CLASSIC BANCSHARES INC
Form 10-K
June 30, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

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

For the fiscal year ended March 31, 2003

OR

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

For the transition period from ____________________ to ____________________

COMMISSION FILE NUMBER 0-27170

CLASSIC BANCSHARES, INC.
(Exact Name of Small Business Issuer as Specified in its Charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	61-1289391 (I.R.S. Employer Identification No.)
344 SEVENTEENTH STREET, ASHLAND, KENTUCKY (Address of principal executive offices)	41101 (Zip Code)

Issuer's telephone number, including area code: (606) 326-2800

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value $.01 per share

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past twelve months (or for such shorter period that the Issuer was required to file such reports), and (2) has been subject to such requirements for the past 90 days. YES [X] NO [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of Issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

The Issuer had $15.9 million in gross income for the year ended March 31, 2003.

As of June 27, 2003, there were issued and outstanding 1,334,151 shares of the Issuer's Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Issuer, computed by reference to the last sale price of such stock on the Nasdaq SmallCap Market as of June 27, 2003 was approximately $32.8 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Issuer that such person is an affiliate of the Issuer.)

DOCUMENTS INCORPORATED BY REFERENCE

Part III of Form 10-KSB - - Proxy Statement For 2003 Annual Meeting of Stockholders

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PART I

ITEM 1. BUSINESS

GENERAL

Classic Bancshares, Inc. ("Classic" or the "Company"), a Delaware corporation, is a financial holding company, which has as its primary wholly-owned subsidiary Classic Bank, a Kentucky chartered commercial bank. The Company was organized in 1995 by Classic Bank for the purpose of becoming the savings and loan holding company of Classic Bank in connection with Classic Bank's conversion from mutual to stock form of organization (the "Conversion") on December 28, 1995. The Company became a bank holding company effective September 30, 1996 and a financial holding company effective June 30, 2000. The Company and its subsidiary each operate under the direction of a Board of Directors and officers.

As a community-oriented financial institution, Classic Bank seeks to serve the financial needs of communities in its market area through eight banking offices in Eastern and Northeastern Kentucky. Its current business strategy involves attracting deposits from the general public and using such deposits, together with other funds, to originate commercial, consumer and other loans in its market areas.

The Company faces strong competition from both banking and non-banking competition. Its banking competitors include local and regional banking companies, as well as credit unions, savings institutions and brokerage firms that provide many of the same services and products as offered by the Company. It is anticipated that strong competition from bank and non-bank competitors will continue in the future.

The Company's internet site www.classicbank.com contains a hyperlink to the Securities and Exchange Commission's ("SEC") website where the Company's Annual Report on Form 10-KSB, Quarterly Reports on Form 10-QSB, current reports on Form 8-K, and all amendments, if any, to these reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 can be obtained free of charge on EDGAR as soon as reasonably practicable after the Company has filed the report with the SEC.

At March 31, 2003, the Company had total consolidated assets of $249.9 million, deposits of $190.2 million and stockholders' equity of $25.4 million. On such date, the Company's assets consisted of all of the outstanding capital stock of Classic Bank and cash and cash equivalents. The executive office of the Company is located at 344 Seventeenth Street, Ashland, Kentucky 41101 and its telephone number is (606) 326-2800.

FORWARD-LOOKING STATEMENTS

When used in this Form 10-KSB and in future filings by the Company with the Securities and Exchange Commission (the "SEC"), in the Company's press releases or other public or shareholder communications, and in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including changes in economic conditions in the Company's market area, regulatory policies, interest rates, real estate values in the Company's market area, demand for loans in the Company's market area and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

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

RECENT DEVELOPMENT

On June 20, 2003, the Company completed its acquisition of First Federal Financial Bancorp, Inc., headquartered in Ironton, Ohio, the holding company for First Federal Savings Bank of Ironton, which operated three offices in southeastern Ohio. In the transaction, First Federal Savings Bank of Ironton was merged with and into Classic Bank with Classic Bank as the surviving institution. All locations of First Federal will be operated as branch offices of Classic Bank. Shareholders of First Federal were able to elect to receive either shares of Classic common stock, $24.00 in cash or a combination of stock and cash subject to the requirement that 50% of First Federal shares were exchanged for cash and 50% were exchanged for Classic common stock. At the completion of the transaction, Classic issued a total of 228,665 shares and paid total cash of $5.6 million. On the date of closing, First Federal had total assets of $71.5 million and total deposits of $56.9 million.

MARKET AREA

Classic Bank serves its market area through its main office in Ashland, Kentucky and seven branch offices. Classic Bank's primary market area includes the Kentucky counties of Boyd, Carter, Greenup, and Johnson Counties and portions of Martin, Floyd, Magoffin and Lawrence Counties also located in Kentucky. The economic base in Boyd, Carter and Greenup Counties was in the past primarily industrial and reliant upon a small number of large employers particularly in the steel and petroleum industries. Over the last several years, diversification of the employment base into more retail and service businesses has resulted in a slowing of previously experienced declines in population. Per capita income in these counties remains below the national average. Boyd County exceeds the state average of per capita income while Carter and Greenup Counties remain below the state average. In addition, the unemployment rate for these

counties exceeds the national and state unemployment rate.

The economy in Johnson, Martin, Floyd, Magoffin and Lawrence Counties has historically been based on manufacturing and coal mining related industries, but now also includes retail, medical, and government sectors. Per capita income for these counties is below the national average and the state average. The unemployment rate exceeds the national and state unemployment rates.

LENDING ACTIVITIES

GENERAL. The Company generally makes loans in northeastern and eastern Kentucky where its branches are located and, to a lesser degree, in areas adjacent to our market area in southeastern Ohio and western West Virginia. The Company's principal lending activities are (i) commercial loans, (ii) direct consumer loans and, to a lesser extent, (iii) other loans. At March 31, 2003, loans receivable net, totaled $187.2 million.

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LOAN PORTFOLIO COMPOSITION. The following table presents the composition of the Company's loan portfolio in dollar amounts and in percentages (before deductions for loans in process, deferred fees and discounts and allowances for losses) as of the dates indicated.

	March 31,			
	2003		2002	
	Amount	Percent	Amount	Percent
			(Dollars in Thousands)	
Real Estate Loans				
One- to four-family	$ 74,233	39.2%	$ 74,321	45.9%
Commercial	24,869	13.2	23,105	14.3
Multi-family	1,042	0.6	1,083	0.7
Construction	4,623	2.4	4,823	3.0
Total real estate loans	104,767	55.4	103,332	63.9
Consumer loans	36,272(1)	19.2	24,966(1)	15.4
Commercial business loans .	47,962(2)	25.4	33,448	20.7
Other loans	9	--	74	--
Total other loans	84,243	44.6	58,488	36.1
Total loans	189,010	100.0%	161,820	100.0%
Loans in process	--		--	
Deferred fees and discounts	140		124	
Allowance for loan losses .	(1,975)		(1,628)	
Total loans receivable, net	$ 187,175		$ 160,316	

	March 31,			
	2000		1999	
	Amount	Percent	Amount	Percent
Real Estate Loans				
One- to four-family	$ 71,928	55.7%	$ 61,992	63.0%
Commercial	15,216	11.8	10,136	10.3
Multi-family	1,486	1.2	1,179	1.2
Construction	2,670	2.0	2,513	2.6
Total real estate loans	91,300	70.7	75,820	77.1
Consumer loans	14,076	10.9	7,801	8.0
Commercial business loans .	23,539	18.3	14,747	14.9
Other loans	148	0.1	17	--
Total other loans	37,763	29.3	22,565	22.9
Total loans	129,063	100.0%	98,385	100.0%
Loans in process	(23)		(10)	
Deferred fees and discounts	26		44	
Allowance for loan losses .	(861)		(1,289)	
Total loans receivable, net	$ 97,527		$ 127,808	

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1. Includes $12.9 million of automobile loans, $2.9 million of home equity loans, and $5.4 million of recreational vehicle loans at March 31, 2003, and $10.4 million of automobile loans, $2.4 million of home equity loans, and $3.8 million of recreational vehicle loans at March 31, 2002.
2. Does not include the unfunded portion of commercial lines of credit of $5.8 million.

The following table shows the composition of the Company's loan portfolio by fixed and adjustable rates at the dates indicated.

2003		2002	
Amount	Percent	Amount	Per
			(Doll

	Amount	Percent	Amount
Fixed-Rate Loans:			
Real Estate:			
One-to-four family	$ 36,445	19.3	$ 43,646
Commercial	9,434	5.0	11,039
Multi-family	442	0.2	625
Total real estate loans	47,903	25.3	56,958
Consumer	30,438	16.1	20,967
Commercial business	9,608	5.1	9,916
Other	9	--	74
Total fixed-rate loans	87,958	46.5	87,915
Adjustable-Rate Loans:			
Real estate:			
One- to four-family	37,788	20.0	30,675
Commercial	15,435	8.2	12,066
Multi-family	600	0.3	458
Construction	3,041	1.6	3,175
Total real estate loans	56,864	30.1	46,374
Consumer	5,834	3.1	3,999
Commercial business	38,354	20.3	23,532
Total adjustable-rate loans	101,052	53.5	73,905
Total loans	189,010	100.0%	161,820
Loans in process	--		--
Deferred fees and discounts	140		124
Allowance for loan losses	(1,975)		(1,628)
Total loans receivable, net	$ 187,175		$ 160,316

	March 31,		
	2000		1999
	Amount	Percent	Amount
Fixed-Rate Loans:			
Real Estate:			
One-to-four family	$ 44,377	34.4%	$ 33,944
Commercial	8,829	6.8	5,329
Multi-family	903	0.7	850
Total real estate loans	56,059	43.4	41,938
Consumer	12,543	9.7	7,053
Commercial business	8,861	6.9	8,137
Other	148	0.1	17
Total fixed-rate loans	77,611	60.1	57,145
Adjustable-Rate Loans:			
Real estate:			

One- to four-family	27,551	21.3	28,048
Commercial	6,387	4.9	4,807
Multi-family	583	0.5	329
Construction	720	0.6	698
Total real estate loans	35,241	27.3	33,882
Consumer	1,533	1.2	748
Commercial business	14,678	11.4	6,610
Total adjustable-rate loans	51,452	39.9	41,240
Total loans	129,063	100.0%	98,385
Loans in process	(10)		(23)
Deferred fees and discounts	44		26
Allowance for loan losses	(1,289)		(861)
Total loans receivable, net	$ 127,808		$ 97,527

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The following schedule illustrates the interest rate sensitivity of the Company's loan portfolio at March 31, 2003. Mortgages which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract is due. The schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

	Real Estate						
	One-to-Four Family		Multi-family and Commercial		Construction		
Due	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amoun
							(Dollars
Within one year(1)	$ 1,977	6.1%	$ 1,204	5.7%	$ 3,598	6.0%	$ 7,
One to five years	5,426	7.1	5,092	5.7	408	7.0	21,
Over five years	66,830	7.0	19,615	6.0	617	5.8	7,
Totals	$74,233		$25,911		$ 4,623		$36,

Other		Total	
Amount	Weighted Average Rate	Amount	Weighted Average Rate

(Dollars in Thousands)

Due				
Within one year(1)......	$--	--	$ 37,862	5.2%
One to five years.......	9	6.0	44,622	6.8
Over five years.........	--	--	106,526	6.7
Totals................	$ 9		$189,010	

(1) Includes demand loans, loans having no stated maturity and overdraft loans.

The total amount of loans due after March 31, 2004 which have predetermined interest rates is $79.2 million, while the total amount of loans due after such date which have floating or adjustable interest rates is $71.9 million.

COMMERCIAL LOANS. The Company emphasizes commercial lending to small and mid-sized businesses in the Company's primary market area. These loans are typically secured by business assets of the borrower such as fixed assets, accounts receivable, inventory and other general assets. A significant portion of the Company's commercial business loans are also fully or partially secured by real estate. Such loans generally have terms from 5 to 10 years. To a much lesser degree, the Company also makes unsecured commercial loans with maturities less than five years. The Company's commercial loans are generally priced based on the prime rate. The Company's commercial loans are generally personally guaranteed by one or more of the principals of the borrower.

Commercial business loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Loan officers review the borrower's financial statements, appraisals and analysis of collateral, and other related documents before recommending funding of a commercial loan. The loan officer and approving officer or loan committee then analyze the projected payment coverage, collateral liquidation value, payment history and business prospects before making a recommendation regarding the loan. Other reviews and analyses are done as appropriate based upon the complexity of the credit request.

Although a risk of nonpayment exists with respect to all loans, certain specific types of risks are associated with different types of loans. The primary risks associated with commercial loans are the dependency on the success of the business itself, the quality of the borrower's management and the impact of national and regional economic factors. Further, the collateral, if any, securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. The Company mitigates these risks by maintaining a close working relationship with it's borrowers, by obtaining cross-collateralization and personal guarantees of its loans, and by diversification within its commercial loan portfolio.

The aggregate amount of the Company's commercial loans without real estate as the primary collateral totaled approximately $48.0 million at March 31,2003, and represented 65.9% of total commercial loans at that date.

COMMERCIAL REAL ESTATE LOANS. Management views the Company's commercial real estate lending activities as a part of its overall commercial lending

effort. In particular, commercial real estate loans are generally made only to businesses occupying all or most of the underlying premises. These loans are structured and underwritten in a manner similar to the Company's commercial business loans. In addition, they are generally subject to the same risks as our commercial business loans. However, unlike our commercial loans, the major source of repayment is earnings on the underlying real estate with a secondary repayment being the normal cash of the business.

Also, included in commercial real estate loans are a number of loans that are secured by religious facilities as well as loans to landlords that have leased the underlying commercial properties to unaffiliated third parties.

CONSUMER LOANS. In order to achieve yield and interest rate sensitivity goals for its loan portfolio and as part of its community bank-oriented strategy, the Company continues to emphasize the type and volume of its consumer loan portfolio to include secured and unsecured consumer loans. Emphasis is placed on direct automobile, recreational vehicle, home equity and boat financing. To a lesser degree, the Company makes unsecured loans to creditworthy individuals. Consumer loan terms vary according to the type and value of collateral, term of the borrowing and credit worthiness of the borrower. The Company is not involved in any indirect lending relationships.

The underwriting standards employed by the Company for consumer loans include a determination of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Payment history is verified through in-bank records and credit bureau reports. Although creditworthiness of the applicant is of primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, in relation to the proposed loan amount.

Consumer loan collections are dependent on the borrower's continuing financial stability, value of the collateral, if any and personal circumstances which can include financial problems, divorce and bankruptcy, which may limit the amount which can be recovered on such loans. In addition, consumer loans secured by depreciable assets, such as automobiles, recreational vehicles and boats, may not provide an adequate source of repayment in the case of repossession as a result of the greater likelihood of damage, loss or depreciation. In view of the extent of the Company's consumer lending activities, there can be no assurances that delinquencies in the consumer loan portfolio will not increase in the future.

During fiscal 2003, consumer loans increased by $11.3 million. At March 31,2003, consumer loans totaled $36.3 million, or 19.2% of the Company's total loan portfolio.

ONE-TO-FOUR-FAMILY REAL ESTATE LOANS. A portion of the Company's lending program is the origination of loans secured by mortgages on owner-occupied one-to-four-family residences in its primary market area. The Company has, and continues to reduce its emphasis on one-to-four-family lending and primarily retains only its adjustable rate originations for its own portfolio. At March 31, 2003 50.9% of the Company's one-to-four family residential real estate loans carried adjustable interest rates. In order to satisfy customer requirements for fixed rate products that the Company does not wish to hold for its own portfolio, the Company may utilize an arrangement with another lending institution whereby the Company takes applications and receives an origination fee on any loan actually funded.

The aggregate amount of the Company's one-to-four family residential real estate loans totaled $74.2 million at March 31, 2003, and represented 39.2%

of total loans at such date.

OTHER LENDING ACTIVITIES. The Company on a selected basis also makes loans for multi-family housing units and construction loans for both commercial buildings and residences. These loans combined represent less than 3.0% of total loans outstanding at March 31, 2003.

ORIGINATIONS, PURCHASES AND SALES OF LOANS

Loans are originated by the Company's staff of salaried loan officers through marketing activities and referrals. Monetary incentives are awarded to lending personnel based on pre-determined production levels, offset by penalties for delinquency levels in excess of specified percentages. The Company's ability to originate loans is dependent upon customer demand for loans in its market area and to a limited extent, various marketing efforts. Demand is affected by both the local economy and the interest rate environment. See "Market Area." Under current policy, all loans originated by the Company are retained in the Company's portfolio, other than portions of certain large loans which may be sold (in the form of participations) to other financial institutions in order to limit our overall exposure to individual borrowers. From time to time, the Company purchases loans from other financial institutions under the same underwriting guidelines established for loans it originates.

The Company also takes fixed-rate secondary market residential loan applications for another residential lender. Although the Company does not make the subject loans, the Company receives an origination fee on any loan actually funded by the other lender. These loans are generally offered to customers seeking loans which the Company, either because of rate or type, does not wish to include in the portfolio.

DELINQUENCIES AND NON-PERFORMING ASSETS

DELINQUENCY PROCEDURES. When a borrower fails to make the required payments on a loan, the Company attempts to cure the delinquency through established collection procedures. If a loan becomes contractually delinquent 90 days, the Company normally initiates appropriate legal action for collection. The decision as to whether and when to initiate legal action is based upon such factors as the amount of the outstanding loan in relation to the original indebtedness, current value of collateral (if secured), the extent and frequency of delinquency and the borrower's ability and willingness to cooperate in curing delinquencies. By policy, when a loan becomes delinquent 90 days or more, the Company will place the loan on non-accrual status unless the loan is both well secured and in the process of collection, or is guaranteed by an agency of the U.S. Government, such as the Small Business Administration. When placed on non-accrual status, the previously accrued interest income on the loan is taken out of the current income. Future interest income may be applied directly to the principal balance of the loan. Loans placed on non-accrual are not placed back on an accruing basis until a satisfactory payment history has been established.

Real estate acquired by the Company as a result of foreclosure or deed in lieu of foreclosure is classified as real estate owned until it is sold. When property is acquired by foreclosure or deed in lieu of foreclosure, it is recorded at the lower of cost or estimated fair value (as determined by appraisal) less estimated selling costs. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property are capitalized.

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The following table sets forth loan delinquencies by type, by amount and by percentage of type at March 31, 2003.

	Loans Delinquent For:					
	60 -89 Days			90 Days and Over		
	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category
				(Dollars in Thousands)		
Real Estate:						
One- to four-family.......	4	$360	.5%	6	$487	.7%
Consumer..................	4	28	.1	9	69	.2
Commercial Business.......	1	65	.1	3	113	.2
	9	$453	.2	18	$669	.4

CLASSIFICATION OF ASSETS. Federal regulations require that each bank classify its own assets on a regular basis. 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 Institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of Substandard assets, with the additional characteristics 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 on the balance sheet of the institution is not warranted. Assets which do not currently expose an institution to sufficient risk to warrant classification of the aforementioned categories, but possess weaknesses are required to be designated "Other Assets Especially Mentioned" by the institution.

On the basis of management's review of its assets, at March 31, 2003, the Company had the following classified assets:

	At March 31, 2003
	(In Thousands)

Substandard	$2,100
Doubtful	239
Loss	--
Special Mention	1,257
Total	$3,596

NON-PERFORMING ASSETS. The following table sets forth the amounts and categories of non-performing assets in the loan portfolio. For all years presented, the Company had no troubled debt restructurings (which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates). Foreclosed assets included assets acquired in settlement of loans, whether through judicial procedures, repossessions or voluntary surrender.

	March 31,				
	2003	2002	2001	2000	1999
	(Dollars in Thousands)				
Non-accruing loans:					
One- to four-family	$ 199	$282	$ 423	$ 296	$ 97
Multi-family	--	--	15	--	--
Commercial real estate	--	50	207	134	--
Commercial business	402	80	--	190	218
Land	--	--	17	--	--
Total	601	412	662	620	315
Accruing loans delinquent 90 days or more:					
One- to four-family	487	157	75	143	86
Commercial real estate	--	--	43	--	--
Consumer	69	22	6	10	5
Commercial Business	113	65	--	--	--
Foreclosed assets:					
One- to four-family	--	46	17	62	32
Commercial real estate	--	32	194	194	194
Consumer	--	4	17	40	--
Total non-performing assets	$1,270	$738	$1,014	$1,069	$632
Total as a percentage of total assets	.5%	0.3%	0.5%	0.6%	0.4

For the year ended March 31, 2003, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to $42,000. The amount that was included in interest income on such loans was $16,000 for the year ended March 31, 2003.

