SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1996-12-30** | Period of Report: **1996-09-30**
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FILER

KENWOOD BANCORP INC
CIK:**1011142**| IRS No.: **311457996** | State of Incorp.:**DE** | Fiscal Year End: **0930**
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SIC: **6036** Savings institutions, not federally chartered

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 1996

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from ---------- to ---------------

Commission File No.: 0-20907

Kenwood Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Ohio	31-1457996
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
7711 Montgomery Road Cincinnati, Ohio	45236
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (513) 791-2834

Securities registered pursuant to Section 12(b) of the Act: Not Applicable

Securities registered pursuant to Section 12(g) of the Act

Common Stock (par value $.01 per share)
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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-K or any amendment to this Form 10-K. [X]

Based upon the $10.50 closing price of the Registrant's common stock as of December 24, 1996, the aggregate market value of the 234,793 shares of the Registrant's common stock deemed to be held by non-affiliates of the Registrant was approximately $2.47 million. Although directors and executive officers of the Registrant and certain of its employee benefit plans were assumed to be "affiliates" of the Registrant for purposes of this calculation, the classification is not to be interpreted as an admission of such status.

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Number of shares of Common Stock outstanding as of December 24, 1996: 295,133

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated.

(1) Portions of the Annual Report to Stockholders for the year ended September 30, 1996 are incorporated into Part II, Items 5 through 8 of this Form 10-K.

(2) Portions of the definitive proxy statement for the 1997 Annual Meeting of Stockholders are incorporated into Part III, Items 9 through 13 of this Form 10-K.

PART I.

ITEM 1. BUSINESS.

GENERAL

On June 28, 1996, Kenwood Savings Bank, an Ohio-chartered stock savings institution ("Kenwood" or the "Savings Bank") completed its reorganization from the mutual holding company form of organization to the stock holding company form of organization. Pursuant to the terms of a Plan of Conversion and Agreement and Plan of Reorganization adopted by Kenwood and Kenwood Federal Mutual Holding Company, a federally chartered mutual holding company (the "Mutual Holding Company"), (i) Kenwood incorporated Kenwood Bancorp, Inc. (the "Company") as a wholly owned subsidiary of Kenwood, (ii) the Mutual Holding Company converted to an interim federal stock savings institution and simultaneously merged with and into Kenwood, pursuant to which the Mutual Holding Company ceased to exist and the shares of common stock of Kenwood held by the Mutual Holding Company were cancelled, and (iii) an interim institution ("Interim") formed as a wholly owned subsidiary of the Company, merged with and into Kenwood. As a result of the merger of Interim with and into Kenwood, Kenwood became a wholly owned subsidiary of the Company and the outstanding shares of common stock of Kenwood (other than those held by the Mutual Holding Company) were converted pursuant to a specified exchange ratio into shares of common stock of the Company (collectively, the "Conversion and Reorganization"). In connection with the foregoing, Kenwood amended its articles of incorporation to change its corporate title from "Kenwood Savings and Loan Association" to "Kenwood Savings Bank" and the Company also offered and sold additional shares of its common stock to certain depositors and employee benefit plans of Kenwood (the "Offering").

As a result of the Conversion and Reorganization, the Company became the unitary holding company of the Savings Bank. The only significant assets of the Company are the capital stock of the Savings Bank, the Company's loan to the Company's Employee Stock Ownership Plan (the "ESOP"), and the portion of the net proceeds retained by the Company in connection with the Conversion and Reorganization. The business and management of the Company consists of the business and management of the Savings Bank. At September 30, 1996, the Company had $50.2 million of total assets, $46.0 million of total liabilities, including $41.6 million of deposits, and $4.2 million of total stockholders' equity.

Kenwood is an Ohio-chartered stock savings institution which conducts business from one full-service office and one loan origination office, both of which are located in the Cincinnati, Ohio metropolitan area. The Savings Bank was originally established in 1892 as an Ohio-chartered, mutual deposit and loan company known as "The Kenwood Savings and Loan Association" (the "Mutual Association"). In November 1992, the Mutual Association reorganized into the mutual holding company form of organization (the "MHC Reorganization") whereby the Mutual Association (i) organized a newly formed stock savings and loan association; (ii)

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transferred substantially all of its assets and liabilities to the newly formed stock savings and loan association in exchange for all of the common stock of such institution; and (iii) reorganized from an Ohio-chartered mutual savings and loan association to a federally chartered, mutual holding company known as "Kenwood Federal Mutual Holding Company." As part of the MHC Reorganization, the newly formed stock savings and loan association issued 69,000 shares of common stock to certain members of the general public and 81,000 shares of common stock to the Mutual Holding Company.

The Savings Bank is primarily engaged in attracting deposits from the general public through its office and using those and other available sources of funds to originate loans secured by single-family residences located primarily in southwestern Ohio. Such loans amounted to $37.7 million, or 94.6%, of the Savings Bank's total loan portfolio at September 30, 1996. To a much lesser extent, the Savings Bank originates consumer and other loans, which amounted to $860,000, or 2.2%, of the total loan portfolio at September 30, 1996, as well as loans secured by existing multi-family residential and nonresidential real estate, which amounted to $126,000, or 0.3%, and $142,000, or 0.4%, respectively, of the total loan portfolio at such date. The Savings Bank also invests in interest-bearing deposits in other financial institutions (including certificates of deposit), U.S. Government and federal agency obligations and mortgage-backed securities which are insured or guaranteed by federal agencies.

The Company, as a registered savings and loan holding company, is subject to examination and regulation by the Ohio Department of Commerce, Division of Financial Institutions ("Division") and by the Office of Thrift Supervision ("OTS") and is subject to various reporting and other requirements of the Securities and Exchange Commission ("SEC"). Kenwood is subject to examination and comprehensive regulation by the Division, which is Kenwood's chartering authority and primary regulator, by the OTS, Kenwood's primary federal regulator, and by the Federal Deposit Insurance Corporation ("FDIC"), which as administrator of the Savings Association Insurance Fund ("SAIF") insures Kenwood's deposits up to applicable limits. Kenwood also is subject to certain reserve requirements established by the Board of Governors of the Federal Reserve System ("Federal Reserve Board") and is a member of the Federal Home Loan Bank ("FHLB") of Cincinnati, which is one of the 12 regional banks comprising of FHLB System.

LENDING ACTIVITIES

GENERAL. At September 30, 1996, the Savings Bank's net loan portfolio (including loans held for sale) totalled $39.3 million, representing approximately 78.3% of the Savings Bank's $50.2 million of total assets at that date. The principal lending activity of the Savings Bank is the origination of one-to-four family residential loans and, to a much lesser extent, consumer and other loans, as well as multi-family residential and nonresidential real estate loans and construction loans.

As an Ohio-chartered savings institution, the Savings Bank has general authority to originate and purchase loans secured by real estate located throughout the United States. Notwithstanding this nationwide lending authority, substantially all of the mortgage loans in the Savings Bank's portfolio are secured by properties located in the Savings Bank's market area in southwestern Ohio.

Although the Savings Bank historically originated loans with lesser dollar balances than was permitted by federal regulations, loans-to-one borrower limitations may restrict its ability to do business with certain customers. See "Regulation - The Savings Bank - Federal Regulation." A savings association generally may not make loans to one borrower and related entities in an amount which exceeds the greater of $500,000, or 15%, of its unimpaired capital and surplus, although loans in an amount equal to an additional 10% of unimpaired capital and surplus may be made to a borrower if the loans are fully secured by readily marketable securities. At September 30, 1996, the Savings Bank's limit on loans-to-one borrower was $500,000 and its

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five largest loans or groups of loans-to-one borrower, including related entities, aggregated $364,000, $310,000, $297,000, $297,000 and $279,000. All of these loans are secured by single-family residential real estate located in Hamilton County, Ohio and all of these loans were performing in accordance with their terms at September 30, 1996.

LOAN PORTFOLIO COMPOSITION. The following table sets forth the composition of the Savings Bank's loan portfolio by type of loan at the dates indicated.

<TABLE>
<CAPTION>

	September 30,					
	1996		1995		1994	
	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
One-to-four family residential(1)	$37,699	94.6%	$31,464	95.7%	$26,187	93.9%
Multi-family residential	126	0.3	239	0.7	655	2.3
Nonresidential real estate	142	0.4	232	0.7	345	1.2
Construction	1,016	2.5	226	0.7	519	1.9
Total real estate loans	38,983	97.8	32,161	97.8	27,706	99.3
Consumer and other loans:						
Home equity lines of credit	817	2.1	366	1.2	--	--
Deposit secured	41	0.1	306	0.9	121	0.4
Other(2)	2	--	35	0.1	69	0.3
Total consumer and other loans	860	2.2	707	2.2	190	0.7
Total loans	39,843	100.0%	32,868	100.0%	27,896	100.0%
Less (add):						
Undisbursed portion of loans-in-process	502		61		265	
Deferred loan origination costs	(85)		(46)		(32)	
Allowance for loan losses	95		81		69	
	512		96		302	
Net loans	$39,331		$32,772		$27,594	

</TABLE>

(1) Included $9.3 million, $213,000 and $0 of loans designated as held for sale at September 30, 1996, 1995 and 1994, respectively.

(2) Consists of secured commercial business loans.

CONTRACTUAL PRINCIPAL REPAYMENTS AND INTEREST RATES. The following table sets forth certain information at September 30, 1996 regarding the dollar amount of loans maturing in the Savings Bank's portfolio, based on the contractual terms to maturity, before giving effect to net items. Demand loans and loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

<TABLE>
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	1997	1998	1999	Due 3-5 years after 09/30/96	Due 5-10 years after 09/30/96
			(In Thousands)		
One-to-four family residential	$ 75	$24	$197	$3,469	$7,927
Multi-family residential and nonresidential real estate	--	--	--	--	203
Construction	--	--	--	--	--
Consumer and other	43	--	--	817	--
Total	$118	$ 24	$197	$4,286	$8,130

	Due 10-20 years after 09/30/96	Due 20 years after 09/30/96	Total
		(In Thousands)	
One-to-four family residential	$4,195	$21,812	$37,699
Multi-family residential and nonresidential real estate	65	--	268
Construction	--	1,016	1,016
Consumer and other	--	--	860
Total	$4,260	$22,828	$39,843

The following table sets forth the dollar amount of all loans, before net items, due after one year from September 30, 1996 which have fixed interest rates or which have floating or adjustable interest rates.

	Fixed Rates	Floating or Adjustable Rates	Total
		(In Thousands)	
Single-family residential	$17,791	$19,833	$37,624
Multi-family residential and nonresidential real estate	80	188	268
Construction	--	1,016	1,016
Consumer and other	--	817	817
Total	$17,871	$21,854	$39,725

Scheduled contractual amortization of loans does not reflect the actual term of the Savings Bank's loan portfolio. The average life of loans is substantially less than their contractual terms because of prepayments and due-on-sale clauses, which give the Savings Bank the right to declare a conventional loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase when current mortgage loan rates are substantially higher than rates on existing

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mortgage loans and, conversely, decrease when rates on existing mortgages are substantially lower than current mortgage loan rates (due to refinancings of adjustable-rate and fixed-rate loans at lower rates). Under the latter circumstances, the weighted average yield on loans decreases as higher yielding loans are repaid or refinanced at lower rates.

ORIGINATION, PURCHASE AND SALE OF LOANS. The lending activities of the Savings Bank are subject to the written, non-discriminatory, underwriting standards and loan origination procedures established by the Savings Bank's Board of Directors and management. Loan originations are obtained by a variety of sources, including referrals from real estate brokers, developers, builders, existing customers, newspaper, radio, periodical advertising and walk-in customers. Loan applications are taken by lending personnel, and the loan department supervises the obtainment of credit reports, appraisals and other documentation involved with a loan. Property valuations are generally performed by independent outside appraisers approved by the Savings Bank's Board of Directors. Title and hazard insurance are required on all security property.

The Savings Bank's loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan and the adequacy of the value of the property that will secure the loan. A loan application is first reviewed by the Savings Bank's loan officer and then is submitted for approval to the Board of Directors. All loans must be approved by the Loan Committee appointed by the Board of Directors. In addition, Thomas W.

Burns, Executive Vice President and Chief Executive Officer, has been granted loan approval authority by the Board of Directors for single-family residential first mortgage loans of $75,000 and less and with loan-to-value ratios of 90% and less.

In March 1995, the Savings Bank opened a loan origination office in Cincinnati, Ohio and the Savings Bank currently performs its loan origination, processing and underwriting out of such office. The Savings Bank currently has four loan originators working out of such office who are compensated in part on a commission basis and provide convenient origination services during banking and non-banking hours.

Historically, the Savings Bank has originated substantially all of the loans in its portfolio and has held them until maturity. However, since fiscal 1991, the Savings Bank has sold fixed-rate single-family residential loans to the Federal Home Loan Mortgage Corporation ("FHLMC") and other investors in the secondary market as a means of minimizing interest rate risk as well as generating additional funds for lending and other purposes. Beginning in fiscal 1992, the Savings Bank has designated substantially all fixed-rate single-family residential loans with terms to maturity of greater than ten years as held for sale and has retained in its portfolio all fixed-rate single-family residential loans with terms to maturity of ten years or less and all adjustable-rate single-family residential loans originated. At September 30, 1996, there were $9.3 million of loans designated as held for sale. The Savings Bank's loan policy currently limits the total amount of loans designated as held for sale to a maximum of $1.5 million, excluding the special loan sale of adjustable rate mortgages in December 1996. Sales of loans to date generally have been under terms which do not provide any recourse to the Savings Bank by the purchaser in the event of default on the loan by the borrower.

With respect to the Savings Bank's loan sales to investors other than the FHLMC, the Savings Bank generally sells such loans servicing released and recognizes current income from receipt of servicing release fees. With respect to the Savings Bank's loan sales to the FHLMC, the Savings Bank generally continues to collect payments on such loans as they become due, to inspect the security property, to make certain insurance and tax advances on behalf of borrowers and to otherwise service such loans. The Savings Bank records a premium or discount, as adjusted for a normal servicing fee, when it realizes a gain or loss from the sale of loans, respectively. The Savings Bank amortizes

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such premiums and discounts over the estimated lives of the loans using the level yield method, and recognizes the servicing fee when the related loan payments are received. At September 30, 1996, the Savings Bank was servicing $18.2 million of loans for others.

Historically, the Savings Bank has not been an active purchaser of loans. At September 30, 1996, loans purchased and serviced by others totalled $225,000.

The following table shows total loans originated, purchased, sold and repaid during the periods indicated.

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
	(In Thousands)		
<S>	<C>	<C>	<C>
Loan originations:			
One-to-four family residential and construction(1)	$24,801	$13,298	$18,676
Multi-family residential	--	--	--
Nonresidential real estate	--	--	--
Consumer and other	773	683	133
Total loans originated	25,574	13,981	18,809
Purchases	--	--	--
Total loans originated and purchased	25,574	13,981	18,809
Sales and loan principal reductions:			
Loans sold	12,595	3,175	7,014
Loan principal reductions	6,445	5,630	7,878
Total loans sold and principal reductions	19,040	8,805	14,892
Increase due to other net items	25	2	3
Net increase in loan portfolio	$ 6,559	$5,178	$ 3,920

</TABLE>

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(1) Includes loans designated as held for sale during the periods.

SINGLE-FAMILY RESIDENTIAL LOANS. The primary lending activity of the Savings Bank is the origination of loans secured by first mortgage liens on single-family residences (one-to-four units). At September 30, 1996, $37.7 million, or 94.6%, of the Savings Bank's total loan portfolio (including loans held for sale), before net items, consisted of single-family residential loans.

The Savings Bank's single-family residential loans include non-conventional loans (loans which are either insured by the Federal Housing Administration or partially guaranteed by the Department of Veterans Affairs) and conventional loans. Although a majority of the Savings Bank's loans

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consist of conventional loans, the Savings Bank has recently increased its origination of non-conventional mortgage loans. The Savings Bank

has also recently increased its origination of non-owner occupied single-family residential loans.

The loan-to-value ratio, maturity and other provisions of the loans made by the Savings Bank generally have reflected the policy of making less than the maximum loan permissible under applicable regulations, in accordance with sound lending practices, market conditions and underwriting standards established by the Savings Bank. The Savings Bank's lending policies on single-family residential mortgage loans generally limits the maximum loan-to-value ratio to 95% of the lesser of the appraised value or purchase price of the property and generally all single-family residential loans in excess of an 80% loan-to-value ratio require private mortgage insurance.

The Savings Bank offers fixed-rate single-family residential loans with terms of five to 30 years. Such loans are amortized on a monthly basis with principal and interest due each month and customarily include "due-on-sale" clauses, which are provisions giving the Savings Bank the right to declare a loan immediately due and payable in the event the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid. The Savings Bank enforces due-on-sale clauses to the extent permitted under applicable laws. Currently, substantially all fixed-rate single-family residential loans with terms to maturity of greater than ten years originated by the Savings Bank are designated as held for sale and sold to the FHLMC and other investors in the secondary market as market conditions permit.

Since 1983, the Savings Bank has been offering adjustable-rate loans in order to decrease the vulnerability of its operations to changes in interest rates. At September 30, 1996, $20.9 million, or 54.0%, of the single-family residential loans in the Savings Bank's loan portfolio consisted of adjustable-rate loans.

The Savings Bank's single-family residential adjustable-rate loans are fully amortizing loans with contractual maturities of up to 30 years. The loans currently being originated by the Savings Bank have interest rates which are scheduled to adjust every one or three years in accordance with a designated index (the weekly average yield on U.S. Treasury securities adjusted to a constant comparable maturity, as made available by the Federal Reserve Board). There is a 2% cap on the rate adjustment per period and a 6% cap rate adjustment over the life of the loan. The Savings Bank's adjustable-rate loans currently being originated are not convertible into fixed-rate loans, are not assumable, do not contain prepayment penalties and do not produce negative amortization. The Savings Bank generally offers discounts with respect to the interest rate on its adjustable-rate loans during the first year of the mortgage loan for competitive reasons.

The demand for adjustable-rate loans in the Savings Bank's primary market area has been a function of several factors, including the level of interest rates, the expectations of changes in the level of interest rates and the difference between the interest rates and loan fees offered for fixed-rate loans and adjustable-rate loans. The relative amount of fixed-rate

and adjustable-rate residential loans that can be originated at any time is largely determined by the demand for each in a competitive environment. Due to the generally lower rates of interest prevailing in recent periods, the Savings Bank's originations of adjustable-rate loans have decreased as consumer preference for fixed-rate loans has increased.

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Adjustable-rate loans decrease the risks associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. The Savings Bank believes that these risks, which have not had a material adverse effect on the Savings Bank to date, generally are less than the risks associated with holding fixed-rate loans in an increasing interest rate environment.

CONSUMER AND OTHER LOANS. At September 30, 1996, consumer and other loans totalled $860,000, or 2.2%, of the total loan portfolio (including loans held for sale), before net items, and consisted primarily of home equity lines of credit, which amounted to $817,000, or 2.1%, of the Savings Bank's consumer and other loan portfolio (before net items). Home equity lines of credit are originated by the Savings Bank for up to 80% of the appraised value (90% if the Savings Bank holds the first mortgage), less the amount of any existing prior liens on the property. Home equity lines of credit have a maximum term of five years and interest rates which adjust in accordance with a designated prime rate. The Savings Bank will secure the loan with a mortgage on the property (generally a second mortgage) and will originate the loan even if another institution holds the first mortgage.

Consumer and other loans also included at September 30, 1996, $41,000 of loans secured by customer deposits and $2,000 of commercial business loans. Except for home equity lines of credit, the Savings Bank does not emphasize the origination of consumer or commercial business loans and does not expect to do so in the future.

MULTI-FAMILY RESIDENTIAL, NONRESIDENTIAL REAL ESTATE AND CONSTRUCTION LOANS. At September 30, 1996, $126,000, or 0.3%, and $142,000, or 0.4%, of the Savings Bank's total loan portfolio (including loans held for sale), before net items, consisted of loans secured by existing multi-family residential and nonresidential real estate, respectively. The Savings Bank's multi-family residential (five units or more) and nonresidential real estate, loan portfolio includes, for the most part, nine loans secured primarily by apartment buildings and small office buildings located within the Savings Bank's primary lending area.

Multi-family residential and nonresidential real estate loans have terms which range up to 25 years. Although some of the multi-family residential and nonresidential real estate loans which were originated in prior periods have fixed rates, interest rates on originations in recent years generally adjust at a one-year interval in accordance with a designated index. The maximum adjustment in any one period is 2% with a 6% cap over the life of the loan. At September 30, 1996, $188,000, or 70.1%, of the multi-family residential and nonresidential real estate loan portfolio consisted of adjustable-rate loans.

Multi-family residential and nonresidential real estate loans are generally made in amounts up to 75% of the appraised value of the security property. All appraisals are generally performed by an independent appraiser designated by the Savings Bank and are reviewed by management. In originating multi-family residential and nonresidential real estate loans, the Savings Bank considers the quality of the property, the credit of the borrower, cash flow of the project, location of the real estate and the quality of management involved with the property.

