29%	1.34%	1.02%
Return on average equity (net income divided by average stockholders' equity)	5.72	7.90	4.90	4.76	(1) 9.10
Interest rate spread (combined weighted average interest rate earned less combined weighted weighted average interest rate cost)	2.32	2.56	2.44	2.57	2.65
Net yield on interest-earning assets (net interest income as a percentage of average balance of interest-earning assets)	3.42	3.78	3.77	3.95	3.14
Ratio of non-interest expense to average total assets	1.79	1.69	2.26	1.85	1.56
Dividend payout	53.22	112.87	49.41	24.69	
Asset Quality Ratios:					
Nonperforming assets to total assets at end of period(3)	.64	.46	1.12	.97	1.12
Allowance for loan losses to nonperforming loans at end of period	35.20	42.80	23.99	18.28	12.04
Allowance for loan losses to total loans receivable, net	.26	.22	.20	.20	.17
Capital Ratios:					
Equity to total assets at end of period	21.14	21.89	25.16	28.52	27.09
Average equity to average assets	21.51	23.33	26.30	28.07	1 12.50
Ratio of average interest-earning assets to average interest-bearing liabilities	126.89	131.02	135.72	139.12	2 113.70

</TABLE>

----

(1) Reflects increase in equity from initial public offering that was consummated on December 29, 1994.

(2) Reflects increase in interest-earning assets funded by the net proceeds from the initial public offering.

(3) Nonperforming assets include loans 90 days past due, non-accrual loans and foreclosed real estate.

Stock Prices and Dividends:

The following table sets forth the range of high and low sales prices for the common stock as well as dividends declared in each quarter for 1998 and 1997. Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

Quarterly Stock Information

<TABLE>
<CAPTION>

	1998			1997		
	Stock Price Range		Per Share	Stock Price Range		Per Share
Quarter	Low	High	Dividend	Low	High	Dividend
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1st	$ 18.50	$ 21.25	$ .25	$ 17.50	$ 19.75	$ 1.22
2nd	19.00	19.87		18.00	20.50	
3rd	15.00	19.37	.27	19.00	20.00	.25
4th	15.12	17.25		17.50	19.25	

Total	$ .52	$ 1.47

</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The primary business of the Company is the operation of the Bank. The assets of the Company consist primarily of all of the Bank's outstanding capital stock, and a note receivable from the Company's Employee Stock Ownership Plan ("ESOP").

The Bank has functioned as a financial intermediary, attracting deposits from the general public and using such deposits, to make mortgage loans and, to a lesser extent, consumer loans and to purchase investment securities. As such, its earnings depend primarily on its net interest income, or "spread", which is the difference between the amount it receives from interest earned on loans and investments ("interest-earning assets") and the amount it pays in interest on its deposits ("interest-bearing liabilities"). Results of operations are also dependent upon the level of the Bank's non-interest income, including fee income and service charges and by the level of its non-interest expenses, the most significant component of which is salaries and employee benefits.

The operations of the Bank are significantly affected by prevailing economic conditions and the monetary, fiscal and regulatory policies of governmental agencies. Lending activities are influenced by the demand for and supply of housing, competition among lenders, the level of interest rates and the availability of funds. Deposit flows and costs of funds are likewise heavily influenced by prevailing market rates of interest on competing investment alternatives, account maturities and the levels of personal income and savings in the Bank's market areas.

The Bank was organized as a Kentucky building and loan association in 1886. In 1969, it converted to a federally-chartered, mutually-owned savings and loan association and, in 1994, it converted to a federally-chartered stock savings bank and adopted its current name. The Bank's interest-earning assets are concentrated in real estate-collateralized instruments, principally one- to four-family loans and, to a lesser extent, loans secured by multi-family residential and commercial properties, construction loans, home equity lines of credit, second mortgages on single-family residences and consumer loans, both secured and unsecured, including loans secured by savings accounts. The Bank also invests in investment securities, primarily U.S. Government Treasury and agency securities and in interest-bearing deposits, primarily with the FHLB of Cincinnati. Its source of funding for these investments has principally been deposits placed with the Bank by consumers in the market areas it serves.

Forward-Looking Statements

When used in this Annual Report, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market area, competition, and information provided by third-party vendors that could cause actual results to differ materiality from historical earnings and those presently anticipated and projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking

statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Asset/Liability Management

Net interest income, the primary component of Bank's net income, is determined by the difference or "spread" between the yield earned on the Bank's interest-earning assets and the rates paid on its interest-bearing liabilities and the relative amounts of such assets and liabilities. Key components of a successful asset/liability strategy are the monitoring and managing of interest rate sensitivity of both the interest-earning asset and interest-bearing liability portfolios. The Bank has employed various strategies intended to minimize the adverse effect of interest rate risk on future operations by providing a better match between the interest rate sensitivity between its assets and liabilities. In particular, the Bank's strategies are intended to stabilize net interest income for the long-term by protecting its interest rate spread against increases in interest rates. Such strategies include the origination for portfolio of adjustable-rate mortgage loans secured by one- to four-family residential real estate, and, to a lesser extent, multi-family and commercial real estate loans and the origination of other loans with greater interest rate sensitivities than long-term, fixed-rate residential mortgage loans. For the year ended December 31, 1998, the Bank originated approximately $12.2 million of one- to four-family residential loans, of which $7.9 million were adjustable rate loans. The Bank's origination of multi-family and commercial loans amounted to approximately $1.0 million or 5.8% of total loan originations during the same period. Although customers typically prefer fixed-rate mortgage loans in a decreasing interest rate environment, the Bank has been successful in originating adjustable-rate loans in recent years. In addition, the Bank has used excess funds to invest in various short-term investments as well as U.S. Government Treasury and agency securities with one to five year maturities. At December 31, 1998, the Bank had approximately $6.1 million of funds so invested, including $635,000 in capital stock of the Federal Home Loan Mortgage Corporation and $2.0 million in U.S. government and agency securities with an average yield of 4.86%.

Asset/liability management in the form of structuring cash instruments provides greater flexibility to adjust exposure to interest rates. During periods of high interest rates, management believes it is prudent to offer competitive rates on short-term deposits and less competitive rates for long-term liabilities. This posture allows the Bank to benefit quickly from declines in interest rates. Likewise, offering more competitive rates on long-term deposits during the low interest rate periods allows the Bank to extend the repricing and/or maturity of its liabilities thus reducing its exposure to rising interest rates. At December 31, 1998, the Bank's interest-bearing deposit base was comprised of $10.0 million in interest-bearing demand deposits with an average rate of 3.3% and $38.9 million in time deposits with an average rate of 5.6%. Time deposits with maturities of one year or less at December 31, 1998 totaled $24.3 million, or 62% of total time deposits at such date. In addition to its focus on the repricing period of its deposit liabilities, management also seeks to lengthen the repricing period of its interest-bearing liabilities through borrowings from the FHLB. Such borrowings totaled $2.1 million at December 31, 1998, with monthly principal and interest payments due through the year 2001.

Interest Rate Sensitivity Analysis

The Bank's future financial performance depends to a large extent on how successful it is in limiting the sensitivity of earnings and net asset value to changes in interest rates. Such sensitivity may be analyzed by examining the amount by which the market value of the Bank's portfolio equity changes given an immediate and sustained change in interest rates. Based on financial information provided by savings institutions, the OTS provides a quarterly report which shows the amounts by which the net present value of an institution's cash flows from assets, liabilities, and off balance sheet items (the institution's net portfolio value, or "NPV") would change in the event of a range of assumed changes in market interest rates. The OTS incorporates an interest rate risk ("IRR") component in determining the risk-based capital requirement of certain savings institutions. The IRR component is a dollar amount that will be deducted from total capital for the purpose of calculating an institution's risk-based capital requirement and is measured in terms of the sensitivity of its NPV to changes in interest rates. An institution's IRR is measured as the change to its NPV as a result of a hypothetical 200 basis point change in market interest rates. A resulting change in NPV of more than 2% of the estimated market value of its assets will require the institution to deduct from its capital 50% of that excess change.

The following table sets forth the interest rate sensitivity of the Bank's net portfolio value as of December 31, 1998 in the event of 1%, 2%, 3%, and 4% instantaneous and permanent increases and decreases in market interest rates, respectively. These changes are set forth below as basis points, where 100 basis points equals one percentage point.

<TABLE>
<CAPTION>

Change	Net Portfolio Value			NPV as % of Portfolio Value of Assets	
in Rates	$ Amount	$ Change	% Change	NPV Ratio	Basis Point Change
<S>	<C>	<C>	<C>	<C>	<C>
+ 400 bp	9,538	(317)	(3%)	15.38%	+ 4 bp

+ 300 bp	9,751	(104)	(1%)	15.56%	+ 22 bp
+ 200 bp	9,833	(22)	0%	15.56%	+ 21 bp
+ 100 bp	9,833	(22)	0%	15.44%	+ 9 bp
0	9,855			15.34%	
- 100 bp	10,068	213	2%	15.50%	+ 15 bp
- 200 bp	10,312	457	5%	15.68%	+ 33 bp
- 300 bp	10,572	717	7%	15.87%	+ 53 bp
- 400 bp	10,608	754	8%	15.77%	+ 43 bp

</TABLE>

The following table sets forth the interest rate risk capital component for the Bank at December 31, 1998 (the most recent date for which such information is available to the Bank from the OTS) given a hypothetical 200 basis point rate change in market interest rates.

<TABLE>
<CAPTION>

<S>	December 31, 1998 <C>
Pre-shock NPV Ratio: NPV as % of Portfolio Value of Assets................	15.34%
Exposure Measure: Post-Shock NPV Ratio	15.34%
Sensitivity Measure: Change in NPV Ratio.................................	0 bp
Change in NPV as % of Portfolio Value of Assets............................	0 to 5%
Interest Rate Risk Capital Component ($000)................................	0

</TABLE>

Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments, and deposit run-offs, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates.

Certain shortcomings are inherent in the method of analysis presented in the computation of NPV. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in differing degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate loans, which represent the Bank's primary loan product, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. In addition, the proportion of adjustable rate loans in the Bank's portfolios could decrease in future periods if market interest rates remain at or decrease below current levels due to refinance activity. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in the tables. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

Average Balances, Interest and Average Yields

Net interest income is affected by (i) the difference ("interest rate spread") between rates of interest earned on interest-earning assets and rates of interest paid on interest-bearing liabilities and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities. When interest-earning assets approximate or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income. Savings institutions have traditionally used interest rate spreads as a measure of net interest income. Another indication of an institution's net interest income is its "net yield on interest-earning assets" which is net interest income divided by average interest-earning assets. The following table sets forth certain information relating to the Bank's average interest-earning assets and interest-bearing liabilities and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average monthly balance of assets or liabilities, respectively, for the periods presented. During the periods indicated, nonaccruing loans are included in the net loan category. Average balances are derived from month-end average balances. Management does not believe that the use of month-end average balances instead of average daily balances has caused any material difference in the information presented.