OTHER ASSETS OF CONCERN. In addition to the non-performing assets set forth in the table above, as of March 31, 2003, there were no loans or other assets with respect to which known information about the possible credit problems of the borrowers or the cash flows of the security properties have

caused management to have concerns as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such items in the non-performing asset categories.

Management considers non-performing assets in establishing its allowances for loan losses.

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ALLOWANCE FOR LOAN LOSSES. The following table sets forth an analysis of the allowances for loan losses.

	Year Ended March 31		
	2003	2002	2001
	(Dollars in Thousan		
Balance at beginning of period	$1,628	$1,407	$1,289
Acquisition of Citizens Bank	--	--	--
Charge-offs:			
One- to four-family	60	33	8
Commercial real estate	--	--	--
Commercial business	17	69	108
Consumer	32	80	74
Multi-Family	--	--	--
Total charge-offs	109	182	190
Recoveries:			
One- to four-family	1	5	5
Commercial business	--	--	2
Consumer	23	35	40
Multi-Family	4	--	--
Total recoveries	28	40	47
Net charge-offs	81	142	143
Additions charged to operations	428	363	261
Balance at end of period	$1,975	$1,628	$1,407
Ratio of net charge-offs during the period to average loans outstanding during the period	0.1%	0.1%	0.1%
Ratio of net charge-offs during the period to average non-performing assets	8.6%	13.9%	12.4%

The allowances for loan losses is established through a provision for loan losses charged to earnings based on management's evaluation of probable accrued losses in the portfolio, the risk inherent in its entire portfolio and changes in the nature and volume of its loan activity. Such evaluation, which includes a formal review of all loans of which full collectibility may not be

reasonably assured, considers the market value of the underlying collateral, growth and composition of the loan portfolio, the relationship of the allowance to outstanding loans, historical loss experience, delinquency trends, prevailing economic conditions and other factors that warrant recognition in providing for an adequate allowance for loan losses. In determining the general reserves under these policies, historical charge-offs and recoveries, changes in the mix and level of the various types of loans, net realizable values, the current loan portfolio and current economic conditions are considered.

While management believes that it uses the best information available to determine the allowance for loan losses, unforeseen economic and market conditions could result in adjustments to the allowance for loan losses, and net earnings could be significantly affected, if circumstances differ substantially from the assumptions used in making the final determination.

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The distribution of the allowance for loan losses at the dates indicated is summarized as follows:

	March 31,						
	2003			2002			
	Amount of Loan Loss Allowance	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans	Amount of Loan Loss Allowance	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans	Amount o Loan Los Allowanc
	(Dollars in Thousands)						
One- to four-family	$ 325	$ 74,233	39.2%	$ 207	$ 74,321	45.9%	$ 197
Multi-family	--	1,042	.6	17	1,083	0 .7	--
Commercial real estate ..	35	24,869	13.2	41	23,105	14.3	172
Construction	--	4,623	2.4	--	4,823	3.0	49
Consumer	30	36,272	19.2	29	24,966	15.4	91
Commercial business	84	47,962	25.4	34	33,448	20.7	150
Commercial agriculture ..	--	9	--	--	74	--	--
Unallocated	1,501	--	--	1,300	--	--	748
Total	$1,975	$189,010	100.0%	$1,628	$161,820	100.0%	$1,407

	March 31,					
	2000			1999		
	Amount of Loan Loss Allowance	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans	Amount of Loan Loss Allowance	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans
	(Dollars in Thousands)					
One- to four-family	$ 185	$ 71,928	55.7%	$180	$61,992	63.0%
Multi-family	--	1,486	1.2	--	1,179	1.2

Commercial real estate ..	99	15,216	11.8	34	10,136	10.3
Construction	--	2,670	2.0	--	2,513	2.6
Consumer	97	14,076	10.9	60	7,801	8.0
Commercial business	431	23,539	18.3	80	14,747	14.9
Commercial agriculture ..	--	148	0.1	--	17	--
Unallocated	477	--	--	507	--	--
Total	$1,289	$129,063	100.0%	$861	$98,385	100.0%

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INVESTMENTS. Investment securities primarily satisfy the Company's liquidity needs and provide a return on residual funds after lending activities, as well as collateral for public funds deposited with the Company. Pursuant to the Company's written investment policy, investments may be made in interest-bearing deposits, U.S. Government and agency obligations, trust preferred securities, state and local government obligations and government guaranteed mortgage-backed securities. The Company does not invest in securities that are rated less than investment grade by a nationally recognized statistical rating organization. A goal of the Company's investment policy is to limit interest rate risk.

All security-related activity is reported to the Board of Directors. General changes in investment strategy must be reviewed and approved by the Investment Committee and ratified by the Board of Directors. The Company's senior management can purchase and sell securities on behalf of the Company in accordance with the Company's stated investment policy.

At March 31, 2003, all of the Company's investment securities and mortgage-backed securities were classified as available-for-sale. Available-for-sale securities are reported at fair value with unrealized gains and losses included, on an after-tax basis, in a separate component of retained earnings. At March 31, 2003, the Company did not own any investment securities or mortgage-backed securities of a single issuer which exceeded 10% of the Company's stockholders' equity, other than U.S. government securities and federal agency obligations. See Note 4 of the Notes to Consolidated Financial statements for additional information regarding the Company's investment securities and mortgage-backed securities portfolio.

The following table sets forth the composition of the Company's securities at the dates indicated. All investment securities held by the Company were classified as available for sale.

	March 31,			
	2003		2002	
	Carrying Value	% of Total	Carrying Value	% of Total
	(Dollars in Thousands)			
Investment securities:				
Federal agency obligations	$ 564	1.9%	$ 2,488	9.1%
Municipal bonds	19,908	65.9	17,042	62.5
Other debt securities	7,775	25.7	6,273	23.0
FHLB stock	1,949	6.5	1,480	5.4
Total securities and FHLB stock	$30,196	100.0%	$27,283	100.0%

Other interest-earning assets:				
Interest-bearing deposits with banks	$ 382	94.1%	$ 448	100.0%
Federal Funds Sold	24	5.9	--	--

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The composition and maturities of the securities portfolio, excluding FHLB stock, are indicated in the following table.

	March 31, 2003			
	Less Than 1 Year Carrying Value	1 to 5 Years Carrying Value	5 to 10 Years Carrying Value	Over 10 Years Carrying Value
	(Dollars in Thousands)			
Federal agency obligations ..	$ --	$ --	$ --	$ 564
Municipal bonds	709	2,619	3,796	12,784
Corporate debt securities ...	--	--	--	7,775
Total securities	$ 709	$ 2,619	$ 3,796	$ 21,123
Weighted average yield(1) ...	6.5%	7.2%	7.1%	7.3%

(1) Yields have been computed on a tax-equivalent basis.

The following table sets forth the contractual maturities of the Company's mortgage-backed securities at March 31, 2003.

	Over 1 to 5 Years	Over 5 to 10 Years	Over 10 to 20 Years	Over 20 Years	Balance Outstanding
	(In Thousands)				
FHLMC	$ 325	$---	$ --	$ --	$ 325
FNMA	--	--	7,979	482	8,461
Other	87	--	--	485	572
CMOs and REMICs ..	239	--	--	--	239
Total	$ 651	$---	$ 7,979	$ 967	$ 9,597

The following table sets forth the composition of the mortgage-backed securities at the dates indicated.

	March 31,	
	2003	2002

	Amortized Cost	Market Value	Amortized Cost	Market Value
	(Dollars in Thousands)			
Mortgage-backed securities available for sale:				
FHLMC	$ 305	$ 325	$ 7,602	$ 7,502
FNMA	8,445	8,461	1,062	1,083
Other	548	572	108	107
CMOs/REMICs	239	239	378	371
Total mortgage-backed securities	$ 9,537(1)	$ 9,597	$ 9,150	$ 9,063

(1) Includes $479,000 of mortgage-backed securities with adjustable interest rates.

SOURCES OF FUNDS

GENERAL. The Company's primary sources of funds are deposits, payments (including prepayments) of loan principal, interest earned on loans and securities, repayments of securities, borrowings and funds provided from operations. Borrowings may be used on a short-term basis to compensate for seasonal reductions in deposits or deposit inflows at less than projected levels and may be used on a longer-term basis to support expanded lending activities.

DEPOSITS. The Company offers deposit accounts having a wide range of interest rates and terms. The Company's deposits consist of savings, money market, various certificate and interest- and noninterest-bearing checking accounts. The Company currently relies primarily on competitive pricing policies and product offerings, convenient locations and business hours, customer service and cross marketing to attract and retain deposits. The Company also cross markets to current customers and utilizes newspaper, television, billboard and radio advertisements.

The Company serves as a depository for public funds for various municipalities and related entities. At March 31, 2003, the amount of public funds on deposit with the Company was $13.4 million. These accounts are subject to volatility depending on government funding needs and the Company's desire to price competitively to attract such funds.

The Company manages the pricing of its deposits in keeping with its asset/liability management, profitability and growth objectives. For additional information regarding the Company's deposit accounts, see Note 7 of the Notes to the Consolidated Financial Statements.

The following table sets forth the dollar amount of savings deposits in the various types of deposit programs offered as of the dates indicated.

	As of March 31,			
	2003		2002	
	Amount	Percent of Total	Amount	Percent of Total

(Dollars in Thousands)

Demand, Savings and Money Market:				
Non-interest bearing demand deposits ..	$ 23,158	12.2%	$ 20,404	12.8%
Interest bearing demand deposits	31,982	16.8	25,075	15.9
Savings Accounts	14,803	7.8	13,893	8.7
Money Market Accounts	18,977	1.0	18,466	11.6
Total Non-Certificates	88,920	46.8	77,838	49.0
Certificates:				
0.00 - 4 00%	89,878	47.1	54,196	34.1
4.01 - 6 00%	10,483	5.6	22,411	14.1
6.01 - 8 00%	874	.5	4,429	2.8
Total Certificates	101,235	53.2	81,036	51.0
Total Deposits	$190,155	100.0%	$158,874	100.0%

The following table shows rate and maturity information for the Company's certificates of deposit as of March 31, 2003.

	0.00- 4.00%	4.01- 6.00%	6.01- 8.00%	Total	Pe of
	(Dollars in Thousands)				
Certificate accounts maturing in quarter ending:					
June 30, 2003.......................	$18,948	$1,218	$ 60	$ 20,226	
September 30, 2003..................	18,459	484	81	19,024	
December 31, 2003...................	12,556	280	25	12,861	
March 31, 2004......................	14,819	705	100	15,624	
June 30, 2004.......................	5,313	775	---	6,088	
September 30, 2004..................	5,957	526	---	6,483	
December 31, 2004...................	831	431	---	1,262	
March 31, 2005......................	4,565	226	289	5,080	
June 30, 2005.......................	838	411	96	1,345	
September 30, 2005..................	1,082	259	40	1,381	
December 31, 2005...................	514	50	153	717	
March 31, 2006......................	2,914	---	30	2,944	
Thereafter..........................	3,082	5,118	---	8,200	
Total...........................	$89,878	$10,483	$874	$101,235	1
Percent of total................	88.7%	10.4 %	.9 %	100.0 %	

The following table indicates the amount of the certificates of deposit and other deposits by time remaining until maturity as of March 31, 2003.

	Maturity			
	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 month
	(In Thousands)			
Certificates of deposit less than $100,000 ...	$ 14,061	$ 12,010	$ 20,323	$ 23,50
Certificates of deposit of $100,000 or more ..	6,165	7,014	8,162	9,99
Total certificates of deposit	$ 20,226	$ 19,024	$ 28,485	$ 33,50

For additional information regarding the composition of the Company's deposits, see Note 7 of the Notes to the Consolidated Financial Statements.

BORROWINGS. Other available sources of funds include advances from the FHLB of Cincinnati and other borrowings. As a member of the FHLB of Cincinnati, Classic 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 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.

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FHLB borrowings are also used to fund loan demand and other investment opportunities, to offset deposit outflows and achieve the Company's asset/liability management objectives. The Company also has utilized borrowings when their cost is more favorable than that of deposits. At March 31, 2003, the Company had $28.1 million of FHLB advances outstanding. See Note 8 of the Notes to the Consolidated Financial Statements.

The following table sets forth the maximum month-end balance and average balance of the Company's borrowings for the periods indicated.

	Year Ended March 31,		
	2003	2002	2001
	(In Thousands)		
Maximum Balance:			
Repurchase agreements.............	$ 6,020	$ 5,873	$ 3,690
Federal funds purchased...........	---	---	18
Treasury tax and loan note.........	501	467	927
Notes payable.....................	---	---	257
FHLB advances.....................	36,570	27,401	21,894
Average Balance:			
Repurchase agreements.............	5,206	4,553	3,028
Federal funds purchased...........	---	---	2
Treasury tax and loan note.........	322	317	451
Notes payable.....................	---	---	60
FHLB advances.....................	29,781	19,753	19,124
Weighted average interest rate.......	3.0%	3.4%	6.2%

The following table sets forth certain information as to the Company's borrowings at the dates indicated.

	March 31,		
	2003	2002	2001
	(Dollars in Thousands)		
Repurchase agreements	$ 4,382	$ 5,396	$ 3,180
Other Borrowings			
Treasury tax and loan note	6	446	234
FHLB advances	28,126	$27,401	$16,636
Total Borrowings	$32,514	$33,243	$20,050
Weighted average interest rate of repurchase agreements	1.1%	1.7%	4.2%
Weighted average interest rate of other borrowings	3.4%	3.5%	5.5%

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TRUST SERVICES

The Company has trust powers with its state charter but has chosen to limit its scope to a small group of customers. Limited services provided include managing and investing trust assets, disbursing funds as required by trust agreements and arranging for maintenance at two local cemeteries. For fiscal year 2003, gross trust fees were less than $1,000.

COMPETITION

The Company faces strong competition from large regional and national banks, as well as local institutions in originating loans and attracting deposits. Competition in originating loans comes primarily from commercial banks (national, regional and local), savings institutions, credit unions and mortgage bankers which also makes loans to borrowers located in the Company's primary market area. At March 31, 2003, there were sixteen commercial banks and savings institutions and five credit unions located in Boyd, Johnson, Carter and Greenup Counties, Kentucky. The Company competes for loans principally on the basis of the interest rates and loan fees it charges, the types of loans it originates and the quality of services it provides to borrowers.

Competition for deposits comes principally from commercial banks, savings institutions, credit unions, mutual funds and securities firms located in the same communities. The ability of the Company to attract and retain deposits depends on its ability to provide an investment opportunity that satisfies the requirements of investors as to the rate of return, liquidity, risk, convenient locations, investment products, convenient business hours and a customer oriented staff. At June 30, 2002, the Company's share of deposits in the above market area was approximately 8.8%. This is based on the most recent information available from the Federal Deposit Insurance Corporation.

EMPLOYEES

At March 31, 2003, the Company and its subsidiary had a total of 85 full-time employees. None of the Company's employees are represented by any collective bargaining agreement. Management considers its employee relations to be good.

REGULATION

GENERAL

Classic Bank is a Kentucky chartered commercial bank that converted from a federally chartered savings association in June 2000. The deposits of Classic Bank are insured by the FDIC. Accordingly, Classic Bank is subject to broad state and federal regulation and oversight extending to all its operations. Classic Bank is a member of the FHLB of Cincinnati and is subject to certain limited regulation by the Federal Reserve Board.

Certain of these regulatory requirements and restrictions are discussed below or elsewhere in this document.

STATE AND FEDERAL REGULATION OF CLASSIC BANK

As a Kentucky chartered bank, Classic Bank is subject to the regulation and supervision of the Kentucky Department of Financial Institutions ("DFI"). The FDIC also has regulatory and examination authority over Classic Bank as its federal regulator. As part of this authority, Classic Bank is required to file periodic reports with the DFI and the FDIC and is subject to periodic examinations by the DFI and the FDIC. When these examinations are conducted by the DFI and the FDIC, the examiners may require Classic Bank to provide for higher general or specific loan loss reserves.

The DFI and the FDIC also have extensive enforcement authority over their regulated institutions, including Classic Bank. 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 FDIC. Except under certain circumstances, public disclosure of final enforcement actions by the FDIC is required.

In addition, the investment, lending and branching authority of Classic Bank is prescribed by state and federal laws and it is prohibited from engaging in any activities not permitted by such laws. Under federal law, a state bank may not make any equity investment not permitted for a national bank and may only engage in activities not permitted for a national bank if it receives prior FDIC approval. Classic Bank is in compliance with the noted restrictions. Within the Commonwealth of Kentucky, Classic Bank has the express authority to branch without regard to geographic limitations. See "--Interstate Banking and Branching" for restrictions applicable to interstate branching by Classic Bank.

Classic Bank's general permissible lending limits for loans to one borrower is equal to 20% of capital stock and surplus (except for loans fully secured by certain collateral, in which case the limit is increased to 30% of capital stock and surplus). At March 31, 2003, Classic Bank's lending limit was $2.7 million and Classic Bank was in compliance with the loans-to-one-borrower limitation.

The FDIC, as well as other federal banking agencies, has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution which fails to comply with these standards must submit a compliance plan. A failure to submit a plan or to comply with an approved plan will subject the institution to further enforcement action.

RECENT LEGISLATION

USA PATRIOT ACT - On October 26, 2001, President Bush signed into law the USA Patriot Act. The USA Patriot Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. The USA Patriot Act also requires the federal banking agencies to take into consideration the effectiveness of controls designed to combat money laundering activities in determining whether to approve a merger or other acquisition application of a member institution. Accordingly, if we engage in a merger or other acquisition, our controls designed to combat money laundering would be considered as part of the application process. We do not believe the USA Patriot Act will have a material impact on our operations.

SARBANES-OXLEY ACT - On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "SOA"). The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The SOA is the most far-reaching U.S. securities legislation enacted in some time. The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the SEC under the Securities and Exchange Act (the "Act"). Given the extensive SEC role in implementing rules relating to may of the SOA's new requirements, the final scope of many of these requirements remains to be determined.

The SOA includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchange to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC and the Comptroller General. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The SOA addresses, among other matters:

- audit committees;
- certification of financial statements by the chief executive officer

and the chief financial officer;

- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the 12 month period following initial publication of any financial statements that later require restatement ;
- a prohibition on the sale of stock by directors and executives during pension plan black out periods;
- disclosure of off-balance sheet transactions;
- a prohibition on certain personal loans to directors and officers;
- disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;
- "real time" filing of periodic reports; expedited filing requirements for Form 4s;

- the formation of a public company accounting oversight board;
- auditor independence; and
- various increased criminal penalties for violations of securities laws.

The SOA contains provisions which became effective upon enactment on July 30, 2002 and provisions which become effective from within 30 days to one year from enactment. The SEC has been delegated the task of adopting rules to implement various provisions of SOA.

INSURANCE OF ACCOUNTS AND REGULATION BY THE FDIC

The deposits of Classic Bank are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. including Classic Bank. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the Savings Account Insurance Fund or the Bank Insurance Fund. The FDIC also has the authority to initiate enforcement actions against FDIC insured banks, and may terminate an institution's deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC's deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their level of capital and supervisory evaluation. Under the system, institutions classified as well capitalized (i.e., a core capital ratio of at least 5%, a ratio of Tier 1 or core capital to risk-weighted assets ("Tier 1 risk-based capital") of at least 6% and a risk-based capital ratio of at least 10%) and considered healthy pay the lowest premium while institutions that are less than adequately capitalized (i.e., core or Tier 1 risk-based capital ratios of less than 4% or a risk-based capital ratio of less than 8%) and considered of substantial supervisory concern pay the highest premium. Risk classification of all insured institutions is made by the FDIC for each semi-annual assessment period.