The Savings Bank makes construction loans to individuals for the construction of their residences and to borrowers for the construction of multi-family residential and nonresidential real estate. At September 30, 1996, construction loans amounted to $1.0 million or 2.5% of the Savings Bank's total loan portfolio (including loans held for sale), before net items. Of this amount, $1.0 million consisted of loans for the construction of single-family residences. The Savings Bank had no loans for the construction of multi-family residential and nonresidential real estate at September 30,

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1996.

Construction lending is generally limited to the Savings Bank's primary lending area. Construction loans are structured to be converted to permanent loans at the end of the construction phase, which typically is 12 months. Construction loans have rates and terms which generally match the non-construction loans then offered by the Savings Bank, except that during the construction phase the borrower only pays interest on the loan. Construction loans are underwritten pursuant to the same general guidelines used for originating permanent loans.

Multi-family residential and nonresidential real estate lending is generally considered to involve a higher degree of risk than single-family residential lending. Such lending typically involves large loan balances concentrated in a single borrower or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties is typically dependent on the successful operation of the related real estate project and thus may be subject to a greater extent to adverse conditions in the real estate market or in the economy generally. The Savings Bank generally attempts to mitigate the risks associated with multi-family residential and nonresidential real estate lending by, among other things, lending primarily in its market area and using low loan-to-value ratios in the underwriting process.

LOAN ORIGINATION AND OTHER FEES. In addition to interest earned on loans, the Savings Bank often receives loan origination fees or "points" for originating loans. Loan points are a percentage of the principal amount of the mortgage loan and are charged to the borrower in connection with the origination of the loan.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 91 issued by the Financial Accounting Standards Board ("FASB"), which deals with the accounting for non-refundable fees and costs associated with originating or acquiring loans, the Savings Bank's loan origination fees and certain related direct loan origination costs are

offset, and the resulting net amount is deferred and amortized as interest income over the contractual life of the related loans as an adjustment to the yield of such loans. At September 30, 1996, the Savings Bank had $85,000 of loan costs which had been deferred and are being recognized into income over the contractual maturities of the related loans.

ASSET QUALITY

DELINQUENT LOANS. The following table sets forth information concerning delinquent loans at September 30, 1996, in dollar amount and as a percentage of the Savings Bank's total loan portfolio (including loans held for sale). The amounts presented represent the total outstanding principal balances of the related loans, rather than the actual payment amounts which are past due.

<TABLE>
<CAPTION>

	Total	
	Amount	Percentage
	(Dollars in Thousands)	
<S>	<C>	<C>
Loans delinquent for:		
30 - 59 days	$ 916	2.3%
60 - 89 days	140	0.4
90 days and over	--	--
Total delinquent loans(1)	$1,056	2.7%

</TABLE>

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(1) Consisted entirely of single-family residential loans.

NON-PERFORMING ASSETS. When a borrower fails to make a required payment on a loan, the Savings Bank attempts to cure the deficiency by contacting the borrower and seeking payment. Contacts are generally made following the fifteenth day after a payment is due. In most cases, deficiencies are cured promptly. If a delinquency extends beyond 15 days, the loan and payment history is reviewed and efforts are made to collect the loan. While the Savings Bank generally prefers to work with borrowers to resolve such problems, when the account becomes 90 days delinquent, the Savings Bank does institute foreclosure or other proceedings, as necessary, to minimize any potential loss.

All loans are reviewed on a regular basis and are placed on a non-accrual status when, in the opinion of management, the collection of additional interest is deemed insufficient to warrant further accrual. As a matter of policy, the Savings Bank does not accrue interest on loans past due 90 days or more except when the estimated value of the collateral and collection efforts are deemed sufficient to ensure full recovery. Interest

accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan.

Real estate acquired by the Savings Bank by foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until such time as it is sold. Real estate owned is carried at the lower of fair value minus estimated costs to sell the property, or cost (generally the balance of the loan on the property at the date of acquisition). After the date of acquisition, all costs incurred in maintaining the property are expensed and costs incurred for the improvement or development of such property are capitalized up to the extent of fair value.

The following table sets forth the amounts and categories of the Savings Bank's non-performing assets at the dates indicated. The Savings Bank did not have any troubled debt restructurings at any of the dates presented.

<TABLE>
<CAPTION>

	September 30,		
	1996	1995	1994
	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
Non-accruing loans(1)	$ --	$ --	$ 33
Accruing loans greater than 90 days delinquent(1)	--	--	--
Real estate owned	--	--	--
Total non-performing assets	$ --	$ --	$ 33
Total non-performing loans as a percentage of total loans	--%	--%	.12%
Total non-performing assets as a percentage of total assets	--%	--%	.08%

</TABLE>

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(1) Consisted solely of single-family residential loans.

The interest income that would have been recorded during the years ended September 30, 1996, 1995 and 1994 if the Savings Bank's non-performing loans at the end of such periods had been current in accordance with their terms during such periods was $0, $0 and $1,800, respectively.

CLASSIFIED ASSETS. Federal regulations require that each insured savings association classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, federal examiners have authority to identify problem assets and, if appropriate,

classify them. There are three classifications for problem assets: "substandard," "doubtful" and "loss." Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. Another category designated "special mention" also must be established and maintained for assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification as substandard, doubtful or loss. 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 specific allowances for loan losses in the amount of 100% of the portion of the asset classified loss, or charge-off such amount. 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. Federal examiners may disagree with an insured institution's classifications and amounts reserved. For information concerning a recent OTS proposal which would revise the amount of general loss allowances required with respect to classified and other assets, see "- Allowance for Loan Losses." At September 30, 1996, the Savings Bank had no classified assets.

ALLOWANCE FOR LOAN LOSSES. The Savings Bank maintains an allowance for estimated losses on loans based upon an assessment of prior loss experience, the volume and type of lending conducted by the Savings Bank, industry standards, past due loans, general economic conditions and other factors related to the collectibility of the loan portfolio. Although management believes that it uses the best information available to make such determinations, future adjustments to the allowance may be necessary, and net income could be significantly affected, if circumstances differ substantially from the assumptions used in making the initial determinations.

At September 30, 1996, the Savings Bank's allowance for loan losses amounted to $95,000, all of which was classified as general pursuant to OTS regulations and, as a result, was includable as a component of regulatory risk-based capital.

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

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<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
	(Dollars in Thousands)		
Total net loans outstanding(1)	$39,331	$32,772	$27,594
Average loans outstanding, net	$35,234	$30,792	$23,844
Balance at beginning of period	$ 81	$ 69	$ 60
Charge-offs	--	--	(2)
Recoveries	--	--	--
Net charge-offs	--	--	(2)
Provision for losses on loans	14	12	11
Balance at end of period	$ 95	$ 81	$ 69
Allowance for loan losses as a percent of total loans outstanding	.24%	.25%	.25%
Ratio of net charge-offs to average loans outstanding	--%	--%	--%(2)

</TABLE>

----

(1) Includes loans held for sale.

(2) Less than .1%.

Effective December 21, 1993, the OTS, in conjunction with the Office of the Comptroller of the Currency, the FDIC and the Federal Reserve Board, issued an Interagency Policy Statement on the Allowance for Loan and Lease Losses ("Policy Statement"). The Policy Statement, which effectively supersedes the proposed guidance issued on September 1, 1992, includes guidance (i) on the responsibilities of management for the assessment and establishment of an adequate allowance and (ii) for the agencies' examiners to use in evaluating the adequacy of such allowance and the policies utilized to determine such allowance. The Policy Statement also sets forth quantitative measures for the allowance with respect to assets classified substandard and doubtful and with respect to the remaining portion of an institution's loan portfolio. Specifically, the Policy Statement sets forth the following quantitative measures which examiners may use to determine the reasonableness of an allowance: (i) 50% of the portfolio that is classified doubtful; (ii) 15% of the portfolio that is classified substandard; and (iii) for the portions of the portfolio that have not been classified (including loans designated special mention), estimated credit losses over the upcoming twelve months based on facts and circumstances available on the evaluation date. While the Policy Statement sets forth this quantitative measure, such guidance is not intended as a "floor" or "ceiling."

The following table sets forth information concerning the allocation of the Savings Bank's allowance for loan losses by loan categories at the dates indicated.

<TABLE>
<CAPTION>

September 30,		
1996	1995	1994

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	Amount	Percent of Total Loans by Category	Amount	Percent of Total Loans by Category	Amount	Percent of Total Loans by Category
			(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
One-to-four family residential	$91	95.8%	$78	96.9%	$65	93.9%
Multi-family residential	--	0.3	1	.7	2	2.3
Nonresidential real estate	--	0.4	1	.7	1	1.2
Construction	2	1.3	1	.7	1	1.9
Consumer and other loans	2	2.2	--	1.0	--	.7
Total	$95	100.00%	$81	100.00%	$69	100.00%

</TABLE>

Management of the Savings Bank believes that the reserves it has established are adequate to cover any potential losses in the Savings Bank's loan portfolio. However, future adjustments to these reserves may be necessary, and the Savings Bank's results of operations could be adversely affected if circumstances differ substantially from the assumptions used by management in making its determinations in this regard.

INVESTMENT ACTIVITIES

GENERAL. The Savings Bank's mortgage-backed and investment securities portfolio is managed in accordance with a written investment policy adopted by the Board of Directors. All transactions must be approved by and reported to the Board of Directors.

Prior to October 1, 1994, portfolio investment securities and mortgage-backed securities were carried at cost, adjusted for amortization of premiums and accretion of discounts. The investments and mortgage-backed securities were carried at cost, as it was management's intent, and the Savings Bank had the ability to hold the securities until maturity. Investment securities and mortgage-backed securities held for indefinite periods of time, or which management utilized as part of its asset/liability management strategy, or that would be sold in response to changes in interest rates, prepayment risk or the perceived need to increase regulatory capital were classified as held for sale at the point of purchase and carried at the lower of cost or market, with any resulting decline in market value below cost charged to operations. Gains or losses on securities held for sale, including lower of cost or market adjustments, were recognized using the specific identification method.

In May 1993, the FASB issued SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (the "Statement"). The Statement requires that investments be categorized as held-to-maturity, trading or available for sale. Securities classified as held to maturity are carried at cost only if the Savings Bank has the positive intent and ability

to hold these securities to maturity. Trading securities and securities available for sale are carried at fair value with resulting unrealized gains or losses charged to operations or stockholders' equity, respectively. The Savings Bank adopted the Statement as of October 1, 1994. In accordance with the terms of a recent FASB implementation guide, on December 31, 1995, the Savings Bank transferred mortgage-backed securities with an amortized cost of $7.2 million from held to maturity to available for sale. At September 30, 1996, the Company had $486,000 of investment securities and $4.5 million of mortgage-backed securities classified as available for sale and the Company's stockholders' equity reflected a net unrealized gain of $12,000.

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MORTGAGE-BACKED SECURITIES. Mortgage-backed securities represent a participation interest in a pool of single-family or multi-family mortgage loans, the principle and interest payments on which, in general, are passed from the mortgage originators, through intermediaries that pool and repackage the participation interests in the form of securities, to investors such as the Savings Bank. Such intermediaries may be private issuers, or agencies including the FHLMC, the Federal National Mortgage Association ("FNMA") and the Government National Mortgage Association ("GNMA") that insure or guarantee the payment of principal and interest to investors.

Mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with interest rates that are within a range and have varying maturities. The underlying pool of mortgages can be composed of either fixed- or adjustable-rate mortgage loans. Mortgage-backed securities are generally referred to as mortgage participation certificates or pass-through certificates. As a result, the interest rate risk characteristics of the underlying pool of mortgages (e.g., fixed-rate or adjustable-rate) as well as prepayment, default and other risks associated with the underlying mortgages are passed on to the certificate holder. The life of a mortgage-backed pass-through security is equal to the life of the underlying mortgages.

The Savings Bank has invested in a portfolio of mortgage-backed securities which are insured or guaranteed by federal agencies. Mortgage-backed securities increase the quality of the Savings Bank's assets by virtue of the guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Savings Bank.

The following table sets forth information relating to the amortized cost and market value of the Savings Bank's mortgage-backed securities at September 30, 1996, 1995 and 1994 (including those designated as available for sale).

<TABLE>
<CAPTION>

	September 30,					
	1996		1995		1994	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
FHLMC participation certificates	$ 348	$ 339	$ 397	$ 396	$ 616	$ 597
GNMA participation certificates	3,835	3,867	6,033	6,080	6,484	6,226
FNMA participation certificates	560	573	881	888	1,050	1,021
Total mortgage-backed securities	$4,743	$4,779	$7,311	$7,364	$8,150	$7,844

</TABLE>

The following table sets forth the activity in the Savings Bank's mortgage-backed securities portfolio during the periods indicated (including those designated as available for sale).

<TABLE>
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At or For the Year Ended September 30,

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	1996	1995	1994
		(Dollars in Thousands)	
Mortgage-backed securities at beginning of period	$7,311	$8,150	$5,773
Purchases	513	--	3,090
Repayments	(1,332)	(839)	(689)
Sales	(1,745)		
Change in unrealized gain on available for sale securities	30	--	--
Premium amortization	(3)	--	(24)
Mortgage-backed securities at end of period(1)	$4,774	$7,311	$8,150
Weighted average yield at end of period	6.63%	6.23%	5.06%

----

(1) At September 30, 1996, $4.5 million of such securities were classified as available for sale.

At September 30, 1996, of the $4.8 million portfolio, $348,000 was scheduled to mature in between one and five years and $4.4 million was scheduled to mature after ten years. Due to repayments of the underlying loans, the actual maturities of mortgage-backed securities generally are substantially less than the scheduled maturities.

Of the $4.8 million of mortgage-backed securities, $245,000 consisted of fixed-rate and $4.5 million consisted of adjustable-rate securities.

INVESTMENT SECURITIES. The following table sets forth information relating to the amortized cost and market value of the Savings Bank's investment securities at the dates indicated.

	September 30,					
	1996		1995		1994	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
			(Dollars in Thousands)			
U.S. Government agency obligations(1)	$2,493	$2,445	$2,990	$2,995	$1,989	$1,989
Weighted average yield at end of period	6.0%		6.16%		5.02%	

----

(1) At September 30, 1996, $486,000 of investment securities were classified as available for sale.

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The following table sets forth the amortized cost and market value of investment securities by contractual terms to maturity at September 30, 1996.

	Amortized Cost	Market Value
	(In Thousands)	
One year	$ --	$ --
One to five years	2,493	2,445
Five to ten years	--	--
More than ten years	--	--
Total	$2,493	$2,445

SOURCES OF FUNDS

GENERAL. Deposits are the primary source of the Savings Bank's funds for lending and other investment purposes. In addition to deposits, the Savings Bank derives funds from loan principal repayments. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources. They may also be used on a longer term basis for general business purposes.

DEPOSITS. The Savings Bank's deposits are attracted principally from within the Savings Bank's primary market area through the offering of a broad selection of deposit instruments, including NOW accounts, money market accounts, regular savings accounts, and term certificate accounts. Included among these deposit products are individual retirement account certificates of approximately $5.7 million at September 30, 1996. Deposit account terms vary, with the principal differences being the minimum balance required, the time period the funds must remain on deposit and the interest rate.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established by the Savings Bank on a periodic basis. Determination of rates and terms are predicated on funds acquisition and liquidity requirements, rates paid by competitors, growth goals and applicable laws and regulations.

The Savings Bank utilizes traditional marketing methods to attract new customers and savings deposits, including print media advertising. The Savings Bank maintains a drive-up facility at its office. The Savings Bank does not advertise for deposits outside its local market area or utilize the services of deposit brokers.

The following table sets forth the dollar amount of deposits in the various types of deposit programs offered by the Savings Bank for the periods indicated.

<TABLE>
<CAPTION>

September 30,

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	1996		1995		1994	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Certificate accounts:						
2.00 - 4.00%	$ --	--%	$ --	--%	$ 2,626	6.8%
4.01 - 6.00%	18,807	45.2	18,061	40.6	24,788	63.8
6.01 - 8.00%	14,997	36.0	19,530	44.0	2,513	6.5
8.01 - 10.00%	--	--	53	.1	309	.8
10.01 - 12.00%	--	--	22	.1	20	.1
Total certificate accounts	33,804	81.2	37,666	84.8	30,256	78.0
Transactions accounts:						
Passbook accounts	1,396	3.3	1,939	4.4	1,999	5.1
Statement savings	2,535	6.1				
Money market accounts	2,616	6.3	4,082	9.2	5,980	15.4
NOW accounts	1,285	3.1	741	1.6	602	1.5
Total transaction accounts	7,832	18.8	6,762	15.2	8,581	22.0
Total deposits	$41,636	100.0%	$44,428	100.0%	$38,837	100.0%

</TABLE>

The following table sets forth the savings activities of the Savings Bank during the periods indicated.

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
	(In Thousands)		
<S>	<C>	<C>	<C>
Deposits	$30,928	$ 37,426	$ 28,193
Withdrawals	(35,751)	(33,750)	(25,811)
Net increase (decrease) before interest credited	(4,823)	3,676	2,382
Interest credited	2,031	1,915	1,284
Net increase (decrease) in deposits	$(2,792)	$ 5,591	$ 3,666

</TABLE>

The following table shows the interest rate and maturity information for the Savings Bank's certificates of deposit at September 30, 1996.

<TABLE>
<CAPTION>

	Maturity Date				
Interest Rate	One Year or Less	Over 1-2 Years	Over 2-3 Years	Over 3 Years	Total

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(Dollars in Thousands)

4.01 - 6.00%	$13,019	$4,484	$1,246	$ 58	$18,807
6.01 - 8.00%	8,636	2,523	3,212	626	14,997
Total	$21,655	$7,007	$4,458	$684	$33,804

The following table sets forth the maturities of the Savings Bank's certificates of deposit having principal amounts of $100,000 or more at September 30, 1996.

Certificates of deposit maturing in quarter ending:	(In Thousands)
December 31, 1996	$ --
March 31, 1997	1,014
June 30, 1997	100
September 30, 1997	310
After September 30, 1997	2,112
Total certificates of deposit with balances of $100,000 or more	$3,536

BORROWINGS. The Savings Bank's other sources of funds include advances from the FHLB of Cincinnati. As a member of the FHLB of Cincinnati, the Savings Bank is required to own capital stock in the FHLB of Cincinnati and is authorized to apply for advances from the FHLB of Cincinnati. Each FHLB credit program has its own interest rate, which may be fixed or variable, and a range of maturities. The FHLB of Cincinnati may prescribe the acceptable uses for these advances, as well as limitations on the size of the advances and repayment provisions. At September 30, 1996, the Savings Bank had a $6.0 million line of credit with the FHLB of Cincinnati. As of such date the Savings Bank had $3.7 million of advances from the FHLB of Cincinnati.

The following table sets forth the maximum month-end balance and average balance of the Savings Bank's FHLB advances during the periods indicated.

Year Ended September 30,

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	1996	1995	1994
	(Dollars in Thousands)		
Maximum balance	$3,658	$1,708	$1,715
Average balance	1,313	720	521
Weighted average interest rate of FHLB advances	5.48%	5.97%	4.61%

The following table sets forth certain information as to the Savings Bank's FHLB advances at the dates indicated.

	September 30,		
	1996	1995	1994
	(Dollars in Thousands)		
FHLB advances	$3,653	$194	$212
Weighted average interest rate of FHLB advances	5.46%	5.65%	5.65%

EMPLOYEES

The Savings Bank had 11 full-time employees and three part-time employees at September 30, 1996. None of these employees is represented by a collective bargaining agreement, and the Savings Bank believes that it enjoys good relations with its personnel.

COMPETITION

The Savings Bank faces strong competition both in attracting deposits and making real estate loans. Its most direct competition for deposits has historically come from other savings associations, credit unions and commercial banks located in the greater Cincinnati area, including many large financial institutions which have greater financial and marketing resources available to them. In addition, during times of high interest rates, the Savings Bank has faced additional significant competition for investors' funds from short-term money market securities and other corporate and government securities. The ability of the Savings Bank to attract and retain savings deposits depends on its ability to generally provide a rate of return, liquidity and risk comparable to that offered by competing investment opportunities. As of September 30, 1996, it was estimated that the Savings Bank held approximately 1.6% of total thrift deposits within Hamilton County, Ohio and 0.2% of total thrift and bank deposits within such county.

The Savings Bank experiences strong competition for real estate loans principally from other savings associations, commercial banks, and mortgage banking companies. The Savings Bank competes for loans principally through the interest rates and loan fees it charges and the efficiency and quality of services it provides borrowers. Competition may increase as a result of the continuing reduction of restrictions on the interstate operations of financial institutions.

REGULATION

THE COMPANY

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GENERAL. The Company, as a registered savings and loan holding company within the meaning of the Home Owners' Loan Act ("HOLA"), is subject to OTS and Division regulations, examinations, supervision and reporting requirements. As a subsidiary of a savings and loan holding company, the Savings Bank will be subject to certain restrictions in its dealings with the Company and affiliates thereof.