<TABLE>
<CAPTION>

Year Ended December 31,	
1998	1997

	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
			(Dollars in thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:						
Loans receivable	$56,673	$ 4,372	7.71%	$55,128	$ 4,368	7.92%
Investment securities	2,312	107	4.63	2,564	128	4.99
Mortgage-backed securities	280	19	6.79	421	27	6.41
Other interest-earning assets	2,229	110	4.93	1,480	62	4.19
Total interest-earning assets	61,494	4,608	7.49	59,593	4,585	7.69
Non-interest-earning assets	1,380			1,015		
Total assets	$ 62,874			$ 60,608		
Interest-bearing liabilities:						
Deposits	$46,546	$ 2,393	5.14%	$42,587	$ 2,181	5.12%
Borrowings	1,915	113	5.90	2,898	153	5.28
Total interest-bearing liabilities	48,461	2,506	5.17	45,485	2,334	5.13
Non-interest-bearing liabilities	888			982		
Total liabilities	49,349			46,467		
Stockholders' equity	13,525			14,141		
Total liabilities and stockholders' equity	$ 62,874			$ 60,608		
Net interest income		$ 2,102			$ 2,251	
Interest rate spread (1)			2.32%			2.56%
Net yield on interest-earning assets (2) ..			3.42%			3.78%
Ratio of average interest-earning assets to average interest-bearing liabilities			126.89%			131.02%

<CAPTION>

	Year Ended December 31, 1996		
	Average Balance	Interest	Average Yield/ Cost
	(Dollars in thousands)		
<S>	<C>	<C>	<C>
Interest-earning assets:			
Loans receivable	$ 52,470	$ 4,072	7.76%
Investment securities	2,973	141	4.74
Mortgage-backed securities	407	24	5.90
Other interest-earning assets	1,786	91	5.10
Total interest-earning assets	57,636	4,328	7.51
Non-interest-earning assets	1,373		
Total assets	$ 59,009		
Interest-bearing liabilities:			
Deposits	$ 42,114	$ 2,135	5.07
Borrowings	352	18	5.11
Total interest-bearing liabilities	42,466	2,153	5.07
Non-interest-bearing liabilities	1,025		
Total liabilities	43,491		
Stockholders' equity	15,518		
Total liabilities and stockholders' equity	$ 59,009		
Net interest income		$ 2,175	
Interest rate spread (1)			2.44%
Net yield on interest-earning assets (2) .			3.77%
Ratio of average interest-earning assets to average interest-bearing liabilities			135.72%

=========

</TABLE>

(1) Represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(2) Represents net interest income as a percentage of the average balance of interest-earning assets for the same period, and is also referred to as the net interest margin.

The net interest margin is a key indicator used in determining the Bank's income performance. The Bank's net interest margin was 3.42% for the year ended December 31, 1998 compared to 3.78% and 3.77% for the years ended December 31, 1997 and 1996, respectively. The net interest income decreased by $149,000 during the year ended December 31, 1998 compared to the same period in 1997, and increased by $76,000 in 1997 compared to 1996.

The decrease in net interest income of $149,000 between 1998 and 1997 was due to the increase in the volume of average net interest-bearing liabilities growing at a greater rate than the average balance of interest earning assets and by the average interest rates paid on deposits increasing slightly to 5.14%, while the average interest yield on interest earning assets declined to 7.49% in 1998 from 7.69% in 1997.

The increase in net interest income of $76,000 between 1997 and 1996 was due to the increase in the volume of average net interest-earning assets of approximately $2.0 million in 1997 compared to 1996 and the average interest yield on interest earning assets increasing at a greater rate than the average interest rates paid on deposits.

Rate/Volume Analysis

The table below sets forth certain information regarding changes in interest income and interest expense of the Bank for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (i) changes in volume (changes in volume multiplied by old rate) and (ii) changes in rate (changes in rate multiplied by old volume); (iii) changes in rate-volume (changes in rate multiplied by the change in average volume). Average balances are derived from month-end balances. Management does not believe that the use of month-end balances instead of average daily balances has caused any material difference in the information presented.

<TABLE>
<CAPTION>

	Year Ended December 31,							
	1998 vs. 1997				1997 vs. 1996			
	Increase (Decrease) Due to				Increase (Decrease) Due to			
<S>	Volume <C>	Rate <C>	Rate/ Volume <C>	Total <C>	Volume <C>	Rate <C>	Rate/ Volume <C>	Total <C>
Interest income:								
Loans	$ 122	$(115)	$ (3)	$ 4	$ 209	$ 84	$ 4	$ 297
Investment securities	(13)	(9)	1	(21)	(19)	7	(1)	(13)
Mortgage-backed securities	(9)	2	(1)	(8)	1	2	-	3
Other interest-earning assets	31	11	6	48	(16)	(16)	3	(29)
Total interest-earning assets ..	131	(111)	3	23	175	77	6	258
Interest expense:								
Deposits	203	8	1	212	24	21	-	45
Borrowings	(52)	18	(6)	(40)	132	1	4	137
Total interest-bearing liabilities...................	151	26	(5)	172	156	22	4	182
Change in net interest income	$ (20)	$(137)	$ 8	$(149)	$ 19	$ 55	$ 2	$ 76

</TABLE>

COMPARISON OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

Financial Condition.

The Company's consolidated assets increased $2.7 million or 4.32% to $65.6 million at December 31, 1998 compared to $62.9 million at December 31, 1997. The net increase of $2.7 million primarily consists of an increase of $730,000 million in cash and interest bearing deposits, plus an increase of $2.0 million in loans receivable.

The Company's investment portfolio decreased $27,000. Securities classified as available-for-sale per SFAS No. 115 decreased $150,000 due to the sale of 3,200 shares of Federal Home Loan Mortgage Corporation stock, offset by an increase of $232,000 in the market value of the remaining securities. Securities held-to-maturity decreased $109,000 due primarily to principle repayment on a mortgage back security.

Loans receivable increased $2.0 million or 3.6% to $57.9 million at December 31, 1998 from $55.9 million at December 31, 1997. The increase in loans during the year ended December 31, 1998 is the result of management becoming more active in loan solicitation on adjustable rate loans, plus a stable interest rate environment in 1998.

The allowance for loan losses totaled $148,000 and $125,000, respectively at December 31, 1998 and 1997. The allowance for loan losses as a percentage of non-performing loans was 35.2% and 42.8% as of December 31, 1998 and 1997, respectively. During these periods there was one loan charged off and no recoveries of previous loan losses. The determination of the allowance for loan losses is based on management's analysis, done no less than on a quarterly basis, of various factors, including market value of the underlying collateral, growth and composition of the loan portfolio, the relationship of the allowance for loan losses to outstanding loans, historical loss experience, delinquency trends and prevailing economic conditions. Although management believes its allowance for loan losses is in accordance with generally accepted accounting principles and reflects current regulatory and economic considerations, there can be no assurance that additional losses will not be incurred, or that the Bank's regulators or changes in the Bank's economic environment will not require further increases in the allowance.

Deposits increased $5.7 million or 13.1% from $43.2 million at December 31 1997 to $48.9 million at December 31, 1998. The increase in deposits reflects management's continued success in attracting depositors within the local market area.

Stockholders' equity increased by $104,000 to $13.9 million at December 31, 1998 as compared to $13.8 million at December 31, 1997. During 1998, the Company repurchased 21,970 shares of its common stock at a cost of $697,000. Other changes to stockholders' equity from 1997 to 1998 resulted from an increase of $774,000 in net income, an increase of $114,000 due to the release of ESOP stock from collateral, an increase of $55,000 in the net unrealized gain on securities available-for-sale, an increase of $270,000 from the issuance of stock, offset by a decrease of $412,000 from the payments of dividends.

Results of Operations

Net Income. Net income decreased $343,000 or 30.7% to $774,000 for the year ended December 31, 1998 as compared to $1.1 million for the same period in 1997. The net decrease was due to a $149,000 decrease in net interest income, a $6,000 increase in the provision for loan losses, a $266,000 decrease in non-interest

income and a $99,000 increase in non-interest expense offset by the decrease of $177,000 in income taxes for 1998 compared to 1997.

Interest Income. Interest income was $4.6 million, or 7.49% of average interest-earning assets for the year ended December 31, 1998 as compared to $4.6 million, or 7.69% of average interest-earning assets for the year ended December 31, 1997. Interest income increased by $22,000 or .49% from 1997 to 1998. The change was due to a $1.9 million increase in the average balance of interest-earning assets offset by a 20 basis point decrease in the average rate earned on the average interest-earning assets during the year ended December 31, 1998 compared to the year ended December 31, 1997.

Interest Expense. Interest expense was $2.5 million, or 5.17% of average interest-bearing liabilities for the year ended December 31, 1998 as compared to $2.3 million, or 5.13% of average interest-bearing liabilities for the corresponding period in 1997. The increase in interest expense of $171,000 was due primarily to a $3.0 million increase in the average balance of interest-bearing liabilities for the year ended December 31, 1998 as compared to the year ended December 31, 1997.

Provision for Loan Losses. The provision for loan losses was $24,000 and $18,000 for the years ended December 31, 1998 and 1997, respectively. Management considers many factors in determining the necessary levels of the allowance for loan losses, including an analysis of specific loans in the portfolio, estimated value of the underlying collateral, assessment of general trends in the real estate market, delinquency trends, prospective economic and regulatory conditions, inherent loss in the loan portfolio, and the relationship of the allowance for loan losses to outstanding loans. At December 31, 1998 and 1997, the allowance for loan losses represented .26% and .22% of total loans, respectively.

Non-Interest Income. Non-interest income amounted to $218,000 and $484,000 for the years ended December 31, 1998 and 1997, respectively. The decrease of $266,000 was due primarily to a $420,000 gain resulting from the sale of investments classified as available-for-sale in 1997 as compared to a $137,000 gain in 1998.

Non-Interest Expense. Non-interest expense increased approximately $99,000 or 9.62% to $1,124,000 for the year ended December 31, 1998 compared to $1,025,000 for the year ended December 31, 1997. Non-interest expenses was 1.79% of average assets for the year ended December 31, 1998 as compared to 1.69% of average assets for the same period in 1997. The increase of $99,000 was due primarily to an increase of $119,000 in legal and professional fees. The net increase in other non-interest categories for 1998 compared to 1997 was $17,000. The increase of $119,000 in legal and professional fees was due to services provided in connection with the Bank's exploration of strategic capital employment.

Income Taxes. The provision for income tax expense amounted to approximately $398,000 and $575,000 for the years ended December 31, 1998 and 1997, respectively. The provision for income tax expense as a percentage of income before tax expense amounted to 34% for both 1998 and 1997 (see Note 10 of Notes to Consolidated Financial Statements).

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996

Results of Operations

Net Income. Net income increased by $357,000 or 46.9% to $1.1 million for the year ended December 31, 1997 as compared to $760,000 for the same period in 1996. The net increase was due to a $76,000 increase in net interest income, a $150,000 increase in non-interest income and a $308,000 decrease in non-interest expense offset by an increase of $11,000 in the provision for loan losses and an increase of $166,000 in income taxes for 1997 compared to 1996.

Interest Income. Interest income was $4.6 million, or 7.69% of average interest-earning assets, for the year ended December 31, 1997 as compared to $4.3 million, or 7.51% of average interest-earning assets, for the year ended December 31, 1996. Interest income increased by $258,000 or 5.94% from 1996 to 1997. The change was due to an 18 basis point increase in the average rate earned on the average interest-earning assets plus a $2.0 million increase in the average balance of interest-earning assets during the year ended December 31, 1997 compared to the year ended December 31, 1996.