REGULATORY CAPITAL REQUIREMENTS OF STATE BANKS

Classic Bank is subject to the capital regulations of the FDIC. The FDIC's regulations establish three capital standards for FDIC supervised state banks: a leverage requirement, a Tier 1 risk based capital requirement and a risk-based capital requirement. In addition, the FDIC may, on a case-by-case basis, establish individual minimum capital requirements for a state bank that vary from the requirements which would otherwise apply under FDIC regulations.

The leverage ratio adopted by the FDIC requires a minimum ratio of "Tier 1 capital" to adjusted total assets of 3% for state banks rated composite 1 under the CAMELS rating system for banks. Banks not rated composite 1 under the CAMELS rating system for banks are required to maintain a minimum ratio of Tier 1 capital to adjusted total assets of 4%. For purposes of the FDIC's leverage requirement, Tier 1 capital generally consists of the common stockholder's equity and retained income and non-cumulative preferred stock, except that no intangibles, other than certain purchased mortgage servicing rights, and purchased credit card receivables may be included in capital.

At March 31, 2003, Classic Bank had Tier 1 capital equal to $17.8 million, or 7.6% of adjusted total assets, which is $8.4 million above the minimum leverage ratio requirement of 4% as in effect on that date.

FDIC regulated banks are also required to maintain a Tier 1 risk based capital ratio of at least 4%. This requirement is the ratio of Tier 1 capital to risk-weighted assets. At March 31, 2003, Classic Bank had Tier 1 capital of $17.8 million or 9.7% of risk weighted assets, which was $10.4 million above the minimum Tier 1 risk based capital ratio of 4% on that date.

The FDIC's risk-based capital requirements require state banks to maintain "total capital" equal to at least 8% of total risk-weighted assets. For purposes of the risk-based capital requirement, "total capital" means Tier 1 capital (as described above) plus "Tier 2 capital" (as described below), provided that the amount of Tier 2 capital may not exceed the amount of Tier 1 capital, less certain assets. The components of Tier 2 capital consists of core capital, as defined above, and supplementary capital. Supplementary capital consists of certain permanent and maturing capital instruments that do not qualify as core capital and general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. Supplementary capital may be used to satisfy the risk-based requirement only to the extent of core capital. The FDIC is also authorized to require a bank to maintain an additional amount of total capital to account for concentration of credit risk and the risk of non-traditional activities. At March 31, 2003, Classic Bank had no capital instruments that qualify as supplementary capital and $2.0 million of general loss reserves, which was less than 1.25% of risk-weighted assets. At March 31, 2003, Classic Bank was in compliance with its capital requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources", for additional information regarding Classic Bank's compliance with its capital requirements.

In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet items, will be multiplied by a risk weight, ranging from 0% to 100%, based on the risk inherent in the type of asset. For example, the FDIC has assigned a risk weight of 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 FHLMC.

On March 31, 2003, Classic Bank had total capital of $19.8 million (including $17.8 million in core capital and $2.0 million in qualifying

supplementary capital) and risk-weighted assets of $183.2 million or total capital of 10.8% of risk-weighted assets. This amount was $5.1 million above the 8% requirement in effect on that date.

PROMPT CORRECTIVE ACTION

The FDIC is authorized and, under certain circumstances required, to take certain actions against banks that fail to meet their capital requirements. The FDIC is generally required to take action to restrict the activities of an "undercapitalized bank" (generally defined to be one with less than either a 4% core capital ratio, a 4% Tier 1 risked-based capital ratio or an 8% risk-based capital ratio). Any such bank must submit a capital restoration plan and until such plan is approved by the FDIC may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions. The FDIC is authorized to impose the additional restrictions that are applicable to significantly undercapitalized bank.

As a condition to the approval of the capital restoration plan, any company controlling an undercapitalized bank must agree that it will enter into a limited capital maintenance guarantee with respect to the institution's achievement of its capital requirements.

Any bank that fails to comply with its capital plan or is "significantly undercapitalized" (I.E., Tier 1 risk-based or core capital ratios of less than 3% or a risk-based capital ratio of less than 6%) must be made subject to one or more of additional specified actions and operating restrictions which may cover all aspects of its operations and include a forced merger or acquisition of the bank. A bank that becomes "critically

undercapitalized" (I.E., a tangible capital ratio of 2% or less) is subject to further mandatory restrictions on its activities in addition to those applicable to significantly undercapitalized banks. In addition, the FDIC must appoint a receiver (or conservator with the concurrence of the FDIC) for a bank, with certain limited exceptions, within 90 days after it becomes critically undercapitalized. Any undercapitalized bank is also subject to the general enforcement authority of the FDIC, including the appointment of a conservator or a receiver.

The FDIC is also generally authorized to reclassify a bank into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The imposition by the FDIC of any of these measures on Classic Bank would likely have a substantial adverse effect on Classic Bank's operations and profitability and the value of the Company's common stock. The Company's shareholders do not have preemptive rights, and therefore, if the Company is directed by the FDIC to issue additional shares of common stock, such issuance may result in the dilution in the percentage of ownership of current stockholders of the Company.

LIMITATIONS ON DIVIDENDS AND OTHER CAPITAL DISTRIBUTIONS

Kentucky banks are generally permitted to pay dividends in any calendar year equal to net income for that year plus retained earnings for the preceding two years. Dividends in excess of such amount require prior approval by the DFI.

COMMUNITY REINVESTMENT ACT

Under the Community Reinvestment Act ("CRA"), every FDIC insured institution, including Classic Bank, has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the appropriate Federal regulator, in connection with the examination of an insured institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by Classic Bank. An unsatisfactory rating may be used as the basis for the denial of an application by the FDIC.

Classic Bank was examined for CRA compliance in July 1999 and received a satisfactory rating.

TRANSACTIONS WITH AFFILIATES

Generally, transactions between a bank or its subsidiaries and its affiliates are required to be on terms as favorable to the bank as transactions with non-affiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the bank's capital. Affiliates of Classic Bank include the Company and any other company which is under common control with Classic Bank. The Federal Reserve Board has the discretion to treat a subsidiary of a bank as an affiliate on a case-by-case basis.

Certain transactions with directors, officers or controlling persons are also subject to conflict of interest regulations enforced by the FDIC. These conflict of interest regulations and other statutes also impose restrictions on loans to such persons and their related interests. Among other things, such loans must be made on terms substantially the same as for loans to unaffiliated individuals.

HOLDING COMPANY REGULATION

GENERAL. The Company is a holding company that elected to be treated as a financial holding company by the Federal Reserve Board. Financial holding companies are subject to comprehensive regulation by the Federal Reserve Board under the Bank Holding Company Act, and the regulations of the Federal Reserve Board. As a financial holding company, the Company is required to file reports with the Federal Reserve Board and such additional information as the Federal Reserve Board may require, and is subject to regular examinations by the Federal Reserve Board. The Federal Reserve Board also has extensive enforcement authority over financial holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

Under Federal Reserve Board policy, a financial holding company must serve as a source of strength for its subsidiary banks. Under this policy the Federal Reserve Board may require, and has required in the past, a holding company to contribute additional capital to an undercapitalized subsidiary bank.

Under the Bank Holding Company Act, a financial holding company must obtain Federal Reserve Board approval before: (i) acquiring, directly or

indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank or bank holding company; or (iii) merging or consolidating with another bank holding company.

The Bank Holding Company Act also prohibits a financial holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those involving banking, securities, insurance or merchant banking. The Company has no present plans to engage in any of the expanded activities permissible for a financial holding company.

INTERSTATE BANKING AND BRANCHING. Under Federal law, the Federal Reserve Board is authorized to approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's home state, without regard to whether the transaction is prohibited by the laws of any state. The Federal Reserve Board may not approve the acquisition of a bank that has not been in existence for the minimum time period (not exceeding five years) specified by the statutory law of the host state. Federal law also prohibits the Federal Reserve Board from approving an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. This provision does not affect the authority of states to further limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit. The Commonwealth of Kentucky currently provides for deposit concentration limits and reciprocal requirements.

The Federal banking agencies are also authorized to approve interstate merger transactions without regard to whether such transaction is prohibited by the law of any state, unless the home state of one of the banks has, prior to June 1, 1997, enacted legislation that expressly prohibits merger transactions involving out- of-state banks. Interstate acquisitions of branches are permitted only if the law of the state in which the branch

is located permits such acquisitions. Interstate mergers and branch acquisitions are also subject to the nationwide and statewide insured deposit concentration amounts described above.

The Act authorizes interstate branching de novo by national and state banks, only in states which specifically allow for such branching.

DIVIDENDS. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board's view that a bank holding company should pay cash dividends only to the extent that the Company's net income for the past year is sufficient to cover both the cash dividends and a rate of earning retention that is consistent with the Company's capital needs, asset quality and overall financial condition. The Federal Reserve Board also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the Federal Reserve Board, the Federal Reserve Board may

prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized". See "-- Prompt Corrective Action."

Bank holding companies are required to give the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of their consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve Board order, or any condition imposed by, or written agreement with, the Federal Reserve Board. This notification requirement does not apply to any company that meets the well-capitalized standard for commercial banks, has a safety and soundness examination rating of at least a "2" and is not subject to any unresolved supervisory issues.

CAPITAL REQUIREMENTS. The Federal Reserve Board has established capital requirements for certain bank and financial holding companies that generally parallel the capital requirements for FDIC insured banks. On March 31, 2003, the Company had Tier 1 capital of $19.1 million or 8.1% of average total assets, which was $9.6 million above the 4% minimum requirement on that date. In addition, on that date the Company had a Tier 1 risk based capital ratio of 10.4%, which was $11.8 million above the 4% requirement, total capital of $21.1 million (including $19.1 million in core capital and $2.0 million in qualifying supplemental capital) and risk-weighted assets of $183.8 million or total capital of 11.5% of risk weighted assets. This amount was $6.4 million above the 8.0% requirement in effect on that date.

FEDERAL SECURITIES LAW

The Company's common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC's rules under the Exchange Act.

Company stock held by persons who are affiliates (generally officers, directors and principal stockholders) of the Company may not be resold without registration or unless sold in accordance with certain resale restrictions. If the Company meets specified current public information requirements, each affiliate of the Company is able to sell in the public market, without registration, a limited number of shares in any three- month period.

FEDERAL RESERVE SYSTEM

The Federal Reserve Board requires all depository institutions to maintain noninterest-bearing reserves at specified levels against their transaction accounts (primarily checking, NOW and Super NOW checking accounts). At March 31, 2003, Classic Bank was in compliance with these reserve requirements.

FEDERAL HOME LOAN BANK SYSTEM

Classic Bank is a member of the FHLB of Cincinnati, which is one of 12 regional FHLBs that administer the home financing credit function of banks and savings associations. 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, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing.

As a member, Classic Bank is required to purchase and maintain stock in the FHLB of Cincinnati. At March 31, 2003, Classic Bank had $1.9 million in FHLB stock, which was in compliance with this requirement. In past years, Classic Bank has received substantial dividends on their FHLB stock. Over the past five fiscal years, such dividends paid to Classic Bank have averaged 6.2% and were 4.4% for fiscal 2003.

Under federal law, the FHLBs are required to provide funds for the resolution of troubled savings associations and to contribute to low- and moderately priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of Classic Bank's FHLB stock may result in a corresponding reduction in Classic Bank's capital.

CHANGE IN CONTROL REGULATIONS

The Change in Bank Control Act, the Bank Holding Company Act and the regulations of the Federal Reserve Board promulgated under those acts, require that the consent of the Federal Reserve Board be obtained prior to any person or company acquiring "control" of a financial holding company. Control is conclusively presumed to exist if an individual or company acquires more than 25% of any class of voting stock of a financial holding company. Control is rebuttably presumed to exist if the person acquires 10% or more of any class of voting stock of a financial holding company if either (i) the financial holding company has registered securities under Section 12 of the Exchange Act or (ii) no other person will own a greater percentage of that class of voting securities immediately after the transaction. The regulations provide a procedure to rebut the rebuttable control presumption. Since the Company's Common Stock is registered under Section 12 of the Exchange Act, any acquisition of 10% or more of the Company's Common Stock will give rise to a rebuttable presumption that the acquirer of such stock controls the Company, requiring the acquirer, prior to acquiring such stock, to rebut the presumption of control to the satisfaction of the Federal Reserve Board or obtain Federal Reserve Board approval for the acquisition of control.

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FEDERAL AND STATE TAXATION

FEDERAL TAXATION. In addition to the regular income tax, corporations, including state chartered commercial banks, generally are subject to a minimum tax. An alternative minimum tax is imposed at a minimum tax rate of 20% on alternative minimum taxable income, which is the sum of a corporation's regular taxable income (with certain adjustments) and tax preference items, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds the corporation's regular income tax and net operating losses can offset no more than 90% of alternative minimum taxable income.

The Company and its subsidiaries file consolidated federal income tax returns on a fiscal year basis using the accrual method of accounting.

The Company and its consolidated subsidiaries have been audited by the IRS with respect to consolidated federal income tax returns through December 31, 1993. With respect to years examined by the IRS, either all deficiencies have been satisfied or sufficient reserves have been established to satisfy asserted deficiencies. In the opinion of management, any examination of still open returns (including returns of subsidiary and predecessors of, or entities merged into the Company) would not result in a deficiency which could have a material adverse effect on the financial condition or results of operations of the Company and its consolidated subsidiaries.

KENTUCKY TAXATION. Classic Bank is subject to a state franchise tax equal to 1.1% of Classic Bank's average five year equity capital adjusted to eliminate the effect of certain U.S. Government obligations held by Classic Bank. The Company is subject to Kentucky income tax at a rate of 4% - 8.25% and a Kentucky corporate licensing fee equal to .0021 times capital employed.

DELAWARE TAXATION. As a Delaware holding company, the Company is exempt from Delaware corporate income tax but is required to file an annual report with and pay an annual fee to the State of Delaware. The Company is also subject to an annual franchise tax imposed by the State of Delaware.

EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

The business experience of the executive officers who are not also directors is set forth below.

ROBERT S. CURTIS, age 53, is President and Director of Classic Bank, a position he has held since March 2001. Prior to becoming President, Mr. Curtis was Executive Vice President and Senior Lending Officer. Mr. Curtis is also Senior Vice President of the Company, a position he has held since September 1995. Prior to joining Classic Bank in May 1995, Mr. Curtis served as Vice President and Real Estate Lending Division Manager of First American Bank, a $225 million bank located in Ashland, Kentucky from 1990 until May 1995. As Vice President and Real Estate Lending Division Manager, Mr. Curtis was responsible for the bank's residential real estate portfolio that totaled in excess of $35.0 million. Mr. Curtis began his career with First American Bank in 1973.

ITEM 2. DESCRIPTION OF PROPERTIES

The Company conducts business at its main office located in Ashland, Kentucky. The following table sets forth information relating to each of our properties as of March 31, 2003.

Location	Year Acquired	Owned or Leased	Total Approximate Square Footage	Boo Marc (Dollars
MAIN OFFICE:				
1737 Carter Avenue Ashland, Kentucky	1994	Owned	1,200	
344 Seventeenth Street Ashland, Kentucky	1963	Owned	6,000	

340 Seventeenth Street Ashland, Kentucky	N/A	Leased	9,400
BRANCH OFFICES:			
1500 Diederich Blvd. Russell, Kentucky	1998	Owned	2,000
10700 U.S. 60 Ashland, Kentucky	1998	Owned	2,000
575 N. Carol Malone Blvd. Grayson, Kentucky	1999	Owned	7,000
240 Main Street Paintsville, Kentucky	1959	Owned	11,000
603 South Mayo Trail Paintsville, Kentucky	1971	Owned	2,200
440 North Mayo Trail Paintsville, Kentucky	2001	Owned	2,000
1414 Ashland Road Greenup, KY	2002	Owned	2,000

The Company's depositor and borrower customer files are maintained in-house using our current data processing and computer equipment. The net book value of the data processing and computer equipment utilized by the Company at March 31, 2003 was approximately $511,000.

ITEM 3. LEGAL PROCEEDINGS

The Company, Classic Bank is involved, from time to time, as plaintiff or defendant in various legal actions arising in the normal course of its businesses. While the ultimate outcome of these proceedings cannot be predicted with certainty, it is the opinion of management, after consultation with counsel, that the resolution of these proceedings should not have a material effect on the Company's financial condition or results of operations on a consolidated basis.

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

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended March 31, 2003.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded over the counter and is listed on the NASDAQ Small-Cap Market under the symbol "CLAS." At June 27, 2003, there were 1,334,151 shares of the Company's common stock outstanding and approximately 203 holders of record. The Company's common stock began trading on December 28, 1995. The price ranges of the Company's common stock and the dividends paid for each quarter in fiscal 2002 and fiscal 2003 were as follows:

FISCAL 2002	HIGH	LOW
First Quarter.......................................	$15.500	$12.510
Second Quarter......................................	$15.420	$ 11.750
Third Quarter.......................................	$17.240	$12.990
Fourth Quarter......................................	$17.601	$15.100

FISCAL 2003	HIGH	LOW
First Quarter.......................................	$21.700	$18.250
Second Quarter......................................	$27.800	$21.250
Third Quarter.......................................	$25.500	$22.060
Fourth Quarter......................................	$29.660	$26.350

The stock price information set forth in the table above was provided by the National Association of Securities Dealers, Inc. The closing price of the Company's common stock on March 31, 2003 was $27.60.

The Company declared and paid cash dividends totaling $.32 per share during fiscal 2003. The Board of Directors intends to continue the payment of quarterly cash dividends, dependent on the results of operations and financial condition of the Company, tax considerations, industry standards, economic conditions, regulatory restrictions, general business practices and other factors. The Company's ability to pay dividends is dependent on the dividend payments it receives from its subsidiary, Classic Bank, which is subject to regulations and continued compliance with all regulatory capital requirements. See Note 17 of the Notes to the Consolidated Financial Statements for information regarding limitations of the subsidiary's ability to pay dividends to the Company.

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ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	March 31,			
	2003	2002	2001	2000
	(In Thousands)			
Selected Financial Ratios:				
Return on assets (ratio of net income to average total assets)	1.3%	1.1%	.6%	.6%
Return on equity (ratio of net income to average equity)	12.2	10.3	5.3	5.5
Dividend payout ratio (dividends paid divided by net income per basic share)	11.6	15.4	33.0	34.0
Equity to assets ratio (average equity divided by average total assets)	10.3	10.6	10.8	11.4

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

INTRODUCTION

Classic Bancshares, Inc. (the "Company"), a Delaware corporation, was organized in 1995 for the purpose of becoming the savings and loan holding company of Classic Bank in connection with Classic Bank's conversion from mutual to stock form of organization on December 28, 1995. The Company acquired First Paintsville Bancshares, Inc., the former holding company of The First National Bank of Paintsville ("First National"), on September 30, 1996. The Company completed the acquisition of Citizen's Bank, Grayson on May 14, 1999, and merged it into Classic Bank on the same date. The Company maintained Classic Bank and First National as separate subsidiaries until March 2001 at which time the Company merged the two subsidiaries into one banking subsidiary known as Classic Bank.

Originally a federally chartered stock savings bank, Classic Bank converted on June 30, 2000 to a Kentucky chartered commercial bank. Classic Bank is headquartered in Ashland, Kentucky and currently serves the financial needs of communities in its market area through its office located at 344 Seventeenth Street, Ashland, Kentucky 41101 and seven branch offices located in Boyd, Carter, Greenup and Johnson Counties. The deposits of Classic Bank are insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Company's business involves attracting deposits from the general public and

using such deposits, together with other funds, to originate primarily commercial business, consumer, commercial real estate, one- to four-family residential mortgages, and to a lesser extent multi-family and construction loans primarily in the market area of Classic Bank. The Company also invests in mortgage-backed securities, taxable and tax-exempt investment securities and other permissible investments.

Classic Bank's primary market area includes the Kentucky counties of Boyd, Carter, Greenup and Johnson Counties and portions of Martin, Floyd, Magoffin and Lawrence Counties also located in Kentucky. The economic base in Boyd, Carter and Greenup counties has primarily been industrial in nature and previously relied upon a small number of large employers particularly in the steel and petroleum industries. Over the last several years, diversification of the employment base to a more retail and service based economy has resulted in a slowing of previously experienced declines in population. Per capita income in these counties

remains below the national average. Boyd County exceeds the state average of per capita income while Carter and Greenup Counties remain below the state average. The unemployment rate for these counties continues to exceed the national and state unemployment rates.