ACTIVITIES RESTRICTIONS. There are generally no restrictions on the activities of a savings and loan holding company which holds only one subsidiary savings institution. However, if the Director of the 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 institution, the Director may impose such restrictions as deemed necessary to address such risk, including limiting (i) payment of dividends by the savings institution; (ii) transactions between the savings institution and its affiliates; and (iii) any activities of the savings institution that might create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings institution. Notwithstanding the above rules as to permissible business activities of unitary savings and loan holding companies, if the savings

institution subsidiary of such a holding company fails to meet a qualified thrift lender ("QTL") test, then such unitary holding company also shall become subject to the activities restrictions applicable to multiple savings and loan holding companies and, unless the savings institution requalifies as a QTL within one year thereafter, shall register as, and become subject to the restrictions applicable to, a bank holding company. See "- The Savings Bank - Federal Regulation - Qualified Thrift Lender Test."

If the Company were to acquire control of another savings institution, other than through merger or other business combination with the Savings 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 institution meets the QTL test, as set forth below, the activities of the Company and any of its subsidiaries (other than the Savings Bank or other subsidiary savings institutions) would thereafter be subject to further restrictions. Among other things, no multiple savings and loan holding company or subsidiary thereof which is not a savings institution 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 institution; (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 authorized by regulation as of March 5, 1987 to be engaged in by multiple savings and loan holding companies; or (vii) unless the Director of the OTS by regulation prohibits or limits such activities for savings and loan holding companies, those activities authorized by the Federal Reserve Board as permissible for bank holding companies. Those activities described in (vii) above also must be approved by the Director of the OTS prior to being engaged in by a multiple savings and loan holding company.

LIMITATIONS ON 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

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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.

In addition, Sections 22(h) and (g) of the Federal Reserve Act places restrictions on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of a savings institution, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the institution's loans to one borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus). Section 22(h) also 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 and also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a savings institution to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. At September 30, 1996, the Savings Bank was in compliance with the above restrictions.

RESTRICTIONS ON ACQUISITIONS. Except under limited circumstances, savings and loan holding companies are prohibited from acquiring, without prior approval of the Director of the OTS, (i) control of any other savings institution or savings and loan holding company or substantially all the assets thereof or (ii) more than 5% of the voting shares of a savings institution or holding company thereof which is not a subsidiary. Except with the prior approval of the Director of the 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 acquire control of any savings institution, other than a subsidiary savings institution, or of any other savings and loan holding company.

The Director of the OTS may only approve acquisitions resulting in the formation of a multiple savings and loan holding company which controls savings institutions 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 located in the state of the institution to be acquired as of March 5, 1987; (ii) the acquiror is authorized to acquire control of the savings institution pursuant to the emergency acquisition provisions of the Federal Deposit Insurance Act ("FDIA"); or (iii) the statutes of the state in which the institution to be acquired is located specifically permit institutions to be acquired by the state-chartered institutions 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).

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") amended provisions of the Bank Holding Company Act of 1956 to specifically authorize the Federal Reserve Board to approve an application by a bank holding company

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to acquire control of a savings institution. FIRREA also authorized a bank holding company that controls a savings institution to merge or consolidate the assets and liabilities of the savings institution with, or transfer assets and liabilities to, any subsidiary bank which is a member of the Bank Insurance Fund ("BIF"), the federal deposit insurance fund that covers commercial bank deposits, with the approval of the appropriate federal banking agency and the Federal Reserve Board. As a result of these provisions, there have been a number of acquisitions of savings institutions by bank holding companies in recent years.

THE SAVINGS BANK - FEDERAL REGULATION

GENERAL. The OTS has extensive authority over the operations of savings institutions. As part of this authority, savings institutions are required to file periodic reports with the OTS and are subject to periodic examinations by the OTS and the FDIC. Such regulation and supervision is primarily intended for the protection of depositors.

Although the investment and lending authority of the Savings Bank is prescribed by Ohio laws and regulations, many federal laws and regulations also apply to state-chartered savings associations. Certain of the investment and lending authorities for federally-chartered savings associations were amended significantly and made applicable to state-chartered savings associations by FIRREA.

The OTS' enforcement authority over all savings institutions was substantially enhanced by FIRREA. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS. FIRREA significantly increased the amount of and grounds for civil money penalties.

On December 19, 1991, the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") was enacted into law. The FDICIA provided for, among other things, the recapitalization of the BIF; the authorization of the FDIC to make emergency special assessments under certain circumstances against BIF members and members of the SAIF; the establishment of risk-based deposit insurance premiums; and improved examinations and reporting requirements. The FDICIA also provided for enhanced federal supervision of depository institutions based on, among other things, an institution's capital level.

INSURANCE OF ACCOUNTS. The deposits of the Savings Bank are insured to the maximum extent permitted by the SAIF, which is administered by the FDIC, and are backed by the full faith and credit of the U.S. Government. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the FDIC. The FDIC also has the

authority to initiate enforcement actions against savings institutions, after giving the OTS an opportunity to take such action.

Under current FDIC regulations, institutions are assigned to one of three capital groups which are based solely on the level of an institution's capital--"well capitalized," "adequately capitalized," and "undercapitalized"--which are defined in the same manner as the regulations establishing the prompt corrective action system under Section 38 of the FDIA, as discussed below. These three groups are then divided into three subgroups which reflect varying levels of supervisory concern, from those which are considered to be healthy to those which are considered to be of substantial supervisory concern. The matrix so created results in nine assessment risk classifications, with rates previously ranging from .23% for well capitalized,

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healthy institutions to .31% for undercapitalized institutions with substantial supervisory concerns. As of September 30, 1996, the insurance premiums for the Savings Bank amounted to .23% of insured deposits.

On November 14, 1995, the FDIC adopted a new assessment rate schedule of zero to 27 basis points (subject to a $2,000 minimum) for BIF members beginning on or about January 1, 1996 while retaining the existing assessment rate schedule for SAIF member institutions. In announcing this new schedule, the FDIC noted that the premium differential may have adverse consequences for SAIF members, including reduced earnings and an impaired ability to raise funds in the capital markets. In addition, SAIF members, such as the Savings Bank, could be placed at a competitive disadvantage to BIF members with respect to pricing of loans and deposits and the ability to achieve lower operating costs.

The U.S. Congress has enacted, and on September 30, 1996, the President signed into law legislation which eliminates the premium differential between SAIF-insured institutions and BIF-insured institutions by recapitalizing the SAIF's reserves to the required ratio. The legislation provides that all SAIF member institutions pay a special one-time assessment to recapitalize the SAIF, which in the aggregate will be sufficient to bring the reserve ratio in the SAIF to 1.25% of insured deposits. The amount of the special assessment required to recapitalize the SAIF will be 65.7 basis points of the SAIF-assessable deposits as of March 31, 1995. The special assessment was due on October 1, 1996, and payable on November 27, 1996. Based on deposits of the Saving Bank as of March 31, 1995, the Savings Bank incurred an adverse earnings impact of approximately $289,000, gross of related tax benefits, for the fourth quarter of fiscal 1996.

After the recapitalization of the SAIF, premiums paid by SAIF-insured institutions are to be reduced to 0 to 27 basis points, effective January 1, 1997, plus an additional 6.4 basis points to cover applicable FICO assessments. The legislation also provides for the merger of the BIF and the SAIF, with such merger being conditioned upon the prior elimination of the thrift charter.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Savings Bank, if it determines after a hearing that the institution has engaged

or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. There are no pending proceedings to terminate the deposit insurance of the Savings Bank.

REGULATORY CAPITAL REQUIREMENTS. Federally insured savings institutions are required to maintain minimum levels of regulatory capital. Pursuant to FIRREA, the OTS has established capital standards applicable to all savings institutions. These standards generally must be as stringent as the comparable capital requirements imposed on national banks. The OTS also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

Current OTS capital standards require savings institutions to satisfy three different capital requirements. Under these standards, savings institutions must maintain "tangible" capital equal to at least 1.5% of adjusted total assets, "core" capital equal to at least 3.0% of adjusted total assets and "total" capital (a combination of core and "supplementary" capital) equal to at least 8.0% of "risk-weighted" assets. For purposes of the regulation, core capital generally consists of 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

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deposits and "qualifying supervisory goodwill." Tangible capital is given the same definition as core capital but does not include qualifying supervisory goodwill and is reduced by the amount of all the savings institution's intangible assets, with only a limited exception for purchased mortgage servicing rights. The Savings Bank had no goodwill or other intangible assets at September 30, 1996. Both core and tangible capital are further reduced by an amount equal to a savings institution's debt and equity investments in subsidiaries engaged in activities not permissible to national banks (other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies). These adjustments do not affect the Savings Bank's regulatory capital. Supplementary capital generally consists of hybrid capital instruments; perpetual preferred stock which is not eligible to be included as core capital; subordinated debt and intermediate-term preferred stock; and general allowances for loan losses up to a maximum of 1.25% of risk-weighted assets.

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 that the amount of supplementary capital included does not exceed the savings institution's core capital. In determining the required amount of risk-based capital, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights assigned by the OTS for

principal categories of assets are (i) 0% for cash and securities issued by the U.S. Government or unconditionally backed by the full faith and credit of the U.S. Government; (ii) 20% for securities (other than equity securities) issued by U.S. Government-sponsored agencies and mortgage-backed securities issued by, or fully guaranteed as to principal and interest by, the FNMA or the FHLMC, except for those classes with residual characteristics or stripped mortgage-related securities; (iii) 50% for prudently underwritten permanent one- to four-family first lien mortgage loans not more than 90 days delinquent and having a loan-to-value ratio of not more than 80% at origination unless insured to such ratio by an insurer approved by the FNMA or the FHLMC, qualifying residential bridge loans made directly for the construction of one-to-four family residences and qualifying multi-family residential loans; and (iv) 100% for all other loans and investments, including consumer loans, commercial loans, and single-family residential real estate loans more than 90 days delinquent, and for repossessed assets.

At September 30, 1996, the Savings Bank exceeded all of its regulatory capital requirements, with tangible, core and risk-based capital ratios of 7.9%, 7.9% and 18.5%, respectively.

A savings institution which is not in capital compliance or which is otherwise deemed to require more than normal supervision is subject to restrictions on its ability to grow pursuant to Regulatory Bulletin 3a-1. In addition, a provision of HOLA generally provides that the Director of OTS must restrict the asset growth of savings institutions not in regulatory capital compliance, subject to a limited exception for growth not exceeding interest credited.

A savings institution which is not in capital compliance is also automatically subject to the following: (i) new directors and senior executive officers and employment contracts for senior executive officers must be approved by the OTS in advance; (ii) the savings institution may not accept or renew any brokered deposits; (iii) the savings institution is subject to higher OTS assessments as a capital-deficient institution; and (iv) the savings institution may not make any capital distributions without prior written approval.

Any savings institution that fails any of the capital requirements is subject to possible enforcement actions by the OTS or the FDIC. Such actions could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations, termination of federal deposit insurance and the appointment of a conservator

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or receiver. The OTS' capital regulation provides that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions.

In August 1993, the OTS adopted a final rule incorporating an interest-rate risk component into the risk-based capital regulation. Under the rule, an institution with a greater than "normal" level of interest rate risk is subject to a deduction of its interest rate risk component from total capital for purposes of calculating its risk-based capital. As a result, such an institution is required to maintain additional capital in order to comply with the risk-based capital requirement. An institution with a greater than "normal" interest rate risk is defined as an institution that would suffer a loss of net portfolio value exceeding 2.0% of the estimated economic value of its assets in the event of a 200 basis point increase or decrease (with certain minor exceptions) in interest rates. The interest rate risk component is calculated, on a quarterly basis, as one-half of the difference between an institution's measured interest rate risk and 2.0%, multiplied by the economic value of its assets. The rule also authorizes the Director of the OTS, or his designee, to waive or defer an institution's interest rate risk component on a case-by-case basis. The final rule was originally to be effective as of January 1, 1994, subject however to a three quarter "lag" time between the reporting date of the data used to calculate an institution's interest rate risk and the effective date of each quarter's interest rate risk component. However, in October 1994, the Director of the OTS indicated that it would waive the capital deduction for institutions with greater than "normal" interest rate risk until the OTS publishes an appeals process. The OTS has recently indicated that no savings institution will be required to deduct capital for interest rate risk until further notice. In any event, management of the Savings Bank does not believe that the OTS' adoption of an interest rate risk component to the risk-based capital requirement will adversely affect the Savings Bank's regulatory capital position.

PROMPT CORRECTIVE ACTION. Under Section 38 of the FDIA, as added by the FDICIA, each federal banking agency was required to implement a system of prompt corrective action for institutions which it regulates. The federal banking agencies, including the OTS, adopted substantially similar regulations to implement Section 38 of the FDIA, effective as of December 19, 1992. Under the regulations, an institution is deemed to be (i) "well capitalized" if it has total risk-based capital of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a Tier 1 leverage capital ratio of 5.0% or more and is not subject to any order or final capital directive to meet and maintain a specific capital level for any capital measure, (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more and a Tier 1 leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized," (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0% or a Tier 1 leverage capital ratio that is less than 4.0% (3.0% under certain circumstances), (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a Tier 1 leverage capital ratio that is less than 3.0%, and (v) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Section 38 of the FDIA and the regulations promulgated thereunder also specify circumstances under which a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately

capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as

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critically undercapitalized).

An institution generally must file a written capital restoration plan which meets specified requirements with an appropriate federal banking agency within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. A federal banking agency must provide the institution with written notice of approval or disapproval within 60 days after receiving a capital restoration plan, subject to extensions by the agency.

An institution which is required to submit a capital restoration plan must concurrently submit a performance guaranty by each company that controls the institution. Such guaranty shall be limited to the lesser of (i) an amount equal to 5.0% of the institution's total assets at the time the institution was notified or deemed to have notice that it was undercapitalized or (ii) the amount necessary to restore the relevant capital measures of the institution to the levels required for the institution to be classified as adequately capitalized. Such a guarantee shall expire after the federal banking agency notifies the institution that it has remained adequately capitalized for each of four consecutive calendar quarters. An institution which fails to submit a written capital restoration plan within the requisite period, including any required performance guarantee(s), or fails in any material respect to implement a capital restoration plan, shall be subject to the restrictions in Section 38 of the FDIA which are applicable to significantly undercapitalized institutions.

Immediately upon becoming undercapitalized, an institution shall become subject to the provisions of Section 38 of the FDIA (i) restricting payment of capital distributions and management fees, (ii) requiring that the appropriate federal banking agency monitor the condition of the institution and its efforts to restore its capital, (iii) requiring submission of a capital restoration plan, (iv) restricting the growth of the institution's assets and (v) requiring prior approval of certain expansion proposals. The appropriate federal banking agency for an undercapitalized institution also may take any number of discretionary supervisory actions if the agency determines that any of these actions is necessary to resolve the problems of the institution at the least possible long-term cost to the deposit insurance fund, subject in certain cases to specified procedures. These discretionary supervisory actions include requiring the institution to raise additional capital; restricting transactions with affiliates; restricting interest rates paid by the institution on deposits; requiring replacement of senior executive officers and directors; restricting the activities of the institution and its affiliates; requiring divestiture of the institution or the sale of the institution to a willing purchaser; and any other supervisory action that the agency deems appropriate. These and additional mandatory and permissive supervisory actions may be taken with respect to significantly undercapitalized and critically undercapitalized institutions.

At September 30, 1996, the Savings Bank was deemed a "well capitalized" institution for purposes of the above regulations and as such was not subject to the above mentioned restrictions.

SAFETY AND SOUNDNESS. FDICIA requires each federal banking regulatory agency to prescribe, by regulation or guideline, standards for all insured depository institutions and depository institution holding companies relating to (i) internal controls, information systems and audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; (vi) compensation, fees and benefits; and (vii) such other operational and managerial standards as the agency determines to be appropriate. The compensation standards would prohibit employment contracts or other compensatory arrangements that provide excess compensation, fees or benefits or could lead to material financial loss. In addition, each federal banking regulatory agency must prescribe, by regulation or guideline, standards relating to asset quality, earnings and stock valuation as the agency determines to be appropriate. On July 10, 1995, the federal banking agencies, including the OTS, adopted final rules and proposed guidelines concerning standards for safety and soundness required to be prescribed by regulation

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pursuant to Section 39 of the FDIA. In general, the standards relate to (1) operational and managerial matters; (2) asset quality and earnings; and (3) compensation. The operational and managerial standards cover (a) internal controls and information systems, (b) internal audit systems, (c) loan documentation, (d) credit underwriting, (e) interest rate exposure, (f) asset growth, and (g) compensation, fees and benefits. Under the proposed asset quality and earnings standards, the Savings Bank would be required to establish and maintain systems to (i) identify problem assets and prevent deterioration in those assets, and (ii) evaluate and monitor earnings and ensure that earnings are sufficient to maintain adequate capital reserves. Finally, the proposed compensation standard states that compensation will be considered excessive if it is unreasonable or disproportionate to the services actually performed by the individual being compensated. If a savings institution fails to meet any of the standards promulgated by regulation, then such institution will be required to submit a plan within 30 days to the OTS specifying the steps it will take to correct the deficiency. In the event that a savings institution fails to submit or fails in any material respect to implement a compliance plan within the time allowed by the federal banking agency, Section 39 of the FDIA provides that the OTS must order the institution to correct the deficiency and may (1) restrict asset growth; (2) require the savings institution to increase its ratio of tangible equity to assets; (3) restrict the rates of interest that the savings institution may pay; or (4) take any other action that would better carry out the purpose of prompt corrective action. The Savings Bank believes that it has been and will continue to be in compliance with each of the standards as they have been adopted by the OTS.

LIQUIDITY REQUIREMENTS. All savings institutions are required to maintain an average daily balance of liquid assets equal to a certain percentage of the sum of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. The liquidity requirement may vary from time to time (between 4% and 10%) depending upon economic conditions and savings flows of all savings institutions. At the present time,

the required minimum liquid asset ratio is 5%. At September 30, 1996, the Savings Bank's liquidity ratio was 8.9%.

CAPITAL DISTRIBUTIONS. OTS regulations govern capital distributions by savings institutions, which include cash dividends, stock redemptions or repurchases, cash-out mergers, interest payments on certain convertible debt and other transactions charged to the capital account of a savings institution to make capital distributions. Generally, the regulation creates a safe harbor for specified levels of capital distributions from institutions meeting at least their minimum capital requirements, so long as such institutions notify the OTS and receive no objection to the distribution from the OTS. Savings institutions and distributions that do not qualify for the safe harbor are required to obtain prior OTS approval before making any capital distributions.

Generally, a savings institution that before and after the proposed distribution meets or exceeds its fully phased-in capital requirements (Tier 1 institutions) may make capital distributions during any calendar year equal to the higher of (i) 100% of net income for the calendar year-to-date plus 50% of its "surplus capital ratio" at the beginning of the calendar year or (ii) 75% of net income over the most recent four-quarter period. The "surplus capital ratio" is defined to mean the percentage by which the institution's ratio of total capital to assets exceeds the ratio of its fully phased-in capital requirement to assets. "Fully phased-in capital requirement" is defined to mean an institution's capital requirement under the statutory and regulatory standards applicable on December 31, 1994, as modified to reflect any applicable individual minimum capital requirement imposed upon the institution. Failure to meet fully phased-in or minimum capital requirements will result in further restrictions on capital distributions, including possible prohibition without explicit OTS approval. See "- Regulatory Capital Requirements."

Tier 2 institutions, which are institutions that before and after the proposed distribution meet or exceed their minimum capital requirements, may make capital distributions up to 75% of their net income over the most recent

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four quarter period.

In order to make distributions under these safe harbors, Tier 1 and Tier 2 institutions must submit 30 days written notice to the OTS prior to making the distribution. The OTS may object to the distribution during that 30-day period based on safety and soundness concerns. In addition, a Tier 1 institution deemed to be in need of more than normal supervision by the OTS may be downgraded to a Tier 2 or Tier 3 institution as a result of such a determination.

Tier 3 institutions, which are institutions that do not meet current minimum capital requirements, or that have capital in excess of either their fully phased-in capital requirement or minimum capital requirement but which have been notified by the OTS that it will be treated as a Tier 3 institution because they are in need of more than normal supervision, cannot make any capital distribution without obtaining OTS approval prior to making such distributions.

At September 30, 1996, the Savings Bank was a Tier 1 institution for purposes of this regulation.

On December 5, 1994, the OTS published a notice of proposed rulemaking to amend its capital distribution regulation. Under the proposal, savings institutions would be permitted to only make capital distributions that would not result in their capital being reduced below the level required to remain "adequately capitalized." A savings institution is adequately capitalized if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more and a Tier 1 leverage capital ratio of 4.0% or more. Because the Savings Bank is a subsidiary of the Company, the proposal would require the Savings Bank to provide notice to the OTS of its intent to make a capital distribution. The Savings Bank does not believe that the proposal will adversely affect its ability to make capital distributions if it is adopted substantially as proposed.

LOANS TO ONE BORROWER. FIRREA imposed limitations on the aggregate amount of loans that a savings institution could make to any one borrower, including related entities. The permissible amount of loans-to-one borrower now follows the national bank standard for all loans made by savings institutions. Loans-to-one borrower may not exceed the greater of $500,000 or 15% of unimpaired capital and surplus. Loans in an amount equal to an additional 10% of unimpaired capital and surplus also may be made to a borrower if the loans are fully secured by readily marketable securities.