Interest Expense. Interest expense was $2.3 million, or 5.13% of average interest-bearing liabilities for the year ended December 31, 1997 as compared to $2.1 million, or 5.07% of average interest-bearing liabilities for the corresponding period in 1996. The increase in interest expense of $181,000 was due primarily to a $3.0 million increase in the average balance of interest-bearing liabilities for the year ended December 31, 1997 as compared to the year ended December 31, 1996. Approximately $135,000 or 74.6% of the increase in interest expense was due to an increase of $2.5 million in the average balance of FHLB borrowings, which the Bank used to meet loan demand as the competition for deposits increased.

Provision for Loan Losses. The provision for loan losses was $18,000 and $7,000 for the years ended December 31, 1997 and 1996, respectively. Management considers many factors in determining the necessary levels of the allowance for loan losses, including an analysis of specific loans in the portfolio, estimated value of the underlying collateral, assessment of general trends in the real estate market, delinquency trends, prospective economic and regulatory conditions, inherent loss in the loan portfolio, and the relationship of the allowance for loan losses to outstanding loans. At December 31, 1997 and 1996, the allowance for loan losses represented .22% and .20% of total loans, respectively.

Non-Interest Income. Non-interest income amounted to $484,000 and $334,000 for the years ended December 31, 1997 and 1996, respectively. The increase of $150,000 was due primarily to additional gains resulting from the sale of shares of Federal Home Loan Mortgage Corporation stock. The gain on the sale of investments in 1996 was also due to the sale of shares of this same stock.

Non-Interest Expense. Non-interest expense decreased approximately $308,000 or 23.1% to $1,025,000 at December 31, 1997 compared to $1,333,000 at December 31, 1996. Non-interest expense was 1.69% of average assets for the year ended December 31, 1997 as compared to 2.26% of average assets for the same period in 1996. The decrease of $308,000 was due primarily to a decrease of $351,000 in federal insurance premiums offset by a $33,000 increase in compensation and benefits and a net increase of $10,000 in all other operating expenses. The decrease of $351,000 in federal insurance premiums was the result of a one-time special assessment of $274,000 charged in 1996 to recapitalize the Savings Association Insurance Fund (SAIF), and an additional $77,000 savings in 1997 due to the reduction of the insurance assessment rate on

the Bank's deposits as a result of the recapitalization of SAIF. The increase of $33,000 in compensation and benefits was due primarily to the addition of one new person for 1997 and normal salary increases.

Income Taxes. The provision for income tax expense amounted to approximately $575,000 and $409,000 for the years ended December 31, 1997 and 1996, respectively. The provision for income tax expense as a percentage of income before tax expense amounted to 34.0% and 34.9% for 1997 and 1996, respectively. (See Note 10 of Notes to Consolidated Financial Statements).

Year 2000 Readiness Disclosure

The Company's operations, like those of most financial institutions, are substantially dependent upon computer systems for lending and deposit activities. The Company is addressing the potential problems associated with the possibility that the computers which control its data processing activities, facilities, and networks may not be programmed to read four-digit dates, and upon the arrival of the year 2000, may recognize the two-digit code "00" as the year 1900 rather than 2000. If uncorrected, this could cause systems to fail to function or generate erroneous information.

The following information is provided in accordance with the Year 2000 Information and Readiness Disclosure Act of 1998, a special law, which encourages companies, like Central Kentucky Federal, to communicate information about their Year 2000 readiness plan.

Central Kentucky Federal Savings Bank (CKF) began preparation for achieving Year 2000 compliance in May of 1997. All electronic data exchange systems, including both in-house applications and service bureau providers, were inventoried and assessed for Year 2000 compliance. Systems classified as mission critical have either been verified as Y2K compliant, replaced with compliant updates or scheduled for replacement and testing.

CKF is heavily dependent upon one major data processing service provider. Intrieve, Inc. provides customer account records, check clearing, general ledger, and ATM services to CKF. The majority of systems provided by Intrieve, Inc. were certified Y2K ready by the end of 1998. Intrieve, Inc. has completed migration of all core systems to a new Y2K ready mainframe computer. Proxy testing was completed in October 1998 and end-to-end testing was completed in November 1998. However, CKF will be replacing its on-line teller system with a Y2K compliant network in March of 1999. This equipment will be tested and certified upon completion of the installation. Similarly, the ATM network was upgraded in September of 1998 and could not be tested in conjunction with other systems at that time. CKF is working with Intrieve and the MAC ATM network to schedule network authorization for end-to-end testing.

CKF has spent approximately $8,000 for Y2K compliance efforts through December 31, 1998. It expects to spend an additional $56,000 through the end of 1999. These future costs are estimated at $24,000 for hardware changes, $27,000 for software upgrades, and an additional $5,000 for labor. All of these funds will come from budgeted operational and capital expenditure accounts.

The most critical element of CKF's Year 2000 preparation is the performance of Intrieve, Inc. Should Intrieve not meet deadlines or fail to successfully modify its systems, CKF would face the prospect of having to revert to manual posting and processing of customer accounts. Based on the number of accounts and activity volume, it is possible to continue operations for a reasonable period of time.

On August 1, 1998, the bank issued a Year 2000 contingency plan. Each core business was evaluated and prioritized for Year 2000 impact. Those systems identified as mission critical have a business recovery/contingency plan. The majority of these systems can be dealt with in a manner that will result in minimal impact to the customers or financial condition of the bank. However, if Intrieve, Inc. should fail to function properly after the century change date, a significant impact on customers, and operations would occur. Therefore, an extensive set of plans have been prepared to continue operations as close to normal as possible. Some of the key contingency items are: maintaining machine-readable copies of master files, printed and microfiche copies of records/trial balances, off-site storage of back-up records and computer hardware redundancy. If mainframe processing is unavailable to the bank, a plan for manual posting and processing is in place. With electronic records as of December 29, 1999, downloaded via diskettes to a stand alone PC at the bank, processing will continue through a spreadsheet (Excel) application. It is expected that this manual process will be adequate to maintain operations during the most likely worst case scenario.

The foregoing discussion, regarding the timing , effectiveness, implementation, and cost of CKF's Year 2000 efforts, contains forward-looking statements, which are based on management's best estimates derived using assumptions. These forward-looking statements involve inherent risks and uncertainties, and actual results could differ materially from those contemplated. Also, please note that the CKF will periodically update and revise this Year 2000 Readiness Disclosure as conditions warrant.

Liquidity and Capital Resources

The liquidity of the Company depends primarily on the dividends paid to it as the sole shareholder of the Bank. The Bank is subject to certain regulatory limitations with respect to the payment of dividends to the Company. See Note 9 of Notes to Consolidated Financial Statement.

The Bank's principal sources of funds for operations are deposits from its primary market area, principal and interest payments on loans and proceeds from maturing investment securities. In addition, as a member of the FHLB of Cincinnati, the Bank is eligible to borrow funds from the FHLB of Cincinnati in the form of advances.

The Bank is required by OTS regulations to maintain minimum levels of specified liquid assets which are currently equal to 4% of deposits and borrowings. Central Kentucky Federal's liquidity ratio at December 31, 1998, was approximately 8.19%. A higher liquidity ratio can result in a reduced return on the investment of such assets due to the lower interest rates usually prevailing on shorter-term investments.

The Bank's most liquid assets are cash and cash equivalents, which are short term, highly liquid investments with original maturities of less than three months. The level of this asset is dependent on the Bank's operating, financing and investing activities during any given period. At December 31, 1998 and 1997, cash and cash equivalents totaled approximately $4.0 million and $3.3 million, respectively.

The primary operating activity of the Bank is accepting deposits from the general public and the origination of residential mortgage and other loans. Cash flow from this activity is generally derived from net income, as increased or decreased in part by the income attributable to FHLB stock dividends, depreciation expense, interest accruals, deferred income taxes, and the change in prepaid expenses as amounts paid in prior periods are applied to subsequently incurred expenses. The Bank's operating activities produced positive cash flows for 1998 and 1997. The primary investing activities of the Bank are origination of loans and purchase of investment securities. For the year ended December 31, 1998 and 1997, respectively, the Bank's origination

of loans exceeded repayments by $2.0 million and $1.8 million. The excess of originations over repayments during 1998 and 1997 reflected the success of management's strategy of offering more flexible options related to adjustable rate mortgage loans. The Bank's primary financing activities arise from certificates of deposit and from other deposit accounts, and from the issuance and repurchase of the Company's common stock. During the year ended December 31, 1998, the Bank had a net increase in other deposit accounts of approximately $1.3 million and a net increase in certificates of deposit of $4.4 million. In addition, the Company repurchased 21,970 shares of its stock at a cost of $697,000.

The Bank's capital ratios are substantially in excess of current regulatory capital requirements. At December 31, 1998, the Bank's core capital amounted to 17.2% of adjusted total assets, or 13.2%, in excess of the Bank's current 4% core capital requirement. Additionally, the Bank's risk-weighted assets ratio was 29.4% at December 31, 1998, or 21.4% in excess of the Bank's 8.0% risk-based capital requirement (See Note 9 of Notes to Consolidated Financial Statements).

Impact of Inflation and Changing Prices

The Consolidated Financial Statements, and Notes thereto, presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Bank's operations. Unlike most industrial companies, nearly all the assets and liabilities of the Bank are monetary in nature. As a result, interest rates have a greater impact on the Bank's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

Impact of Recent Accounting Standards

Accounting for Earnings Per Share. In February 1997, the FASB issued Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128"). SFAS 128 establishes standards for computing and presenting earnings per share (EPS) and applies to entities with publicly held common stock or potential common stock. This statement simplifies the standards for computing earnings per share previously found in APB Opinion No. 15, Earnings Per Share, and makes them comparable to international EPS standards. It replaces the presentation of primary EPS with a presentation of basic EPS and requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures, and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation.

SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods; earlier application is not permitted. This statement requires restatement of all prior-period EPS data presented. The Company adopted the provisions of SFAS 128 in December 1997 with no material effect on the Company's financial statements.

Reporting of Comprehensive Income. In June 1997, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 130, Reporting of Comprehensive Income ("SFAS 130"), which establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of financial statements. This statement also requires that all items that are required to be recognized under accounting standards as components of comprehensive

income be reported in a financial statement that is displayed with the same prominence as other financial statements.

This statement was effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The Company adopted SFAS 130 with no material effect on the Company.

Disclosure about Segments and Related Information. In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, Disclosure about Segments of an Enterprise and Related Information ("SFAS 131"), which establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to stockholders. This statement also establishes standards for related disclosures about products and services, geographic areas, and major customers. This statement requires the reporting of financial and descriptive information about an enterprise's reportable operating segments.

This statement was effective for financial statements for periods beginning after December 15, 1997. In the initial year of application, comparative information for earlier years is to be restated. The adoption of SFAS 131 had no material effect on the Company.