The economy in Johnson, Martin, Floyd, Magoffin and Lawrence Counties has historically been based on the manufacturing and coal mining related industries, but now also includes retail, medical, and government sectors and, to a lesser extent, manufacturing. Per capita income for these counties is below the national average and the state average. The unemployment rate exceeds the national and state unemployment rates.

The Company's revenues are derived principally from interest earned on loans and, to a lesser extent, from interest earned on investments. The operations of the Company are influenced significantly by general economic conditions and by policies of financial institution regulatory agencies, including the Kentucky Department of Financial Institutions, the Federal Reserve and the FDIC. The Company's cost of funds is influenced by interest rates on competing investments and general market interest rates. Lending activities are affected by the demand for loans, which in turn is affected by the interest rates at which such loans may be offered.

The Company's net interest income is dependent primarily upon the difference or spread between the average yield earned on loans receivable, net and investments and the average rate paid on deposits and borrowings, as well as the relative amounts of such assets and liabilities. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different times, or on a different basis, than its interest-earning assets.

Management's discussion and analysis of financial condition and results of operations are intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the financial statements and accompanying notes contained elsewhere herein.

RECENT DEVELOPMENT

On June 20, 2003, the Company completed its acquisition of First Federal Financial Bancorp, Inc., headquartered in Ironton, Ohio, the holding company for First Federal Savings Bank of Ironton, which operated three offices in

southeastern Ohio. In the transaction, First Federal Savings Bank of Ironton was merged with and into Classic Bank with Classic Bank as the surviving institution. All locations of First Federal will be operated as branch offices of Classic Bank. Shareholders of First Federal were able to elect to receive either shares of Classic common stock, $24.00 in cash or a combination of stock and cash subject to the requirement that 50% of First Federal shares were exchanged for cash and 50% were exchanged for Classic common stock. At the completion of the transaction, Classic issued a total of 228,665 shares and paid total cash of $5.6 million. On the date of closing, First Federal had total assets of $71.5 million and total deposits of $56.9 million.

FORWARD-LOOKING STATEMENTS

When used in this report, the words or phrases "will likely result", "are expected to", "will continue", "is anticipated", "estimate", "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, changes in economic conditions in the Company's market area, changes in real estate values in the Company's market area, regulatory policies, interest rates, demand for loans in the Company's market area and competition that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place

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

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

BUSINESS STRATEGY

The Board's primary vision is the enhancement of shareholder value and earnings growth. The Company has strategically positioned itself to become a high performing, independent, community-focused financial services organization. This strategic direction will continue as long as the Board believes, following its regular strategic reviews, that it is in the best interest of shareholders. The Company will continue to maintain a focus on internal growth while exploring acquisition opportunities that are accretive to earnings and/or create greater franchise and shareholder value.

The Company's focus is on maximizing to the extent feasible net interest income from a balance sheet utilizing variable rate assets funded by the most cost effective funding sources available. While market share increases remain a strategic goal, management believes that profitability is paramount to asset growth. As a result of this philosophy, management remains focused on pricing assets to maximize net interest income rather than for market share growth. Furthermore, management may utilize borrowings to fund asset growth, rather than deposits, when the cost of borrowings is more attractive than the cost of deposits.

Management has implemented incentive based compensation that rewards

employees for attaining production and customer service levels and believes this strategy facilitates profitable growth while containing salary expense levels. Under the program, loan officers are rewarded for loan volume above an established production level. The program also includes incentives for other loan related products and penalizes for delinquencies and declines in loan quality. Other front-line staff, such as customer service representatives and tellers, are rewarded for sales efforts, accuracy and superior customer service. The operations staff is incentivized for efficient back room operations and the delivery of accurate and timely services to the Company's customer base.

The Company seeks to use technology to improve customer service. Technology improvements have been implemented to the Company's internet banking service to permit real time balance inquiry and the viewing of check and deposit images online. An online cash management product has also been introduced. In addition, the Company has implemented free internet bill pay up to 25 bill pays per month. While a small increase in expenses may result in the short term, these technology advancements may offer a competitive advantage to the Company.

While acquisitions of other institutions or branch offices remain a consideration and opportunity for growth, management continues to seek opportunities for internal growth within its existing franchise area. As part of this effort, we opened a banking office in the city of Greenup, Kentucky in December of 2002 that represents the eighth banking office for the Company and the second banking office in Greenup County. With the acquisition of First Federal Financial Bancorp, Inc., the Company has added two banking offices in Lawrence County, Ohio representing the Company's first entry into Ohio. The Company's plans include continued growth in the Southeastern Oho market, whether through branching, further acquisitions or both.

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During 2002, the Company undertook an aggressive advertising campaign focusing on image and name recognition utilizing the endorsement of national celebrity and Ashland, Kentucky native, Naomi Judd. The goal of the campaign is to stress the importance of hometown values, convenience, and banking with people that you know and trust. The campaign resulted in increased account openings in the markets we serve. Management plans to continue to utilize the endorsement of Naomi Judd in the upcoming year and through the advertising campaign introduce specific products and services of Classic Bank while still emphasizing our core values.

FINANCIAL CONDITION

MARCH 31, 2003 COMPARED TO MARCH 31, 2002. Total assets increased approximately $34.5 million, or 16.0%, from $215.4 million at March 31, 2002 to $249.9 million at March 31, 2003. The increase was due primarily to an increase in loans of $26.9 million, an increase in cash and cash equivalents of approximately $2.7 million, an increase in investment securities of $2.4 million, an increase in premises and equipment of $900,000, an increase in other assets of $560,000, an increase in mortgage-backed securities of approximately $532,000, and an increase in FHLB stock of $469,000.

Loans increased $26.9 million, or 16.8%, from $160.3 million at March 31, 2002 to $187.2 million at March 31, 2003. During the fiscal year, we continued to focus our efforts on originating commercial business, consumer and commercial real estate loans as prescribed by the Company's strategic plan. These efforts are evidenced by an increase in commercial business loans of $14.5 million, an increase in consumer loans of $11.3 million and an increase in commercial real estate loans of $1.8 million. As evidenced by a decrease of $88,000 in the one-to-four family portfolio, less emphasis is being placed upon the origination of this type of loan. Loan increases during the year reflect in part the success

of our incentive compensation for the lending staff which was implemented in 2002.

The allowance for loan losses increased approximately $347,000 from $1.6 million at March 31, 2002 to $2.0 million at March 31, 2003 as a result of a provision for fiscal 2003 of $428,000, offset by net charge- offs of $81,000.

Investment securities increased approximately $2.4 million, or 26.4%, from $25.8 million at March 31, 2002 to $28.2 million at March 31, 2003. The increase was due primarily to purchases of $4.4 million and an increase in the market value of these available for sale securities of approximately $1.4 million offset by sales, maturities and calls of $3.4 million. Mortgage-backed securities increased approximately $532,000 primarily due to purchases of $7.8 million and an increase in the market value of these available for sale securities of approximately $132,000 offset by sales and principal repayments of $7.4 million.

Premises and equipment increased approximately $900,000 due primarily to the construction of a new branch office in Greenup, Kentucky during the fiscal year and the technological upgrade of some of the Company's data processing and other equipment.

Deposits increased $31.3 million from $158.9 million at March 31, 2002 to $190.2 million at March 31, 2003. The increase in deposits reflected an increase in noninterest-bearing demand deposits of $2.8 million, an increase in savings, NOW and money market accounts of $8.4 million and an increase in certificates of deposits of $20.1 million. Federal Home Loan Bank Borrowings increased $700,000 from $27.4 million at March 31, 2002 to $28.1 million at March 31, 2003. The increase in deposits and borrowings was used to fund the increase in loans. Borrowings were utilized during the fiscal year to fund loan growth when the cost of borrowing was more attractive than the cost of deposits.

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Stockholder's equity increased $3.4 million to $25.4 million at March 31, 2003 as compared to $22.0 million at March 31, 2002 as a result of net income for the period of approximately $2.9 million, and the release of ESOP shares and RRP shares earned during the fiscal year of approximately $52,000 and an increase in the market value of available for sale securities, net of tax of $1.1 million, offset by stock repurchases of approximately $334,000 and dividends paid of approximately $336,000. Management from time to time repurchases shares of its outstanding common stock in the open market at prevailing market prices depending on market conditions. The reacquired shares are held as treasury shares and will be used for general corporate purposes when necessary, including the issuance of shares in connection with the exercise of stock options.

MARCH 31, 2002 COMPARED TO MARCH 31, 2001. Total assets increased approximately $27.5 million, or 14.6%, from $187.9 million at March 31, 2001 to $215.4 million at March 31, 2002. The increase was due primarily to an increase in loans of $21.4 million, an increase in investment securities of $1.0 million, an increase in mortgage-backed securities of approximately $5.6 million offset primarily by a decrease in cash and cash equivalents of approximately $200,000,a decrease in other real estate owned of $100,000 and a decrease in premises and equipment of approximately $200,000.

Loans increased $21.4 million, or 15.4%, from $138.9 million at March 31, 2001 to $160.3 million at March 31, 2002. In compliance with the Company's strategic plan, the increase in loans was primarily in the consumer, commercial business and commercial real estate portfolios with less emphasis on residential mortgage loans. The growth in loans reflected an increase in consumer loans of

$6.7 million, an increase in commercial business loans of $6.7 million, an increase in commercial real estate loans of 6.2 million, an increase in construction loans of $1.5 million, and an increase in one-to-four family mortgage loans of $600,000 offset by a decrease in multi-family loans $300,000. The implementation of an incentive-based compensation program fueled the loan growth for the fiscal year.

Investment securities increased $1.0 million, or 4.0%, from $24.8 million at March 31, 2001 to $25.8 million at March 31, 2002. The increase was due primarily to purchases of $2.5 million offset by sales, maturities and calls of $1.3 million and a decline in the market value of these available for sale securities of approximately $200,000. Mortgage-backed securities increased approximately $5.6 million primarily due to purchases of $7.0 million offset by principal repayments of approximately $1.3 million and a decline in the market value of these available for sale securities.

Deposits increased $13.5 million from $145.4 million at March 31, 2001 to $158.9 million at March 31, 2002. The increase in deposits reflected an increase in noninterest-bearing demand deposits of $3.3 million, an increase in savings, NOW and money market accounts of $8.6 million and an increase in certificates of deposits of $1.6 million. Federal Home Loan Bank Borrowings increased $10.8 million from $16.6 million at March 31, 2001 to $27.4 million at March 31, 2002. The increase in deposits and borrowings was used to fund the increase in loans. Borrowings were utilized during the fiscal year to fund loan growth when the cost of borrowing was more attractive than the cost of deposits.

The allowance for loan losses increased approximately $200,000 from $1.4 million at March 31, 2001 to $1.6 million at March 31, 2002 as a result of a provision for fiscal 2002 of $363,000, offset by net charge- offs of $142,000.

Stockholder's equity increased $1.5 million to $22.0 million at March 31, 2002 as compared to $20.5 million at March 31, 2001 as a result of net income for the period of approximately $2.2 million, and the release of ESOP shares and RRP shares earned during the fiscal year of approximately $100,000 offset by a decrease in the market value of available for sale securities of $200,000, stock repurchases of approximately $300,000 and dividends paid of approximately $300,000. Management tends to repurchase shares of its

outstanding common stock in the open market at prevailing market prices from time to time depending on market conditions. The reacquired shares will be held as treasury shares and will be used for general corporate purposes, including the issuance of shares in connection with the exercise of stock options.

RESULTS OF OPERATIONS

The Company's results of operations depend primarily upon the level of net interest income, which is the difference between the interest income earned on its interest-earning assets such as loans and investments, and the costs of the Company's interest-bearing liabilities, primarily deposits and borrowings. Results of operations are also dependent upon the level of the Company's noninterest income, including fee income and service charges, and affected by the level of its noninterest expenses, including its general and administrative expenses. Net interest income depends upon the volume of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them, respectively.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED MARCH 31, 2003 AND MARCH 31, 2002

NET INCOME. Net income increased by approximately $721,000 from $2.2 million for the fiscal year ended March 31, 2002 to $2.9 million for the fiscal year ended March 31, 2003. The increase was due to an increase in net interest income of $1.6 million, an increase in noninterest income of $221,000 offset by an increase in noninterest expense of $733,000, an increase in the provision for loan losses of $65,000, and an increase in income tax expense of $330,000.

NET INTEREST INCOME. Net interest income increased $1.6 million from $7.6 million for the fiscal year ended March 31, 2002 to $9.2 million for the fiscal year ended March 31, 2003 due to an increase in interest income of $497,000 and a decrease in interest expense of $1.1 million. The increase in interest income was due to an increase in the average balance of interest-earning assets offset primarily by a decrease in the yield earned on interest-earning assets. The average balance of interest-earning assets increased $30.1 million from $182.7 million for fiscal 2002 to $212.8 million for fiscal 2003. Interest-earning assets increased primarily due to an increase in the average balance of loans of $25.8 million and an increase in investment and mortgage-backed securities of $3.7 million. The average tax equivalent yield on interest-earning assets was 7.7% at March 31, 2002 compared to 6.9% at March 31, 2003. The decrease in the yield was due primarily to a decline in market interest rates during the fiscal year.

Interest expense decreased approximately $1.1 million from $6.1 million for fiscal 2002 to $5.0 million for fiscal 2003 primarily as a result of a decrease in the average rate paid on interest-bearing liabilities. The average rate paid on interest-bearing liabilities decreased from 3.9% for the fiscal year ending March 31, 2002 to 2.7% for the fiscal year ending March 31, 2003. The reduction in the cost of interest-bearing liabilities was due to a decline in market interest rates during the fiscal year. The average balance of interest-bearing liabilities increased $27.8 million from $158.3 million for fiscal 2002 to $186.1 million for fiscal 2003. The increase in the average balance of interest-bearing liabilities was due primarily to an increase in the average balance of interest-bearing deposits and borrowings.

PROVISION FOR LOAN LOSSES. The provision for loan losses increased by $65,000 from $363,000 for fiscal 2002 to $428,000 for fiscal 2003 based on management's overall assessment of probable incurred losses in the loan portfolio. The increase in the provision was due primarily to overall growth of the loan portfolio and continued diversification of the loan portfolio into commercial and consumer loans. Management maintains the allowance for loan losses based on the analysis of various factors, including the market value of the underlying collateral, growth and composition of the loan portfolio, the relationship of the allowance for loan losses to outstanding loans, historical loss experience, delinquency trends and prevailing economic conditions. Although the Company maintains its allowance for loan losses at a level it considers adequate to provide for

losses, there can be no assurance that such losses will not exceed the estimated amounts or that additional substantial provisions for loan losses will not be required in future periods. At March 31, 2003, the allowance for loan losses totaled $2.0 million, or 1.0% of net loans and 155.7% of non-performing loans. Non- performing loans increased approximately $534,000 from $734,000 at March 31, 2002 to $1.3 million at March 31, 2003.

NONINTEREST INCOME. Noninterest income increased approximately $221,000 from $1.5 million for fiscal 2002 to $1.7 million for fiscal 2003 due to an increase in service charges and other fees on deposits of $149,000, an increase in other income of $7,000 and an increase in gain on sale of securities of $65,000. The increase in service charges and other fees on deposits was the

result of an increased deposit base and our effort to limit fee waivers. Other income increased primarily due to an increase in the fees earned from the origination of secondary market loans and commissions earned from the sale of credit life and accident and health insurance on consumer loans. The increase in these fees reflects in part management's implementation of an incentive-based compensation program. The incentive program included fees earned on the origination of secondary market loans and credit life and accident and health insurance whereby loan officers are compensated for the level of fees generated.

NONINTEREST EXPENSE. Noninterest expenses increased approximately $733,000 from approximately $5.7 million for the year ended March 31, 2002 to approximately $6.5 million for the year ended March 31, 2003. The increase in non-interest expenses was due to an increase in employee compensation and benefits of $469,000, an increase in occupancy and equipment expense of $65,000, an increase in federal deposit insurance premiums of $13,000, an increase in franchise and deposit taxes of $54,000, an increase in stationary and supplies of $41,000, an increase in professional fees of $22,000, an increase in on-line banking expenses of $15,000 and an increase in other expenses $92,000 offset by a decrease in advertising of $38,000.

Compensation and benefit expense increased approximately $469,000 due to an increase in the number of employees, an increase in the amount of incentive compensation paid to employees and an increase in ESOP expense due to an increase in the average market value of the Company's stock.

Occupancy and equipment expense increased approximately $65,000. The increase was due primarily to the opening of the Company's eighth banking office in Greenup, Kentucky. Occupancy and equipment expense also increased due to technological upgrades made to the Company's data processing and other equipment and the cost of maintenance associate with the upkeep of that equipment. Professional fees increased due to the utilization of an outside firm for internal audit and loan review.

Federal insurance deposit premiums increased due to an increased deposit base and franchise and deposit taxes increased due to a larger capital and deposit base.

INCOME TAX EXPENSE. Income tax expense increased $330,000 due to a higher income before income taxes.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED MARCH 31, 2002 AND MARCH 31, 2001

NET INCOME. Net income increased by approximately $1.2 million from $1.0 million for the fiscal year ended March 31, 2001 to $2.2 million for the fiscal year ended March 31, 2002. The increase was due to an increase in net interest income of $1.3 million, an increase in noninterest income of $369,000 and a decrease in noninterest expenses of $68,000 offset by an increase in the provision for loan losses of $102,000, and an increase in income tax expense of $445,000.

NET INTEREST INCOME. Net interest income increased $1.3 million from $6.3 million for the fiscal year ended March 31, 2001 to 7.6 million for the fiscal year ended March 31, 2002 due to an increase in interest income of $11,000 and a decrease in interest expense of $1.3 million. The increase in interest income was due to an increase in the average balance of interest-earning assets offset primarily by a decrease in the yield earned on interest-earning assets. The average balance of interest-earning assets increased $16.6 million from $166.1 million for fiscal 2001 to $182.7 million for fiscal 2002. Interest-earning

assets increased primarily due to an increase in the average balance of loans of $14.5 million,and an increase in investment and mortgage-backed securities of $2.1 million. The average tax equivalent yield on interest-earning assets was 8.5% at March 31, 2001 compared to 7.7% at March 31, 2002. The decrease in the yield was due primarily to a decline in market interest rates during the fiscal year. Despite the significant decline in interest rates during the fiscal year, the Company was able to sustain interest income levels as a result of the growth in loans.

Interest expense decreased approximately $1.3 million from $7.4 million for fiscal 2001 to $6.1 million for fiscal 2002 primarily as a result of a decrease in the average rate paid on interest-bearing liabilities. The average rate paid on interest-bearing liabilities decreased from 5.1% for the fiscal year ending March 31, 2001 to 3.9% for the fiscal year ending March 31, 2002. The reduction in the cost of interest-bearing liabilities was due to a decline in market interest rates during the fiscal year. The average balance of interest-bearing liabilities increased $13.3 million from $145.0 million for fiscal 2001 to 158.3 million for fiscal 2002. The increase in the average balance of interest-bearing liabilities was due primarily to an increase in the average balance of interest-bearing deposits and borrowings.

PROVISION FOR LOAN LOSSES. The provision for loan losses increased by $102,000 from $261,000 for fiscal 2001 to $363,000 for fiscal 2002 based on management's overall assessment of probable incurred losses in the loan portfolio. The increase in the provision was due primarily to overall growth of the loan portfolio and continued diversification of the loan portfolio into consumer and commercial loans. Management maintains the allowance for loan losses based on the analysis of various factors, including the market value of the underlying collateral, growth and composition of the loan portfolio, the relationship of the allowance for loan losses to outstanding loans, historical loss experience, delinquency trends and prevailing and projected economic conditions. Although the Company maintains its allowance for loan losses at a level it considers adequate to provide for losses, there can be no assurance that such losses will not exceed the estimated amounts or that additional substantial provisions for loan losses will not be required in future periods. At March 31, 2002, the allowance for loan losses totaled $1.6 million, or 1.0% of net loans and 248.0% of non-performing loans. Non-performing loans decreased $130,000 from $786,000 at March 31, 2001 to $656,000 at March 31, 2002.