QUALIFIED THRIFT LENDER TEST. All savings institutions are required to meet a QTL test set forth in Section 10(m) of the HOLA and regulations of the OTS thereunder to avoid certain restrictions on their operations. A savings institution that does not meet the QTL test set forth in the HOLA and implementing regulations 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 savings institution ceases to be a QTL, 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).

Currently, the QTL test requires that 65% of an institution's "portfolio assets" (as defined) consist of certain housing and consumer-related assets on a monthly average basis in nine out of every 12 months. Assets that qualify without limit for inclusion as part of the 65% requirement are loans made to purchase, refinance, construct, improve or repair domestic residential housing and manufactured housing; home equity loans; mortgage-backed securities (where the mortgages are secured by domestic residential housing or

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manufactured housing); stock issued by the FHLB of Cincinnati; and direct or

indirect obligations of the FDIC. In addition, the following assets, among others, may be included in meeting the test subject to an overall limit of 20% of the savings institution's portfolio assets: 50% of residential mortgage loans originated and sold within 90 days of origination; 100% of consumer and educational loans (limited to 10% of total portfolio assets); and stock issued by the FHLMC or the FNMA. Portfolio assets consist of total assets minus the sum of (i) goodwill and other intangible assets, (ii) property used by the savings institution to conduct its business, and (iii) liquid assets up to 20% of the institution's total assets. At September 30, 1996, the qualified thrift investments of the Savings Bank were approximately 99.0% of its portfolio assets.

FEDERAL HOME LOAN BANK SYSTEM. The Savings Bank is a member of the FHLB of Cincinnati, which is one of 12 regional FHLBs that administers the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the FHLB.

As a member, the Savings Bank is required to purchase and maintain stock in the FHLB of Cincinnati in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year. At September 30, 1996, the Savings Bank had $430,000 in FHLB stock, which was in compliance with this requirement.

As a result of FIRREA, the FHLBs are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of FHLB dividends paid and could continue to do so in the future. These contributions also could have an adverse effect on the value of FHLB stock in the future. For the year ended September 30, 1996, dividends paid by the FHLB of Cincinnati to the Savings Bank amounted to $29,000, compared to $24,000 during the same period in the prior year.

FEDERAL RESERVE SYSTEM. The Federal Reserve Board requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts). As of September 30, 1996, no reserves were required to be maintained on the first $4.3 million of transaction accounts, reserves of 3% were required to be maintained against the next $52.0 million of net transaction accounts (with such dollar amounts subject to adjustment by the Federal Reserve Board), and a reserve of 10% (which is subject to adjustment by the Federal Reserve Board to a level between 8% and 14%) against all remaining net transaction accounts. Because required reserves must be maintained in the form of vault cash or a noninterest-bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce an institution's earning assets.

THE SAVINGS BANK - OHIO REGULATION

As an Ohio-chartered savings institution, the Savings Bank also is subject to regulation and supervision by the Division. The Savings Bank is required to file periodic reports with and is subject to periodic examinations at least once within every 18-month period by the Division. The lending and investment authority of the Savings Bank is prescribed by Ohio laws and

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regulations, as well as applicable federal laws and regulations, and the Savings Bank is prohibited from engaging in any activities not permitted by such laws and regulations.

The Savings Bank is required by Ohio law and regulations to comply with certain reserve and net worth requirements. Currently, Ohio-chartered savings institutions are required to establish and maintain a reserve for the absorption of bad debts and other losses in an amount at least equal to 3% of the institutions's deposit account balance. For purposes of complying with this reserve requirement, such savings institutions are able to include the amount of any permanent stock issued and outstanding, contributed surplus, undivided profits, specific loss or valuation reserves and any other nonwithdrawable accounts. In addition, Ohio-chartered savings institutions which are rated a composite one under the Uniform Financial Institutions Rating System are required to establish and maintain a ratio of net worth to total assets of not less than 3%. All other Ohio-chartered savings institutions are required to have a ratio of net worth to total assets of not less than 4%. Net worth shall consist of common stockholders' equity, noncumulative perpetual preferred stock (including any related surplus), minority interests in the equity capital accounts of consolidated subsidiaries and subordinated debentures (in varying amounts and percentages). At September 30, 1996, the Savings Bank was in compliance with applicable reserve and net worth requirements.

Ohio law and regulations also restrict the lending and investment authority of Ohio-chartered savings institutions. Such laws and regulations restrict the amount an Ohio-chartered savings institution can lend to any one borrower to an amount which, in the aggregate, does not exceed the lesser of (i) 10% of the association's withdrawable accounts or (ii) the sum of the association's capital and surplus. Notwithstanding the foregoing, Ohio law permits any such institution to lend to any one borrower an aggregate amount not exceeding $500,000.

In addition, Ohio law restricts the ability of Ohio-chartered savings institutions to invest in, among other things, (i) commercial real estate loans (including commercial construction real estate loans) up to 20% of total assets; (ii) land acquisition and development loans up to 2% of total assets; (iii) consumer loans, commercial paper and corporate debt securities up to 20% of total assets; (iv) commercial business loans up to 10% of total assets; (v) stock or other equity securities up to 10% of total assets; and (vi) capital stock, obligations and other securities of service corporations up to 15% of total assets. Ohio law also sets forth the maximum loan-to-value ratios with respect to various types of loans.

The investment authority of Ohio-chartered savings institutions is broader in many respects than that of federally chartered savings institutions. However, since the enactment of FIRREA, state-chartered savings institutions, such as the Savings Bank, are generally prohibited from acquiring or retaining any equity investment, other than certain investments in service corporations, of a type or in an amount that is not permitted for a federally chartered savings and loan association. This prohibition applies to equity investments in real estate, investments in equity securities and any other investment or transaction that is in substance an equity investment, even if the transaction is nominally a loan or other permissible transaction. At September 30, 1996, the Savings Bank had no investments subject to the foregoing prohibition.

Furthermore, a state-chartered savings institution may not engage as principal in any activity not permitted for federal institutions unless the FDIC has determined that such activity would pose no significant risk to the affected deposit insurance fund and the institution is in compliance with the capital standards prescribed under FIRREA. When certain activities are permissible for a federal institution, the state institution may engage in the activity in a higher amount if the FDIC has not determined that such activity would pose a significant risk of loss to the affected deposit insurance fund and the association meets its capital requirements. This increased investment authority does not apply to investments in nonresidential real estate loans. At September 30, 1996, the Savings Bank had no investments which were affected

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by the foregoing limitations.

Under Ohio law, an out-of-state savings institution or holding company may charter or otherwise acquire an Ohio-chartered savings institution or holding company if the Division determines that the laws of such other state permit an Ohio-chartered savings institution or holding company to charter or otherwise acquire an in-state savings institution or holding company on terms that are, on the whole, substantially no more restrictive than Ohio law. Any such acquisition would require the out-of-state entity to apply to the Division and receive Division approval.

TAXATION

FEDERAL TAXATION

GENERAL. The Company and the Savings Bank are subject to the generally applicable corporate tax provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and the Savings Bank is subject to certain additional provisions of the Code which apply to thrifts and other types of financial institutions. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive discussion of the tax rules applicable to the Savings Bank.

FISCAL YEAR. The Company and the Savings Bank file a consolidated federal income tax return on the basis of a fiscal year ending on September 30.

BAD DEBT RESERVES. Under Section 593 of the Code, until the first tax year beginning on or after January 1, 1996, thrift institutions such as the Savings Bank, which met certain definitional tests primarily relating to their assets and the nature of their business, were permitted to establish a tax reserve for bad debts and to make annual additions thereto, which additions, within specified limitations, could be deducted in arriving at their taxable income. The Savings Bank's deduction with respect to "qualifying loans," which are generally loans secured by certain interests in real property, were computed using an amount based on the Savings Bank's actual loss experience (the "Experience Method") or a percentage equal to 8.0% of the Savings Bank's taxable income (the "PTI Method") computed without regard to this deduction and with additional modifications and reduced by the amount of any permitted addition to the non-qualifying reserve.

Under recently enacted legislation, the PTI Method was repealed. If an institution is not a "large" thrift institution, i.e., the quarterly average of the institution's total assets or of the consolidated group of which it is a member exceeds $500 million for the year, the institution will continue to be permitted to use the Experience Method. In addition, the institution is required to recapture (i.e., take into income) over a multi-year period its "applicable excess reserves," i.e., the balance of its reserve for losses on qualifying loans and nonqualifying loans, as of the close of its last tax year beginning before January 1, 1996, over the greater of (a) balance of such reserves as of December 31, 1987 or (b) in the case of an institution which is not a "large" thrift institution, an amount that would have been the balance of such reserves as of the close of its last tax year beginning before January 1, 1996, had the institution always computed the additions to its reserves using the experience method. The institution would not be required to recapture its supplemental reserves or its pre-1988 reserves, even if the institution later became a supplemental reserves or its pre-1988 reserves, even if the institution later became a "large" bank. Under the legislation, such recapture requirements would be suspended for each of two successive taxable years beginning January 1, 1997 if the principle amount of residential loans made by the institution during each such year is not less than the average of the principal amounts of such loans made by the institution during its six taxable years preceding January 1, 1996. As of June 30, 1996, the Savings Bank's bad debt reserve subject to recapture over a six-year period totaled approximately $250,000.

If the Savings Bank ceases to qualify as a "bank" (as defined in Code

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Section 581) or converts to a credit union, the pre-1988 reserves and supplemental reserves are restored to income ratably over a six-year period, beginning in the tax year the association no longer qualifies as a bank. The balance of the pre-1988 reserve are also subject to recapture in the case of certain excess distributions to (including distributions on liquidation and dissolution), or redemptions of stockholders.

DISTRIBUTIONS. If the Savings Bank distributes cash or property to its stockholders, and the distribution is treated as being from its accumulated bad debt reserves, the distribution will cause the Savings Bank to have additional taxable income. A distribution is deemed to have been made from accumulated bad debt reserves to the extent that (a) the

reserves exceed the amount that would have been accumulated on the basis of actual loss experience, and (b) the distribution is a "non-qualified distribution." A distribution with respect to stock is a non-dividend distribution to the extent that, for federal income tax purposes, (i) it is in redemption of shares, (ii) it is pursuant to a liquidation of the institution, or (iii) in the case of a current distribution, together with all other such distributions during the taxable year, it exceeds the institution's current and post-1951 accumulated earnings and profits. The amount of additional taxable income created by a non-dividend distribution is an amount that when reduced by the tax attributable to it is equal to the amount of the distribution.

MINIMUM TAX. The Code imposes an alternative minimum tax at a rate of 20%. The alternative minimum tax generally applies to a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or "AMTI") and is payable to the extent such AMTI is in excess of an exemption amount. The Code provides that an item of tax preference is the excess of the bad debt deduction allowable for a taxable year pursuant to the percentage of taxable income method over the amount allowable under the experience method. Other items of tax preference that constitute AMTI include (a) tax-exempt interest on newly issued (generally, issued on or after August 8, 1986) private activity bonds other than certain qualified bonds and (b) 75% of the excess (if any) of (i) adjusted current earnings as defined in the Code, over (ii) AMTI (determined without regard to this preference and prior to reduction by net operating losses).

NET OPERATING LOSS CARRYOVERS. A financial institution may carry back net operating losses ("NOLs") to the preceding three taxable years and forward to the succeeding 15 taxable years. This provision applies to losses incurred in taxable years beginning after 1986. At September 30, 1996, the Savings Bank had no NOL carryforwards for federal income tax purposes.

CAPITAL GAINS AND CORPORATE DIVIDENDS-RECEIVED DEDUCTION. Corporate net capital gains are taxed at a maximum rate of 34%. The corporate dividends-received deduction is 80% in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, and corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received or accrued on their behalf. However, a corporation may deduct 100% of dividends from a member of the same affiliated group of corporations.

OTHER MATTERS. Federal legislation is introduced from time to time that would limit the ability of individuals to deduct interest paid on mortgage loans. Individuals are currently not permitted to deduct interest on consumer loans. Significant increases in tax rates or further restrictions on the deductibility of mortgage interest could adversely affect the Savings Bank.

The Savings Bank's federal income tax returns have not been audited by

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the Internal revenue Service ("IRS") in recent years and its federal income tax returns for the tax years ended September 30, 1995, 1994 and 1993 are open under the statute of limitations and are subject to review by the IRS.

STATE TAXATION

The Company is subject to an Ohio tax based on the greater of its tax liability as determined under separate net worth and net income computations. The Company will exclude its investment in Kenwood in determining its tax liability under the net worth computation. The tax liability under the net worth computation will be computed at .596% of the Company's net taxable value. The tax liability under the net income method will be computed at a graduated rate not exceeding 9.12% of the Company's Ohio taxable income.

The Savings Bank is subject to an Ohio franchise tax based on its equity capital plus certain reserve amounts. Total capital for this purpose is reduced by certain exempted assets. The resultant net taxable value was taxed at a rate of 1.5% for 1996.

ITEM 2. PROPERTIES.

At September 30, 1996, Kenwood conducted its business from its headquarters and main office in Cincinnati, Ohio and one loan origination office located in Cincinnati, Ohio. The following table sets forth the net book value (including leasehold improvement, furnishings and equipment) and certain other information with respect to the offices of Kenwood at September 30, 1996.

<TABLE>
<CAPTION>

Description/Address	Leased/Owned	Net Book Value of Property	Amount of Deposits
		(In Thousands)	
<S>	<C>	<C>	<C>
7711 Montgomery Road Cincinnati, Ohio 45236	Owned	$348	$41,636
10999 Reed Hartman Highway Cincinnati, Ohio 45242 (loan origination office)	Leased	14	--
Total		$362	$41,636

</TABLE>

ITEM 3. LEGAL PROCEEDINGS.

The Company is not involved in any pending legal proceedings other than nonmaterial legal proceedings occurring in the ordinary course of business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS.

Not applicable.

PART II.

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ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The information required herein, to the extent applicable, is incorporated by reference from page 47 of the Company's 1996 Annual Report to Stockholders ("1996 Annual Report").

ITEM 6. SELECTED FINANCIAL DATA.

The information required herein is incorporated by reference from page four to six of the 1996 Annual Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required herein is incorporated by reference from pages seven to 20 of the 1996 Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information required herein is incorporated by reference from pages four to six and 23 to 46 of the 1996 Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

On April 27, 1995, the Board of Directors of the Savings Bank terminated the services of Grant Thornton LLP as the Savings Bank's independent auditors. At the same meeting, the Board of Director selected the accounting firm of Clark, Schaefer, Hackett & Co. ("Clark, Shaefer") to serve as independent auditors for the Savings Bank for the fiscal year ending September 30, 1995. Clark, Shaefer has continued to serve as independent auditors for the Savings Bank since such selection and also serves as independent auditors to the Company.

In connection with their audit for fiscal 1994 and during subsequent interim periods prior to their termination, there were no disagreements with Grant Thornton LLP on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure.

Grant Thornton LLP's report on the financial statements for fiscal 1994 did not contain an adverse opinion or disclaimer of opinion and was not qualified as to uncertainty, audit scope or accounting principles.

During the Savings Bank's two most recent fiscal years and the subsequent interim periods preceding the selection of Clark, Schaefer, the Savings Bank did not consult Clark, Schaefer regarding the application of accounting principles, either contemplated or proposed, the type of audit opinion that might be rendered on the Savings Bank's financial statements or any other matters that would be required to be reported herein.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required herein is incorporated by reference from pages five to eight of the Company's definitive proxy statement to be filed within 120 days of the Company's fiscal year end (September 30, 1996) ("Definitive Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION.

The information required herein is incorporated by reference from pages 17 to 20 of the Company's Definitive Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required herein is incorporated by reference from

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pages two to four of the Company's Definitive Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required herein is incorporated by reference from page 21 of the Company's Definitive Proxy Statement.

PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(A) DOCUMENTS FILED AS PART OF THIS REPORT

(1) The following financial statements are incorporated by reference from Item 8 hereof (see Exhibit 13):

Reports of Independent Certified Public Accountants
Consolidated Statement of Financial Condition as of September 30, 1996 and 1995
Consolidated Statements of Income for the Fiscal Periods Ended September 30, 1996, 1995 and 1994
Consolidated Statements of Shareholders' Equity for the Fiscal Periods Ended September 30, 1996, 1995 and 1994
Consolidated Statements of Cash Flows for the Fiscal Periods ended September 30, 1996, 1995 and 1994
Notes to Consolidated Financial Statements

(2) All schedules for which provision is made in the applicable accounting regulation of the SEC 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 and related notes thereto.

(3) The following exhibits are filed as part of this Form 10-K, and this list includes the Exhibit Index.

<TABLE>
<CAPTION>

No.	Description
2.1	Plan of Conversion and Agreement and Plan of Reorganization1/
3.1	Certificate of Incorporation of Kenwood Bancorp, Inc.1/
3.2	Bylaws of Kenwood Bancorp, Inc.1/
4.1	Specimen Stock Certificate of Kenwood Bancorp, Inc.1/
10.1	1992 Stock Incentive Plan1/
10.2	1992 Directors' Stock Option Plan1/
10.3	1992 Management Recognition Plan1/
10.4	Kenwood Bancorp, Inc. Employee Stock Ownership Plan and Trust1/
13.0	1996 Annual Report to Stockholders, specified portion (pp. 4 to 47) of the Company's Annual Report to Stockholders for the year ended September 30, 1996.
21.0	Subsidiaries of the Registrant - Reference is made to "Item 1. Business" for the required information
23.1	Consent of Clark, Schaefer, Hackett & Co.
23.2	Consent of Grant Thornton LLP.
27.0	Financial Data Schedule

</TABLE>

1/ Incorporated herein by reference from the Company's Registration Statement on Form S-1 (Registration No. 333-2698) filed by the Company

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with the Securities and Exchange Commission ("SEC") on March 22, 1996, as subsequently amended.

(b) The Company filed a Current Report on Form 8-K ("Form 8-K") with the SEC on July 1, 1996. In Item 5 of the Form 8-K, the Company reported that on June 28, 1996, the Savings Bank announced that the Company completed its stock offering in connection with the Savings Bank's conversion from the mutual holding company form of organization to the stock holding company form of organization. In Item 7 (c) of the Form 8-K, the Company included as an exhibit the Company's press release dated June 28, 1996.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KENWOOD BANCORP, INC.

By: /s/ Thomas W. Burns

Thomas W. Burns
Executive Vice President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, 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/ Robert P. Isler — December 26, 1996
Robert P. Isler
President and Chairman of the Board

/s/ Thomas W. Burns — December 26, 1996
Thomas W. Burns
Executive Vice President and Chief Executive Officer (principal executive and financial officer)

/s/ Richard C. Kent — December 26, 1996
Richard C. Kent
Director

/s/ Donald G. Ashcraft — December 26, 1996
Donald G. Ashcraft
Director

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/s/ P. Lincoln Mitchell December 26, 1996

P. Lincoln Mitchell
Secretary and Director

James N. Murphy
Director

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EXHIBIT 13.0

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA
(Dollars in Thousands)

The following tables set forth certain financial and other data of the Company at the dates and for the periods indicated. For additional financial information about the Company, reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of the Company and related notes included elsewhere herein.

	At September 30,				
	1996	1995	1994	1993	1992
SELECTED FINANCIAL CONDITION DATA(1):					
Total assets	$50,231	$48,309	$42,578	$38,655	$35,051
Interest-bearing deposits in other financial institutions(2)	1,938	3,449	3,723	7,165	7,364
Investment securities - at cost	1,994	1,991	1,989	1,010	--
Investment securities available for sale - at market	486	1,006	--	--	--
Mortgage-backed securities - at cost	245	7,311	8,150	5,773	433
Mortgage-backed securities available for sale - at market	4,529	--	--	--	--
Loans receivable, net	30,009	32,559	27,594	22,657	24,824
Loan held for sale	9,322	213	--	1,017	1,386
Deposits	41,636	44,428	38,837	35,171	32,454
FHLB advances	3,653	194	212	--	--
Stockholders' equity(3)	4,239	3,216	3,205	3,101	2,288

	Year Ended September 30,				
	1996	1995	1994	1993	1992
SELECTED OPERATING DATA(1):					
Total interest income	$3,423	$3,194	$2,511	$2,559	$2,673
Total interest expense	2,534	2,310	1,621	1,600	1,835
Net interest income	889	884	890	959	838
Provision for losses on loans	14	12	11	27	23
Net interest income after provision for losses on loans	875	872	879	932	815
Other income	221	62	79	352	247
General, administrative and other expense	1,248	807	726	660	556
Income (loss) before income taxes	(152)	127	232	624	506
Federal income taxes	(48)	46	72	212	163
Net income (loss)	$ (104)	$ 81	$ 160	$ 412	$ 343
Earnings (loss) per share(4)	$ (.37)	$.53	$1.06	$ N/A	$ N/A
Dividends per share(4)	$ .49	$.56	$1.06	$ N/A	$ N/A

	At or For the Year Ended September 30,				
	1996	1995	1994	1993	1992
SELECTED OPERATING RATIOS(1)(5):					
Return on average assets(6)	(.21)%	.18%	.39%	1.12%	1.04%

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Return on average equity(6)	(2.81)	2.52	5.07	15.29	16.21
Average equity to average assets	7.62	6.98	7.76	7.31	6.44
Equity to assets at end of period	8.44	6.66	7.53	8.02	6.53
Interest rate spread(7)	1.54	1.65	1.94	2.30	2.26
Net interest margin(7)	1.88	1.96	2.32	2.64	2.60
Average interest-earning assets to average interest-bearing liabilities	106.42	106.07	109.09	107.78	105.86
Net interest income after provision for losses on loans to total general administrative and other expenses(6)(8)	70.1	108.05	121.07	141.21	146.58
General, administrative and other expenses to average total assets(6)(8)	2.57	1.76	1.86	1.78	1.69
Non-performing loans to total loans at end of period(9)	--	--	.12	.21	.41
Non-performing assets to total assets at end of period(9)	--	--	.08	.19	.31
Allowance for loan losses to total loans at end of period	.24	.25	.25	.25	.13

</TABLE>

----

(1) Financial condition data and operating data as of and for the year ended September 30, 1992 are those of the Mutual Association prior to the MHC Reorganization. Financial condition data and operating data as of and for the years ended September 30, 1993, 1994, 1995 and up through June 28, 1996 are those of the Savings Bank prior to the Conversion and Reorganization.