MILLER, MAYER, SULLIVAN & STEVENS LLP
CERTIFIED PUBLIC ACCOUNTANTS
"INNOVATORS OF SOLUTION TECHNOLOGY"/SM/

INDEPENDENT AUDITORS' REPORT

Board of Directors
CKF Bancorp, Inc.
Danville, Kentucky

We have audited the accompanying consolidated balance sheets of CKF Bancorp, Inc. and Subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the management of CKF Bancorp, Inc. (Company). Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CKF Bancorp, Inc. and Subsidiary as of December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ Miller, Mayer, Sullivan, & Stevens, LLP

Lexington, Kentucky
January 21, 1999

(606)223-3095
2365 Harrodsburg Road Lexington, Kentucky, 40504-3399 FAX: (606)223-2143

CKF BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	As of December 31,	
ASSETS	1998	1997
<S>	<C>	<C>
Cash and due from banks	$ 545,711	$ 134,032
Interest bearing deposits	3,458,161	3,139,525
Investment securities:		
Securities available-for-sale	634,585	551,892
Securities held-to-maturity (market values of $2,047,776 and $2,154,037 for 1998 and 1997, respectively)	2,042,705	2,152,020
Loans receivable, net	57,911,846	55,894,813
Accrued interest receivable	431,153	430,290
Office property and equipment, net	546,203	548,923
Other assets	9,551	13,852
Total assets	$ 65,579,915	$ 62,865,347
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 48,938,374	$ 43,253,068
Advance from Federal Home Loan Bank	2,119,932	5,213,782
Advance payment by borrowers for taxes and insurance	39,737	30,188
Other liabilities	615,167	605,606
Total liabilities	51,713,210	49,102,644
Commitments and contingencies		
Stockholders' equity		
Common stock, $.01 par value, 4,000,000 shares authorized; 1,000,000 shares issued and outstanding	10,000	10,000
Additional paid-in capital	9,555,017	9,638,682
Retained earnings, substantially restricted	7,366,006	7,004,137
Accumulated other comprehensive income	410,294	355,717
Treasury stock, 85,945 and 50,000 shares, respectively, at cost	(1,683,489)	(986,388)
Incentive Plan Trust, 62,500 and 83,000 shares, respectively, at cost	(1,221,853)	(1,619,433)
Unearned Employee Stock Ownership Plan (ESOP) stock	(569,270)	(640,012)
Total stockholders' equity	13,866,705	13,762,703

Total liabilities and stockholders' equity	$ 65,579,915	$ 62,865,347

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

CKF BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Interest income:			
Interest on loans	$ 4,372,430	$ 4,368,261	$ 4,072,208
Interest and dividends on investments	125,697	154,938	165,018
Other interest income	110,002	62,497	91,251
Total interest income	4,608,129	4,585,696	4,328,477
Interest expense:			
Interest on deposits	2,393,349	2,180,927	2,134,724
Other interest	112,968	153,599	18,577
Total interest expense	2,506,317	2,334,526	2,153,301
Net interest income	2,101,812	2,251,170	2,175,176
Provision for loan losses	24,000	18,000	7,000
Net interest income after provision for loan losses	2,077,812	2,233,170	2,168,176
Non-interest income:			
Loan and other service fees	77,503	61,614	50,032
Gain on sale of investments	137,067	420,575	281,616
Other, net	3,514	2,234	2,627
Total non-interest income	218,084	484,423	334,275
Non-interest expense:			
Compensation and benefits	554,619	571,771	538,634
Federal insurance premium	27,474	22,369	373,439
Legal and professional fees	135,058	15,857	20,945
State franchise tax	52,597	52,922	49,094
Occupancy expense, net	62,225	45,387	44,792
Data processing	54,978	46,506	41,832
Loss on foreclosed real estate	5,004	41,813	36,000
Other operating expenses	232,074	228,726	228,871
Total non-interest expense	1,124,029	1,025,351	1,333,607
Income before income tax expense	1,171,867	1,692,242	1,168,844
Provision for income taxes	398,254	575,361	408,586
Net income	$ 773,613	$ 1,116,881	$ 760,258
Earnings per common share	$ .98	$ 1.33	$ .85
Earnings per common share - assuming dilution	$ .96	$ 1.29	$ .83

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

CKF BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

for the years ended December 31, 1998, 1997, and 1996

<TABLE>
<CAPTION>

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income
<S>	<C>	<C>	<C>	<C>
Balance, December 31, 1995	$ 10,000	$ 9,583,408	$ 6,767,215	$ 514,955
Comprehensive income:				
Net income			760,258	
Other comprehensive income, net of tax				(51,223)
Total comprehensive income				
Dividend declared			(379,542)	
ESOP stock earned in 1996		51,448		
Purchase of common stock, 76,125 shares				
Stock issued upon exercise of options		(22,525)		
Balance, December 31, 1996	10,000	9,612,331	7,147,931	463,732
Comprehensive income:				
Net income			1,116,881	
Other comprehensive income, net of tax				(108,015)
Total comprehensive income				
Dividend declared			(1,260,675)	
ESOP stock earned in 1997		49,944		
Purchase of common stock, 63,975 shares				
Stock issued upon exercise of options		(23,593)		
Balance, December 31, 1997	10,000	9,638,682	7,004,137	355,717
Comprehensive income:				
Net income			773,613	
Other comprehensive income, net of tax, increase in unrealized gains on securities, net of reclassification adjustment (see disclosure)				54,577
Total comprehensive income				
Dividend declared			(411,744)	
ESOP stock earned in 1998		43,635		
Purchase of common stock, 21,970 shares				
Stock issued upon exercise of options		(127,300)		
Stock issued as compensation				
Balance, December 31, 1998	$ 10,000	$ 9,555,017	$ 7,366,006	$ 410,294
Disclosure of reclassification amount:				
Unrealized holding gains arising during the period				$ 153,841
Less: reclassification adjustment for gains included in net income, net of tax				(99,264)
Net change in unrealized gains on securities				$ 54,577

<CAPTION>

	Treasury Stock	Incentive Plan Trust	Unearned ESOP Stock	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>
Balance, December 31, 1995	$	$	$ (746,668)	$ 16,128,910
Comprehensive income:				
Net income				760,258
Other comprehensive income, net of tax				51,223
Total comprehensive income				709,035
Dividend declared				(379,542)
ESOP stock earned in 1996			53,335	104,783
Purchase of common stock, 76,125 shares	(1,049,588)	(459,294)		(1,508,882)
Stock issued upon exercise of options	63,200	3,950		44,625
Balance, December 31, 1996	(986,388)	(455,344)	(693,333)	15,098,929

Comprehensive income:				
Net income				1,116,881
Other comprehensive income, net of tax				(108,015)
Total comprehensive income				1,008,866
Dividend declared				(1,260,675)
ESOP stock earned in 1997			53,321	103,265
Purchase of common stock, 63,975 shares		(1,236,244)		(1,236,244)
Stock issued upon exercise of options		72,155		48,562
Balance, December 31, 1997	(986,388)	(1,619,433)	(640,012)	13,762,703
Comprehensive income:				
Net income				773,613
Other comprehensive income, net of tax, increase in unrealized gains on securities, net of reclassification adjustment (see disclosure)				54,577
Total comprehensive income				828,190
Dividend declared				(411,744)
ESOP stock earned in 1998			70,742	114,377
Purchase of common stock, 21,970 shares	(697,101)			(697,101)
Stock issued upon exercise of options		389,800		262,500
Stock issued as compensation		7,780		7,780
Balance, December 31, 1998	$ (1,683,489)	$ (1,221,853)	$ (569,270)	$ 13,866,705

Disclosure of reclassification amount:
Unrealized holding gains arising during the period
Less: reclassification adjustment for gains included in net income, net of tax

Net change in unrealized gains on securities
</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

CKF BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	$ 773,613	$ 1,116,881	$ 760,258
Adjustments to reconcile net income to net cash provided by operating activities:			
ESOP benefit expense	95,165	103,265	104,783
Provision for loan losses	24,000	18,000	7,000
Provisions for losses on foreclosed real estate	5,004	41,813	36,000
Amortization of loan fees	(14,231)	(10,273)	(7,593)
Realized gain on sale of investment	(137,067)	(420,575)	(281,616)
Provision for depreciation	31,452	27,480	27,457
FHLB stock dividend	(38,000)	(35,400)	(32,100)
Amortization of investment premium and (discount)	3,301	3,014	9,156
Changes in:			
Interest receivable	(863)	(51,885)	61,909
Other liabilities	(47,298)	(141,992)	52,459
Prepaid expense	4,301	(2,074)	(378)
Interest payable	(13,022)	3,186	1,678
Net cash provided by operating activities	686,355	651,440	739,013

Cash flows from investing activities:			
Loan originations and principal payment on loans, net	(2,026,802)	(1,833,321)	(3,473,994)
Purchase of loans		(887,710)	(332,000)
Proceeds from sale of foreclosed real estate	33,627	185,527	
Proceeds from maturities of securities held-to-maturity	500,000	500,000	250,000
Purchase of securities held-to-maturity	(500,000)		(1,017,807)
Purchase of certificates of deposit	500,000		
Proceeds from maturities of certificates of deposit	(500,000)		1,000,000
Proceeds from sale of securities available-for-sale	140,203	433,500	294,167
Principle repayment on mortgage back securities	144,014	95,089	51,969
Purchase of fixed assets	(28,732)	(35,765)	(7,127)
Net cash provided (used) for investing activities	(1,737,690)	(1,542,680)	(3,234,792)

</TABLE>

(Continued)

The accompanying notes are an integral part of the consolidated financial statements.

CKF BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from financing activities:			
Net increase (decrease) in demand deposits, NOW accounts and savings accounts	1,332,908	(243,214)	366,519
Net increase (decrease) in certificate of deposits	4,352,398	663,927	3,109,995
Proceeds from FHLB advance	8,000,000	12,000,000	1,000,000
Payments on FHLB advances	(11,093,851)	(8,038,396)	(35,862)
Net increase (decrease) in custodial accounts	9,549	11,245	14,761
Purchase of common stock	(697,101)	(1,236,244)	(1,508,882)
Payment of dividends	(411,744)	(1,260,675)	(379,542)
Additional principal payment on ESOP loan	19,211		
Stock issued as compensation	7,780		
Proceeds from exercise of stock options	262,500	48,562	44,625
Net cash provided (used) by financing activities	1,781,650	1,945,205	2,611,614
Increase (decrease) in cash and cash equivalents	730,315	1,053,965	115,835
Cash and cash equivalents, beginning of period	3,273,557	2,219,592	2,103,757
Cash and cash equivalents, end of period	$ 4,003,872	$ 3,273,557	$ 2,219,592
Supplemental Disclosures of Cash Flow Information:			
Cash paid for income taxes	$ 568,480	$ 794,708	$ 421,445
Cash paid for interest	$ 2,519,339	$ 2,322,838	$ 2,151,623
Supplemental Disclosures of Noncash Activities:			
ESOP stock earned	$ 95,165	$ 103,265	$ 104,783
Mortgage loans originated to finance sale of foreclosed real estate	$ 15,000		

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

CKF BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. Summary of Significant Accounting Policies

On December 29, 1994, Central Kentucky Federal Savings and Loan Association completed a conversion from a federal mutual savings and loan association to a federal stock savings bank, Central Kentucky Federal Savings Bank (Bank). All stock of the Bank was issued to CKF Bancorp, Inc. (Company), a holding company formed in connection with the conversion. Simultaneously, the Company completed an offering and sale of its common stock.