NONINTEREST INCOME. Noninterest income increased approximately $369,000 from $1.1 million for fiscal 2001 to $1.5 million for fiscal 2002 due to an increase in service charges and other fees on deposits of $275,000, an increase in other income of $119,000 offset by a decrease in gain on sale of securities of $25,000. The increase in service charges and other fees on deposits was the result of an increased deposit base and a continual adherence to charging fees in accordance with the established fee schedule. Other income increased primarily due to an increase in the fees earned from the origination of secondary market loans and commissions earned from the sale of credit life and accident and health insurance on consumer loans. The increase in these fees was fueled by the implementation of an incentive-based compensation program. The incentive program included fees earned on the origination of secondary market loans and credit life and accident and health insurance whereby loan officers are compensated for the level of fees generated.

NONINTEREST EXPENSE. Noninterest expenses decreased approximately $68,000 from approximately $5.8 million for the year ended March 31, 2001 to approximately $5.7 million for the year ended March 31, 2002. The decrease in non-interest expenses was due to a decrease in federal deposit insurance premiums of $13,000, a decrease in franchise and deposit taxes of $57,000, a decrease in directors fees of $18,000, a decrease in the

amortization of goodwill of $254,000, and a decrease in other operating expenses of $98,000 offset by an increase in employee compensation and benefits of $131,000, an increase in occupancy and equipment expense of $77,000, an increase in advertising expense of $78,000, an increase in communications expense of $72,000 and an increase in stationary and supplies of $14,000.

The decrease in franchise and deposit taxes, directors fees and other operating expenses was due primarily to the consolidation of the Company's two subsidiaries in March 2001. The decrease in the amortization of goodwill was due to the implementation of the Financial Accounting Standards Board Statement No. 142, Goodwill and Other Intangibles. Because the company has a fiscal year end in March, the statement was applied effective April 1, 2001 and resulted in the discontinuance of the amortization of goodwill.

Compensation and benefit expenses increased $131,000 due to the implementation of an incentive compensation program, the payments of bonuses for the fiscal year and an increase in ESOP expense due to an increase in the average market value of the Company's stock.

Occupancy and equipment expense increased approximately $77,000. The increase was due primarily to the opening of an additional banking office in the Paintsville Market in March 2001. Advertising expense increased approximately $78,000 due to the launching of an aggressive advertising campaign that utilized the endorsement of a national celebrity. Communications expense increased $72,000 as a result of the installation of a state-of-the-art telephone and communication system that allows voice and data to be carried simultaneously over frame relay enabling a central operator to answer calls originating from any of the Company's market areas.

INCOME TAX EXPENSE. Income tax expense increased $445,000 due to a higher income before income taxes.

YIELD AND COST DATA. The following table presents for the periods indicated the total dollar amount of interest income 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. All average balances are monthly average balances. Yields are reported on a tax equivalent basis. Non-accruing loans have been included in the table as loans carrying a zero yield. Included in interest income on loans are loan fees and

other charges on loans totaling $319,000, $261,000, and $193,000 for the years ended March 31, 2003, 2002 and 2001, respectively.

	Year Ended M			
	2003			
	Average Outstanding Balance	Interest Earned/ Paid	Yield/Rate	A Out B
	(Dollars in T			
Interest-Earning Assets:				
Loans receivable(1)	$175,821	$12,254	7.0%	$
Mortgage-backed securities	7,996	413	5.2	
Investment securities	26,384	1,861	7.0	
Interest-earning deposits	328	4	1.2	
Federal funds sold	432	5	1.2	
FHLB stock and FRB stock	1,884	83	4.4	
Total interest-earning assets(1)	$212,845	14,620	6.9	$
Interest-Bearing Liabilities:				
Savings accounts and interest-bearing demand	$ 42,045	627	1.5	$
Money market deposits	18,935	333	1.8	
Certificate accounts	89,848	2,967	3.3	
FHLB advances	29,781	985	3.3	
Other short-term borrowings	5,528	58	1.0	
Total interest-bearing liabilities	$186,137	4,970	2.7	$
Net interest income		$ 9,650		
Net interest rate spread			4.2%	
Net earning assets	$ 26,708			$
Net yield on average interest-earning assets			4.5%	
Average interest-earning assets to average interest-bearing liabilities		1.14x		

	Year Ended March 31,		
	2001		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/Rat
Interest-Earning Assets:			
Loans receivable(1)	$135,627	$11,904	8.8%
Mortgage-backed securities	3,258	216	6.6

Investment securities	25,300	1,800	7.1
Interest-earning deposits	125	6	4.8
Federal funds sold	311	14	4.5
FHLB stock and FRB stock	1,512	109	7.2
Total interest-earning assets(1)	$166,133	14,049	8.5
Interest-Bearing Liabilities:			
Savings accounts and interest-bearing demand	$ 34,431	1,233	3.6
Money market deposits	10,892	366	3.4
Certificate accounts	77,054	4,343	5.6
FHLB advances	19,124	1,193	6.2
Other short-term borrowings	3,540	214	6.0
Total interest-bearing liabilities	$145,041	7,349	5.1
Net interest income		$ 6,700	
Net interest rate spread			3.4%
Net earning assets	$ 21,092		
Net yield on average interest-earning assets			4.0%
Average interest-earning assets to average interest-bearing liabilities		1.15x	

(1) Calculated net of deferred loan fees, loan discounts, loans in process and loss reserves.

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to outstanding balances and those due to the changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (I.E., changes in volume multiplied by old rate) and (ii) changes in rate (I.E., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

Year Ended March 31,				
2003 vs. 2002			2	
Increase (Decrease) Due to		Total Increase (Decrease)	Incre (Decre Due	
Volume	Rate		Volume	

			(Dollars in Thousands)	
Interest-earning assets:				
Loans receivable	$1,839	$(1,484)	$ 355	$1,239
Mortgage-backed securities	148	(16)	132	106
Investment securities	69	(23)	46	15
Other	26	(37)	(11)	8
Total interest-earning assets	$2,082	$(1,560)	$ 522	$1,368
Interest-bearing liabilities:				
Savings accounts and interest bearing demand	$ 92	$ (119)	$ (27)	$ 67
Money market accounts	80	(164)	(84)	134
Certificate accounts	366	(1,593)	(1,227)	261
FHLB advances	332	(65)	267	38
Other short-term borrowings	15	(74)	(59)	60
Total interest-bearing liabilities	$ 885	$(2,015)	$(1,130)	$ 560
Net interest income			$ 1,652	

ASSET/LIABILITY MANAGEMENT AND MARKET RISK

The Company's profitability, like that of many financial institutions, is dependent to a large extent upon its net interest income. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income. Finally, a flattening of the "yield curve" (I.E., a decline in the difference between long- and short-term interest rates) could adversely impact net interest income to the extent that the Company's assets have a longer average term than its liabilities.

The Company is also subject to interest rate risk to the extent that the value of its net assets fluctuates with interest rates. In general, the value of a significant portion of the Company's assets will decline in the event of an increase in interest rates. The Company has historically carried a number of assets which are not interest rate sensitive and therefore may decline in value during a period of rising interest rates. Conversely, these assets can increase in value during a period of decreasing interest rates. As part of the Company's current business strategy and asset/liability management policy, a primary focus of lending activity is the acquisition of variable rate and/or shorter term loans thereby reducing such fluctuations in value.

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The Company has an asset/liability management policy focused on maximizing the Company's net interest margin while managing its interest rate position. Depending upon market conditions, the Company may place more emphasis on enhancing the net interest margin rather than matching the interest rate sensitivity of the Company's assets and liabilities. As a result, the Company's results of operations and the economic value of its equity remain vulnerable to

increases in interest rates and declines in the difference between long- and short- term interest rates.

Asset/Liability management is monitored at the bank level by a committee that is comprised of the Company's chief executive officer, chief financial officer, the president and senior lending officer of the bank and a minimum of two non-employee directors of the bank. The committee meets periodically to review the Company's interest rate risk position and product mix and to make recommendations for adjustments to the Company's Board of Directors. Management also monitors the Company's interest rate risk position on a monthly basis, reviews the Company's portfolio, earnings, liquidity and asset quality, formulates investment strategies and oversees the timing and implementation of transactions to assure attainment of the Board's objectives in a most effective manner.

The principal elements of the Company's asset/liability management policy are as follows. First, the Company generally requires that one-to-four family ARM loans be indexed to changes in rates paid on U.S. Treasury securities and other adjustable rate loans be indexed to the prime rate. Management believes that U.S. Treasury securities and the prime rate are significantly more interest rate sensitive than other indices and provides a better opportunity to manage interest rate risk in a changing rate environment. Second, management has increased, and intends to continue to increase subject to market conditions the Company's commercial business, consumer and commercial real estate loans. In general, such loans carry shorter terms to maturity and/or repricing, and are more interest rate sensitive than most of the Company's other assets. Third, management has used marketing and other initiatives to increase the Company's transaction and other non- certificate deposit accounts and believes that such accounts generally carry lower interest costs and are more interest rate resistant than the certificates of deposit. The Company also utilizes FHLB borrowings in funding assets when the cost of these borrowing is more attractive than the cost of deposits. There can be no assurance as to whether or when any or all of the elements of the asset/liability management program will be successfully implemented.

Economic Value of Equity ("EVE") analysis provides a quantitative measure of interest rate risk. In essence, this approach calculates the difference between the market value of assets and liabilities under different interest rate environments. The degree of change between interest rate shock levels is a measure of the volatility of value risk. The following table sets forth, as of March 31, 2003, the estimated changes in the Company's EVE in the event of the specified instantaneous changes in interest rates.

Economic Value of Equity			
Change in Interest Rates (Basis Points)	Estimated EVE	Amount of Change	Percent Change
	(Dollars in Thousands)		
+300	$15,486	$(8,429)	(35)%
+200	18,552	(5,363)	(22)
+100	21,607	(2,308)	(8)
0	23,915		
-100	25,701	1,786	7
-200	27,172	3,257	14
-300	28,383	4,468	19

Certain assumptions were employed by the Company in preparing the previous table. These assumptions relate to interest rates, loan prepayment rates varied by categories and rate environment, deposit decay rates varied by category and rate environment and the market values of certain assets under the various interest rate scenarios. It was also assumed that delinquency rates will not change as a result of changes in interest rates although there can be no assurance that this will be the case. In the event that interest rates do change in the designated amounts, there can be no assurance that the Company's assets and liabilities would perform as set forth above. In addition, a change in Treasury rates in the designated amounts accompanied by a change in the shape of the Treasury yield curve would cause significantly different changes to the EVE than indicated above.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds are deposits and borrowings, amortization and prepayment of loan principal and mortgage-backed securities, maturities of investment securities and operations. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan repayments are more influenced by interest rates, floors and caps on loan rates, general economic conditions and competition. The Company generally manages the pricing of its deposits to be competitive and to increase core deposit relationships, but has from time to time decided not to pay deposit rates that are as high as those of its competitors and, when necessary, to supplement deposits with less expensive alternative sources of funds, such as FHLB borrowings.

The primary investing activities of the Company are originating loans and, to a much lesser extent, purchasing mortgage-backed and investment securities. During fiscal years ended March 31, 2003, 2002, and 2001, the Company had loan originations net of principal repayments of $27.4 million, $22.1 million and $11.3 million, respectively. A substantial portion of loan originations were funded by proceeds of loan repayments, the maturity or sale of securities, deposits and FHLB advances.

The primary financing activities of the Company are deposits and borrowings. During the fiscal years ended March 31, 2003, 2002, and 2001, the Company experienced an increase in deposits of $31.3 million, $13.4 million, and $10.5 million. Certificates of deposits as of March 31, 2003 maturing within one year total $67.7 million. Management expects most of these deposits to remain with the Bank. During the fiscal years ended March 31, 2003, 2002 and 2001, the Company's net financing activity (proceeds less repayments) with the FHLB totaled $700,000, $10.8 million, and $0 million, respectively.

The Company's most liquid assets are cash and cash equivalents, which consist of short-term highly liquid investments with original maturities of less than three months that are readily convertible to known amounts

of cash and interest-bearing deposits. The level of these assets is dependent on the Company's operating, financing and investing activities during any given period. At March 31, 2003, cash and cash equivalents totaled $8.1 million.

Liquidity management is both a daily and long-term responsibility of management. The Company adjusts its investments in liquid assets based upon management's assessment of (i) expected loan demand, (ii) expected deposit flows, (iii) yields available on interest-earning deposits and investment securities, and (iv) the objectives of its asset/liability management program. Excess liquidity is invested generally in interest-earning overnight deposits and short- and intermediate-term U.S. Government and agency obligations and

mortgage-backed securities of short duration. If the Company requires funds beyond its ability to generate them internally, Classic Bank has additional borrowing capacity with the FHLB of Cincinnati which is, in the opinion of management, adequate to provide any funds needed.

The Company anticipates that it will have sufficient funds available to meet current loan commitments. At March 31, 2003, the Company had outstanding loan commitments totaling $20.5 million.

Both the Company and Classic Bank are required to maintain minimum levels of regulatory capital. At March 31, 2003, both the Company and Classic Bank exceeded all of their capital requirements. See Note 17 of the Notes to the Consolidated Financial Statements for information regarding the effect of implementing new accounting standards.

IMPACT OF NEW ACCOUNTING STANDARDS

See Note 1 of the Notes to the Consolidated Financial Statements for information regarding the effect of implementing new accounting standards.

IMPACT OF INFLATION AND CHANGING PRICES

The Company's Consolidated Financial Statements and Notes 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 consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation can be found in the increased cost of the Company's operations. Nearly all the assets and liabilities of the Company are financial, unlike most industrial companies. As a result, the Company's performance is directly impacted by changes in interest rates, which are indirectly influenced by inflationary expectations. Changes in interest rates do not necessarily move to the same extent as changes in the price of goods and services.

ITEM 7. FINANCIAL STATEMENTS

REPORT OF AUDIT

CLASSIC BANCSHARES, INC.

ASHLAND, KENTUCKY

MARCH 31, 2003

CLASSIC BANCSHARES, INC. AND SUBSIDIARIES

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THERESA C. LYONS, C.P.A.

Board of Directors
Classic Bancshares, Inc.
Ashland, Kentucky

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated statements of financial condition of Classic Bancshares, Inc. and Subsidiary as of March 31, 2003 and 2002, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended March 31, 2003. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Classic Bancshares, Inc. and Subsidiary, as of March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As more fully explained in Note 1-G, the Corporation changed its method of accounting for goodwill as of April 1, 2001.

Ashland, Kentucky
June 5, 2003

CLASSIC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
MARCH 31, 2003 AND 2002

	2003	2002
ASSETS		
Cash and due from banks	$ 7,742,876	$ 4,952,009
Interest-bearing deposits with banks	382,216	448,037
Federal funds sold and securities purchased under agreements to resell	23,768	--
Cash and cash equivalents	8,148,860	5,400,046
Securities available for sale	28,246,870	25,803,491
Mortgage-backed and related securities available for sale	9,596,082	9,063,617
Loans, net of allowance for loan losses of $1,974,839 in 2003 and $1,628,242 in 2002	187,174,520	160,315,663
Real estate acquired in the settlement of loans	--	77,622
Accrued interest receivable	1,156,839	1,158,144
Federal Home Loan Bank stock	1,948,900	1,480,300
Premises and equipment, net	6,267,376	5,366,126
Goodwill net of accumulated amortization of $864,636	5,554,549	5,554,549
Other assets	1,787,454	1,227,518
TOTAL ASSETS	$249,881,450	$215,447,076
LIABILITIES		
Non-interest bearing demand deposits	$ 23,158,669	$ 20,404,210
Savings, NOW, and money market demand deposits	65,761,590	57,433,787
Other time deposits	101,234,763	81,036,439
Total deposits	190,155,022	158,874,436
Federal funds purchased and securities sold under agreements to repurchase	4,382,494	5,395,941
Advances from Federal Home Loan Bank	28,126,225	27,401,157
Other short-term borrowings	6,244	445,806
Accrued expenses and other liabilities	419,951	501,744
Accrued interest payable	344,399	374,276
Deferred income taxes	1,024,374	472,761

TOTAL LIABILITIES	224,458,709	193,466,121
Commitments		
STOCKHOLDERS' EQUITY		
Preferred stock $.01 par value; authorized, 100,000 shares - none issued	--	--
Common stock $.01 par value; authorized 1,700,000 shares; issued and outstanding, 1,322,500 shares	13,225	13,225
Additional paid-in capital	20,435,502	20,373,556
Retained earnings, substantially restricted	7,721,067	5,136,114
Accumulated other comprehensive income (loss)	751,069	(325,896)
Unearned ESOP shares	(598,570)	(643,310)
Unearned RRP shares	(11,550)	(18,812)
Treasury stock, at cost (217,014 shares at 2003 and 201,914 shares at 2002)	(2,888,002)	(2,553,922)
TOTAL STOCKHOLDERS' EQUITY	25,422,741	21,980,955
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$249,881,450	$215,447,076

NOTE: The accompanying notes are an integral part of these consolidated financial statements.

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CLASSIC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED MARCH 31, 2003, 2002 AND 2001

	2003	2002	2001
INTEREST AND DIVIDEND INCOME			
Loans, including fees	$ 12,253,595	$ 11,898,779	$ 11,903,366
Securities:			
Taxable	560,858	601,770	622,063
Tax exempt	886,164	824,196	825,893
Mortgage-backed securities	413,079	281,119	215,871
Federal funds sold and securities purchased under agreements to resell	4,942	10,414	14,236
Dividends	83,206	86,500	109,186
Other interest	3,633	5,754	6,453
TOTAL INTEREST AND DIVIDEND INCOME	14,205,477	13,708,532	13,697,068
INTEREST EXPENSE			
Deposits	3,926,661	5,265,668	5,935,475
Federal Home Loan Bank advances	985,212	718,011	1,199,312
Federal funds purchased and securities sold under repurchase agreements	54,499	107,816	182,559

Other short-term borrowings	3,285	8,365	31,786
TOTAL INTEREST EXPENSE	4,969,657	6,099,860	7,349,132
NET INTEREST INCOME	9,235,820	7,608,672	6,347,936
Provision for loss on loans	428,000	(363,000)	(261,000)
NET INTEREST INCOME AFTER PROVISION FOR LOSS ON LOANS	8,807,820	7,245,672	6,086,936
NONINTEREST INCOME			
Service charges	1,338,183	1,188,699	915,129
Gain (loss) on sale of securities	72,076	7,015	31,520
Other income	265,370	258,693	139,383
TOTAL NONINTEREST INCOME	1,675,629	1,454,407	1,086,032
NONINTEREST EXPENSES			
Employee compensation and benefits	3,219,245	2,750,305	2,619,021
Occupancy and equipment expense	1,028,997	963,814	886,365
Federal deposit insurance premiums	27,421	14,168	27,420
Advertising	261,511	299,693	221,767
Communications	189,298	191,048	119,299
Franchise and deposit taxes	239,648	185,221	242,173
Directors fees and benefits	96,250	96,068	114,050
Amortization of goodwill	--	--	254,225
Stationary and supplies	229,551	188,515	174,427
Other operating expenses	1,167,416	1,037,827	1,135,986
TOTAL NONINTEREST EXPENSE	6,459,337	5,726,659	5,794,733
INCOME BEFORE INCOME TAXES	4,024,112	2,973,420	1,378,235
Income tax expense	1,103,573	773,533	329,990
NET INCOME	$ 2,920,539	$ 2,199,887	$ 1,048,245
EARNINGS PER SHARE			
Basic	$ 2.77	$ 2.08	$ .97
Diluted	$ 2.55	$ 1.94	$ .96

NOTE: The accompanying notes are an integral part of these consolidated financial statements.