(2) Includes certificates of deposit.

(3) Consists solely of retained earnings as of September 30, 1992.

(4) Earnings per share and dividends per share are not applicable for the years ended September 30, 1993 and 1992, as the Mutual Association converted to the stock form of ownership on November 13, 1992.

(5) With the exception of end of period ratios, all ratios are based on average monthly balances during the periods.

(Footnotes continued on following page)

(6) Excluding the one-time SAIF recapitalization assessment of $289,000 in fiscal 1996, return on average assets was .19%, return on average equity was 2.53%, net interest income after provision for losses on loans to general administrative and other expenses was 91.24% and general, administrative and other expenses to average total assets was 1.97%, respectively, for the year ended September 30, 1996.

(7) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate on interest-bearing liabilities. Net interest margin represents net interest income as a percentage of average interest-earning assets.

(8) Includes effect of the one-time SAIF recapitalization assessment of $289,000.

(9) Non-performing loans consist of non-accrual loans and accruing loans that are contractually past due 90 days or more, and non-performing assets consist of non-performing loans and real estate acquired by foreclosure or deed-in-lieu thereof.

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

GENERAL

The Company, through the Savings Bank, is primarily engaged in attracting deposits from the general public and using those and other available sources of funds to originate permanent loans secured by one-to-four family

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residences located primarily in Hamilton County in southwestern Ohio. To a lesser extent, the Savings Bank also originates consumer and other loans (primarily home equity lines of credit), residential construction loans and loans which are secured by existing multi-family residential and nonresidential real estate, as well as invests in interest-bearing deposits in other financial institutions (including certificates of deposit), mortgage-backed securities and U.S. Government and federal agency obligations.

The profitability of the Company depends primarily on its net interest income, which is the difference between interest and dividend income on interest-earning assets, principally loans, mortgage-backed securities and investment securities, and interest expense on savings deposits and borrowings. The Company's net income also is dependent on the level of its other income, including gains on the sale of loans and other assets, servicing fees and other fees, and its general, administrative and other expense, such as employee compensation and benefits, occupancy and equipment expense, deposit insurance premiums, franchise taxes and miscellaneous other expenses, as well as federal income tax expense.

In general, financial institutions are vulnerable to an increase in interest rates to the extent that interest-bearing liabilities mature or reprice more rapidly than interest-earning assets. The lending activities of financial institutions, including the Savings Bank, have historically emphasized the origination of long-term, fixed-rate loans secured by single-family residences, and the primary source of funds of such institutions has been deposits, which largely mature or are subject to repricing within a short period of time. This factor, in combination with substantial investments in long-term, fixed-rate loans, has historically caused the income earned by the Savings Bank on its loan portfolio to adjust more slowly to changes in interest rates than its cost of funds. While having liabilities that reprice more frequently than assets is generally beneficial to net interest income in times of declining interest rates, such an asset/liability mismatch is generally detrimental during periods of rising interest rates. To reduce the effect of adverse changes in interest rates on its operations, the Savings Bank has implemented the asset and liability management policies described below.

ASSET AND LIABILITY MANAGEMENT

The Savings Bank's Board of Directors has in recent years implemented various asset and liability management policies designed to better match the maturities and repricing

terms of the Savings Bank's interest-earning assets and interest-bearing liabilities in order to minimize the adverse effects on the Savings Bank's results of operations of material and prolonged increases in interest rates. Such policies include (i) emphasizing investment in adjustable-rate single-family residential loans; (ii) selling long-term, fixed-rate single-family residential loans into the secondary market; and (iii) managing interest expense through the utilization of core deposits and outside borrowings.

As a result of implementing the assets portfolio aspects of those policies, at September 30, 1996, $21.1 million, or 53.0%, of the Company's total loan portfolio consisted of adjustable-rate loans. In addition, as of such date, $20.9 million, or 54.0%, of the Company's portfolio of single-family residential mortgage loans consisted of adjustable-rate loans. However, due to competitive pressures in its primary market area, as of September 30, 1996, the Company's core deposits (passbook, money market and NOW accounts) amounted to $7.8 million, or only 18.8% of total deposits. This percentage is a slight improvement from fiscal 1995 but is significantly below its target core deposits of 30% of total deposits.

The effect of interest rate changes on a financial institution's assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity "gap" is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds interest rate sensitive assets. During a period of falling interest rates, a positive gap would tend to adversely affect net interest income, while a negative gap would tend to result in an increase in net interest income. During a period of rising interest rates, a positive gap would tend to result

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in an increase in net interest income while a negative gap would tend to affect net interest income adversely.

Notwithstanding the foregoing asset and liability strategies, the Company's one-year interest rate sensitivity gap amounted to (28.46)% of total assets at September 30, 1996. The one-year interest rate sensitivity gap is defined as the difference between the Company's interest-earning assets which are scheduled to mature or reprice within one year and its interest-bearing liabilities which are scheduled to mature or reprice within one year. At September 30, 1996, the Company's interest-earning assets maturing or repricing within one year totalled $13.4 million while the Company's interest-bearing liabilities maturing or repricing within one year totalled $27.7 million, providing an excess of interest-bearing liabilities over interest-earning assets of $14.3 million. At September 30, 1996, the percentage of the Company's interest-earning assets to interest-bearing liabilities maturing or repricing within one year was 48.3%. While the Company's one-year interest rate sensitivity gap is considered by management and the Board of Directors to be within the

intended range of acceptable positions based upon management's asset and liability management strategy, the Board plans to continue to follow policies that are designed to better match the maturities and repricing terms of the Company's portfolio.

The following table presents the difference between the Savings Bank's interest-earning assets and interest-bearing liabilities within specified maturities at September 30, 1996. This table does not necessarily indicate the impact of general interest rate movements on the Savings Bank's net interest income because the repricing of certain assets and liabilities is subject to competitive and other limitations. As a result, certain assets and liabilities indicated as maturing or otherwise repricing within a stated period may in fact mature or reprice at different times and at different volumes.

<TABLE>
<CAPTION>

	One Year or Less	Over One Through Three Years	Over Three Through Five Years	Over Five Through Ten Years	Over Ten Through Twenty Years	Over Twenty Years	Total
				(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:							
Real estate mortgages:							
Adjustable-rate(1)(2)	$7,276	$12,816	$1,275	$ --	$ --	$ --	$21,367
Fixed-rate(1)(3)	11	218	3,433	7,620	3,964	2,675	17,921
Other loans(1)	41		2				43
Mortgage-backed securities(1)	4,190	339				245	4,774
Investment securities and other earning assets(4)	1,843	1,575	1,000	--	--	430	4,848
Total interest-earning assets	$13,361	$14,948	$5,710	$7,620	$ 3,964	$3,350	$48,953
Interest-bearing liabilities:							
Passbook savings(5)	$ 633	$ 1,026	$ 688	$ 856	$ 567	$ 161	$ 3,931
NOW accounts and demand deposits(5)	423	464	124	167	91	16	1,285
Money market deposits(5)	1,597	534	254	122	85	24	2,616
Certificates of deposit(5)	21,945	7,709	4,150	--	--	--	33,804
FHLB advances	3,060	130	146	317	--	--	3,653
Total interest-bearing liabilities	$27,658	$ 9,863	$ 5,362	$ 1,462	$ 743	$ 201	$45,289
Interest rate sensitivity gap	$(14,297)	$ 5,085	$ 348	$ 6,158	$ 3,221	$3,149	$ 3,664
Cumulative interest rate sensitivity gap	$(14,297)	$(9,212)	$(8,864)	$(2,706)	$ 515	$3,664	$ 3,664
Percentage of cumulative gap to total assets	(28.46)%	(18.34)%	(17.65)%	(5.39)%	1.03%	7.29%	7.29%

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Cumulative ratio of interest-earning assets to interest-bearing liabilities	48.31%	75.45%	79.33%	93.90%	101.14%	108.09%	108.09%

</TABLE>

----

(1) The dollar amount of loans and mortgage-backed securities reflected within a repricing period includes the scheduled amortization with respect to fixed-rate loans and mortgage-backed securities and the scheduled repricing with respect to adjustable-rate loans and mortgage-backed securities.

(2) Includes all adjustable-rate single-family residential (including loans designated as held for sale) and multi-family residential and non-residential real estate loans, net of the undisbursed portion of loans in process, allowance for loan losses and deferred loan origination fees.

(Footnotes continued on following page)

(3) Includes all fixed-rate single-family residential (including loans designated as held for sale) and multi-family residential and non-residential real estate loans, net of the undisbursed portion of loans in process, allowance for loan losses and deferred loan origination fees.

(4) Includes interest-bearing deposits, investment securities and FHLB of Cincinnati stock.

(5) Based on the following decay rate assumptions: (i) passbook decay will occur at the following annual rates during the time periods shown in the above table: 17%, 17%, 16%, 14%, 14% and 14%; (ii) NOW and demand deposit account decay will occur at the following annual rates during the time periods shown in the above table: 37%, 32%, 17%, 17%, 17% and 17%; (iii) money market decay will occur at the following annual rates during the time periods shown in the above table: 79%, 31%, 31%, 31%, 31% and 31%; and (iv) certificates of deposit will not be withdrawn prior to maturity.

Management also presently monitors and evaluates the potential impact of interest rate changes upon the market value of the Savings Bank's portfolio equity and the level of net interest income on a quarterly basis. In August 1993, the OTS adopted a final rule incorporating an interest rate risk component into the risk-based capital rules. Under the rule, an institution with a greater than "normal" level of interest rate risk will be subject to a deduction of its interest rate component from total capital for purposes of calculating the risk-based capital requirement. An institution with a greater than "normal" interest rate risk is defined as an institution that would suffer a loss of net portfolio value ("NPV") exceeding 2.0% of the estimated market value of its assets in the event of a 200 basis point increase or decrease in interest rates. NPV is the difference between incoming and outgoing discounted cash flows from assets, liabilities, and off-balance sheet contracts. A resulting change in NPV of more than 2% of the estimated market value of an institution's assets will require the institution to deduct from its capital 50% of that excess change. The rule provides that the OTS will calculate the interest rate risk component quarterly for each institution. The OTS has recently indicated that no institution will be required to deduct capital for interest rate risk until further notice.

The following table presents the Savings Bank's NPV as of September 30, 1996, as calculated by the OTS, based on information provided to the OTS by the Company.

<TABLE>
<CAPTION>

Net Portfolio Value

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Change in Interest Rates (basis points)	Estimated NPV	Estimated NPV as a Percentage of Assets	Amount of Change	Change as a Percentage of Assets
		(Dollars in Thousands)		
<S>	<C>	<C>	<C>	<C>
+400	$ 844	1.84%	$(3,651)	(7.26)%
+300	1,869	3.95	(2,626)	(5.23)
+200	2,868	5.89	(1,627)	(3.24)
+100	3,769	7.54	(726)	(1.45)
--	4,495	8.80	--	--
-100	4,992	9.60	496	.98
-200	5,221	9.92	725	1.44
-300	5,273	9.93	777	1.55
-400	5,355	9.99	859	1.71

</TABLE>

Certain shortcomings are inherent in the method of analysis presented in both the computation of NPV and in the analysis presented in the prior table setting forth the maturing and repricing of interest-earning assets and interest-bearing liabilities. Although certain assets and liabilities may have similar maturities or periods within which they will reprice, they may react differently 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, adjustable-rate mortgages have features which restrict changes in interest rates on a short-term basis and over the life of the asset. The proportion of adjustable-rate loans could be reduced in future periods if market interest rates would decrease and remain at lower levels for a sustained period, due to increased 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 table. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of a sustained interest rate increase.

CHANGES IN FINANCIAL CONDITION

The Company had total assets of $50.2 million at September 30, 1996, an increase of $1.9 million, or 3.9%, from September 30, 1995. The growth in total assets was primarily

funded by the proceeds from the Conversion and Reorganization, which amounted to $1.2 million. The remaining growth was funded by advances from the FHLB of Cincinnati.

Liquid assets (i.e. cash, interest-bearing deposits, and certificates of deposit) decreased $1.6 million, or 38.9%, during the year ended September 30, 1996. This reduction in liquid assets reflected the Company's emphasis on loan growth as the funds were used for loan originations, some of which are held for sale. At September 30, 1996, the Savings Bank's regulatory liquidity amounted to 8.9%, which exceeded the minimum OTS requirement of 5% by $1.7 million. See "- Liquidity and Capital Resources."

Loans receivable (including loans held for sale) increased $6.6 million, or 20.0%, to total $39.3 million at September 30, 1996, as compared to $32.8 million at September 30, 1995. Loan originations of $25.6 million were offset by loan sales of $12.6 million and repayments of $6.4 million. The Company has seen a significant increase in its secondary market activity, due primarily to the lower interest rate environment and the consumer demand for fixed rate loan products, but also to the growth of the Company's mortgage loan origination office and additional loan originators. The Company is also in the process of selling approximately $8.0 million in adjustable rate loans to a mortgage company. The proceeds from the sale will be used to originate loans, purchase investments and repay FHLB advances. The sale was completed in November 1996 with a recognized gain of $72,000, net of deferred costs.

As of September 30, 1996, the Company's allowance for loan losses amounted to $95,000, which represented an increase of $14,000 over the allowance for loan losses maintained at September 30, 1995. The increase in the provision for loan losses in 1996 was solely attributable to the aforementioned growth in the loan portfolio and the inherent risk related to mortgage lending. As of September 30, 1996, the allowance for loan loss consisted entirely of a general loss allowance, which is includable as a component of regulatory risk-based capital. As of such date, the allowance for

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loan losses amounted to .24% of total loans. As of September 30, 1996, the Company had no non-performing loans. Management will continue to monitor its allowance for loan losses and make additions to the allowance through the provision for loan losses as economic conditions dictate. Although the Savings Bank maintains its allowance for loan losses at a level which it considers to be adequate to provide for loan losses, there can be no assurance that future losses will not exceed estimated amounts or that additional provisions for loan losses will not be required in the future. See Note 1 of the Notes to Financial Statements.

Mortgage-backed securities (including securities available for sale) decreased by $2.5 million, or 34.7%, during the year ended September 30, 1996. As of December 31, 1995, the Company had transferred all of its adjustable rate mortgage-backed securities from held to maturity to available for sale in order to provide the Company with additional flexibility in the future to sell individual securities if it chooses to do so. During the year ended September 30, 1996, the Company sold $1.7 million of mortgage-backed securities at a loss of $2,000. The Company also purchased $513,000 of available for sale mortgage-backed

securities during the year ended September 30, 1996, and had principal repayments of $1.3 million during such period. At September 30, 1996, the Company had classified $4.5 million of its mortgage-backed securities as available for sale and had net unrealized gains with respect to such securities of $30,000.

Investment securities (including securities classified as available for sale) decreased $517,000, or 17.3%, during the year ended September 30, 1996. The Company replaced two investments that were called during fiscal 1996 with similar investments and sold one investment at a gain of $13,000 during the year ended September 30, 1996. As of September 30, 1996, the Company had classified $486,000 of its investment securities as available for sale and had net unrealized losses of $13,000 with respect to such investment securities.

Total deposits amounted to $41.6 million at September 30, 1996, a decrease of $2.8 million, or 6.3%, from the $44.4 million in deposits as of September 30, 1995. Deposits which are subject to daily repricing (passbook, statement savings, money market and checking accounts), increased by $1.1 million, or 15.8%, from September 30, 1995 to September 30, 1996. The increase in deposit accounts subject to daily repricing was due to new products offered by the Company, which included automated teller machine access, debit card availability, statement savings, and tiered interest rates on demand accounts based on outstanding balances. During the year ended September 30, 1996, certificates of deposit decreased $3.9 million, or 10.3%, as compared to the year ended September 30, 1995. The reduction in certificates was due to consumer demand for other types of savings vehicles. The Company has generally not engaged in offering the highest rates available in its deposit market except upon specific occasions when market conditions have created opportunities to attract longer-term deposits.

The Company had FHLB advances of $3.7 million at September 30, 1996, a significant increase in the balance outstanding at September 30, 1995 of $194,000. The increase in borrowings were used to fund the loan growth and the reduction in deposits as discussed above. The Company has used FHLB advances as a short term funding of the asset growth versus offering special rates on short term deposits. The average rate paid on the FHLB advances amounted to 5.48% for the year ended September 30, 1996.

Stockholders' equity increased $1.0 million, or 31.8%, to $4.2 million at September 30, 1996 from $3.2 million as of September 30, 1995. The increase was due primarily to the proceeds from the Conversion and Reorganization of the Company which was completed in June 1996. Total proceeds from the Conversion, net of the unearned shares in the Company's employee stock ownership plan ("ESOP"), was $1.2 million. The increase was partially offset by $62,000 of dividends declared during the year ended September 30, 1996, and the net loss of the Company for fiscal 1996 of $126,000.

AVERAGE BALANCES, NET INTEREST INCOME AND YIELDS EARNED AND RATES PAID

The following table presents for the periods indicated the total

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dollar amount of interest from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. The table does not reflect any effect of income taxes. All average balances are based on month-end balances.

<TABLE>
<CAPTION>

	Year Ended September 30,					
	1996			1995		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
INTEREST-EARNING ASSETS:						
Loans receivable(1)	$35,234	$2,670	7.58%	$30,792	$2,402	7.80%
Mortgage-backed securities(2)	7,055	457	6.48	7,847	452	5.76
Investment securities(2)	3,046	189	6.20	2,477	140	5.65
Other interest-earning assets(3)	1,829	107	5.85	3,933	200	5.09
Total interest-earning assets	47,164	$3,423	7.26%	45,049	$3,194	7.09%
Non-interest-earning assets	1,410			928		
Total assets	$48,574			$45,977		
INTEREST-BEARING LIABILITIES:						
Deposits	$43,006	$2,462	5.72%	$41,753	$2,267	5.43%
FHLB advances	1,313	72	5.48	720	43	5.97
Total interest-bearing liabilities	44,319	$2,534	5.72%	42,473	$2,310	5.44%
NON-INTEREST-BEARING LIABILITIES:	552			293		
Total liabilities	44,871			42,766		
Stockholders' equity	3,703			3,211		
Total liabilities and stockholders' equity	$48,574			$45,977		
Net interest income; interest rate spread		$ 889	1.54%		$ 884	1.65%
Net interest margin(4)			1.88%			1.96%
Average interest-earning assets to average interest-bearing liabilities			106.42%			106.07%

</TABLE>

<TABLE>
<CAPTION>

	Year Ended September 30,			At September 30, 1996
	1994			
	Average Balance	Interest	Yield/ Rate	Yield/ Rate
<S>	<C>	<C>	<C>	<C>
INTEREST-EARNING ASSETS:				
Loans receivable(1)	$23,884	$1,836	7.69%	7.46%
Mortgage-backed securities(2)	6,866	385	5.61	6.63
Investment securities(2)	2,000	101	5.05	6.00
Other interest-earning assets(3)	5,669	189	3.33	5.53
Total interest-earning assets	38,419	$2,511	6.54%	7.21%
Non-interest-earning assets	694			
Total assets	$39,113			
INTEREST-BEARING LIABILITIES:				
Deposits	$34,698	$1,597	4.60%	5.64%
FHLB advances	521	24	4.61	5.46
Total interest-bearing liabilities	35,219	$1,621	4.60%	5.63%

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NON-INTEREST-BEARING LIABILITIES:	741			
Total liabilities	35,960			
Stockholders' equity	3,153			
Total liabilities and stockholders' equity	$39,113			
Net interest income; interest rate spread		$ 890	1.94%	1.58%
Net interest margin(4)			2.32%	
Average interest-earning assets to average interest-bearing liabilities			109.09%	

</TABLE>

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(1) Includes loans held for sale.

(2) Includes securities classified as available for sale.

(3) Consists primarily of interest-bearing deposits (including certificates of deposit).

(4) Net interest margin is net interest income divided by average interest-earning assets.

RATE/VOLUME ANALYSIS

The following table describes the extent to which changes in interest rates and changes in volume of interest-related assets and liabilities have affected the Company's interest income and expense during the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (change in volume multiplied by prior year rate), (ii) changes in rate (change in rate multiplied by prior year volume), and (iii) total change in rate and volume. The combined effect of changes in both rate and volume has been allocated proportionately to the change due to rate and the change due to volume.