CKF Bancorp, Inc. is a corporation organized under the laws of Delaware. The Company is a unitary savings and loan holding company which, under existing laws, generally is not restricted in the types of business activities in which it may engage provided that the Bank retains a specified amount of its assets in housing-related investments. The Company's operations consist primarily of those of the Bank.

The Bank is a federally chartered stock savings bank located in Danville, Kentucky. The Bank is a member of the Federal Home Loan Bank System. As a member of this system, the Bank is required to maintain an investment in capital stock of the Federal Home Loan Bank of Cincinnati (FHLB) in an amount equal to at least the greater of 1% of its outstanding loan and mortgage-backed securities or .3% of total assets as of December 31 of each year. The Bank's operations consist of attracting deposits from the general public and using such deposits to originate loans primarily in the Bank's market area. The bank's profitability is significantly dependent on net interest income which is the difference between income generated from interest-earning assets (i.e., loans and investments) and the interest expense paid on interest-bearing liabilities (i.e., customer deposits and borrowed funds). Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid by the Bank can be significantly influenced by a number of environmental factors, such as governmental monetary policy, that are outside of management's control.

The consolidated financial information presented herein has been prepared in accordance with generally accepted accounting principles (GAAP) and general accounting practices within the financial services industry. In preparing the consolidated financial statements in accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from such estimates.

The following is a summary of the Company's significant accounting policies which have been consistently applied in the preparation of the accompanying consolidated financial statements.

Principles of Consolidation. The consolidated financial statements include the accounts of CKF Bancorp, Inc. and its subsidiary, Central Kentucky Federal Savings Bank. All significant intercompany balances and transactions have been eliminated.

(Continued)

Cash and Cash Equivalents. For purposes of reporting consolidated cash flows, the Bank considers cash, balances with banks, and interest-bearing deposits in other financial institutions with original maturities of three months or less to be cash equivalents. Cash and cash equivalents include approximately $228,000 on deposit with other banks which is not covered by FDIC insurance.

Investment Securities. Investment securities that management has the intent and ability to hold to maturity are classified as held to maturity, and carried at cost, adjusted for amortization of premium or accretion of discount over the term of the security, using the level yield method. Included in this category of investments is FHLB stock which is a restricted stock carried at cost. Investment securities available for sale are carried at market value. Adjustments from amortized cost to market value are recorded in stockholders' equity net of deferred income tax until realized. The identified security method is used to determine gains or losses on sales of investment securities.

Regulations require the Bank to maintain an amount of cash and U. S. government and other approved securities equal to a prescribed percentage (4% at December 31, 1998 and 1997) of deposit accounts (net of loans on deposits) plus short-term borrowings. At December 31, 1998 and 1997, the Bank was in compliance with these requirements.

Office Property and Equipment. Office properties and equipment are stated at cost less accumulated depreciation computed principally by the straight-line method. The estimated useful lives used to compute depreciation are: office buildings and improvements, ten to fifty years; and furniture and equipment, five to ten years. The gain or loss on the sale of property and equipment is recorded in the year of disposition.

Loan Fees. Loan fees are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 91. This statement requires loan origination fees and certain related direct loan origination costs be offset and the resulting net amount be deferred and amortized over the contractual life of the related loans as an adjustment to the yield of such loans.

Foreclosed Real Estate. Real estate properties acquired through, or in lieu of, loan foreclosures are to be sold, and are initially recorded at fair value less estimated selling expenses at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management, and the real estate is carried at the lower of the carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in loss on foreclosed real estate.

Loans. Loans receivable are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees. The Bank has adequate liquidity and capital, and it is management's intention to hold such assets to maturity.

An allowance for loan losses is provided to reduce the recorded balances of loans to estimated net realizable value. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Managements' periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse

(Continued)

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situations that may affect the borrower's ability to pay, estimated value of any underlying collateral, and current economic conditions. While management uses the best information available, future adjustments may be necessary if conditions differ substantially from assumptions used in management's evaluation. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require additions to the allowance based on their judgement about information available to them at the time of their examination.

Effective January 1, 1995, the Company implemented SFAS No. 114 "Accounting by Creditors for Impairment of a Loan," as amended by SFAS No. 118. A loan is defined under SFAS No. 114 as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the provisions of SFAS No. 114, the Bank considers its investment in one-to-four family residential loans and consumer installment loans to be homogenous and therefore excluded from separate identification for evaluation of impairment. With respect to the Bank's investment in impaired multi-family and nonresidential loans, such loans are collateral dependent, and as a result, are carried as a practical expedient at the lower of cost or fair value.

Collateral dependent loans when put in non-accrual status are considered to constitute more than a minimum delay in repayment and are evaluated for impairment under SFAS No. 114 at that time.

Income Recognition on Nonaccrual and Impaired Loans. Loans are generally classified as nonaccrual (impaired loans) if they are past due as to maturity or payment of principal and interest for a period of more than 90 days, unless such loans are well secured and in the process of collection. Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts due (including arrearages) are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms of interest and principal.

While a loan is in nonaccrual status, interest income is generally recognized on a cash basis.

Deposits. The Bank's deposits are insured by the Savings Association Insurance Fund ("SAIF"), which is administered by the Federal Deposit Insurance Corporation ("FDIC"). On September 30, 1996, the President signed legislation, which among other things, recapitalized the Savings Association Insurance Fund through a special assessment on savings financial institutions, such as the Bank. The special assessment amounted to $274,421 for the Bank and is included in the Federal and other insurance premium expense for the year ended December 31, 1996. As a result of the recapitalization of the SAIF, the Bank's assessment rate for insurance on deposits, beginning in 1997, decreased from .23% on customer deposit balances under $100,000 to approximately .6% on customer deposit balances under $100,000.

(Continued)

Income Taxes. The Company files a consolidated federal income tax return with its subsidiary. The current income tax benefit or liability is allocated to each corporation included in the consolidated return based on their tax benefit or liability computed on a separate return basis. The provision for federal and state taxes on income is based on earnings reported in the financial statements. Timing differences exist between income and expense recognition for financial reporting and income tax purposes. Deferred income taxes have been provided for these temporary differences.

Federal Home Loan Mortgage Corporation Stock. On December 6, 1984, the Federal Home Loan Mortgage Corporation created a new class of participating preferred stock. The preferred stock was distributed to the twelve district banks of the Federal Home Loan Banking System for subsequent distribution to their member institutions. The Bank received 817 shares of the stock and recorded it at its fair value of $40 per share as of December 31, 1984. The fair value of the stock recognized as of December 31, 1984 became its cost. The stock has been subsequently classified as available for sale and carried at market value.

ESOP and Stock Option and Compensation Plans. Shares of common stock issued to the Company's employee stock ownership plan (ESOP) are initially recorded as unearned ESOP stock in stockholders' equity at the fair value of the stock at the date of issuance to the plan. As shares of stock are committed to be released as compensation to employees, the Company reduces the carrying value of the unearned stock and records compensation expense equal to the current value of the stock.

Compensation cost of stock option plan awards is measured by the difference between the fair value of the Company's common stock at the date of the award and the price to be paid by the employee.

Shares of common stock awarded under the Company's stock compensation plan are recorded initially as unearned compensation in stockholders' equity at the fair value of the stock at the date of the award. The total compensation cost is recognized over the vesting period.

Earnings Per Share. In accordance with SFAS No. 128, which was effective for financial statement periods ending after December 15, 1997, earnings per common share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Earnings per common share - assuming dilution reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock, that then shared in the earnings of the company. Earnings per share disclosures for the prior periods presented have been restated in accordance with SFAS No. 128.

Reclassifications. Certain presentations of accounts previously reported have been reclassified in these consolidated financial statements. Such reclassification had no effect on net income or retained income as previously reported.

(Continued)

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2. Investment Securities

Investment securities held by the Company at December 31, 1998 and 1997 are summarized as follows:

<TABLE>
<CAPTION>

	December 31, 1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<S>	<C>	<C>	<C>	<C>
Securities available-for-sale:				
Federal Home Loan Mortgage capital stock-10,000 shares	$ 9,789	$ 624,796	$	$ 634,585
Securities held-to-maturity:				
U. S. Treasury securities and obligations of U. S. Government corporations and agencies	$ 1,253,877	$ 4,205	$	$ 1,258,082
Mortgage backed securities	218,928	866		219,794
Federal Home Loan Bank of Cincinnati capital stock - 5,549 shares	554,900			554,900
Intrieve Incorporated capital stock - 10 shares	15,000			15,000
	$ 2,042,705	$ 5,071	$	$ 2,047,776

</TABLE>

(Continued)

<TABLE>
<CAPTION>

	December 31, 1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<S>	<C>	<C>	<C>	<C>
Securities available-for-sale:				
Federal Home Loan Mortgage capital stock-13,200 shares	$ 12,925	$ 538,967	$	$ 551,892
Securities held-to-maturity:				
U. S. Treasury securities and obligations of U. S. Government corporations and agencies	$ 1,251,734	$ 6,343	$ 574	$ 1,257,503

Mortgage backed securities	368,386		3,752	364,634
Federal Home Loan Bank of Cincinnati capital stock - 5,169 shares	516,900			516,900
Intrieve Incorporated capital stock - 10 shares	15,000			15,000
	$ 2,152,020	$ 6,343	$ 4,326	$ 2,154,037

</TABLE>

The amortized cost and estimated market value of debt securities at December 31, 1998, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<TABLE>
<CAPTION>

<S>	Amortized Cost <C>	Estimated Market Value <C>
December 31, 1998:		
Due in one year or less	$ 500,351	$ 504,060
Due after one year through five years	753,526	754,022
	$ 1,253,877	$ 1,258,082

</TABLE>

Investment securities with a carrying value of approximately $1,000,000 and $500,000 at December 31, 1998 and 1997, respectively, were pledged as collateral for certain municipal deposits.

For the year ended December 31, 1998, the Bank received $140,203 from the sale of an equity security, which was classified as available-for-sale and $500,000 from the maturity of an obligation of a U.S. Government Agency, which was classified as held-to-maturity.

(Continued)

For the year ended December 31, 1997, the Bank received $433,500 from the sale of an equity security, which was classified as available-for-sale and $500,000 from the maturity of an obligation of a U.S. Government agency, which was classified as held-to-maturity. For the year ended December 31, 1996, the Bank received $294,167 from the sale of an equity security, which was classified as available-for-sale and $250,000 from the maturity of an obligation of the U.S. Government, which was classified as held-to-maturity.

At December 31, 1998 and 1997 the unrealized appreciation on investment securities available-for-sale in the amount of $624,796 and $538,967 net of the deferred tax liability of $214,502 and $183,250, respectively, is included in Accumulated Other Comprehensive Income as a separate component of stockholders' equity.

Accrued interest receivable includes $9,689 and $5,205 as of December 31, 1998 and 1997, respectively, related to investment securities and term deposits.

3. Loans Receivable, Net

The Bank's loan portfolio consists principally of long-term conventional loans collateralized by first mortgages on single-family residences.