CLASSIC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED MARCH 31, 2003, 2002 AND 2001

	2003	2002	2001
NET INCOME	$ 2,920,539	$ 2,199,887	$ 1,048,245
OTHER COMPREHENSIVE INCOME, NET OF TAX:			
Unrealized holding gains (losses) on securities during the period, net of tax	1,124,535	(150,193)	1,129,254
Reclassification adjustments for realized gains (losses) included in earnings, net of tax of $24,506, $2,385, and $10,717, for 2003, 2002 and 2001, respectively	(47,570)	(4,630)	(20,803)
COMPREHENSIVE INCOME (LOSS)	$ 3,997,504	$ 2,045,064	$ 2,156,696
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	$ 751,069	$ (325,896)	$ (171,073)

NOTE: The accompanying notes are an integral part of these consolidated financial statements.

CLASSIC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED MARCH 31, 2003, 2002 AND 2001

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	UNEARNED ESOP SHARES	UNEARNED RRP SHARES	TREA STC

BALANCES, MARCH 31, 2000	$ 13,225	$20,316,731	$ 2,575,731	$ (736,600)	$ (174,146)	$(1,71
Net income for the year ended March 31, 2001			1,048,245			
Cash dividends paid ($.32 per share)			(348,260)			
ESOP shares earned		4,797		47,280		
RRP shares earned					117,167	
RRP shares granted		(450)			(3,075)	
RRP shares forfeited		(210)			1,620	(
Tax expense from RRP		(3,483)				
Purchased 47,800 treasury shares						(51
Change in unrealized gain (loss) on available for sale securities net of applicable deferred income taxes of $571,019						
BALANCES, MARCH 31, 2001	13,225	20,317,385	3,275,716	(689,320)	(58,434)	(2,22
Net income for the year ended March 31, 2002			2,199,887			
Cash dividends paid ($.32 per share)			(339,489)			
ESOP shares earned		22,519		46,010		
RRP shares earned					43,810	
RRP shares granted		1,230			(4,188)	
Tax (expense) benefit from RRP		32,402				
Purchased 24,000 treasury shares						(32
Change in unrealized gain (loss) on available for sale securities net of applicable deferred income taxes of $79,757						
BALANCES, MARCH 31, 2002	13,225	20,373,556	5,136,114	(643,310)	(18,812)	(2,55
Net income for the year ended March 31, 2003			2,920,539			
Cash dividends paid ($.32 per share)			(335,586)			
ESOP shares earned		61,286		44,740		
RRP shares earned					7,262	
Tax (expense) benefit from RRP		660				
Purchased 15,100 treasury shares						(33
Change in unrealized gain (loss) on available for sale securities net of						

applicable deferred income taxes of $554,800						
BALANCES, MARCH 31, 2003	$ 13,225	$20,435,502	$ 7,721,067	$ (598,570)	$ (11,550)	$(2,88

NOTE: The accompanying notes are an integral part of these consolidated financial statements.

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CLASSIC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2003, 2002 AND 2001

	2003	2002	
OPERATING ACTIVITIES			
Net income	$ 2,920,539	$ 2,199,887	$
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	437,634	459,900	
Provision for loan losses	428,000	363,000	
Loss (gain) on sale of investment securities	(72,076)	(7,015)	
Net amortization (accretion) of mortgage-backed and investment securities	82,774	53,873	
Federal Home Loan Bank stock dividend	(83,000)	(86,300)	
Deferred income tax expense (benefit)	(3,187)	19,812	
Loss (gain) on sale of foreclosed real estate	(1,453)	(2,934)	
Loss (gain) on disposal of equipment and software	2,076	(9,513)	
ESOP shares earned	106,026	68,529	
RRP shares earned	7,262	43,810	
Amortization of goodwill	--	--	
Decrease (increase) in:			
Accrued interest receivable	1,305	29,098	
Other assets	(457,448)	(31,488)	
Increase (decrease) in:			
Accrued interest payable	(29,877)	(219,077)	
Accrued income taxes	--	(57,919)	
Other liabilities	(81,793)	(234,932)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,256,782	2,588,731	
INVESTING ACTIVITIES			
Investment securities:			
Available for sale:			
Proceeds from sales, maturities and calls	3,404,600	1,292,300	
Purchased	(4,390,612)	(2,516,975)	
Mortgage-backed securities:			
Available for sale:			

Proceeds from sales	4,140,349	--	
Principal payments	3,258,074	1,306,397	
Purchased	(7,767,188)	(6,991,295)	
Purchased Federal Home Loan Bank stock	(385,600)	--	
Purchased Federal Reserve Bank stock	--	--	
Redemption of Federal Reserve Bank stock	--	--	
Loan originations and principal payments, net	(27,362,357)	(22,104,949)	(
Proceeds from sale of foreclosed real estate	154,575	424,150	
Purchased premises and equipment	(1,317,375)	(190,596)	
Proceeds from sale of equipment and fixtures	--	24,885	
Purchased software	(125,413)	(7,763)	
NET CASH USED BY INVESTING ACTIVITIES	(30,390,947)	(28,763,846)	(

CLASSIC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2003, 2002 AND 2001
(Continued)

	2003	2002	
FINANCING ACTIVITIES			
Net change in deposits	$ 31,280,586	$ 13,444,521	$
Federal Home Loan Bank borrowings	117,539,126	137,955,000	1
Repayment of Federal Home Loan Bank borrowings	(116,814,058)	(127,189,433)	(1
Increase(decrease)in federal funds purchased and securities sold under agreements to repurchase	(1,013,447)	2,216,352	
Increase(decrease)in short term borrowings	(439,562)	211,487	
Dividends paid	(335,586)	(339,489)	
Treasury shares purchased	(334,080)	(329,668)	
NET CASH PROVIDED BY FINANCING ACTIVITIES	29,882,979	25,968,770	
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,748,814	(206,345)	
Cash and Cash Equivalents, Beginning of Year	5,400,046	5,606,391	
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 8,148,860	$ 5,400,046	$
ADDITIONAL CASH FLOWS AND SUPPLEMENTARY INFORMATION			
Cash paid during the year for:			
Interest on deposits and borrowings	$ 1,989,248	$ 1,828,913	$
Income taxes	$ 1,180,000	$ 828,481	$
Assets acquired in settlement of loans	$ 75,500	$ 288,093	$

Net unrealized gain (loss) on securities available-for-sale	$ 1,076,965	$ (154,823)	$

NOTE: The accompanying notes are an integral part of these consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Classic Bancshares, Inc. (the "Corporation") was organized as a savings and loan holding company primarily for the purpose of acquiring and owning all of the outstanding common stock of Classic Bank (formerly Ashland Federal Savings Bank). Effective September 30, 1996, Classic Bancshares, Inc. became a bank holding company upon its acquisition of 100% of the outstanding common stock of First National Bank of Paintsville (First National).

Effective June 30, 2000, Classic Bank converted from a federal savings bank to a state chartered commercial bank.

Effective March 16, 2001, First National Bank was merged into Classic Bank in a consolidation of subsidiaries accounted for in a manner similar to a pooling-of-interest. The former First National Bank continues in operation as a branch of Classic Bank. Restructuring charges related to the merger and charged to operations during the fiscal year 2001 totaled $112,834 ($74,470 net of tax) consisting of employee related charges of $19,643 and other charges of $93,191.

Classic Bank (the "Bank") conducts a general commercial banking business in eastern Kentucky which consists of attracting deposits from the general public and using those funds, together with other funds, to originate residential, consumer and nonresidential loans, primarily in its market area.

The Bank's revenues are derived principally from interest earned on loans and to a lesser extent, from interest earned on investments and service fees on loans and deposit accounts. The operations of the Bank is influenced significantly by general economic conditions and by policies of financial institutions regulatory agencies. The Bank's cost of funds are influenced by interest rates on competing investments and general market rates. Lending activities are affected by the demand for financing real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered.

The Bank's net interest income is dependent primarily upon the difference or spread between the average yield earned on loans and investments and the average rate paid on deposits, as well as the relative amounts of such assets and liabilities. The Bank, like most

financial institutions, is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different times, or on a different basis, than its interest earning assets.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The consolidated financial information presented herein has been prepared in accordance with accounting principles generally accepted in the United States of America and general accounting practices within the financial services industry. In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particulary susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate, deferred tax assets, and goodwill impairment.

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

A. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and the Banks. All significant intercompany balances and transactions have been eliminated.

B. INVESTMENT SECURITIES AND MORTGAGE-BACKED AND RELATED SECURITIES

The Corporation accounts for investment and mortgage-backed securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that investment securities be categorized as held-to-maturity, trading, or available-for-sale. Securities classified as held-to-maturity are carried at amortized cost only if the Corporation 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 recorded to operations or stockholders' equity, respectively. Investment and mortgage-backed securities are classified according to management's intent upon acquisition. The Corporation's stockholders' equity reflected net unrealized gains of $751,069 at March 31, 2003 and net unrealized losses of $325,896 at March 31, 2002. Realized gains and losses on sales of securities are recognized using the specific identification method.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable, net are stated at unpaid principal balances, less the allowance for loan losses, plus or minus net deferred loan origination costs or fees, and the undisbursed portion of loans in process.

Interest is 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.

It is the Corporation's policy to establish an allowance for loan losses for the purpose of absorbing losses associated with the loan portfolio. All actual loan losses are charged to the related allowance and all recoveries are credited to it. Additions to the allowance for loan losses are provided by charges to operations based on various factors, including the market value of the underlying collateral, growth and composition of the loan portfolio, the relationship of the allowance for loan losses to outstanding loans, historical loss experience, delinquency trends and prevailing and projected economic conditions. Management evaluates the carrying value of loans periodically in order to evaluate the adequacy of the allowance. While management uses the best information available to make these evaluations, future adjustments to the allowance may be necessary if the assumptions used in making the evaluations require material revision.

The Corporation accounts for impaired loans in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan". SFAS No. 114 requires that impaired loans be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as an alternative, at the loans observable market price or fair value of the collateral.

Under SFAS No. 114, a loan is defined as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the provisions of SFAS No. 114, the Corporation considers its investment in one-to-four-family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. With respect to the Corporation's investment in multi-family and nonresidential loans, and its evaluation of any impairment thereon,

such loans are collateral dependent and as a result are carried as a practical expedient at the lower of cost or fair value.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

At March 31, 2003 and 2002, the Corporation had no loans that would be defined as impaired under SFAS No. 114.

D. LOAN ORIGINATION FEES

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

E. FORECLOSED REAL ESTATE

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at the lower of the loan's unpaid principal balance (cost) or fair value at the date of foreclosure less estimated selling expenses.

Real estate loss provisions are recorded if the fair value declines below the fair value initially determined at the acquisition date. Revenue and expenses from operations and changes in the valuation allowance are included in loss on foreclosed real estate. The historical average holding period for such properties is six months.

F. PREMISES AND EQUIPMENT

Land is carried at cost. Bank premises, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization computed principally by the straight-line method over estimated useful lives of the assets, estimated to be ten to fifty years for buildings and five to ten years for furniture, fixtures and equipment. An accelerated method of computing depreciation is primarily used for tax reporting purposes.

G. GOODWILL AND OTHER INTANGIBLES

Prior to April 1, 2001, goodwill resulting from the acquisition of First National and Citizens Bank totaling approximately $6.4 million was being amortized over a twenty-five year period using the straight-line method.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142 "Goodwill and Intangible Assets," which prescribes accounting for all purchased goodwill and intangible assets. Pursuant to SFAS No.

142, acquired goodwill is not amortized, but is tested for impairment at the reporting unit level on an annual basis and between annual

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. GOODWILL AND OTHER INTANGIBLES (Continued)

tests whenever an impairment indicator arises. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The annual goodwill impairment test may be performed any time during the fiscal year provided the test is performed at the same time every year.

The corporation adopted SFAS No. 142 effective April 1, 2001 as permitted, and the transitional goodwill impairment tests of the Corporation's Banking segment was performed in the second quarter of the Company's 2003 fiscal year end. As a result of the adoption of this Statement, the Corporation will discontinue the amortization of goodwill and will record impairment losses only when required by the application of SFAS No. 142. The impact of the adoption of Statement No. 142 on net income for the Corporation is as follows:

	FOR THE YEARS ENDED MARCH 31,		
	2003	2002	2001
	(In thousands, except for per share amounts)		
Reported net income	$ 2,921	$ 2,200	$ 1,048
Add back: Goodwill amortization	0	0	254
Adjusted net income	$ 2,921	$ 2,200	$ 1,302
BASIC EARNINGS PER SHARE:			
Reported net income	$ 2.77	$ 2.08	$ 0.97
Goodwill amortization	0	0	.24
Adjusted net income	$ 2.77	$ 2.08	$ 1.21
DILUTED EARNINGS PER SHARE:			
Reported net income	$ 2.55	$ 1.94	$ 0.96
Goodwill amortization	0	0	.23
Adjusted net income	$ 2.55	$ 1.94	$ 1.19

The changes in the carrying amount of goodwill for the fiscal years ended March 31, 2003 and 2002 were as follows:

BANKING SEGMENT

	(In thousands)	
	2003	2002
Balance, Beginning of year	$ 5,555	$ 5,555
Goodwill acquired	--	--
Impairment losses	--	--
Goodwill written off related to disposal of reporting unit	--	--
Balance, End of year	$ 5,555	$ 5,555

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. GOODWILL AND OTHER INTANGIBLES (Continued)

The fair value of the reporting unit was estimated using a multiple of earnings as determined by current industry information. The testing indicated that the fair value of the reporting unit exceeded the carrying amount of the net assets (including goodwill).

H. FEDERAL INCOME TAXES

The Corporation accounts for federal income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Pursuant to the provisions of SFAS No. 109, a deferred tax liability or deferred tax asset is computed by applying the current statutory tax rates to net taxable or deductible temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future periods. Deferred tax assets are recorded only to the extent that the amount of net deductible temporary differences or carryforward attributes may be utilized against current period earnings, carried back against prior years' earnings, offset against taxable temporary differences reversing in future periods, or utilized to the extent of management's estimate of future taxable income. A valuation allowance is provided for deferred tax assets to the extent that the value of net deductible temporary differences and carryforward attributes exceeds management's estimates of taxes payable on future taxable income. Deferred tax liabilities are provided on the total amount of net temporary differences taxable in the future.

The Corporation's principal temporary differences between pretax financial income and taxable income result primarily from the different methods of accounting for deferred loan origination fees, Federal Home Loan Bank stock dividends, the general loan loss allowance, and certain components of retirement expense. A temporary difference is also recognized for depreciation expense computed using accelerated methods for federal income tax purposes.

I. EARNINGS PER SHARE

Basic earnings per share is calculated based on 1,052,477, 1,056,882, and 1,080,469, weighted average number of common shares outstanding for the years ended March 31, 2003, 2002, and 2001, respectively.

Diluted earnings per share is computed taking into consideration common shares outstanding and dilutive potential common shares to be issued under the Corporation's stock option and recognition and retention plan. Weighted average common shares deemed outstanding for purpose of computing diluted earnings per share totaled 1,144,676, 1,132,974, and 1,087,788, for the years ended March 31, 2003, 2002, and 2001, respectively. There were 91,513, 76,092, and 1,915, incremental shares related to the assumed exercise of stock options, and 686, 0, and 5,404, incremental shares related

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. EARNINGS PER SHARE (Continued)

to the assumed issuance of recognition and retention plan shares for the years ended March 31, 2003, 2002, and 2001, respectively.

Options to purchase 43,000, 400 and 75,476 shares of common stock with a weighted- average exercise price of $31.87, $16.75, and $13.02 per share were outstanding at March 31, 2003, 2002, and 2001, respectively, but were not included in the computation of diluted earnings per share for those years because the exercise price was greater than the average market price of the common shares. These options expire between February 1, 2007 and March 17, 2013.

J. IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses the financial and reporting obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. This statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. This statement defines a legal obligation as an obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance or written or oral contract, or by legal construction of a contract under the doctrine of promissory estoppel. This statement amends FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies". FASB No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. SFAS No. 143 is not expected to have a material effect on the Corporation's financial condition or results of operations.

In August 2001, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 carries over the recognition and measurement provisions in SFAS No. 121. Accordingly, an entity must recognize an impairment loss if the carrying value of a long-lived asset or asset group (a) is not recoverable, and (b) exceeds its fair value. Similar to SFAS No. 121, SFAS No. 144 requires an entity to test an asset or asset group for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. SFAS No. 144 differs from SFAS No. 121 in that it provides guidance on estimating future cash flows to test recoverability. An entity may use either a probability-weighted approach or best-estimate approach in developing estimates of cash flows to test recoverability. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. Management adopted

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

SFAS No. 144 effective April 1, 2002, without material effect on the Corporation's financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 provides financial accounting and reporting guidance for costs associated with exit or disposal activities, including one-time termination benefits, contract termination costs other than for a capital lease, and costs to consolidate facilities or relocate employees. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. SFAS No. 146 is not expected to have a material effect on the Corporation's financial condition or results of operations.

The FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions: An amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9", which removes acquisitions of financial institutions from the scope of SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions", except for transactions between mutual enterprises. SFAS No. 147 also requires that the acquisition of a less-than-whole financial institution, such as a branch, be accounted for as a business combination if the transferred assets and activities constitute a business. The adoption of SFAS No. 147 did not have a material impact on the Corporation's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee

compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting or stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for fiscal years beginning after December 15, 2002. The expanded annual disclosure requirements and the transition provisions are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of SFAS No. 148 did not have a material effect on the Corporation's financial position or results of operations.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. FINANCIAL INSTRUMENTS

OTHER OFF-BALANCE-SHEET INSTRUMENTS. In the ordinary course of business the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commitments under credit-card arrangements, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

L. FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", requires that the Corporation disclose estimated fair values for its financial instruments. In accordance with SFAS No. 107, fair values are based on estimates using present value and other valuation techniques in instances where quoted prices are not available. These techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. As such, the derived fair value estimates cannot be substantiated by comparison to independent markets and, further, may not be realizable in an immediate settlement of the instruments. SFAS No. 107 also excludes certain items from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent, and should not be construed to represent, the underlying value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating fair values of financial instruments.

CASH AND CASH EQUIVALENTS - The carrying amounts of cash and short-term instruments approximate their fair value.

SECURITIES AVAILABLE FOR SALE - Fair values for investment securities, excluding restricted equity securities, are based on quoted market prices. The carrying values of restricted equity securities (Federal Home Loan Bank stock) represents redemption value and approximates

fair value.

MORTGAGE-BACKED AND RELATED SECURITIES AVAILABLE FOR SALE - Fair values for mortgage- backed and related securities are based on quoted market prices or dealer quotes.

LOANS - The fair values for loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

ACCRUED INTEREST RECEIVABLE AND PAYABLE - The carrying amounts of accrued interest approximate their fair values.

DEPOSIT LIABILITIES - The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amount of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

FEDERAL HOME LOAN BANK ADVANCES - The fair value of FHLB advances was estimated by discounting the expected future cash flows using current interest rates for advances with similar terms and remaining maturities.

SHORT-TERM BORROWINGS - The carrying amounts of borrowings under repurchase agreements and other short-term borrowings approximates their fair value.

OFF-BALANCE-SHEET INSTRUMENTS - 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 standing. The fair value of such off-balance-sheet instruments are immaterial and, therefore, not disclosed.

Based on the methods and assumptions set forth above, the estimated fair value of the Corporation's financial instruments as of March 31, 2003 and 2002 are as follows:

2003	2002

	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
		(In thousands)	
FINANCIAL ASSETS:			
Cash and due from banks	$ 8,125	$ 8,125	$ 5,400
Federal funds sold and securities purchased under agreements to resell	24	24	--
Securities available-for-sale	28,247	28,247	25,803
Mortgage-backed securities available-for-sale	9,596	9,596	9,064
Federal Home Loan Bank stock	1,949	1,949	1,480
Loans receivable, net	187,175	198,196	160,316
Accrued interest receivable	1,157	1,157	1,158
FINANCIAL LIABILITIES:			
Certificates of deposit	$101,235	$101,470	$ 81,036
Other deposit accounts	88,920	88,920	77,731
Federal funds purchased and securities sold under agreements to repurchase	4,382	4,383	5,396
Advances from the Federal Home Loan Bank	28,126	28,729	27,401
Other short-term borrowings	6	6	446
Accrued interest payable	344	344	374

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. CASH AND CASH EQUIVALENTS

For the purposes of reporting consolidated cash flows, the Corporation considers cash, balances with banks, federal funds sold, securities purchased under agreements to resell and interest-bearing cash deposits in other depository institutions with initial maturities of three months or less to be cash equivalents.