<TABLE>
<CAPTION>

	Year Ended September 30,					
	1996 vs. 1995			1995 vs. 1994		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Rate	Volume		Rate	Volume	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
INTEREST-EARNING ASSETS:						
Loans(1)	$ (79)	$ 347	$ 268	$ 35	$ 531	$566
Mortgage-backed securities(2)	51	(46)	5	12	55	67
Investment securities(2)	17	32	49	15	24	39
Other interest-earnings assets(3)	14	(107)	(93)	69	(58)	11
Total interest-earning assets	$ 3	$ 226	$ 229	$ 131	$ 552	$683
INTEREST-BEARING LIABILITIES:						
Deposits	$ 127	$ 68	$ 195	$ 345	$ 325	$670
FHLB advances	(6)	35	29	10	9	19
Total interest-bearing liabilities	$ 121	$ 103	$ 224	$ 355	$ 334	689
Decrease in net interest income			$ 5			$ (6)

</TABLE>

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(1) Includes loans held for sale.

(2) Includes securities classified as available for sale.

(3) Consists primarily of interest-bearing deposits (including certificates of deposit).

RESULTS OF OPERATIONS COMPARISON OF THE YEARS ENDED SEPTEMBER 30, 1996 AND SEPTEMBER 30, 1995

The Company reported a net loss for the year ended September 30, 1996 of $104,000. The loss reflects the one-time SAIF recapitalization assessment of $289,000 which was accounted for in the fourth quarter of the Company's current fiscal year. Prior to this assessment, the Company would have reported net income of $99,000, as compared to $81,000 of net income for the year ended September 30, 1995, an increase of $17,000, or 21.0% from fiscal 1995. The increase in net income prior to the SAIF assessment resulted primarily from a slight increase in net interest income and from an increase in gain on sale

of loans, partially offset by an increase in general administrative and other expenses, as well as an increase in the provision for loan losses.

Interest income increased $229,000, or 7.2%, to $3.4 million for the year ended September 30, 1996, from $3.2 million for the year ended September 30, 1995. Interest income on loans increased $268,000, or 11.2%, to $2.7 million for the year ended September 30, 1996. The increase in interest on loans was due to the increase in the average balance outstanding on loans of $4.4 million for the year ended September 30, 1996, offset by a reduction in the average yield from 7.80% at September 30, 1995 to 7.58% at September 30, 1996. The reduction in average yield was due to the lower interest rates seen in the mortgage market during fiscal 1996. Interest income on mortgage-backed securities increased $5,000, or 1.1%, to $457,000 for the year ended September 30, 1996. Such increase was due to an increase in the average yield earned thereon from 5.76% to 6.48% as the adjustable rate mortgage-backed securities adjusted upwards during fiscal 1996. The increase in interest on mortgage-backed securities was partially offset by a reduction in the average balance of mortgage-backed securities as the Company sold $1.7 million of mortgage-backed securities along with normal repayments of $1.3 million during fiscal 1996. Interest income on investments increased $49,000, or 35.0%, during fiscal 1996 due to an increase in average balances outstanding from $2.5 million to $3.1 million year-to-year, and the average yield increase from 5.65% during fiscal 1995 to 6.20% during fiscal 1996. Interest income on other interest earning assets decreased $93,000, or 46.5%, to $107,000, for the year ended September 30, 1996 from $200,000 for the year ended September 30, 1995. The decrease in interest income during the year ended September 30, 1996, was also due to the reduction in the average balance outstanding of $2.1 million, as the Company converted other interest earning assets into loans and investments which earned higher yields.

Interest expense increased $224,000, or 9.7%, to $2.5 million for the year ended September 30, 1996 as compared to $2.3 million for the year ended September 30, 1995. Interest expense on deposits increased $195,000, or 8.6%, to $2.5 million for the year ended September 30, 1996. This increase was due to the increase in the average balance of deposits outstanding year-to-year as well as an increase in the average rate of 29 basis points. Interest expense on FHLB advances increased $29,000, or 67.4%, during fiscal 1996 due exclusively to the increase in the average balance outstanding offset by a reduction in the average rate paid thereon. The Company has used the availability of the FHLB advances to fund the recent outflow of deposits and to fund loan demand.

As a result of the foregoing changes in interest income and interest expense, net interest income has increased $5,000, or less than 1%, during the year ended September 30, 1996 as compared to the year ended September 30, 1995. The interest rate spread decreased from 1.65% during 1995, to 1.54% during fiscal 1996, while the net interest margin decreased from 1.96% during fiscal 1995 to 1.88% during fiscal 1996. The decrease in the Company's interest rate spread and net interest margin resulted from a faster increase

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in rates paid by the Company on its interest bearing liabilities than in the rates earned on its interest earning assets, which is partially due to the Company's negative gap position.

The Company's provision for losses on loans totalled $14,000 for the year ended September 30, 1996, as compared to $12,000 for the year ended September 30, 1995. The provision for the year ended September 30, 1996 was influenced by the increase in the total loan portfolio and the related inherent risk in mortgage lending.

Other income increased by $159,000, or 300.56%, during the year ended September 30, 1996, as compared to the year ended September 30, 1995. The increase was due primarily to the $147,000 increase in gain on sale of mortgage loans in the secondary market during fiscal 1996 over the level achieved during fiscal 1995. The Company also recognized an $11,000 gain on sale of available for sale securities during fiscal 1996 with no such corresponding sales in fiscal 1995. The current interest market and the demand for fixed rate loans allowed the Company to increase its secondary market activity during fiscal 1996. During the year ended September 30, 1996, the Company originated $13.2 million in loans originated for sale on the secondary market, as compared to $3.4 million for the year ended September 30, 1995. The ability to generate gains from the sale of loans and investments is dependent on market and economic conditions and, accordingly, there can be no assurance that gains similar to those reported in the current fiscal year can be achieved in the future.

General, administrative and other expenses increased $441,000, or 54.6%, for the year ended September 30, 1996, as compared to the year ended September 30, 1995. Included as part of this increase is the one-time SAIF assessment of $289,000, which if excluded, would have shown an increase of $152,000, or 18.8%, in such expenses compared to fiscal 1995. This increase was due primarily to a $65,000, or 17.5%, increase in employee compensation and benefits, and an increase in other operating expenses of $58,000 or 29.9%, during fiscal 1996. The increase in employee compensation and benefits resulted from normal merit pay increases coupled with the growth in the Company's mortgage loan origination staff. Other operating expenses increased during fiscal 1996 due primarily to a full year of costs associated with the mortgage loan origination office which was opened in March 1995.

The Company reported a benefit for federal income taxes of $48,000 for the year ended September 30, 1996, due to the loss before income taxes of $152,000. The loss before income taxes was due to the one-time SAIF assessment discussed previously. The effective tax rates for the years ended September 30, 1996 and 1995, were 31.6% and 36.2%, respectively.

RESULTS OF OPERATIONS COMPARISON OF THE YEARS ENDED SEPTEMBER 30, 1995 AND SEPTEMBER 30, 1994

Net income for the year ended September 30, 1995 totalled $81,000, a decrease of $79,000 or 49.4% from the $160,000 in net income recorded for the year ended September 30, 1994. The decline in net income resulted primarily from a $21,000 decrease in gain on sale of mortgage loans and an $81,000 increase in general, administrative and other expense, which were partially offset by a $26,000 decrease in the federal income tax provision.

Interest income on loans for the year ended September 30, 1995 increased by $566,000, or 30.8%, due to a $6.9 million, or 28.9%, increase in the average balance of loans outstanding year-to-year and, to a much lesser extent, an 11 basis point increase in the average yield earned thereon. Interest income on mortgage-backed securities increased by $67,000, or 17.4%, due to an increase of approximately $981,000, or 14.3%, in the average balance outstanding year-to-year. Interest income on investment securities and other interest-earning assets increased by $50,000, or 17.2%.

Interest expense on deposits increased by $670,000, or 42.0%, during the year ended September 30, 1995. This increase was the result of an increase of $7.1 million, or 20.3%, in the average balance of deposits outstanding year-to-year as well as an increase in the average rate paid thereon of 83 basis points. Interest expense on borrowings increased by $19,000, or 79.2%, for the year ended September 30, 1995, as compared to the year ended September 30, 1994. This increase was the result of a $199,000, or 38.2%, increase in average balance of FHLB advances outstanding year-to-year coupled with an increase in the average rate paid thereon of 136 basis points.

As a result of the foregoing changes in interest income and interest expense, net interest income decreased by $6,000, or .7%, during the year ended

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September 30, 1995, as compared to the year ended September 30, 1994. The interest rate spread decreased from 1.94% during fiscal 1994 to 1.65% during fiscal 1995, while the net interest margin decreased from 2.32% during fiscal 1994 to 1.96% during fiscal 1995.

The Company's provision for losses on loans totalled $12,000 for the year ended September 30, 1995, as compared to $11,000 for the year ended September 30, 1994. The provision during fiscal 1995 was influenced by management's assessment of current and anticipated economic conditions and was primarily the result of loan portfolio growth during the year.

Other income decreased by $17,000, or 21.5%, during the year ended September 30, 1995, as compared to the year ended September 30, 1994. This decrease was due primarily to a decline of $21,000 in gain on sale of mortgage loans. The Savings Bank's secondary market activities declined during fiscal 1995, primarily as a result of the rising interest rate environment, as previously discussed.

General, administrative and other expense increased by $81,000, or 11.2%, during the year ended September 30, 1995, as compared to the year ended September 30, 1994, due primarily to a $48,000, or 14.8%, increase in employee compensation and benefits. Such increase resulted from normal merit pay increases coupled with a $13,000 decline in deferred loan origination costs due to the decline in loan origination volume year-to-year. Occupancy and equipment expense increased by $16,000, or 17.0%, due primarily to the leasing of additional office space for the Savings Bank's mortgage banking operations, while federal deposit insurance premiums increased by $10,000, or 12.5%, due to deposit growth.

The provision for federal income taxes decreased by $26,000, or 36.1%, during the year ended September 30, 1995, as compared to the year ended September 30, 1994, due primarily to a decrease in income before income taxes of $105,000, or 45.3%. The Savings Bank's effective tax rates amounted to 36.2% and 31.0% during the years ended September 30, 1995 and 1994, respectively. The increase in the effective tax rate from fiscal 1994 to fiscal 1995 was due to a change in the estimated rate on deferred income taxes.

LIQUIDITY AND CAPITAL RESOURCES

The Savings Bank is required under applicable federal regulations to maintain specified levels of "liquid" investments in qualifying types of U.S. Government, federal agency and other investments having maturities of five years or less. Current OTS regulations require that a savings institution maintain liquid assets of not less than 5% of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less, of which short-term liquid assets must consist of not less than 1%. Monetary penalties may be imposed for failure to meet applicable liquidity requirements.

The liquidity of the Savings Bank, as measured by the ratio of cash, cash equivalents (not committed, pledged or required to liquidate specific liabilities), investment and qualifying mortgage-backed securities to the sum of total deposits plus borrowings payable within one year, was 10.0% at September 30, 1996, as compared to 13.7% and 14.9% at September 30, 1995 and 1994, respectively. At September 30, 1996, the Savings Bank's "liquid" assets totalled approximately $2.0 million, which was $1.5 million in excess of the current OTS minimum requirement.

The Company's liquidity, represented by cash and cash equivalents, is a product of its operating, investing and financing activities. The Company's primary sources of funds are deposits, borrowings, amortization, prepayments and maturities of outstanding loans and mortgage-backed securities, maturities of investment and mortgage-backed securities and

other short-term investments, sales of loans and securities and funds provided from operations. While scheduled loan and mortgage-backed securities amortization and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company manages the pricing of its deposits to maintain a steady deposit balance. In addition, the Company invests excess funds in

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overnight deposits and other short-term interest-earning assets which provides liquidity to meet lending requirements. The Company generates cash through the retail deposit market and, to the extent deemed necessary, utilizes borrowings for liquidity purposes (primarily consisting of advances from the FHLB of Cincinnati). At September 30, 1996, the Company had $3.7 million of outstanding advances from the FHLB of Cincinnati. Furthermore, the Company has access to the Federal Reserve Bank discount window.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments such as overnight deposits. On a longer-term basis, the Company maintains a strategy of investing in various loans, mortgage-backed securities and investment securities. The Company uses its sources of funds primarily to meet its ongoing commitments, to pay maturing savings certificates and savings withdrawals, fund loan commitments and maintain a portfolio of investment and mortgage-backed securities.

At September 30, 1996, the Company had outstanding commitments to originate residential real estate loans of approximately $413,000. At the same date, the total amount of certificates of deposit which were scheduled to mature by September 30, 1997 was $21.9 million. The Company believes that it has adequate resources to fund all of its commitments and that it can adjust the rates on savings certificates to retain deposits in changing interest rate environments.

IMPACT OF INFLATION AND CHANGING PRICES

The financial statements and related financial data 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 changes in relative purchasing power over time due to inflation.

Unlike most industrial companies, virtually all of the Company's assets and liabilities are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than does the effect of inflation.

[CLARK, SCHAEFER, HACKETT & CO. LETTERHEAD]

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Kenwood Bancorp Inc. and Subsidiary:

We have audited the accompanying consolidated statements of financial condition of Kenwood Bancorp Inc. (formerly Kenwood Savings and Loan Association) and Subsidiary as of September 30, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. The financial statements are the responsibility of the Bancorp's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Kenwood Savings and Loan Association as of September 30, 1994 were audited by other auditors whose report dated November 16, 1994 expressed an unqualified opinion on those statements.

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 weather the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting 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 Kenwood Bancorp Inc. and Subsidiary as of September 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

/s/ CLARK, SCHAEFER, HACKETT & CO.

Cincinnati, Ohio

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November 1, 1996

[GRANT THORNTON LLP LETTERHEAD]

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Kenwood Bancorp Inc. and Subsidiary:

We have audited the accompanying consolidated statements of financial condition of Kenwood Bancorp Inc. (formerly Kenwood Savings and Loan Association) and Subsidiary as of September 30, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bancorp's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Kenwood Savings and Loan Association as of September 30, 1994 were audited by other auditors whose report dated November 16, 1994 expressed an unqualified opinion on those statements.

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 Kenwood Bancorp Inc. and Subsidiary as of September 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

/s/ GRANT THRONTON LLP

Cincinnati, Ohio
November 1, 1996

KENWOOD BANCORP INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

September 30, 1996 and 1995
(In thousands)

<TABLE>
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Assets

	1996	1995
<S>	<C>	<C>
Cash and due from banks	$ 588	689
Interest-bearing deposits in other financial institutions	1,558	2,119
Cash and cash equivalents	2,146	2,808
Certificates of deposit in other financial institutions	380	1,330
Investment securities - held to maturity, at amortized cost, approximate market value of $1,959 and $1,971 as of September 30,		

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1996 and 1995	1,994	1,991
Investment securities - available for sale (amortized cost of $499 and $999 at September 30, 1996 and 1995)	486	1,006
Mortgage-backed securities - held to maturity, at cost, approximate market value of $250 and $7,364 at September 30, 1996 and 1995	245	7,311
Mortgage backed securities - available for sale (amortized cost of $4,499 at September 30, 1996)	4,529	-
Loans receivable	30,009	32,559
Loans held for sale - at lower of cost or market	9,322	213
Property and equipment, net	362	380
Federal Home Loan Bank stock - at cost	430	401
Accrued interest receivable:		
Loans	199	144
Mortgage-backed securities	26	38
Investments and interest-bearing deposits	20	29
Prepaid expenses and other assets	74	70
Prepaid Federal income taxes	9	29
Total assets	$ 50,231	48,309

</TABLE>

See accompanying notes to financial statements.

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<CAPTION>

Liabilities and Stockholders' Equity

<S>	1996 <C>	1995 <C>
Deposits	$ 41,636	44,428
Advances from the Federal Home Loan Bank	3,653	194
Accounts payable on mortgage loans serviced for others	37	107
Advances by borrowers for taxes and insurance	215	181
Other liabilities	417	85
Deferred federal income taxes	34	98
Total liabilities	45,992	45,093
Commitments	-	-
Stockholders' equity		
Preferred stock - authorized 1,000,000 shares of $ .10 par value, none issued	-	-
Common stock - authorized 4,000,000 shares $ .01 and $ .10 par value, 295,133 and and 151,656 shares issued and outstanding at September 30, 1996 and 1995	3	15
Additional paid-in capital	1,771	452
Retained earnings - substantially restricted	2,597	2,763
Shares acquired by Management Recognition Plan	(18)	(19)
Less unearned ESOP shares	(126)	-
Unrealized gain on available for sale securities, net of income taxes	12	5
Total stockholders' equity	4,239	3,216
Total liabilities and stockholders equity	$ 50,231	48,309

</TABLE>

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KENWOOD BANCORP INC. AND SUBSIDIARY

Consolidated Statements of Operations

Year Ended September 30,
(In Thousands)

	1996	1995	1994
Interest income:			
Loans	$2,670	2,402	1,836
Mortgage-backed securities	457	452	385
Investment securities	189	140	101
Interest-bearing deposits and other	107	200	189
Total interest income	3,423	3,194	2,511
Interest expense:			
Deposits	2,462	2,267	1,597
Borrowings	72	43	24
Total interest expense	2,534	2,310	1,621
Net interest income	889	884	890
Provision for losses on loans	14	12	11
Net interest income after provision for losses on loans	875	872	879
Other income:			
Gain on sale of mortgage loans	193	46	67
Gain on sale of investments	11	-	-
Other operating	17	16	12
Total other income	221	62	79
General, administrative and other expense:			
Employee compensation and benefits	437	372	324
Occupancy and equipment	124	110	94
Federal deposit insurance premiums	393	90	80
Franchise taxes	42	41	40
Other	252	194	188
Total general, administrative and other expense	1,248	807	726
Income (loss) before income taxes (benefits)	(152)	127	232
Federal income taxes (benefits)			
Current	19	26	66
Deferred	(67)	20	6
	(48)	46	72
Net Income (loss)	$ (104)	81	160
Earnings per share, restated for effects of conversion from mutual holding company	$ (.37)	.29	.57

The accompanying notes are an integral part of these statements.

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KENWOOD BANCORP INC. AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

Years Ended September 30, 1996, 1995 and 1994
(In Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unrealized Gain on Available for Sale Securities	Shares Acquired By MRP	Unearned ESOP Shares	Total
Balance at September 30, 1993	$ 15	436	2,671	-	(21)	-	3,101
Issuance of shares under stock option plan	-	16	-	-	-	-	16
Amortization of MRP expense	-	-	-	-	3	-	3
Net income for the year ended September 30, 1994	-	-	160	-	-	-	160
Cash dividends of $1.06 per share	-	-	(75)	-	-	-	(75)
Balance at September 30, 1994	15	452	2,756	-	(18)	-	3,205
Amortization of MRP expense	-	-	-	-	(1)	-	(1)
Net income for the year ended September 30, 1995	-	-	81	-	-	-	81
Increase in unrealized gain on available sale securities - net of tax	-	-	-	5	-	-	5
Cash dividends of $.56 per share	-	-	(74)	-	-	-	(74)
Balance at September 30, 1995	15	452	2,763	5	(19)	-	3,216
Amortization of MRP expense	-	-	-	-	1	-	1
Net loss for the year ended September 30, 1996	-	-	(104)	-	-	-	(104)
Increase in unrealized gain on available for sale securities net of tax	-	-	-	7	-	-	7
Cash dividends of $.49 per share	-	-	(62)	-	-	-	(62)
Shares acquired by ESOP	-	-	-	-	-	(126)	(126)
Reorganization with issuance of common stock in second step conversion	(12)	1,319	-	-	-	-	1,307
Balance at September 30, 1996	$ 3	1,771	2,597	12	(18)	(126)	4,239

The accompanying notes are an integral part of these statements.

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KENWOOD BANCORP INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Year Ended September 30,
(In Thousands)

	1996	1995	1994
Cash flows from operating activities:			
Net income (loss) for the year	$ (104)	81	160
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	30	21	37
Loans disbursed for sale in the			

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secondary market	(13,218)	(3,388)	(5,997)
Proceeds from sale of loans in the secondary market	12,788	3,221	7,081
Gain on sale of mortgage loans	(193)	(46)	(67)
Gain on sale of investments	(11)	-	-
Federal Home Loan Bank stock dividends	(29)	(24)	(17)
Amortization of deferred loan origination (fees) costs	(39)	(14)	8
Amortization of expense of management recognition plan	1	(1)	3
Provision for losses on loans	14	12	11
Increase (decrease) in cash due to changes in:			
Accrued interest receivable	(34)	(25)	(67)
Prepaid expenses and other assets	(4)	(9)	(6)
Accounts payable on mortgage loans serviced on others	(70)	66	(29)
Other liabilities	332	(3)	(10)
Federal income taxes:			
Current	20	14	(99)
Deferred	(67)	36	6
Net cash provided by (used in) operating activities	(584)	(59)	1,014
Cash flows from investing activities:			
Principal repayments on loans and mortgage-backed securities	7,777	6,469	8,567
Loan disbursements	(12,356)	(10,593)	(12,812)
Purchase of mortgage-backed securities	-	-	(3,090)
Purchase of mortgage-backed securities available for sale	(513)	-	-
Proceeds from sale of mortgage-backed securities available for sale	1,743	-	-
Proceeds from sale of real estate acquired through foreclosure	-	-	24
Maturity of investment securities	500	-	1,000
Purchase of investment securities	(500)	-	(1,987)
Maturity of investment securities available for sale	500	-	-
Purchase of investment securities available for sale	(500)	(1,000)	-
Proceeds from sale of investment securities available for sale	513	-	-
Purchase of Federal Home Loan Bank stock	-	(50)	(3)
Purchase of office premises and equipment	(12)	(9)	(15)
(Increase) decrease in certificates of deposit in other financial institutions	950	725	(619)
Net cash used in investing activities	(1,898)	(4,458)	(8,935)
Net cash flows used in operating and investing activities (subtotal carried forward)	(2,482)	(4,517)	(7,921)

</TABLE>

See accompanying notes to financial statements.