Loans receivable, net at December 31, 1998 and 1997 consist of the following:

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
Real estate mortgage secured by one-to-four family residential property	$ 45,375,024	$ 44,394,107
Real estate mortgage secured by multi-family residential property	1,008,127	1,113,742
Real estate mortgage secured by other properties	9,006,876	7,803,782
Consumer loans:		
Loans to depositors, secured by savings	533,052	458,916
Other, principally unsecured	2,527,140	2,610,249
	58,450,219	56,380,796
Less:		
Undisbursed portion of mortgage loans	322,468	299,088
Allowance for loan losses	148,200	125,000
Net deferred loan origination fees	67,705	61,895
	$ 57,911,846	$ 55,894,813

</TABLE>

Accrued interest receivable includes $421,464 and $425,085 at December 31, 1998 and 1997, respectively, related to loans receivable.

(Continued)

The following is a reconciliation of the allowance for loan losses:

<TABLE>
<CAPTION>

	For the Years Ended December 31, 1998	1997	1996
Balance, beginning of period	$ 125,000	$ 107,000	$ 100,000
Additions charged to operations	24,000	18,000	7,000
Charge-offs	(800)		
Recoveries			
Balance, end of period	$ 148,200	$ 125,000	$ 107,000

</TABLE>

The following is a summary of non-performing loans:

<TABLE>
<CAPTION>

	Amount (in thousands) For the Years Ended December 31, 1998	1997	1996
Loans past due 90 days or more	$ 356	$ 227	$ 359
Non-accrual loans	65	65	87
Total nonperforming loan balances	$ 421	$ 292	$ 446
Nonperforming loans as a percentage of loans	.73%	.52%	.82%

</TABLE>

The Bank identified impaired loans as defined by SFAS No. 114 in the amount of $65,457, $65,432, and $270,465 at December 31, 1998, 1997, and 1996 for which no allowance for loan losses has been provided. The average recorded investment in impaired loans was $57,070, $96,612 and $285,056 during the years ended December 31, 1998, 1997, and 1996, respectively. Interest income on impaired loans of $4,158 and $7,905 and $5,480, respectively, was recognized for cash payments received in 1998, 1997, and 1996, respectively.

Loans to executive officers and directors, including loans to affiliated companies of which executive officers and directors are principal owners, and loans to members of the immediate family of such persons at December 31, 1998 and 1997, were as follows:

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
<S>	<C>	<C>
Balance at beginning of period	$ 246,338	$ 254,701
New loans	636,889	33,098
Repayments	(418,428)	(41,461)
Balance at end of period	$ 464,799	$ 246,338

</TABLE>

(Continued)

These loans were incurred in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons and do not involve more than normal risk of collectibility or present other unfavorable features.

4. Foreclosed Real Estate

Activity in the allowance for losses on foreclosed real estate for the years ended December 31, 1998 and 1997 is as follows:

	December 31, 1998	December 31, 1997
Balance at beginning of period	$ -0-	$ 36,000
Provision charged to income		41,813
Charge-offs, net of recoveries		(77,813)
Balance at end of period	$ -0-	$ -0-

5. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include mortgage commitments outstanding which amounted to approximately $329,000 and $844,000 as of December 31, 1998 and 1997, respectively. Also, as of December 31, 1998, the Bank had made a $1,000,000 commitment to participate in a mortgage loan with a local financial institution. In addition, the Bank had approximately $1,000,658 and $905,583 of unused home equity lines and other open lines of credit outstanding to customers at December 31, 1998 and 1997, respectively. The mortgage loan commitments at December 31, 1998 included fixed rate loan commitments of $89,000. The mortgage loan commitments at December 31, 1997 included fixed rate loan commitments of $196,000. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and home equity lines of credit, is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Since many of the loan commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future requirements.

The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies, but primarily includes residential real estate.

The Bank has no significant concentrations of credit risk with any individual counterparty to originate loans. The Bank lending is concentrated in residential real estate mortgages in the Central

(Continued)

Kentucky area, within a 45-mile radius of Danville, Kentucky. A substantial portion of its debtors' ability to honor their contract is dependent on the economy of this area.

6. Office Property and Equipment

Office property and equipment consist of the following:

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
<S>	<C>	<C>
Land, at cost	$ 165,157	$ 165,157
Building, at cost	567,398	553,286
Furniture, fixtures and equipment	286,285	271,665
	1,018,840	990,108
Less accumulated depreciation	472,637	441,185
	$ 546,203	$ 548,923

</TABLE>

7. Deposits

Deposit accounts are summarized as follows:

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
<S>	<C>	<C>
Demand deposit accounts	$ 224,650	$ 266,941
Passbook accounts with a weighted average rate of 3.05% at December 31, 1998 and 1997	3,733,222	3,431,241
NOW and MMDA deposits with a weighted average rate of 3.62% and 3.65% at December 31, 1998 and 1997, respectively	6,067,312	4,994,093
	10,025,184	8,692,275
Certificate of deposits with a weighted average interest rate of 5.60% and 5.59% at December 31, 1998 and 1997, respectively	38,913,190	34,560,793
Total deposits	$ 48,938,374	$ 43,253,068
Jumbo certificates of deposit (minimum denomination of $100,000)	$ 12,377,746	$ 9,435,274

</TABLE>

(Continued)

Certificates of deposit by maturity at December 31, 1998 and 1997 are as follows:

<TABLE>
<CAPTION>

<S>	December 31, 1998 <C>	December 31, 1997 <C>
	(In Thousands)	
Within 1 year	$ 24,270	$ 22,067
1-2 years	7,114	6,454
2-3 years	2,980	3,152
Maturing in years thereafter	4,549	2,888
	$ 38,913	$ 34,561

</TABLE>

Certificates of deposit by maturity and interest rate category at December 31, 1998 are as follows:

<TABLE>
<CAPTION>

	Amount Due (Thousands)				
<S>	Within One Year <C>	1-2 Years <C>	2-3 Years <C>	After 3 Years <C>	Total <C>
4.01 - 6.00%	$ 22,491	$ 5,880	$ 2,893	$ 2,757	$ 34,021
6.01 - 8.00%	1,779	1,234	87	1,792	4,892
	$ 24,270	$ 7,114	$ 2,980	$ 4,549	$ 38,913

</TABLE>

Interest expense on deposits for the periods indicated are as follows:

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
<S>	1998 <C>	1997 <C>	1996 <C>
Money market and NOW accounts	$ 197,385	$ 189,195	$ 198,329
Savings accounts	113,386	104,402	111,743
Certificates	2,082,578	1,887,330	1,824,652
	$ 2,393,349	$ 2,180,927	$ 2,134,724

</TABLE>

The Bank maintains clearing arrangements for its NOW and MMDA accounts with the Federal Home Loan Bank of Cincinnati. The Bank is required to maintain adequate collected funds in its Demand Account to cover average daily clearings. The Bank was in compliance with this requirement at December 31, 1998 and 1997.

(Continued)

8. Advances from Federal Home Loan Bank

The advances from the Federal Home Loan Bank consist of the following:

December 31,

Maturity Date	Interest Rate	1998	1997
1/23/98	6.90%	$	$ 1,000,000
2/03/98	6.90%		1,000,000
2/24/98	6.90%		1,000,000
3/30/98	6.98%		2,000,000
3/22/99	5.77%	2,000,000	
7/01/01	6.85%	119,932	213,782
		$ 2,119,932	$ 5,213,782

A schedule of the principal payments due over the remaining term of the notes as of December 31, 1998 follows:

Year	Amount
1999	$ 2,047,128
2000	50,460
2001	22,344
Total	$ 2,119,932

These borrowings are collateralized by qualified real estate first mortgages and Federal Home Loan Bank stock held by the Bank, which had a book value of $3,734,797 and $8,337,574 at December 31, 1998 and 1997, respectively. At December 31, 1998 FHLB advances totaling $2,000,000 have a variable or floating interest rate.

9. Stockholders' Equity

Regulatory Capital. The Bank is subject to minimum regulatory capital requirements promulgated by the Office of Thrift Supervision (OTS). Such minimum capital standards generally require the maintenance of regulatory capital sufficient to meet each of two tests, hereinafter described as the core capital requirement and the risk-based capital requirement. The core capital requirement provides for minimum core capital (stockholders' equity less all intangible assets plus certain forms of supervisory goodwill and other qualifying intangible assets such as capitalized mortgage servicing rights) equal to 4.0% of adjusted total assets. The risk-based capital requirement provides for the maintenance of core capital plus any general loss allowance equal to 8.0% of risk-weighted assets. In computing risk-weighted assets, the Savings Bank multiplies the value of each asset on its statement of financial condition by a defined risk-weight factor, e.g., one-to-four family residential loans carry a risk-weighted factor of 50%.

(Continued)

As of December 31, 1998, the Bank's regulatory capital exceeded all minimum regulatory capital requirements as shown in the following table:

<TABLE>
<CAPTION>

	Regulatory Capital (in thousands)			
	Core Capital	Percent	Risk-based Capital	Percent
<S>	<C>	<C>	<C>	<C>
Capital under generally accepted accounting principles	$ 11,572	17.8	$ 11,572	30.2
Adjustments:				
Net unrealized appreciation on securities available-for-sale	(410)	(.6)	(410)	(1.1)
General valuation allowances			148	.3

Regulatory capital computed	11,162	17.2	11,310	29.4
Minimum capital requirement	2,600	4.0	3,070	8.0
Regulatory capital-excess	$ 8,562	13.2	$ 8,240	21.4

</TABLE>

Retained Earnings Restriction. Retained earnings at December 31, 1998 include approximately $1,471,000 of tax bad debt reserves accumulated prior to December 31, 1987 for which no Federal income tax has been provided. These tax bad debt reserves are only taxable in certain circumstances, such as if the Bank converted to an institution that did not qualify as a bank for tax purposes (see Note 10).

Liquidation Account. Upon conversion to a capital stock savings bank, eligible account holders who continued to maintain their deposit accounts in the Bank were granted priority in the event of the future liquidation of the Bank through the establishment of a special "Liquidation Account" in an amount equal to the consolidated net worth of the Bank at June 30, 1994. The June 30, 1994 Liquidation Account balance of $6,337,924 is reduced annually in proportion to decreases in the accounts of the eligible account holders. The Liquidation Account does not restrict the use or application of net worth, except with respect to the cash payment of dividends. The Bank may not declare or pay a cash dividend on or repurchase any of its common stock if the effect would cause its regulatory capital to be reduced below the amount required for the liquidation account.

Dividend Restrictions. The payment of cash dividends by the Bank on its Common Stock is limited by regulations of the OTS. Interest on savings accounts will be paid prior to payments of dividends on Common Stock. The Bank may not declare or pay a cash dividend to the Company in excess of 100% of its net income to date during the current calendar year plus the amount that would reduce by one-half the Bank's capital ratio at the beginning of the year without prior OTS approval. Additional limitation on dividends declared or paid, or repurchases of the Bank stock are tied to the Bank's level of compliance with its regulatory capital requirements.