N. ADVERTISING COSTS

Advertising costs are expensed when incurred.

O. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the 2003 consolidated financial statements. Such reclassifications had no effect on net income or stockholders' equity as previously reported.

NOTE 2: RESTRICTIONS ON CASH AND DUE FROM BANKS

The Bank is required to maintain reserve funds in cash or on deposit with a designated depository financial institution. The required

reserve as of March 31, 2003 and 2002 was $175,000.

NOTE 3: MERGER AGREEMENT

On December 30, 2002, Classic Banchshares, Inc. entered into a merger agreement with First Federal Financial Bancorp, Inc. Under the terms of the agreement, Classic Bancshares, Inc. will exchange a combination of its common stock and cash with an approximate value of $11,748,000 for 100% of the outstanding common stock of First Federal Financial Bancorp, Inc. The transaction, which is scheduled to close on June 20, 2003, is subject to regulatory and shareholder approval.

NOTE 4: INVESTMENT AND MORTGAGE-BACKED SECURITIES

Investment securities and mortgage-backed securities have been classified in the consolidated statements of financial condition according to management's intent. The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of investment securities at March 31, 2003 and 2002 are as follows:

NOTE 4: INVESTMENT AND MORTGAGE-BACKED SECURITIES (Continued)

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	EST FAI
AVAILABLE-FOR-SALE				
MARCH 31, 2003:				
U. S. Government Agency Securities	$ 564,062	$ --	$ (438)	$
Obligations of state and political subdivisions	19,099,172	823,406	(13,932)	19
Corporate debt securities	7,504,917	276,180	(6,497)	7
	$ 27,168,151	$ 1,099,586	$ (20,867)	$ 28
MARCH 31, 2002:				
U. S. Government Agency Securities	$ 2,500,000	$ 6,946	$ (19,265)	$ 2
Obligations of state and political subdivisions	17,177,903	284,343	(419,812)	17
Corporate debt securities	6,532,480	21,814	(280,918)	6
	$ 26,210,383	$ 313,103	$ (719,995)	$ 25

The amortized cost, gross unrealized gains, gross unrealized losses,

and estimated fair values of mortgage-backed securities at March 31, 2003 and 2002 are as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	EST FAI
MARCH 31, 2003:				
FHLMC	$ 8,444,766	$ 16,632	$ (727)	$ 8
FNMA	765,511	43,601		
Other	87,580	83		
REMICS:				
FHLMC	238,961	--	(325)	
	$ 9,536,818	$ 60,316	$ (1,052)	$ 9
MARCH 31, 2002:				
FHLMC	$ 7,602,117	$ 35,810	($ 135,458)	$ 7
FNMA	1,061,986	20,779	--	1
Other	108,408	--	(1,372)	
REMICS:				
FHLMC	377,996	--	(6,649)	
	$ 9,150,507	$ 56,589	($ 143,479)	$ 9

Gross realized gains and gross realized losses on the sale of available-for-sale investment and mortgage-backed securities were $72,076 and $0, respectively for the year ended March 31, 2003, $7,015 and $0, respectively for the year ended March 31, 2002, and $33,227 and $1,707, respectively for the year ended March 31, 2001.

The amortized cost and estimated fair value of investment and mortgage-backed securities at March 31, 2003 and 2002 by contractual term to maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

NOTE 4: INVESTMENT AND MORTGAGE-BACKED SECURITIES (Continued)

	2003		200
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST
	(In Thousands)		
Due in one year or less	$ 700	$ 710	$ 150
Due after one year through five years	2,460	2,619	2,511

Due after five years through ten years	3,615	3,796	4,095
Due after ten years	20,393	21,122	19,454
	27,168	28,247	26,210
Mortgage-backed securities-not due at a single maturity date	9,537	9,596	9,151
TOTAL	$ 36,705	$ 37,843	$ 35,361

Securities carried at approximately $12,946,196 at March 31, 2003, and $14,781,917 at March 31, 2002, were pledged to secure deposits of public funds and for other purposes required or permitted by law.

The amortized cost of mortgage-backed securities includes unamortized premiums of $287,238 and $108,564 and unearned discounts of $7,222 and $12,299 at March 31, 2003 and 2002, respectively.

Mortgage-backed securities with adjustable rates totaled $808,176 and $1,130,735 at March 31, 2003 and 2002, respectively.

Accrued interest receivable includes $365,761 and $378,000, at March 31, 2003 and 2002, respectively, related to investment and mortgage-backed securities.

NOTE 5: LOANS RECEIVABLE

The components of loans in the consolidated statements of financial condition were as follows:

	MARCH 31	
	2003	2002
	(In Thousands)	
Real estate loans:		
One-to-four family	$ 74,233	$ 74,321
Commercial	24,869	23,105
Multi-family	1,042	1,083
Construction	4,623	4,823
Consumer Loans	36,272	24,966
Commercial loans	47,971	33,522
Total loans receivable	189,010	161,820
Less: Unearned discounts and loan origination costs	(140)	(124)
Allowance for loan losses	1,975	1,628
Total loans receivable, net	$ 187,175	$ 160,316

Loans with adjustable rates totaled $101.1 million and $73.9 million March 31, 2003 and 2002, respectively.

Accrued interest receivable includes $791,077 and $780,144 at March 31, 2003 and 2002, respectively, related to loans receivable.

Activity in the allowance for loan losses is summarized as follows for the years ended March 31:

	2003	2002	2001
Balance at beginning of year	$ 1,628,242	$ 1,406,908	$ 1,289,302
Provision for losses	428,000	363,000	261,000
Charge-offs	(109,385)	(181,876)	(190,821)
Recoveries	27,982	40,210	47,427
Balance at end of year	$ 1,974,839	$ 1,628,242	$ 1,406,908

NOTE 5: LOANS RECEIVABLE (Continued)

The following is a summary of non-performing loans at March 31:

	2003	2002	2001
	(In Thousands)		
Accruing loans past due 90 days or more	$ 669	$ 244	$ 124
Nonaccrual loans	600	412	662
Total non-performing loan balances at year end	$1,269	$ 656	$ 786
Non-performing loans as a percentage of loans	.68%	.41%	.56%

In the normal course of business and subject to normal credit policies, the Bank makes loans to officers, directors, their immediate family and business interests of such persons. At March 31, 2003 and 2002, the balances of loans to such parties were as follows:

	2003	2002
Aggregate amount of indebtedness at beginning of year	$ 14,122,718	$ 8,108,287
New loans	33,536,723	42,573,962
Repayments	(33,901,761)	(36,559,531)
Aggregate amount of indebtedness at end of year	$ 13,757,680	$ 14,122,718

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NOTE 6: PREMISES AND EQUIPMENT

Premises and equipment at March 31, 2003 and 2002 by major classifications are as follows:

	2003	2002
Land	$1,596,706	$1,267,198
Buildings and improvements	4,693,764	4,094,683
Furniture and equipment	3,347,811	2,965,557
TOTAL	9,638,281	8,327,438
Less: Accumulated depreciation	3,370,905	2,961,312
	$6,267,376	$5,366,126

Depreciation expense charged to operations for the years ended March 31, 2003, 2002, and 2001 totaled $414,049, $430,032, and $445,235, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

NOTE 7: DEPOSITS

The aggregate amount of short-term jumbo certificates of deposit each with a minimum denomination of $100,000 or more was approximately $31,337,275 and $26,529,516 at March 31, 2003 and 2002, respectively.

The scheduled maturities of certificates of deposit were as follows for the years ending March 31:

2004	$ 67,734,967
2005	18,913,271
2006	6,438,784
2007	1,890,178
2008	5,985,825
2009 and thereafter	271,738
	$101,234,763

Interest expense on deposits is summarized as follows for the years ended March 31:

	2003	2002	2001
	(In Thousands)		
Certificates of deposit	$2,967	$4,034	$4,336
NOW accounts and money			

market demand accounts	772	973	1,265
Passbook and club accounts	188	259	334
	$3,927	$5,266	$5,935

The Bank held related party deposits of approximately $5.4 million and $4.0 million at March 31, 2003 and 2002, respectively.

NOTE 8: ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the Federal Home Loan Bank of Cincinnati totaled $28,126,225 at March 31, 2003. In addition, the Federal Home Loan Bank had issued for the account of Classic Bank, $10,600,000 in standby letters of credit for the benefit of depositors of public funds. The advances and letters of credit are collateralized with the Bank's Federal Home Loan Bank stock with a carrying value of $1,948,900 and certain residential real estate mortgage loans in the amount of $52,839,750.

At March 31, 2003, advances with a remaining term of 90 days or less, and a weighted average interest rate of 1.56% totaled $3,500,000. Advances requiring monthly principal reductions with a weighted average maturity of 4.1 years and a weighted average interest rate of 3.76% totaled $24,626,225.

NOTE 8: ADVANCES FROM FEDERAL HOME LOAN BANK (Continued)

Scheduled principal payments are due as follows:

Due in fiscal year ending:	
March 31, 2004	$ 9,740,185
March 31, 2005	6,071,025
March 31, 2006	5,512,105
March 31, 2007	5,367,095
March 31, 2008	261,723
After March 31, 2008	1,174,092
	$ 28,126,225

NOTE 9: SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase at March 31, 2003 and 2002 totaled $4,382,494 and $5,395,941, respectively.

Information concerning securities sold under agreements to repurchase

is summarized as follows:

	2003	2002
Average balance during the year	$5,206,431	$4,552,598
Average interest rate during the year	1.05%	2.37%
Maximum month-end balance during the year	$6,020,271	$5,872,828

U.S. Government Agency securities underlying the agreements at year-end:

Amortized cost	$4,538,532	$5,396,000
Estimated fair value	$4,538,621	$5,287,000

Securities sold under agreements to repurchase at March 31, 2003 and 2002 had maturities ranging from one day to three months.

NOTE 10: OTHER BORROWINGS

Other short-term borrowings at March 31, 2003 and 2002 consist of term treasury tax and loan deposits and are generally repaid within one to twenty days from the date of the transaction. Securities with an amortized cost of $564,062 and $450,000 and estimated fair value of $563,125 and $453,125, were pledged at March 31, 2003 and 2002, respectively, as collateral for treasury tax and loan deposits.

NOTE 11: INCOME TAXES

The provision for income taxes consists of:

	YEARS ENDED MARCH 31		
	2003	2002	2001
Currently payable - Federal	$ 1,106,100	$ 721,320	$ 327,252
Deferred - Federal	(3,187)	19,812	6,221
	$ 1,102,913	$ 741,132	$ 333,473
Federal tax benefit (expense) from RRP credited (charged) to paid in capital	660	32,401	(3,483)
	$ 1,103,573	$ 773,533	$ 329,990

The following tabulation reconciles the federal statutory tax rate to the effective rate of taxes provided for income taxes:

	YEARS ENDED MARCH 31		
	2003	2002	2001
Tax at statutory rate	34.0%	34.0%	34.0%
Tax exempt income	(7.4)	(9.4)	(20.4)
Non-deductible expenses	0.8	1.3	10.1
Other	0.0	0.1	0.2
	27.4%	26.0%	23.9%

The components of the Corporation's net deferred tax asset (liability) as of March 31, 2003 and 2002, are summarized as follows:

	2003	2002
DEFERRED TAX ASSETS:		
Loans and loan loss allowance	$ 368,035	$ 239,218
Retirement and incentive programs	82,269	51,495
Net unrealized loss on available for sale securities	0	167,886
Other assets	19,011	27,183
	469,315	485,782
DEFERRED TAX LIABILITIES:		
Federal Home Loan Bank stock dividends	(319,192)	(290,972)
Premises and equipment	(452,922)	(340,791)
Net unrealized gains on available-for-sale securities	(386,914)	--
Retirement and incentive programs	(264,195)	(264,195)
Accretion on securities	(22,983)	(19,616)
Deferred loan origination costs	(47,483)	(42,969)
	(1,493,689)	(958,543)
NET DEFERRED TAX ASSET (LIABILITY)	$ (1,024,374)	$ (472,761)

NOTE 11: INCOME TAXES (Continued)

For years prior to 1996, savings institutions (formerly Classic Bank) were allowed a statutory bad debt deduction of otherwise taxable income of 8%, subject to limitations based on aggregate loans and savings balances. If the amounts that qualify as deductions for federal income taxes are later used for purposes other than for bad

debt losses, including distributions in liquidation, such distributions will be subject to federal income taxes at the then current corporate income tax rate. The percentage of earnings bad debt deductions for Classic Bank had accumulated to approximately $1.9 million at March 31, 2003. The estimated deferred tax liability on such amount is approximately $646,000, which has not been recorded in the accompanying consolidated financial statements. The Bank does not have any significant post 1987 increases in the percentage of earnings bad debt deduction subject to recapture. Banks can no longer utilize the percentage of earnings method to compute their bad debt deduction.

NOTE 12: OFF BALANCE SHEET ACTIVITIES

CREDIT-RELATED FINANCIAL INSTRUMENTS. The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At March 31, 2003 and 2002, the following financial instruments were outstanding whose contract amounts represent credit risk:

	CONTRACT AMOUNT	
	MARCH 31 2003	MARCH 31 2002
	(In thousands)	
Commitments to grant loans	$ 5,907	$ 2,966
Unfunded commitments under lines of credit	$ 14,117	$ 11,982
Commercial and standby letters of credit	$ 474	$ 323

NOTE 12: OFF BALANCE SHEET ACTIVITIES (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is

deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Commercial and standby letters-of-credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments if deemed necessary.

The Corporation has entered into lease agreements for office premises and equipment under operating leases which expire at various dates through 2020. The following table summarizes minimum payments due under lease agreements by year:

YEAR ENDING MARCH 31	(DOLLARS IN THOUSANDS)
2004	$ 84
2005	79
2006	79
2007	73
2008	42
2009 and thereafter	578
	$ 935

Total rental expense under operating leases was approximately $87,099, $98,017, and $61,363, for the years ended March 31, 2003, 2002 and 2001, respectively.

NOTE 13: LEGAL CONTINGENCIES

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Corporation's consolidated financial statements.

NOTE 14: SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT

All of the Bank's loans, commitments and standby letters of credit have been granted to customers in the Bank's market

area. Investments in state and municipal securities primarily involve government entities within the Bank's market area. The concentration of credit by type of loan are set forth in Note 5.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit were granted primarily to commercial borrowers.

The contractual amounts of credit-related financial instruments such as commitments to extend credit and letters of credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default and the value of any existing collateral become worthless.

The Bank's credit policies and procedures for credit commitments and financial guarantees are the same as those for extension of credit that are recorded on the consolidated statements of financial condition. Because these instruments have fixed maturity dates and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Bank.

The Bank had deposits with other financial institutions which exceeded the federally insured limits at March 31, 2003 by approximately $76,000. The Bank does not have a policy for requiring collateral on such deposits.

NOTE 15: BENEFIT PLANS

The Corporation and its subsidiary participate in the Pentegra multi-employer pension plan. This non-contributory defined benefit plan covers all eligible employees of the Corporation and its subsidiary meeting certain service and age requirements. The plan operates on a fiscal year ending June 30, and it is the policy of the Corporation to fund the normal cost of the plan. Contributions to the plan have not been required for the years ended March 31, 2003, 2002 and 2001. The data available from the plan administrators is not sufficient to determine the Corporation's share of the pension plan's accumulated benefit obligation or the net assets attributable to the Corporation.

Effective July 1, 1997, First National's defined benefit plan was terminated and its plan assets were merged into the Corporation's Pentegra multi-employer pension plan. All eligible employees of First National became participants in the Corporation's

NOTE 15: BENEFIT PLANS (Continued)

multi-employer pension plan. Prepaid pension expense of $777,045, representing the excess of the fair value of pension plan assets over the accrued actuarial pension liability at July 1, 1998, is included in other assets in the consolidated statement of financial condition at March 31, 2003 and 2002.

Effective September 30, 1995, Classic Bank entered into a non-qualified supplemental executive retirement agreement (agreement) with the Bank's chief executive officer which provides for the payment of a monthly supplemental retirement benefit equal to up to 24% of his average monthly compensation during the three highest 12-month periods in the ten years prior to retirement. Such benefit shall be payable upon normal retirement at age 65 or under certain circumstances, after age 55, if his termination is without cause. Upon the officer's death, 50% of the amount payable under the agreement shall be payable to his spouse until her death.

The following table sets forth the supplemental executive retirement plan's funded status and amounts recognized in the consolidated financial statements at March 31, 2003 and 2002, and 2001:

	2003	2002	2001
Accumulated vested benefit obligation	$ (89,209)	$ (65,116)	$ (47,928)
Projected benefit obligation	$ (168,747)	$ (120,279)	$ (98,052)
Under (over) accrual	66,075	32,769	24,656
Accrued retirement cost	$ (102,672)	$ (87,510)	$ (73,396)
Net retirement cost includes the following components:			
Service cost - benefits earned during the year	$ 19,713	$ 16,058	$ 15,273
Interest cost	9,660	6,745	5,346
Other	(14,211)	(7,976)	(7,262)
Net retirement cost	$ 15,162	$ 14,827	$ 13,357
Discount rate	7.0%	7.0%	7.0%
Rate of increase in future compensation levels	5.0%	5.0%	5.0%

In conjunction with the stock conversion in 1995, the Corporation established an Employee Stock Ownership Plan (ESOP) which covers substantially all employees. The ESOP borrowed $1,058,000 from the Corporation and purchased 105,800 common shares, equal to 8.0% of the total number of shares issued in the conversion. The Bank makes

NOTE 15: BENEFIT PLANS (Continued)

scheduled discretionary contributions to the ESOP sufficient to service the debt. Shares are allocated to participants' accounts under the shares allocated method. The cost of shares not committed to be released and unallocated shares is reported as a reduction of stockholders' equity.

Dividends on unallocated ESOP shares are recorded as a reduction of debt and accrued interest; dividends on allocated ESOP shares are recorded as a reduction of retained earnings. Allocated ESOP shares become outstanding for earnings-per-share computations. Compensation expense is recorded based on the average fair market value of the ESOP shares when committed to be released. The expense under the ESOP for the years ended March 31, 2003, 2002, and 2001, was $106,025, $68,529, and $52,077, respectively.

The ESOP shares at March 31, 2003 and 2002 are as follows:

	2003	2002
Allocated shares	45,943	41,469
Unearned shares	59,857	64,331
Total ESOP shares	105,800	105,800
Fair value of unearned shares	$1,690,302	$1,098,194

On July 29, 1996, stockholders of the Corporation approved the 1996 Recognition and Retention Plan ("RRP"). Under the RRP, restricted stock awards of up to 4% of the common stock sold in the conversion may be awarded to the directors, officers and key employees of the Corporation and its subsidiary. The Corporation completed the funding of the plan in September 1996 by purchasing 52,900 shares of common stock in the open market at a total cost of $621,575, which reduced consolidated stockholders equity. At March 31, 2003, vested, unvested and unawarded RRP shares totaled 51,936 shares, 850 shares and 114 shares, respectively.

The holders of the restricted shares have all of the rights of a shareholder, except that they cannot sell, assign, pledge or transfer any of the restricted shares during the restricted period. The restricted shares vest at a rate of 20% on each anniversary of the grant date. RRP expense of $6,425, $48,131, and $117,166, was recorded for the years ended March 31, 2003, 2002, and 2001 respectively.

During the fiscal year ended March 31, 1998, the Corporation adopted a 401(k) Savings and Profit Sharing Plan covering substantially all employees. Under the plan, the Corporation matches 50.0% of the employee's contribution up to 3.0% of the employee's salary. Total expense under this plan was $59,968, $51,487, and $52,900, for the years ended March 31, 2003, 2002, and 2001, respectively.

NOTE 16: STOCK OPTION PLAN

On July 29, 1996, stockholders of the Corporation approved the 1996 Stock Option and Incentive Plan ("SOP"). Under the 1996 SOP 132,250 shares were reserved for issuance to officers, directors, and key employees of the Corporation and its subsidiary.