KENWOOD BANCORP INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (Continued)

Years Ended September 30,
(In Thousands)

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>	1994 <C>
Net cash flows used in operating and investing activities (subtotal brought forward	$ (2,482)	(4,517)	(7,921)
Cash flows from financing activities:			
Net increase (decrease) in deposits	(2,792)	5,591	3,666
Proceeds from Federal Home Loan Bank advances	6,000	-	1,725

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Repayment of Federal Home Loan Bank advances	(2,541)	(18)	(1,513)
Advances by borrowers for taxes and insurance	34	48	30
Net proceeds from the issuance of common stock	1,181	-	-
Proceeds from exercise of stock options	-	-	16
Dividends paid on common stock	(62)	(74)	(75)
Net cash provided by financing activities	1,820	5,547	3,849
Net increase (decrease) in cash and cash equivalents	(662)	1,030	(4,072)
Cash and cash equivalents at beginning of year	2,808	1,778	5,850
Cash and cash equivalents at end of year	$ 2,146	2,808	1,778
Supplemental disclosure of cash flow information:			
Cash paid (refunded) during the year for:			
Federal income taxes	$ (2)	12	98
Interest on deposits and borrowings	$ 2,533	2,301	1,594
Supplemental disclosure of noncash investing activities:			
Transfers of investment securities to available for sale classification	$ 7,253	-	-
Change in unrealized gains (losses) on securities available for sale - net of related tax effects	7	5	-

</TABLE>

See accompanying notes to financial statements.

KENWOOD BANCORP INC. AND SUBSIDIARY

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies:

The following describes the organization and the significant accounting policies followed in the preparation of these financial statements. Certain amounts in the financial statements have been reclassified from previously issued financial statements to conform to the presentation included herein.

Nature of operations and principles of consolidation

Kenwood Bancorp Inc. (the Bancorp) is a holding company formed in 1996 in conjunction with the "second step" conversion of Kenwood Savings Bank from a mutual holding company to a stock savings bank on June 28, 1996. The Bancorp's financial statements include the accounts of its wholly-owned subsidiary, Kenwood Savings Bank. All significant intercompany transactions have been eliminated.

Kenwood Savings Bank is a state chartered savings bank and a member of the Federal Home Loan Bank system (FHLB) and subject to regulation by the Office of Thrift Supervision (OTS), an office of the U.S. Department of Treasury. As a member of the FHLB system, Kenwood Savings Bank maintains a required investment in capital stock of the Federal Home Loan Bank of Cincinnati.

The Bancorp's business consists of attracting deposits from the general public and applying those funds in the origination of residential, consumer and nonresidential loans.

Savings accounts are insured by the Savings Association Insurance Fund (SAIF), a division of the Federal Deposit Insurance Corporation (FDIC), within certain limitations. Semi-annual premiums are required by the SAIF for the insurance of such savings

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accounts.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas where management's estimates and assumptions are more susceptible to change in the near term include the allowance for loan losses and the fair value of certain securities.

Concentrations of credit risk

The Bancorp grants first mortgage and other loans to customers located primarily in the Metropolitan Cincinnati area. Accordingly, a substantial portion of its debtor's ability to honor their contracts is dependent upon the financial health of the local economy and market.

Management may at times, maintain deposit accounts with financial institutions in excess of federal deposit insurance limits.

Cash and cash equivalents

For the purpose of presentation in the statements of cash flows, the Bancorp considers all highly liquid debt instruments with original maturity when purchased of three months or less to be cash equivalents.

Investment and mortgage-backed securities

The Bancorp adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," as of October 1, 1994. Statement No. 115 requires the classification of investments in debt and equity securities into three categories; held to maturity, trading, and available for sale. Debt securities that the Bancorp has the positive intent and ability to hold to maturity are classified as held to maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling in the near-term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.

The Bancorp has no trading securities. Debt and equity securities that are not classified as either held to maturity securities or trading securities are classified as available for sale securities and reported at fair value, with unrealized gains or losses excluded from earnings and reported as a separate component of equity, net of deferred taxes. At the date of implementation of Statement No. 115, the Bancorp had not identified any investments or mortgage-backed securities as available for sale.

The Bancorp designates investment securities and mortgage-backed securities as held to maturity or available for sale upon acquisition. At December 31, 1995, the Bancorp made a one-time reassessment of the classification of certain mortgage-backed securities in accordance with "A Guide to Implementation of Statement No. 115 on Accounting for Certain Investments in Debt and Equity Securities" issued in November 1995. The Bancorp transferred mortgage-backed securities with an amortized cost of $7.2 million from the held-to-maturity classification to the available for sale classification to the available for sale classification at December 31, 1995 to reflect management's intent as to the classification of these securities. Gains or losses on the sales of investment securities and mortgage-backed securities available for sale are determined on the specific identification method.

Premiums and discounts on investment securities and mortgage-backed securities are amortized or accreted using the interest method over the expected lives of the related securities.

Loans receivable

Loans held in portfolio are stated at the principal amount

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outstanding, adjusted for deferred loan origination fees and costs, the allowance for loan losses, and premiums and discounts on loans purchased. Premiums and discounts on loans purchased are amortized and accreted to operations using the interest method over the estimated life of the underlying loans.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield on the related loan.

Interest in accrued as earned unless the collectibility of the loan is in doubt. Uncollectible interest on loans that are contractually past due is charged off, or an allowance is established based on management's periodic evaluation. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments has returned to normal, in which case the loan is returned to accrual status.

Loans held for sale are carried at the lower of cost or market, determined in the aggregate. In computing cost, deferred loan origination fees and costs are aggregated with the principal balances of the related loans. At September 30, 1996 and 1995, loans held for sale were carried at cost.

The Bancorp will either sell the related servicing on loans or retain the servicing on loans sold and agree to remit to the investor loan principal and interest at agreed-upon rates. These rates can differ from the loan's contractual interest rate resulting in a "yield differential." In addition to previously deferred loan origination fees and cash gains, gains on sale of loans can represent the present value of the future yield differential less a normal servicing fee, capitalized over the estimated life of the loans sold. Normal servicing fees are determined by reference to the stipulated minimum servicing fee set forth by the government agencies to whom the loans are sold. Such servicing fees are representative of the Bancorp's normal servicing costs. The resulting capitalized excess servicing fee is amortized to operations over the life of the loans using the interest method. If prepayments are higher than expected, an immediate charge to operations is made. If prepayments are lower, then the related adjustments are made prospectively.

It is the Bancorp's policy to provide valuation allowances for estimated losses on loans based on past loss experience, trends in the level of delinquent and problem loans, adverse situations that may affect the borrower's ability to repay the estimated value of any underlying collateral and current and anticipated economic conditions in the primary lending area. When the collection of a loan becomes doubtful, or otherwise troubled, the Bancorp records a loan loss provision equal to the difference between the fair value of the property securing the loan and the loan's carrying value. Major loans and major lending areas are reviewed periodically to determine potential problems at an early date. The allowance for loan losses is increased by charges to earnings and decreased by charge-off (net of recoveries). The amount of actual write-offs could differ from the estimate.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan". This standard amends Statement No. 5 to clarify that a creditor should evaluate the collectibility of both contractual interest and contractual principal on all loans when assessing the need for a loss accrual. In October 1994, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 118 "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosure", which amends Statement No. 114 to allow a creditor to use existing methods for recognizing interest income on impaired loans. The statements are effective for the fiscal year beginning October 1, 1995 and the adoption of these statements did not have a material effect on the Bancorp's financial statements.

A loan is defined as impaired under SFAS No. 114 when it is probable that a creditor will be unable to collect all amounts due

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according to contractual terms of the loan agreement. In applying the provisions of SFAS No. 114, the Bancorp considers its investment in one-to-four family residential loans and consumer loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. With respect to the Bancorp's investment in impaired multi-family and non-residential real estate loans, such loans are collateral dependent and as a result are carried as a practical expedient at the lower of cost or fair value.

It is the Bancorp's policy to consider collateral dependent loans which are more than ninety days delinquent to constitute more than a minimum delay in repayment and evaluated for impairment under SFAS No. 114 at

that time. Interest on impaired loans is reported on the cash basis. Impaired loans would be charged off in the same manner as all loans subject to charge off. At September 30, 1996, the Bancorp had no loans that would be defined as impaired under SFAS No. 114.

Foreclosed real estate

Real estate properties acquired through, or in lieu of, loan foreclosures are initially recorded at lower of cost or fair value less estimated costs to sell at the date of foreclosure. Subsequent declines in value are charged to operations. The Bancorp has no real estate acquired by foreclosure at September 30, 1996 and 1995.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization computed by straight-line and accelerated methods over the estimated useful lives of the respective assets.

Income taxes

The Bancorp accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". Under this standard, deferred tax assets and liabilities represent the tax effects of the temporary differences in the basis of certain assets and liabilities for tax and financial statement purposes, calculated at currently effective tax rates, of future deductible or taxable amounts attributable to events that have been recognized on a cumulative basis in the financial statements.

The Bancorp's principal temporary differences between pretax financial income and taxable income result from different methods of accounting for deferred loan origination fees and costs, Federal Home Loan Bank stock dividends, the accretion of unearned discounts arising from loans sold in a reciprocal loan sale transaction, the general loan loss allowance and the post-1987 percentage of earnings bad debt deduction. For certain assets acquired after December 31, 1980, a temporary difference is also recognized for depreciation utilizing accelerated methods for Federal income tax purposes.

Off balance sheet instruments

In the ordinary course of business the Bancorp has entered into off-balance sheet financial instruments consisting of commitments to extend credit and commitments under line of credit loans. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Recent accounting pronouncements

In May 1995, the Financial Accounting Standards Board Issued Statement of Financial Accounting Standards No. 122, "Accounting for Mortgage Servicing Rights". This statement requires that a mortgage banking enterprise recognize as separate assets rights to service mortgage loans for others, however those servicing rights are acquired. A mortgage banking enterprise that acquires mortgage servicing rights through either the purchase or origination of mortgage loans and sells or securitizes those loans with servicing rights retained would allocate the total cost of the mortgage loans to the mortgage servicing rights and the loans based on their relative fair value. Statement No. 122 is effective for fiscal

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years beginning after December 15, 1995. Management is currently assessing the impact of this standard.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting No. 123, "Accounting for Stock-Based

Compensation". This statement establishes accounting and reporting standards for stock-based employee compensation plans including stock options. The statement defines a "fair value based method" for employee stock options and encourages all entities to adopt that method for such options. However, it allows an entity to continue to measure compensation cost for those plans using the "intrinsic value based method" of accounting prescribed by APB Opinion No. 25. Entities electing to remain with the accounting in Opinion 25 must make proforma disclosures of net income and earnings per share, as if the fair value method of accounting defined in this statement had been applied. SFAS No. 123 is effective for transactions entered into in fiscal years that begin after December 15, 1995, and therefore will not be applied until fiscal year ended September 30, 1997. Management is currently assessing the impact of this standard.

In June 1996, the FASB issued SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" which established accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. The standards are based on a consistent application of a financial components approach that focuses on control. Under that approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. SFAS No. 125 provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. SFAS No. 125 supercedes SFAS No. 122. SFAS No. 125 is effective for transactions occurring after December 31, 1996. Management is currently assessing the impact of this standard.

Earnings per share

Earnings per share for the fiscal years ended September 30, 1996, 1995 and 1994 is based on net income (loss) divided by 282,521, 282,521 and 282,288 weighted average shares outstanding during the respective period. Weighted average shares for fiscal years 1995 and 1994 were adjusted for the reorganization from the mutual holding company form to the stock holding company form effected in the 1996 fiscal year. There is no material dilutive effect attendant to the Stock Option Plan.

Reclassification

Certain reclassifications were made to the prior years financial statements to conform to the current year presentation.

2. Investments and Mortgage-Backed Securities:

The amortized cost, gross unrealized gains, gross unrealized losses, and approximate market values of investment securities held to maturity at September 30, are summarized as follows:

<TABLE>
<CAPTION>

	1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
<S>	<C>	<C>	<C>	<C>

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U.S. Government agency obligations	$ 1,994	-	35	1,959
	=====	======	======	=====

	1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Government agency obligations	$ 1,991	9	29	1,971
	======	=====	======	=====

At each of the dates presented, all investment securities held to maturity are due within one to five years.

The amortized costs, gross unrealized gains, gross unrealized losses, and market value of investment securities available for sale at September 30, are summarized as follows:

	1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Government agency obligations	$ 499	-	13	486
	=====	======	======	=====

	1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Government agency obligations	$ 999	7	-	1,006
	=====	=====	======	=====

The amortized cost and market value of investment securities available for sale at September 30, by contractual maturity are shown below:

	1996		1995	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one to five years	$ 499	486	-	-
Due in five to ten	-	-	500	506
After ten years	-	-	499	500
	---	---	---	---
	$ 499	486	999	1,006
	===	===	===	=====

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The amortized cost, gross unrealized gains, gross unrealized losses, and market value of mortgage-backed securities held to maturity at September 30, are summarized as follows:

	1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Government National Mortgage Association	$ 245	5	-	250

	1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Federal Home Loan Mortgage Corporation	$ 397	-	1	396
Federal National Mortgage Association	881	7	-	888
Government National Mortgage Association	6,033	55	8	6,080
	$ 7,311	62	9	7,364

The amortized cost, gross unrealized gains, gross unrealized losses, and market value of mortgage backed securities available for sale at September 30, 1996 are summarized as follows:

	1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Federal Home Loan Mortgage Corporation	$ 348	-	9	$ 339
Federal National Mortgage Association	560	13	-	573
Government National Mortgage Association	3,591	28	2	3,617
	$ 4,499	41	11	$ 4,529

The amortized cost and market value of all mortgage-backed securities at September 30, by contractual terms to maturity is shown below. Expected maturities will differ from contractual maturities because borrowers may generally prepay obligations without prepayment penalties.

	1996		1995	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one to five years	$ 348	339	397	396
Due after twenty years	4,396	4,440	6,914	6,968

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	-----	-----	-----	-----
	$4,744	4,779	7,311	7,364
	=====	=====	=====	=====

</TABLE>

Proceeds and resulting gains and loses realized from sale of investments and mortgage-backed securities from the year ended September 30, 1996 were as follows:

<TABLE>
<CAPTION>

<S>	Gross Proceeds	Gross Gains	Gross Losses	Net Realized Gain/(Loss)
Investments	$ 513	13	-	13
Mortgage-backed securities	1,743	-	2	(2)
	$ 2,256	13	2	$ 11

</TABLE>

3. Loans Receivable:

The composition of the loan portfolio at September 30 is as follows:

<TABLE>
<CAPTION>

<S>	1996	1995
One-to-four family residential real estate	$ 37,699	31,464
Multi-family residential real estate	126	239
Construction	1,016	226
Nonresidential real estate	142	232
Home equity line of credit	817	366
Consumer and other	43	341
	39,843	32,868
Add/(less):		
Undisbursed portion of loans-in-process	(502)	(61)
Deferred loan origination costs	85	46
Allowance for loan losses	(95)	(81)
	$ 39,331	32,772

</TABLE>

The Bancorp's lending efforts have historically focused on one-to-four family and multi-family residential real estate loans, which comprise approximately $38.3 million, or 97% of the total loan portfolio at September 30, 1996 and $31.9 million, or 97% of the total loan portfolio at September 30, 1995. Generally, such loans have been underwritten on the basis of no more than an 80% loan-to-value ratio, which has historically provided the Bancorp with adequate collateral coverage in the event of default. Any loan with loan to value exceeding 80% requires PMI insurance. Nevertheless, the Bancorp, as with any lending institution, is subject to the risk that residential real estate values could deteriorate in its primary lending area of southwestern Ohio, thereby impairing collateral values. However, management is of the belief that real estate values in the Bancorp's primary lending area are presently stable.

As discussed previously, the Bancorp has sold certain whole loans and participating interests in the loans in the secondary market, retaining servicing on the loans sold. Loans sold and serviced for others totaled approximately $18.2 million, $20.3 million, and $22.7 million at September 30, 1996, 1995 and 1994. All of the loans held for sale at September 30, 1996, will be sold with the servicing not retained by the Bancorp.

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The activity in the allowance for loan losses at September 30 is as follows:

	1996	1995	1994
Beginning balance	$ 81	69	60
Charge-offs	-	-	(2)
Provision for loan losses	14	12	11
Ending balance	$ 95	81	69

At September 30, 1996, the Bancorp's allowance for loan losses was comprised solely of a general loan loss allowance, which is includible as a component of regulatory risk-based capital.

The Bancorp had no non-accrual loans at September 30, 1996 and 1995. The balance of loans not accruing interest at September 30, 1994 was $33,000.

4. Property and Equipment:

Property and equipment consist of the following at September 30:

	1996	1995
Land and improvements	$ 148	148
Building and improvements	325	325
Furniture and equipment	172	160
	645	633
Less accumulated depreciation and amortization	283	253
	$ 362	380

e 5. Deposits:

Deposits on account bearing interest and certificates by original maturity are summarized as follows:

	1996			1995		
	Weighted Average Rate	Amount	Percent of Deposits	Weighted Average Rate	Amount	Percent of Deposits
Passbook savings	2.94%	$ 1,396	3.35%	2.95%	1,509	3.40%
Statement savings	4.55	2,535	6.09	3.85	401	.90
Demand deposits	3.73	1,285	3.09	3.39	741	1.67
Money market deposits	3.65	2,616	6.28	3.67	4,082	9.19
Christmas club	-	-	-	-	29	0.06
		7,832	18.81		6,762	15.22
Certificates						
3 month	5.25	1,007	2.42	5.31	1,190	2.68

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6 month	5.17	2,612	6.27	5.62	3,367	7.58
11 month	5.34	2,831	6.80	6.19	4,948	11.14
12 month	5.39	3,915	9.40	5.94	3,389	7.63
18 month	5.58	1,258	3.02	6.02	2,518	5.67
18 month IRA	5.92	113	0.27	4.98	128	0.29
22 month	6.66	4,999	12.01	6.99	3,495	7.87
24 month	6.30	5,236	12.57	6.13	5,817	13.09
30 month	6.27	1,465	3.52	5.94	1,743	3.92
36 month	6.25	3,046	7.32	6.02	3,476	7.82
60 month	6.52	7,322	17.59	6.66	7,595	17.09
		33,804	81.19		37,666	84.78
		41,636	100.00%		44,428	100.00%

</TABLE>

Interest expense on deposits at September 30 is summarized as follows:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 (In thousands) <C>	1994 <C>
Passbook	$ 45	50	62
Certificates of deposit	2,179	2,016	1,284
NOW, money market deposit accounts and statement savings	238	201	251
	$ 2,462	2,267	1,597

</TABLE>

Maturities of outstanding certificates of deposit at September 30 are summarized as follows:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 (In thousands) <C>
Less than one year	$ 21,945	19,829
One year to three years	7,709	14,007
More than three years	4,150	3,830
	$ 33,804	37,666

</TABLE>

The aggregate amount of certificates of deposit in denominations of $100,000 or more was $3.5 million and $4.0 million at September 30, 1996 and 1995 respectively. Deposit accounts exceeding $100,000 are not federally insured.

Financial Instruments:

The following fair value disclosures are made in accordance with the requirements of SFAS No. 107, "Disclosure about Fair Value of Financial Instruments." SFAS No. 107 requires the disclosure of fair value information about both on-and-off-balance sheet financial instruments where it is practical to estimate that value. In cases where quoted market prices were not available, fair values were based on estimates using present value of other valuation methods, as described below. The use of different assumptions (e.g., discount rates and cash flow estimates) and estimation methods could have a significant effect on fair value amounts. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bancorp could realize in a current market exchange. Because SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements, any aggregation of the fair value amounts presented would not represent the underlying value of the Bancorp.

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The following methods and assumptions were used in estimating the fair values of financial instruments, cash, interest bearing deposits and investment in FHLB stock. The carrying value of cash and interest bearing deposits approximates those assets' fair value.

Investments and mortgage-backed securities

For investment securities (debt instruments) and mortgage-backed securities, fair values are based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices of comparable instruments.