(Continued)

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10. Income Taxes

The provision for income taxes for the periods indicated consist of the following:

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Federal income tax expense:			
Current	$ 420,801	$ 575,390	$ 612,292
Deferred	(22,547)	(29)	(203,706)
	$ 398,254	$ 575,361	$ 408,586

</TABLE>

Deferred income taxes result from temporary differences in the recognition of income and expenses for tax and financial statement purposes. The source of these temporary differences and the tax effect of each are as follows:

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
FHLB stock	$ 12,920	$ (4,705)	$ 10,914
Directors retirement plan	(14,861)	(19,839)	(18,448)
Allowance for loan losses	(7,976)	6,282	(171,523)

</TABLE>

Net accrued income	(5,164)	14,959	(23,499)
Other, net	(7,466)	3,274	(1,150)
	$ (22,547)	$ (29)	$ (203,706)

</TABLE>

For the periods indicated, total income tax expense differed from the amounts computed by applying the U. S. Federal income tax rate of 34 percent to income before income taxes as a result of the following:

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Expected income tax expense at federal tax rate	$ 398,435	$ 575,361	$ 397,407
Other, net	(181)		11,179
Total income tax expense	$ 398,254	$ 575,361	$ 408,586
Effective income tax rate	34.0%	34.0%	34.9%

</TABLE>

(Continued)

Deferred tax assets and liabilities as of December 31, 1998 and 1997 consisted of the following:

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Deferred tax assets:		
Deferred loan fee income	$ 23,020	$ 21,044
Directors retirement plan	80,163	65,302
Allowance for loan losses	50,048	42,072
	153,231	128,418
Deferred tax liabilities:		
Net accrued interest income	137,775	142,940
FHLB stock	113,254	100,334
Other, net	10,217	15,708
	261,246	258,982
Net deferred tax asset (liability)	$ 108,015	$ (130,564)

</TABLE>

In addition to the net deferred tax liability of $108,015 as of December 31, 1998 included in the preceding table, the financial statements include a deferred tax liability of $214,502 that was charged against the unrealized gain on securities available-for-sale of $624,796. The net amount of $410,294 is recorded in Accumulated Other Comprehensive Income, a separate component of stockholders' equity at December 31, 1998.

In 1996, the Internal Revenue Service repealed a special provision for thrift institutions, such as the Bank, for determining the allowable tax bad debt reserves. Effective for tax years ending December 31, 1996 all thrift institutions are taxed as other banking institutions. Institutions under $500 million in assets are allowed to use the reserve method of determining their bad debt deduction based on their actual experience while larger institutions (over $500 million) must use the specific charge off method in determining their deduction. Tax bad debt reserves accumulated since December 31, 1987 must be included in taxable income of the Bank prorated over a six year period, beginning in the tax year ended December 31, 1997. This change did not have a material impact on the Bank, as a deferred tax liability was provided for these accumulated reserves. The accumulated tax bad debt reserves as of December 31, 1987, which amounts to approximately $1,471,000 is only subject to being taxed at a later date under certain circumstances, such as the Bank converting to a type of institution that is not considered a bank for tax purposes. These financial statements do not include any deferred tax liability related to the accumulated tax bad debt reserves as of December 31, 1987.

(Continued)

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11. Employee Benefits

Retirement Savings Plan. Effective January 1, 1994, the Bank became a participant in the Financial Institutions Thrift Plan. The Plan allows participating employees to make contributions by salary reduction pursuant to Section 401(K) of the Internal Revenue Code for all employees who meet certain requirements as to age and length of service. The Bank makes 25% matching contributions to each participant's account up to 6% of the participant's compensation. The Bank contributions to the Plan amounted to $4,492 and $2,297 for the years ended December 31, 1998 and 1997, respectively. Employees vest immediately in their contributions and 100% in the Bank's contributions after completing 5 years of service.

Directors Retirement Plan. On July 5, 1995, the stockholders of the Company approved the establishment of a Director Retirement Plan. The Director Retirement Plan, which was effective January 1, 1994, covers each member of the Company's and the Bank's Board of Directors who at any time serves as a non-employee director. Under the Director Retirement Plan, each participating director will receive on a monthly basis for ten years following his or her retirement from the Board, an amount equal to the product of his or her "Benefit Percentage," his or her "Vested Percentage" and 75% of the amount of the monthly fee he or she received for service on the Board during the calendar year preceding his or her retirement from the Board. All benefits vest immediately in the case of retirement after age 70 with 15 years of service, upon death or disability, or upon a change in control of the Company. The Director Retirement Plan is a non-qualified benefit plan and will be funded by the general assets of the Company, and the Company will recognize the expense of providing these benefits as they become vested. The Company recognized expense of $43,709, $58,351, and $54,260, in connection with this plan for the years ended December 31, 1998, 1997, and 1996, respectively.

Option Plan. On July 5, 1995, the stockholders of the Company approved the establishment of the CKF Bancorp, Inc. 1995 Stock Option and Incentive Plan. Under the Option Plan, the Company may grant either incentive or non-qualified stock options to Directors and key employees for an aggregate of 100,000 shares of the Company's common stock, with an exercise price equal to the fair market value of the stock at the date of the award. Upon exercise of the options, the Company may issue stock out of authorized shares or purchase the stock in the open market. The option to purchase shares expires ten years after the date of the grant. Effective with the approval of the Option Plan, options to purchase 89,000 shares of common stock were awarded to key employees and directors with an exercise price of $13.13 per share. The options vest, and thereby become exercisable, at the rate of 20% per year beginning July 5, 1996. The Options become vested immediately in the case of death or disability, or upon a change in the control of the Company.

During the year ended December 31, 1998, the Company awarded options to purchase 4,000 shares of common stock at an exercise price of $17.19 per share. For the year ended December 31, 1996, the Company awarded options to purchase 2,000 shares of common stock at an exercise price of $20.00 per share. In 1998, the Company lowered the exercise price on the 2,000 stock options awarded in 1996 to $17.19 per share.

(Continued)

A summary of option transactions for the years indicated are as follows:

	Year ended December 31,			
	1998		1997	
	Option Price	Number of Units	Option Price	Number of Units
Balance outstanding at beginning of year	$13.13-20.00	83,900	$ 13.13	87,600
Granted	17.19	4,000	20.00	
Exercised	13.13	(20,000)	13.13	(3,700)
Cancelled	13.13	(6,400)		
Balance outstanding at end of year	$13.13-17.19	61,500	$13.13-$20.00	83,900
Shares exercisable		36,700		28,900
Shares available for grant		11,400		9,000

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123 "Accounting for Stock-Based Compensation," which was effective for fiscal years beginning after December 15, 1995. The new standard defines a fair value method of accounting for stock options and similar equity instruments. Under the fair value method, compensation cost is measured at the grant date, based on the fair value of the award and is recognized over the service period, which is usually the vesting period.

Companies are not required to adopt the fair value method of accounting for employee stock-based transactions, and may continue to account for such transactions under Accounting Principles Based (APB) Opinion No. 25 "Accounting for Stock Issued to Employees." Under this method the compensation cost is measured by the difference between the fair value of the Company's stock at the date of the award, and the exercise price to be paid by the employee. If a company chooses to report stock based compensation under APB 25, they must disclose the pro forma net income and earnings per share as if the Company had applied the new method of accounting. Accordingly, the following table shows the Company's net income and earnings per share on a pro forma basis as if the compensation cost for the stock options awarded were accounted for in accordance with SFAS No. 123 for the years ended December 31, 1998, 1997, and 1996, respectively.

	Reported Per Consolidated Financial Statements			Pro Forma Amount		
	1998	1997	1996	1998	1997	1996
Net income	$ 773,613	$ 1,116,881	$ 760,258	$ 671,875	$ 1,019,323	$ 664,336
Earnings per share	$ .98	$ 1.29	$ 0.83	$ .85	$ 1.17	$ 0.72

Employee Recognition Plan. On July 5, 1995, the stockholders of the Company approved the establishment of the Employee Recognition Plan (ERP). The objective of the ERP is to enable the Bank to attract and retain personnel of experience and ability in key positions of responsibility. Those eligible to receive benefits under the ERP will be such employees as selected by members of a committee appointed by the Company's Board of Directors. The ERP is a non-qualified plan that

(Continued)

is managed through a separate trust. The Bank is authorized to contribute sufficient funds to the Incentive Plan Trust for the purchase of up to 40,000 shares of common stock.

Awards made to employees will vest 20% on each anniversary date of the award. Shares will be held by the trustee and are voted by the ERP trustee in the same proportion as the trustee of the Company's ESOP plan votes shares held therein. Any assets of the trust are subject to the general creditors of the Company. All shares awarded vest immediately in the case of a participant's retirement after age 65, death or disability, or upon a change in control of the Company. The Company intends to expense ERP awards over the years during which the shares are payable, based on the fair market value of the common stock at the date of the grant to the employee. As of December 31, 1998, no awards had been made under the ERP.

Employee Stock Ownership Plan. In connection with the stock conversion December 29, 1994, the Company established an internally leveraged Employee Stock Ownership Plan (the "ESOP") which covers substantially all full time employees. The ESOP borrowed $800,000 from the Company and purchased 80,000 shares of common stock of the Company at the date of conversion. The loan is being repaid in annual installments over a 15-year period with interest, which is based on the published prime rate (currently 7.75%) per the Wall Street Journal plus 1%.

The Company makes annual contributions to ESOP equal to the ESOP's debt service less dividends, if any, received by the ESOP and used for debt service. Dividends received by the ESOP on shares held as collateral are to be used to pay debt service; dividends on allocated shares may be credited to participants' accounts or used for debt service. Dividends of $41,600 and $117,600 were used in fiscal year 1998 and 1997, respectively, to pay ESOP debt service. The ESOP shares are pledged as collateral on the debt. As the debt is repaid, shares are released from collateral and allocated to active participants based on a formula specified in the ESOP agreement.

ESOP compensation was $95,165, $103,265, and $104,783 for the years ended December 31, 1998, 1997, and 1996, respectively. During 1998, 1997, and 1996, 5,237, 6,428, and 5,333 shares of stock were released from collateral, respectively. At December 31, 1998, there were 57,664 unallocated ESOP shares of stock having a fair value of $987,496.

12. Disclosures about Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of the fair value of financial instruments, both assets and liabilities whether or not recognized in the consolidated statement of financial condition, for which it is practicable to estimate that value. For financial instruments where quoted market prices are not available, fair values are based on estimates using present value and other valuation methods.

There are inherent limitations in determining fair value estimates, as they relate only to specific data based on relevant information at that time. As a significant percentage of the Bank's financial instruments do not have an active trading market, fair value estimates are necessarily based on future expected cash flows, credit losses, and other related factors. Such estimates are accordingly,

(Continued)

subjective in nature, judgmental and involve imprecision. Future events will occur at levels different from that in the assumptions, and such differences may significantly affect the estimates.

The statement excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Additionally, the tax impact of the unrealized gains or losses has not been presented or included in the estimates of fair value.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments.

Cash and Cash Equivalents. The carrying amounts reported in the statement of financial condition for cash and short-term instruments approximate those assets' fair values.

Investment Securities. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. No active market exists for the Federal Home Loan Bank capital stock. The carrying value is estimated to be fair value since if the Bank withdraws membership in the Federal Home Loan Bank, the stock must be redeemed for face value.

Loans Receivable. The fair value of loans was estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits. The fair value of savings deposits and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Loan Commitments and Unused Home Equity Lines of Credit. The fair value of loan commitments and unused home equity lines of credit is estimated by taking into account the remaining terms of the agreements and the present credit-worthiness of the counterparties.