The following tabulation shows the number of shares and the exercise price of options awarded to officers, directors, and key employees by date of grants, net of subsequent forfeitures:

	SHARES GRANTED	EXERCISE PRICE
July 29, 1996	106,774	$10.8125
February 1, 1997	19,000	$13.3750
September 14, 1998	4,500	$13.8750
October 12, 1998	626	$13.7500
April 19, 1999	200	$13.6250
March 12, 2001	450	$12.3130
February 15, 2002	400	$16.7500

All grants under the 1996 "SOP" are exercisable at the fair market value at the date of the grants. The options vest with the grantees at the rate of 20% per year on each anniversary date of the grants and are available for exercise, subject to the vesting schedule, for up to ten years from the grant date.

A summary of the status of the Corporation's 1996 stock option plan as of March 31, 2003, 2002, and 2001, and changes during the periods ending on those dates is presented below:

	2003		2002	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding at beginning of year	131,950	$11.33	132,250	$11.32
Granted	0	--	400	$16.75
Exercised	0	--	0	--
Forfeited	0	--	(700)	
Options outstanding at end of year	131,950	$11.33	131,950	$11.33
Eligible for exercise at				

year end	130,255	$11.33	129,020	$11.33
	=======		=======	
Weighted average fair value of options granted during the year		N/A		$ 5.05

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

NOTE 16: STOCK OPTION PLAN (Continued)

The following information applies to the 1996 Stock Option and Incentive Plan options outstanding at March 31, 2003:

RANGE OF EXERCISE PRICE	OUTSTANDING	AVERAGE REMAINING LIFE (YEARS)	AVERAGE EXERCISE PRICE
$10.8125 to $16.7500	131,950	3.5	$11.33

On July 27, 1998, the stockholders of the Corporation approved the 1998 Premium Price Stock Option Growth Plan. Under the 1998 SOP, 50,000 shares were reserved for issuance to officers, directors, and key employees of the Corporation and its subsidiary.

The following tabulation shows the number of shares and the exercise price of options awarded to officers, directors, and key employees by date of grants, net of subsequent forfeitures:

	SHARES GRANTED	EXERCISE PRICE
February 15, 1999	5,000	$16.2950
April 19, 1999	5,550	$14.9880
April 24, 2000	24,000	$11.2750
March 12, 2001	14,350	$13.5440

These grants vest immediately with the grantees and may be exercised at any time up to ten years.

A summary of the Corporation's 1998 Premium Price Stock Option Growth Plan as of March 31, 2003, 2002 and 2001 and changes during the periods ending on those dates is presented below:

	2003		2002	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE

Options outstanding at beginning of year	48,900	$ 12.88	50,000	$ 12.84
Granted during the year	0	--	0	--
Exercised	0	--	0	--
Forfeited	0	--	1,100	$(11.28)
Options outstanding at end of year	48,900	$ 12.88	48,900	$ 12.88
Eligible for exercise at year end	48,900	$ 12.88	48,900	$ 12.88
Weighted-average fair value of options granted during the year		N/A		N/A

NOTE 16: STOCK OPTION PLAN (Continued)

The following information applies to the 1998 Premium Price Stock Option Growth Plan at March 31, 2003:

RANGE OF EXERCISE PRICE	OUTSTANDING	AVERAGE REMAINING LIFE (YEARS)	AVERAGE EXERCISE PRICE
$11.2750 to $16.2950	48,900	6.0	$12.88

On August 13, 2001, the stockholders of the Corporation approved the 2001 Premium Price Stock Option Growth Plan. Under the 2001 SOP, 50,000 shares were reserved for issuance to officers, directors and key employees of the Corporation and its subsidiary.

The following tabulation shows the number of shares and the exercise price of options awarded to officers, directors, and key employees by date of grants, net of subsequent forfeitures:

	SHARES GRANTED	EXERCISE PRICE
May 20, 2002	7,000	$22.5489
March 17, 2003	43,000	$31.8670

These grants vest immediately with the grantees and may be exercised at any time up to ten years.

A summary of the Corporation's 2001 Premium Price Stock Option Growth Plan as of March 31, 2003 and changes during the period ending on that date is presented below:

	MARCH 31, 2003	
		WEIGHTED AVERAGE EXERCISE

	SHARES	PRICE
Options outstanding at beginning of year	0	--
Granted during the year	50,000	$ 30.56
Exercised	0	--
Forfeited	0	--
Options outstanding at end of year	50,000	$ 30.56
Eligible for exercise at year end	50,000	$ 30.56
Weighted-average fair value of options granted during the year		$ 6.91

NOTE 16: STOCK OPTION PLAN (Continued)

The following information applied to the 2001 Premium Price Stock Option Growth Plan at March 31, 2003:

RANGE OF EXERCISE PRICE	OUTSTANDING	AVERAGE REMAINING LIFE (YEARS)	AVERAGE EXERCISE PRICE
$22.5489 to $31.8670	50,000	9.9	$30.56

The Corporation has adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which contains a fair-value based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS No. 123 permits entities to continue to account for stock options and similar equity instruments under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Entities that continue to account for stock options using APB Opinion No. 25 are required to make pro forma disclosures of net earnings and earnings per share, as if the fair-value based method of accounting defined in SFAS No. 123 had been applied.

The Corporation utilizes APB Opinion No. 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized for the plans. Had compensation cost for the Corporation's stock option plans been determined based on the fair value at the grant dates for awards under the plans consistent with the accounting method utilized in SFAS No. 123, the Corporation's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

	MARCH 31		
	2003	2002	2001

	----	----	----
Net earnings			
As reported	$2,920,539	$2,199,887	$1,048,245
Pro forma	$2,691,386	$2,172,325	$ 894,619
Earnings per share			
Basic:			
As reported	$ 2.77	$ 2.08	$ .97
Pro forma	$ 2.56	$ 2.05	$ .83
Diluted:			
As reported	$ 2.55	$ 1.94	$ .96
Pro forma	$ 2.35	$ 1.92	$ .82

NOTE 16: STOCK OPTION PLAN (Continued)

The fair value of each option grant is estimated on the date of grant using the modified Black-Scholes option-pricing model with the following weighted average assumptions used for grants: dividend yield 1.79%; expected volatility of 27.48%; risk free interest rate of 5.68%; and expected lives of 7 years.

NOTE 17: REGULATORY CAPITAL REQUIREMENTS

As of March 31, 2000, Classic Bank was subject to minimum regulatory capital standards promulgated by the Office of Thrift Supervision (the "OTS"), and the former First National Bank was subject to the regulatory capital requirements of the Federal Deposit Insurance Corporation (the "FDIC"). During the 2001 fiscal year, Classic Bank converted to a state chartered bank and First National Bank was merged into Classic Bank in a consolidation of subsidiaries. The surviving entity, Classic Bank, is now subject to the regulatory capital requirements of the "FDIC". Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy requires the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to adjusted total assets (as defined).

As of March 31, 2003, the most recent notification from regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well

capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since those dates that management believes have changed the bank's category. The following table sets forth the Bank's minimum capital requirements and actual capital as of March 31, 2003 and 2002.

NOTE 17: REGULATORY CAPITAL REQUIREMENTS (Continued)

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES	
	AMOUNT	RATIO	AMOUNT	RATIO
			(Dollars in thousands)	
MARCH 31, 2003				
Total Capital (to Risk Weighted Assets)	$19,738	10.8%	>=$14,654	>=8.0%
Tier I Capital (to Risk Weighted Assets)	$17,763	9.7%	>=$ 7,327	>=4.0%
Tier I Capital (to Adjusted Total Assets)	$17,763	7.6%	>=$ 9,388	>=4.0%
MARCH 31, 2002				
Total Capital (to Risk Weighted Assets)	$16,277	10.6%	>=$12,274	>=8.0%
Tier I Capital (to Risk Weighted Assets)	$14,649	9.5%	>=$ 6,137	>=4.0%
Tier I Capital (to Adjusted Total Assets)	$14,649	7.1%	>=$ 8,234	>=4.0%

The Corporation's principal source of funds is dividends received from the subsidiary bank. Regulations limit the amount of dividends that may be paid by the Corporation's banking subsidiary without prior approval. During the fiscal year March 31, 2004, approximately $4,123,533 plus any fiscal year 2004 net profits can be paid by the Corporation's banking subsidiary without prior regulatory approval.

NOTE 18: CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

The following condensed financial statements summarize the financial position of the Corporation as of March 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years ended March 31, 2003, 2002, and 2001:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

NOTE 18: CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

STATEMENTS OF FINANCIAL CONDITION	MARCH 31, 2003	MARCH 31, 2002
ASSETS		
* Cash	$ 9,795	$ 688,821
Temporary investments	27,383	81,701
Securities available for sale	540,000	512,500
Accrued interest receivable	10,625	5,625
* Note receivable - ESOP	676,726	713,306
* Equity in net assets of Bank Subsidiary	24,046,484	19,896,270
* Income taxes and other receivables due from subsidiary	137,176	--
Other assets	18,584	121,351
TOTAL ASSETS	$ 25,466,773	$ 22,019,574
LIABILITIES		
Accounts payable and accrued expenses	$ 31,270	$ 34,955
Deferred income taxes	12,762	3,664
TOTAL LIABILITIES	44,032	38,619
STOCKHOLDERS' EQUITY		
Common stock	13,225	13,225
Additional paid-in capital	20,435,502	20,373,556
Retained earnings	7,721,067	5,136,114
Net unrealized gain (loss) on available for sale securities	751,069	(325,896)
Treasury stock	(2,888,002)	(2,553,922)
Unearned ESOP shares	(598,570)	(643,310)
Unearned RRP shares	(11,550)	(18,812)
TOTAL STOCKHOLDERS' EQUITY	$ 25,422,741	$ 21,980,955
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 25,466,773	$ 22,019,574

* These accounts eliminate upon consolidation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

NOTE 18: CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

STATEMENTS OF INCOME	YEARS ENDED MARCH 31, 2003	2002	2001
INCOME			
* Equity in undistributed earnings of bank subsidiaries	$2,984,714	$1,138,819	$ --
* Dividends from bank subsidiaries	100,000	1,241,077	1,292,6
* Other income - management fees	60,000	60,000	127,0
* Interest income - ESOP loan	43,444	45,716	47,9
Interest and dividend income	43,332	45,164	32,7
TOTAL INCOME	3,231,490	2,530,776	1,500,4
EXPENSES			
Salaries and benefits	--	9,731	112,4
Interest expense	--	2,579	6,6
Legal and accounting fees	62,715	60,695	65,6
* Corporate management fees	186,000	186,000	179,0
Printing and supplies	8,831	19,752	29,6
Other professional services	40,612	35,698	65,8
Directors fees	62,400	62,400	61,2
Other expenses	33,934	46,454	55,8
TOTAL EXPENSES	394,492	423,309	576,5
INCOME BEFORE INCOME TAXES	2,836,998	2,107,467	923,9
Federal and state income tax benefit (expense)	83,541	92,420	124,3
NET INCOME	$2,920,539	$2,199,887	$1,048,2

* These accounts eliminate upon consolidation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

NOTE 18: CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

STATEMENTS OF CASH FLOWS	YEARS ENDE	
	2003	200
OPERATING ACTIVITIES		
Net income	$ 2,920,539	$ 2,199
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,541	4
Equity in undistributed net income of subsidiary	(2,984,714)	(1,138
Earned RRP shares	7,262	43
Deferred income taxes - (benefit) expense	(252)	
Decrease (increase) in:		
Accrued interest receivable	(5,000)	1
Receivables due from subsidiary	(137,176)	
Other assets	99,227	67
Increase (decrease)		
Accounts payable and accrued expenses	(3,685)	(29
Other increases	--	79
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(100,258)	1,228
INVESTING ACTIVITIES:		
Repayment on loan receivable from ESOP	36,580	36
Purchased equipment	--	
Dividend distribution from subsidiary in excess of current year's earnings	--	
Purchased securities available for sale	--	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	36,580	36
FINANCING ACTIVITIES		
Dividends paid	(335,586)	(339
Treasury shares purchased	(334,080)	(329
NET CASH USED BY FINANCING ACTIVITIES	(669,666)	(669
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(733,344)	596
Cash and Cash Equivalents at Beginning of Year	770,522	174
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 37,178	$ 770

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There has been no changes in the Company's independent accountants during the Company's two most recent fiscal years.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

DIRECTORS

Information concerning directors of the Company is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held in 2003, which will be filed with the SEC by July 29, 2003.

EXECUTIVE OFFICERS

Information concerning the executive officers of the Company who are not directors is incorporated by reference from Part I of this Form 10-KSB under the caption "Executive Officers of the Registrant Who Are Not Directors."

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Information concerning compliance with Section 16(a) reporting requirements by the Company's directors and executive officers is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held in 2003, which will be filed with the SEC by July 29, 2003.

ITEM 10. EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held in 2003, which will be filed with the SEC by July 29, 2003.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning security ownership of certain beneficial owners and management is incorporated herein by reference from the definitive Proxy Statement for the Annual Meeting of Stockholders to be held in 2003, which will be filed with the SEC by July 29, 2003.

The following table sets forth information with respect to securities to be issued under the Company's equity compensation plans as of March 31, 2003.

EQUITY COMPENSATION PLAN INFORMATION

	(a)	(b)
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-ave exercise pri outstanding warrants and
Equity compensation plans approved by security holders:		
1. 1996 Recognition and Retention Plan	1. 850 (Awarded but unvested)	1. N/A
2. 1996 Stock Option and Incentive Plan	2. 131,950(1)	2. $11.29
3. 1998 Premium Price Stock Option Growth Plan	3. 48,900	3. $12.88
4. 2001 Premium Price Stock Option Growth Plan	4. 50,000(1)	4. $30.56
Equity compensation plans not approved by security holders	N/A	
Total	231,700(1)	

(1) Includes issued but unvested options

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning certain relationships and related transactions is incorporated herein by reference from the definitive Proxy Statement for the Annual Meeting of Stockholders to be held in 2003, which will be filed with the SEC.

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ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

REGULATION S-B EXHIBIT NUMBER	DOCUMENT
3.1	Certification of Incorporation of Classic Bancshares, Inc. (incorporated herein by reference to Classic Bancshares, Inc.'s Registration Statement on Form S- 1 initially filed on December 19, 1995, Registration No. 33-87580).
3.2	Bylaws of Classic Bancshares, Inc. (incorporated herein by reference to Current Report on Form 8-K filed February 25, 2003).
4	Specimen Stock Certificate of Classic Bancshares, Inc.

(incorporated by reference to Registration Statement on Form S-4 filed on April 14, 2003, Registration No. 333-104524).

10.1 Employment Agreement between Classic Bancshares, Inc. and David B. Barbour (incorporated herein by reference to Classic Bancshares, Inc. Annual Report on Form 10-KSB for fiscal year ended March 31, 2001).

10.2 Employment Agreement between Classic Bank and Lisah M. Frazier (incorporated herein by reference to Classic Bancshares, Inc.'s Annual Report on Form 10-KSB for fiscal year ended March 31, 2001).

10.3 Employment Agreement between Classic Bancshares, Inc. and Robert S. Curtis (incorporated herein by reference to Classic Bancshares, Inc.'s Annual Report on Form 10-KSB for fiscal year ended March 31, 2001).

10.4 1996 Stock Option and Incentive Plan (incorporated herein by reference to Classic Bancshares, Inc.'s Proxy Statement dated June 28, 1996 to which it is attached as Exhibit A).

10.5 1996 Recognition and Retention Plan (incorporated herein by reference to Classic Bancshares, Inc.'s Proxy Statement dated June 28, 1996 to which it is attached as Exhibit B.)

10.6 1998 Premium Price Stock Option Growth Plan (incorporated herein by reference to Classic Bancshares, Inc.'s Proxy Statement dated June 26, 1998 to which it is attached as Exhibit A).

10.7 2001 Premium Price Stock Option Growth Plan (incorporated herein by reference to Classic Bancshares, Inc.'s Proxy Statement dated July 13, 2001 to which it is attached as Exhibit A).

10.8 Form of Supplemental Retirement Agreement with David B. Barbour (incorporated herein by reference to Registration Statement on Form S-4 filed on April 14, 2003, Registration No. 333-104524)

21 List of Subsidiaries

23 Consent of Smith, Goolsby, Artis & Reams, P.S.C.

99.1 Certification of David B. Barbour Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.2 Certification of Lisah M. Frazier Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(B) REPORTS ON FORM 8-K

During the quarter ended March 31, 2003, the Company filed a Current Report on Form 8-K dated February 25, 2003 to file amended and restated by-laws

and on February 25, 2003 to report under Item 5 for Form 8-K the issuance of a press release announcing its earnings for the quarter ended December 31, 2002.

ITEM 14. CONTROLS AND PROCEDURES

The Company has adopted interim disclosure controls and procedures designed to facilitate the Company's financial reporting. The interim disclosure controls currently consist of communications among the Chief Executive Officer, the Chief Financial Officer, and each department head to identify any transactions, events, trends, risks or contingencies which may be material to the Company's operations. Finally, the Chief Executive Officer, Chief Financial Officer, the Audit Committee and the Company's independent auditors also meet on a quarterly basis and discuss the Company's material accounting policies. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of these interim disclosure controls within the 90 days prior to the filing of this report and found them to be adequate.

The Company maintains internal controls and has evaluated such controls within ninety days of the filing of this report. There have not been any significant changes in such internal controls subsequent to the date of this evaluation.

ITEM 15. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accountant fees and services is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held in 2003, which will be filed with the SEC by July 29, 2003.

SIGNATURES

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

CLASSIC BANCSHARES, INC.

By: /s/ David B. Barbour

David B. Barbour, President, Chief Executive Officer and Director (DULY AUTHORIZED REPRESENTATIVE)

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

Signature and Title: /s/ David B. Barbour

Date: June 27, 2003

David B. Barbour
President & CEO

David B. Barbour, President, Chief Executive Officer and Director (PRINCIPAL EXECUTIVE AND OPERATING OFFICER)

Date: June 27, 2003

/s/ C. Cyrus Reynolds

C. Cyrus Reynolds, Chairman of th

Date: June 27, 2003

/s/ Lisah M. Frazier

Lisah M. Frazier, Chief Operating Officer and Chief Financial Officer and Director (PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)

Date: June 27, 2003

/s/ Robert L. Bayes

Robert L. Bayes, Executive Vice P
Director

Date: June 27, 2003

/s/ John W. Clark

John W. Clark, Director

Date: June 27, 2003

/s/ E. B. Gevedon

E. B. Gevedon, Jr., Vice Chairma

Date: June 27, 2003

/s/ Robert B. Keifer, Jr.

Robert B. Keifer, Jr., Director

/s/ David A. Land

David A. Lang, Director

Date: June 27, 2003

Date: June 27, 2003

/s/ Jeffrey P. Lopez

Jeffrey P. Lopez, Director

Date: June 27, 2003

/s/ Robert A. Moyer

Robert A. Moyer, Jr., Director

Date: June 27, 2003

Certification of Principal Executive Officer and Principal Financial Officer
CERTIFICATION FOR ANNUAL REPORT ON FORM 10-KSB

I, David B. Barbour, certify that:

1) I have reviewed this annual report on Form 10-KSB of Classic Bancshares, Inc.:

2) Based on my knowledge, this annual report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statement and other financial information included in this annual report, fairly present in all material respects the financial condition , results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data

and have identified for the registrant's auditor any material weaknesses in internal controls; and

b) any fraud, whether material or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6) The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Signature and Title: /s/ David B. Barbour Date: June 27, 2003

David B. Barbour
President & CEO

Certification of Principal Executive Officer and Principal Financial Officer
CERTIFICATION FOR ANNUAL REPORT ON FORM 10-KSB

I, Lisah M. Frazier, certify that:

1) I have reviewed this annual report on Form 10-KSB of Classic Bancshares, Inc.:

2) Based on my knowledge, this annual report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statement and other financial information included in this annual report, fairly present in all material respects the financial condition , results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the

audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditor any material weaknesses in internal controls; and

b) any fraud, whether material or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6) The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Signature and Title: /s/ Lisah M. Frazier Date: June 27, 2003

Lisah M. Frazier
COO/CFO

INDEX TO EXHIBITS

Number	
21	Subsidiaries of the Registrant
23	Consent of Independent Auditors
99.1	Certification of David B. Barbour Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification of Lisah M. Frazier Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.