Loans receivable

The fair value of the loan portfolio is estimated by evaluating homogeneous categories of loans with similar financial characteristics. Loans are segregated by types, such as residential mortgage, commercial real estate, and consumer. Each loan category is further segmented into fixed and adjustable rate interest, terms, and by performing and nonperforming categories.

The fair value of performing loads, except residential mortgage loans, is calculated by discounting contractual cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources. The fair value for significant nonperforming loans is based on recent internal or external appraisals. Assumptions regarding credit risk, cash flow, and discount rates are judgmentally determined by using available market information.

Savings accounts

The fair values of passbook accounts, NOW accounts, and money market savings and demand deposits approximates their carrying values. The fair value of fixed maturity certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently offered for deposits of similar remaining maturities.

Commitments to extend credit

The fair value of commitments to extend credit approximates the contractual amount due to the comparability of current levels of interest rates and the committed rates.

Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings.

The estimated fair values of the Bancorp's financial instruments at September 30, 1996, are as follows:

<TABLE>
<CAPTION>

	September 30, 1996	
	Carrying Amounts	Fair Value
<S>	<C>	<C>
Financial assets:		
Cash and interest bearing deposits	$ 2,146	$2,146
Certificates of deposit	380	380
Investment securities available for sale	486	486
Investment securities held to maturity	1,994	1,959
Loans receivable	39,331	39,520
Mortgage-backed securities available for sale	4,529	4,529
Mortgage-backed securities held to maturity	245	250
Investment in FHLB stock	430	430
Financial liabilities:		

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	Savings accounts	41,636	41,860
	Federal Home Loan Bank advances	3,653	3,653

<CAPTION>

<S>	Contractual Amount <C>	Fair Value <C>
Unrecognized financial instruments		
Commitments to extend credit	1,301	1,301

</TABLE>

6. Advances From the Federal Home Loan Bank:

Pursuant to a collateral agreement with the FHLB advances are secured by all stock owned in the FHLB and qualifying first mortgage loans totaling 150% of the advanced balance.

Advances consist of the following at September 30, 1996 and 1995:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>
Short term (advances at variable rates (5.45% at September 30, 1996)	$ 3,000	-
Long term note (interest at 5.65%)	175	194
Long term note (interest at 5.45%)	478	-
	$ 3,653	194

</TABLE>

Maturities on these advances at September 30, 1996, are as follows:

<TABLE>
<CAPTION>

<S>	Amount <C>
1997	$ 3,060
1998	63
1999	67
2000	71
2001	75
Subsequent years	317
	$ 3,653

</TABLE>

Interest expense on borrowed funds was $72,000 and $43,000 for the years ended September 30, 1996 and 1995.

7. Benefit plans

The Bancorp maintains a 401(k) profit sharing plan which covers all employees who have attained the age of 20 1/2 and have completed six months of service. Employer contributions are made at the discretion of the Board of Directors. The Bancorp's contribution to such plan totaled approximately $12,000, $8,000 and $14,000 for the years ended September 30, 1996, 1995 and 1994 respectively.

Additionally, in conjunction with the initial public offering, the Bancorp adopted a Management Recognition Plan (MRP). The MRP purchased 2,070 shares of the common stock issued in the offering which were converted to 4,027 shares in the second step conversion. Common stock granted under the MRP will vest ratably over a five-year period, commencing on the date of grant. During fiscal 1995, the Bancorp granted additional 140 shares to plan participants and recognized a credit of approximately $1,000 of amortization expense. Total shares granted under the plan total 941 shares as of September 30, 1996. The Bancorp recognized $1,000 and $3,000 of amortization expense in 1996 and 1994 respectively.

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The Bancorp has a Stock Option Plan that provides for the issuance of 2,070 shares of authorized, but unissued shares. Shares exercised under option totaled 1,656 leaving 414 unexercised shares under option at an exercise price of $10. The unexercised shares were converted to 805 unexercised shares in the second step conversion.

Concurrent with the conversion from the mutual holding company form to the stock holding company form or organization, on June 29, 1996, Kenwood Savings Bank established an Employee Stock Ownership Plan (ESOP) which provides retirement benefits for substantially all employees who have completed one year of service and have attained age 21. The ESOP initially acquired 12,612 shares of common stock in the conversion offering. The funds used by the ESOP to purchase the stock were provided by a loan from the Bancorp which will be repaid by contributions to the

ESOP by the company in the future. Management intends to allocate these shares to eligible employees' accounts over the next ten years. No shares have been allocated as of September 30, 1996.

8. Federal Income Taxes:

The provision for federal income taxes (benefits) differs from the amounts computed at the statutory corporate tax rate as follows at September 30:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 (In thousands) <C>	1994 <C>
Federal income taxes (benefit) at the statutory rate	$ (52)	42	79
Other, primarily surtax exemptions	4	(9)	(7)
Effect of change in estimated tax rate for deferred taxes	-	13	-
Federal income tax provision (benefit) per financial statements	$ (48)	46	72
Effective tax rate	31.6%	36.2%	31.0%

</TABLE>

Deferred federal income tax expense results from temporary differences in the recognition of revenue and expense for tax reporting and financial reporting purposes. A reconciliation of the sources of the Bancorp's temporary differences at the statutory corporate tax rate to the amount of deferred tax expense is as follows at September 30:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>	1994 <C>
Effect of temporary differences at statutory corporate tax rate:			
Loan origination fees deferred for financial reporting but recognized currently for tax purposes	$ 11	5	7
Federal Home Loan Bank stock dividends	8	8	4
Unearned discount on loans purchased in reciprocal sale transaction	(2)	(4)	(7)
SAIF assessment not deductible until paid	(80)	-	-
Effective of change in estimated tax rate for deferred taxes	-	13	-
Other	(4)	(2)	2
Deferred Federal income tax expense (benefit) per financial statements	$ (67)	20	6

</TABLE>

The composition of the Bancorp's net deferred tax liability at September 30 is as follows:

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<TABLE>
<CAPTION>

	1996	1995
	(In thousands)	
Taxes (payable) refundable on temporary differences at statutory rate:		
Deferred loan origination fees (costs)	$ 24	13
Federal Home Loan Bank stock dividends	54	46
Unearned discount on loans purchased in reciprocal sale transaction	21	23
SAIF assessment not deductible until paid	(80)	-
Unrealized gain on investments available for sale	5	2
Book/tax depreciation	14	16
General loan loss allowance	(26)	(22)
Percentage of earnings bad debt deduction	22	20
Net deferred tax liability	$ 34	98

</TABLE>

The Kenwood Savings Bank is allowed a special bad debt deduction, generally limited to 8% of otherwise taxable income, and subject to certain limitations based on aggregate loans and deposit account balances at the end of the year. If the amounts that qualify as deductions for federal income taxes are later used for purposes other than bad debt losses, including distributions in liquidation, such distributions will be subject to federal income taxes at the then current corporate income tax rate. Retained earnings at September 30, 1996 include approximately $250,000 for which federal income taxes have not been provided. The approximate amount of unrecognized deferred tax liability relating to the cumulative bad debt deduction was approximately $100,000 at September 30, 1996.

A bill repealing the thrift bad debt reserve has been signed into law and is effective for taxable years beginning after December 31, 1995. All saving banks and thrifts will be required to account for tax reserves for bad debts in the same manner as banks. Such entities with assets less than $500 million will be required to maintain a moving average experience based reserve and no longer will be able to calculate a reserve based on a percentage of taxable income.

Tax reserves accumulated after 1987 will automatically be subject to recapture. The recapture will be done in equal amounts over six years beginning in 1997 and can be deferred up to two years, depending on the level of loans originated.

As a result of the tax law change, the Bancorp is expected to ultimately recapture approximately $80,000 of tax reserves accumulated after 1987, results in addition tax payments of $22,000. The recapture of these reserves will not result in any significant income statement effect to the Bancorp. Pre-1988 tax reserves will not have to be recaptured unless the thrift or successor institution liquidates, redeems shares or pays a dividend in excess of earnings and profits.

9. Commitments:

The Bancorp is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers including commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statement of financial condition. The contract or notional amounts of the commitments reflect the extent of the Bancorp's involvement in such financial instruments.

The Bancorp's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bancorp uses the same credit policies in making commitments and conditional obligations as those utilized for on-balance-sheet instruments.

The following schedule lists commitments and off-balance-sheet items at September 30, 1996 and 1995.

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<TABLE>
<CAPTION>

<S>	Loan Commitments <C>	Unused Home Equity Line of Credit <C>
September 30, 1996	$ 413	888
September 30, 1995	946	445

</TABLE>

In the opinion of management, the loan commitments equaled or exceeded prevalent market interest rates as of September 30, 1996, and all commitments will be funded via cash flow from operations and existing excess liquidity. Of the total loan commitments, $267,000 was fixed rate residential loans, with rates ranging from 7.50% to 8.125%, $207,000 of which were designated for sale. Management expects no losses as a result of these transactions.

The Bancorp leases office space for its loan origination office under annual lease with monthly lease expense of $1,370. Rent expense for the

year ended September 30, 1996, and 1995, totaled $14,280 and $8,000. Future minimum rents are $5,480 for 1997. The lease in renewable on an annual basis.

10. Capital Requirements:

The Savings Bank is subject to minimum regulatory capital requirements promulgated by the OTS. The minimum capital standards generally require the maintenance of regulatory capital sufficient to meet each of three tests, hereinafter described as the tangible capital requirement, the core capital requirement and the risk-based capital requirement.

The tangible capital requirement provides for minimum tangible capital (defined as stockholders' equity less all intangible assets) equal to 1.5% of adjusted total assets. The core capital requirement provides for minimum core capital (tangible capital plus certain forms of supervisory goodwill and other qualifying intangible assets) equal to 3.0% of adjusted total assets. The risk-based capital requirement currently provides for the maintenance of core capital plus general loss allowances 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-weighting factor, e.g., one-to-four family residential loans carry a risk-weighted factor of 50%.

As of September 30, 1996, the Savings Bank's regulatory capital exceed all minimum capital requirements as shows in the following table:

<TABLE>
<CAPTION>

	Regulatory Capital					
<S>	Taxable Capital <C>	Percent <C>	Core Capital <C>	Percent <C>	Risk-based Capital <C>	Percent <C>
Capital under generally accepted accounting principles	$ 4,007	-	4,007	-	4,007	-
Unrealized gain on available for sale securities	(12)	-	(12)	-	(12)	-
General valuation allowances	-	-	-	-	95	-
Regulatory capital computed	3,995	7.9	3,995	7.9	4,090	18.5
Minimum capital requirements	757	1.5	1,513	3.0	1,767	8.0
Regulatory capital- excess	3,238	6.4	2,482	4.9	2,323	10.5

</TABLE>

11. Reorganization and Change of Corporate Form:

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On June 28, 1996, Kenwood Savings Bank, and Ohio-chartered stock savings and loan association ("Kenwood" or the "Savings Bank") completed its reorganization from the mutual holding company form of organization to the stock holding company form of organization. Pursuant to the terms of a Plan of Conversion and Agreement and Plan of Reorganization adopted by Kenwood and Kenwood Federal Mutual Holding company, a federally chartered mutual holding company (the "Mutual Holding Company"), (i) Kenwood incorporated Kenwood Bancorp, Inc. (the "Bancorp") as a wholly owned subsidiary of Kenwood, (ii) the Mutual Holding Company converted to an interim federal stock savings institution and simultaneously merged with and into Kenwood, pursuant to which the Mutual Holding Company ceased to exist and the 81,000 or 53.4% on the shares of common stock of Kenwood held by the Mutual Holding Company were and (iii) an interim institution ("Interim") formed as a wholly owned subsidiary of the Bancorp, merged with and into Kenwood. As a result of the merger of the Interim with and into Kenwood, Kenwood became a wholly owned subsidiary of the Bancorp and the outstanding shares of common stock of Kenwood which amounted to 70,756 shares or 46.6% (other than those held by the Mutual Holding Company) were converted pursuant to a specified exchange ratio into shares of common stock of the Bancorp (collectively, the "Conversion and Reorganization"). In connection with the foregoing, Kenwood amended its articles of incorporation to change its corporate title from "Kenwood Savings and Loan

Association" to "Kenwood Savings Bank" and the Bancorp also offered and sold additional shares of its common stock to certain depositors and employee benefit plans of Kenwood (the "Offering").

In November 1992, The Kenwood Savings and Loan Association (Kenwood) completed its reorganization pursuant to its plan of reorganization (the Plan) into a federally-chartered mutual holding company. The Plan was approved by the Board of Directors, Kenwood's members, the Office of Thrift Supervision, and the Federal Deposit Insurance Corporation prior to its implementation.

In accordance with the Reorganization, Kenwood organized Kenwood Savings and Loan Association (the Association), a state-chartered, stock savings and loan association, and transferred all but $100,000 of its assets and all of its liabilities to the Association in exchange for 81,000 shares of common stock, $ .10 par value per share, and reorganized from a state-chartered mutual savings and loan association to a federally-chartered mutual holding company known as Kenwood Federal Mutual Holding Company (the Company).

Concurrent with the Reorganization, the Association issued an additional 69,000 shares of its common stock to members of the public at $10 per share.

The rights of the Savings Banks depositors in liquidation in the conversion to stock form are maintained by the Savings Bank in an amount equal to the retained earnings of the Savings Bank reflected in the statement of financial condition used in the conversion offering circular. The liquidation account will be maintained for the benefit of eligible savings account holders who maintained deposit accounts in the Savings Bank after conversion.

12. Summarized Financial Information of the Parent Company:

The following condensed financial statements summarize the financial position of Kenwood Bancorp, Inc. as of September 30, 1996, and the results of its operations for the year ended September 30, 1996.

KENWOOD BANCORP, INC.

Statement of Financial Condition
(In Thousands)

Assets:	
Cash	$ 239
Investment in Kenwood Savings Bank	926
	$ 1,165
Liabilities and stockholders' equity:	
Liabilities:	

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Accounts payable - Kenwood Savings Bank	$ 6

Stockholders' equity:	
Common stock	3
Additional paid in capital	1,304
Retained earnings	(22)
Less unearned ESOP shares	(126)

	1,159

	1,165
	=====

Statement of Income

Interest income	$ 2
Director's fees	(3)

Net loss	$ 1
	=====

</TABLE>

13. SAIF Special Assessment:

The deposits of the Savings Bank are presently insured by the SAIF, which together with the BIF, are the two insurance funds administered by the FDIC. On November 8, 1995, the FDIC revised the premium schedule for BIF-insured banks to provide a range of .00% to .31% of deposits (as compared to the current range of .23% to 31.% of deposits for SAIF-insured institutions) due to the BIF achieving its statutory reserve ratio. As a result, BIF members generally would pay substantially lower premiums than SAIF members. It was previously anticipated that the SAIF will not be adequately recaptialized until 2002, absent a substantial increase in premium rates or the imposition of special assessments or other significant developments.

On September 30, 1996, the President signed an omnibus appropriations package which included the recapitalization of the Savings Association Insurance Fund (SAIF). All SAIF members will be required to pay a one-time assessment of 65.7 cents per $100 in deposits held on March 31, 1995. Savings Bank's special assessment will be approximately $289,000. The assessment was charged against earnings during the 1996 fiscal year and is being carried as a payable until actually paid during the first quarter of the 1997 fiscal year. Beginning January 1, 1997, SAIF members will be assessed a premium of 6.4 cents per $100 of deposits to cover the FICO obligation plus a regular insurance premium. At the present time the regular insurance premium which applies to Bancorp is 3 cents per $100 of deposits. Other provisions of the appropriations package require the Treasury Department to provide Congress, by March 31, 1997, with a report on merging of the bank and thrift charters and merging the SAIF and Bank Insurance Fund (BIF) by January 1, 1999, provided that the bank and thrift charters have been merged by that date. It also required BIF and SAIF members to begin sharing the FICO obligation on a pro-rata basis at the earlier of January 1, 2000, or when the BIF and SAIF funds are merged.

STOCK INFORMATION

The reorganization of the Savings Bank into the mutual holding company form of organization was completed effective November 13, 1992. In connection with the reorganization, the Savings Bank issued 69,000 shares of common stock to certain members of the general public at the initial price of $10.00 per share and an additional 81,000 shares of common stock to Kenwood Federal Mutual Holding Company. On June 28, 1996, the Savings Bank completed its

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reorganization into the stock holding company form of organization. In connection therewith, shares of common stock of the Savings Bank were converted into shares of common stock of the Company, the Savings Bank's newly formed stock holding company, pursuant to a specified exchange ratio. In addition, the Company also offered and sold additional shares of common stock to certain depositors and employee benefit plans of the Savings Bank.

At December 16, 1996, and as a result of the foregoing, the Company had 295,133 shares of common stock outstanding which were held by approximately 185 stockholders. There is no active and liquid public trading market for shares of the Company's common stock.

During fiscal 1994, 1995 and 1996, the Boards of Directors of the Savings Bank and the Company declared and paid cash dividends as follows:

<TABLE>
<CAPTION>

DECLARATION DATE	AMOUNT PER SHARE(2)	RECORD DATE	DISTRIBUTION DATE
<S>	<C>	<C>	<C>
October 14, 1993(1)	.07	November 1, 1993	November 15, 1993
December 9, 1993(1)	.26	December 31, 1993	January 17, 1994
January 13, 1994(1)	.07	February 1, 1994	February 15, 1994
April 7, 1994(1)	.07	May 1, 1994	May 16, 1994
July 14, 1994(1)	.07	August 1, 1994	August 16, 1994
October 13, 1994(1)	.07	November 1, 1994	November 15, 1994
January 12, 1995	.07	February 1, 1995	February 15, 1995
April 13, 1995	.07	May 1, 1995	May 15, 1995
July 6, 1995	.07	August 1, 1995	August 15, 1995
October 5, 1995	.07	November 1, 1995	November 15, 1995
January 11, 1996(1)	.07	February 1, 1996	February 15, 1996
April 11, 1996(1)	.07	May 1, 1996	May 15, 1996
July 9, 1996	.07	August 1, 1996	August 15, 1996

</TABLE>

----

(1) Cash dividends were waived by Kenwood Federal Mutual Holding Company.

(2) Cash dividends declared per share prior to June 28, 1996, have been adjusted to account for the exchange of one share of the Bank's common stock for 1.9463 shares of the Company's common stock in the Conversion and Reorganization.

DIRECTORS AND OFFICERS

<TABLE>

<S>	<C>
DIRECTORS	
Robert P. Isler	President and Chairman of the Board of Kenwood Bancorp, Inc. and Kenwood Savings Bank
P. Lincoln Mitchell	Secretary of Kenwood Bancorp, Inc. and Kenwood Savings Bank and Real Estate Appraiser
James N. Murphy	Owner of Kenwood Pharmacy
Richard C. Kent	Owner of Kent Insurance Agency, Inc.
Donald G. Ashcraft	Owner of Vintage Title Agency, Inc.
EXECUTIVE OFFICERS	
Robert P. Isler	President and Chairman of the Board of Kenwood Bancorp, Inc. and Kenwood Savings Bank
Thomas W. Burns	Executive Vice President and Chief Executive Officer of Kenwood Bancorp, Inc. and Kenwood Savings Bank
P. Lincoln Mitchell	Secretary of Kenwood Bancorp, Inc. and Kenwood Savings Bank

</TABLE>

OFFICE LOCATIONS

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7711 Montgomery Road
Cincinnati, Ohio 45236

10999 Reed Hartman Highway
Cincinnati, Ohio 45242
(loan origination office)

CORPORATE INFORMATION

CORPORATE HEADQUARTERS:

Kenwood Bancorp, Inc.
7711 Montgomery Road
Cincinnati, Ohio 45326
(513) 791-2834

ANNUAL MEETING:

January 30, 1997, 4:00 p.m.
Kenwood Bancorp, Inc.
7711 Montgomery Road
Cincinnati, Ohio 45236

TRANSFER AGENT AND REGISTRAR:

The Provident Bank
One East Fourth Street
Cincinnati, Ohio 45202

INDEPENDENT AUDITORS:

Clark, Schaefer, Hackett & Co.
105 East Fourth Street
16th Floor
Cincinnati, Ohio 45273-9287

SPECIAL LEGAL COUNSEL:
Elias, Matz, Tiernan & Herrick L.L.P.
734 15th Street, N.W., 12th Floor
Washington, D.C. 20005

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EXHIBIT 23.1

[CLARK, SCHAEFER, HACKETT & COMPANY LETTERHEAD]

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use of our report dated November 1, 1996, on the Consolidated Financial Statements of Kenwood Bancorp, Inc., in the Annual Report on Form 10-K of Kenwood Bancorp, Inc., for the year ended September 30, 1996.

/s/ CLARK, SCHAEFER, HACKETT & CO.

Cincinnati, Ohio

December 24, 1996

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EXHIBIT 23.2

ACCOUNTANTS' CONSENT

We have issued our report dated November 16, 1994, accompanying the financial statements of Kenwood Savings and Loan Association contained in the Annual Report on Form 10-K for the year ended September 30, 1996 ("Form 10-K") of Kenwood Bancorp, Inc. to be filed with the Securities and Exchange Commission on or about December 30, 1996. We consent to the use of the aforementioned report in the Form 10-K.

/s/ GRANT THRONTON LLP
Cincinnati, Ohio
December 24, 1996

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