(Continued)

The estimated fair values of the Company's financial instruments at December 31, 1998 and 1997 are as follows:

<TABLE>
<CAPTION>

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>
Assets				
Cash and interest bearing deposits	$ 4,003,872	$ 4,003,872	$ 3,273,557	$ 3,293,557
Securities available-for-sale	634,585	634,585	551,892	551,892
Securities held-to-maturity	2,042,705	2,047,776	2,152,020	2,154,037
Loans receivable, net	57,911,846	57,649,549	55,894,813	55,746,430
Liabilities				
Deposits	48,938,374	49,377,089	43,253,068	43,341,388
FHLB advances	2,119,932	2,123,238	5,213,782	5,216,583
Unrecognized Financial Instruments				
Loan commitments		1,329,000		844,000
Unused home equity lines of credit		1,000,658		905,583

</TABLE>

13. Related Party Transactions

Certain directors of the Bank perform legal services on behalf of the Bank and appraise selected real estate properties for which they receive fees paid by the Bank. A substantial portion of these fees are passed on to customers of the Bank in the origination of mortgage loans. Legal fees paid amounted to $35,772, $26,064 and $30,025 for the years ended December 31, 1998, 1997 and 1996, respectively. Appraisal fees paid by the Bank amounted to $36,395, $26,825 and $37,095 for these same periods. In addition, the Bank leases office space to a Director. Rent income received by the Bank amounted to $8,400, $8,400 and $7,800 for the years ended December 31, 1998, 1997 and 1996, respectively. Also in 1998 and 1997, general contracting services totaling $14,112 and $26,186, respectively, were provided by a company affiliated with one of the Bank's directors, in connection with improvements made to the Bank's main office.

14. Service Corporation Subsidiary

During 1978, the Bank formed a wholly owned subsidiary for the principal purpose of acquiring stock in a data processing service center. The data processing center is a nonprofit corporation owned by user savings and loan associations and provides data processing services solely to its members.

The subsidiary had no significant operations for the years ended December 31, 1998, 1997 and 1996, respectively.

(Continued)

Summary balance sheets for the Bank's wholly-owned subsidiary, Central Kentucky Savings and Loan Service Corporation, follow:

Central Kentucky Savings and Loan Service Corporation
Balance Sheets

	As of December 31, 1998	1997
Assets		
Investment, at cost	$ 15,000	$ 15,000
Stockholder's Equity		
Common stock	$ 15,000	$ 15,000

15. Stock Transactions

The Board of Directors authorized the repurchase of the Company's common stock outstanding as follows:

Date of Authorization	Number of Shares	Percentage of Outstanding Shares
December 16, 1995	50,000	5%
September 10, 1996	47,500	5%
October 4, 1997	36,127	4%
February 10, 1998	43,350	5%

For the years ended December 31, 1998, 1997, and 1996, the Company repurchased 21,970, 63,975, and 76,125 common shares, respectively. The 63,975 shares of stock acquired in 1997 were transferred to the Incentive Plan Trust.

For the year ended December 31, 1998, 20,000 common shares were issued from the Incentive Plan Trust at an average cost of $19.49 per share for the exercise of stock options. Also during 1998, 500 shares of common stock were issued from the Incentive Plan Trust, which was recorded as compensation at the fair value on the date of the award.

For the years ended December 31, 1997 and 1996, 3,700 and 200 shares of common stock were issued from the Incentive Plan Trust at an average cost of $19.50 and $19.75 per share for the exercise of stock options. In 1996 an additional 3,200 shares of common stock were issued from Treasury Stock at an average cost of $19.75 per share for the exercise of stock options.

(Continued)

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16. Earnings Per Share

The table below summarizes the computation of earnings per common share and earnings per common share, assuming dilution for the years ended December 31, 1998, 1997, and 1996, respectively.

<TABLE>
<CAPTION>

	For the years ended December 31, 1998	1997	1996

<S>

Earnings Per Common Share			
Numerator:			
Income available to common shareholders	$ 773,613	$ 1,116,881	$ 760,258
Denominator:			
Weighted average of common shares outstanding	789,800	841,662	888,580
Per Share Amount	$ .98	$ 1.33	$ .85
Earning Per Common Share - Assuming Dilution			
Numerator:			
Income available to common shareholders	$ 773,613	$ 1,116,881	$ 760,258
Denominator:			
Weighted average of common shares outstanding	789,800	841,662	888,580
Effect of outstanding stock options	15,751	26,643	29,227
Weighted average of common shares outstanding - assuming dilution	805,551	868,305	917,807
Per share amount	$ .96	$ 1.29	$ .83

</TABLE>

Unallocated shares held by the Company's ESOP are considered outstanding when they are committed to be released.

(Continued)

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17. CKF Bancorp, Inc. Financial Information (Parent Company Only)

The parent company's principal assets are its investment in the Bank, a loan to the ESOP Trust, and cash balances on deposit with the Bank. The following condensed statements summarize the financial position, operating results, and cash flows of CKF Bancorp, Inc. (Parent Company only).

Condensed Statement of Financial Condition

<TABLE>
<CAPTION>

	December 31, 1998	1997
<S>	<C>	<C>
Assets:		
Cash and due from banks	$ 1,586,476	$ 353,567
Investment in subsidiary	12,140,857	13,240,671
Other assets	139,372	168,465
	$ 13,866,705	$ 13,762,703
Liabilities and Stockholders' Equity:		
Liabilities	$	$
Stockholders' equity:		
Common stock	10,000	10,000
Additional paid-in capital	9,555,017	9,638,682
Retained earnings, restricted	7,366,006	7,004,137
Treasury stock, 85,945 and 50,000 shares, respectively, at cost	(1,683,489)	(986,388)
Stock Option Trust, 62,500 and 83,000 shares, respectively, at cost	(1,221,853)	(1,619,433)
Accumulated other comprehensive income	410,294	355,717
Unearned ESOP stock	(569,270)	(640,012)
Total stockholders' equity	13,866,705	13,762,703

	$ 13,866,705	$ 13,762,703
	=============	=============

</TABLE>

(Continued)

CKF BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Statement of Income

<TABLE>
<CAPTION>

	For the years ended December 31, 1998	1997	1996
Income:	$	$	$
Expense:			
Legal and professional fees	104,000		
Franchise and license tax	10,621	15,281	32,604
Other operating expenses	24,011	25,831	23,512
	138,632	41,112	56,116
Net loss before tax expense (benefit)	(138,632)	(41,112)	(56,116)
Income tax (expense) benefit	64,995	13,980	(11,374)
Net loss before equity in undistributed net income of subsidiary	(73,637)	(27,132)	(67,490)
Equity in net income of subsidiary	847,250	1,144,013	827,748
Net income	$ 773,613	$ 1,116,881	$ 760,258

</TABLE>

(Continued)

CKF BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Statement of Cash Flows

<TABLE>
<CAPTION>

	For the years ended December 31, 1998	1997	1996
Cash flows from operating activities:			
Net income	$ 773,613	$ 1,116,881	$ 760,258
Adjustments to reconcile net income to cash provided by operating activities:			
Equity in undistributed net income of subsidiary	(847,250)	(1,144,013)	(827,748)
Change in other receivables	145,111	(87,203)	56,986
Change in other liabilities		(1,175)	1,175
Net cash used by operating activities	71,474	(115,510)	(9,329)
Cash flows from investing activity:			
Dividend payment from Bank	2,000,000	1,000,000	
Net cash provided by investing activities	2,000,000	1,000,000	
Cash flows from financing activities:			
Dividends paid	(411,744)	(1,260,675)	(379,542)
Purchase of common stock	(697,101)	(1,236,244)	(1,508,882)

Proceeds from exercise of stock options	262,500	48,562	44,625
Stock issued as compensation	7,780		
Net cash used by financing activities	(838,565)	(2,448,357)	(1,843,799)
Net decrease in cash and cash equivalents	1,232,909	(1,563,867)	(1,853,128)
Cash and cash equivalents at beginning of period	353,567	1,917,434	3,770,562
Cash and cash equivalents at end of period	$ 1,586,476	$ 353,567	$ 1,917,434

</TABLE>

CORPORATE INFORMATION

BOARD OF DIRECTORS

W. Irvine Fox, Jr.
Chairman of the Board
Real Estate Developer/Partner
Charleston Green Townhouses

John H. Stigall
President and Chief Executive
Officer of the Bank and the Company

Jack L. Bosley, Jr.
Farm Partner
Viewpoint Farm

J.T. Goggans
General Contractor

W. Banks Hudson, III
Attorney-at-Law

Yvonne York Morley
Executive Assistant to the President and Assistant Secretary to the Board of Trustees of Centre College

Warren O. Nash
Veterinarian

EXECUTIVE OFFICERS

John H. Stigall
President and Chief Executive Officer of the Bank and the Company

Ann L. Hooks
Vice President, Treasurer and Secretary of the Bank and the Company

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OFFICE LOCATION

340 West Main Street
Danville, Kentucky 40422

GENERAL INFORMATION

Independent Accountants
Miller, Mayer, Sullivan & Stevens, LLP
2365 Harrodsburg Road
Lexington, Kentucky 40504-3399

General Counsel

W. Banks Hudson, III
Attorney at Law
102 S. Fourth Street
Danville, Kentucky 40422

Special Counsel
Housley Kantarian & Bronstein, P.C.
1220 19th Street, N.W., Suite 700
Washington, DC 20036

Annual Meeting
The 1998 Annual Meeting of Stockholders will be held on April 20, 1999 at 4:00 p.m. at Central Kentucky Federal Savings Bank, 340 West Main Street, Danville, Kentucky

Transfer Agent
Illinois Stock Transfer Company
223 West Jackson Boulevard
Suite 1210
Chicago, Illinois 60606

Annual Report on Form 10-K
A COPY OF THE COMPANY'S 1998 ANNUAL REPORT ON FORM 10-K WILL BE FURNISHED WITHOUT CHARGE TO STOCKHOLDERS AS OF THE RECORD DATE FOR THE 1999 ANNUAL MEETING UPON WRITTEN REQUEST TO JOHN H. STIGALL, CKF BANCORP, INC., P.O. BOX 400, 340 WEST MAIN STREET, DANVILLE, KENTUCKY 40423

EXHIBIT 21

Subsidiaries of the Registrant

Parent

CKF Bancorp, Inc.

<TABLE>
<CAPTION>

Subsidiaries (1)	State or Other Jurisdiction of Incorporation	Percentage Ownership
<S>	<C>	<C>
Central Kentucky Federal Savings Bank	United States	100%
Subsidiary of Central Kentucky Federal Savings Bank (1)		
Central Kentucky Savings and Loan Service Corporation	Kentucky	100%

</TABLE>

----

(1) The assets, liabilities, and operations of the subsidiaries are included in the consolidated financial statements contained in Item 8 herein.

Exhibit 23

[LETTERHEAD OF MILLER, MAYER, SULLIVAN & STEVENS LLP APPEARS HERE]

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
CKF Bankcorp, Inc.

We consent to incorporation by reference in the registration statement (No. 33-83972) on Form S-8 of CKF Bancorp, Inc. of our report dated January 21, 1999, relating to the consolidated balance sheets of CKF Bancorp, Inc. and subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998, which report is incorporated by reference in the December 31, 198 annual report on Form 10-KSB of CKF Bancorp, Inc.

/s/ Miller, Mayer, Sullivan, & Stevens, LLP

Lexington, Kentucky
March, 17, 1999

(606)223-3095
2365 Harrodsburg Road Lexington, Kentucky 40504-3399 FAX: (606)223-2143

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