GRAND CENTRAL FINANCIAL CORP
Form 10KSB
March 31, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

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

For the Fiscal Year Ended December 31, 2002

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

For the transition period from __________ to __________

Commission File Number: 0-25045

GRAND CENTRAL FINANCIAL CORP.
(Name of small business issuer in its charter)

Delaware	34-1877137
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
601 Main Street, Wellsville, Ohio	43968
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number: (330) 532-1517

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, Par Value $.01 Per Share
(Title of Class)

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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO

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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

As of December 31, 2002, the Registrant's revenues were $7.7 million.

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of February 27, 2003 was approximately $16,854,231. As of February 27, 2003, there were 1,645,921 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2003 Annual Meeting of Stockholders to be held on April 23, 2003 are incorporated herein by reference to Part III of this Form 10-KSB.

Transitional Small Business Disclosure Format (Check One): YES ___ ; NO X

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Certain statements contained in this report that are not historical facts are forward-looking statements that are subject to certain risks and uncertainties. When used herein, the terms "anticipates," "plans," "expects," "believes," and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements. The Company's actual results, performance or achievements may materially differ from those expressed or implied in the forward-looking statements. Risks and uncertainties that could cause or contribute to such material differences include, but are not limited to, general economic conditions, interest rate environment, competitive conditions in the financial services industry, changes in law, governmental policies and regulations, and rapidly changing technology affecting financial services. The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

GENERAL

Grand Central Financial Corp. (the "Company") was organized as a Delaware corporation in September 1998 as the holding company for Central Federal Savings and Loan Association (the "Association") in connection with the Association's conversion from a mutual to stock form of organization. As a savings and loan holding company, the company is subject to regulation by the Office of Thrift Supervision (the "OTS"). Currently, the Company does not transact any material business other than through the Association. At December 31, 2002, the Company had total assets of $110.5 million and stockholders' equity of $17.6 million.

The Association is a community-oriented savings institution which was originally organized in 1892. The Association's principal business consists of attracting deposits from the general public in its primary market area and investing those deposits and other funds, generated from operations, and from Federal Home Loan Bank of Cincinnati ("FHLB") advances, primarily in conventional mortgage loans secured by single-family residences. The Association also invests in consumer loans, primarily indirect automobile loans and loans originated directly or on the Association's behalf by automobile dealers at the time of sale. To a significantly lesser extent, the Association invests in home equity, multi-family, commercial real estate, construction and land loans. The Association also invests in mortgage-backed securities, primarily those guaranteed or insured by government agencies such as Ginnie Mae, Fannie Mae and Freddie Mac, and other investment grade securities. The Association's revenues are derived principally from the generation of interest and fees on loans originated and, to a lesser extent, interest and dividends on investment securities. The Association's primary sources of funds are retail savings deposits and, to a lesser extent, principal and interest payments on loans and investment securities, FHLB advances and proceeds from the sale of loans. The Association operates through its home office located in Wellsville, Ohio, and a full service branch office in East Liverpool, Ohio.

MARKET AREA AND COMPETITION

The Association's primary market area is a competitive market for financial services and the Association faces significant competition both in making loans and in attracting deposits. The Association faces direct competition from a number of financial institutions operating in its market area, many with a state-wide or regional presence, and in some cases, a national presence. Many of these financial institutions are significantly larger and have greater financial resources than the Association. The Association's competition for loans comes principally from savings institutions, mortgage banking companies, commercial banks and credit unions. Its most direct competition for deposits has historically come from savings institutions and commercial banks. In addition, the Association faces increasing

competition for deposits and other financial products from non-bank institutions such as brokerage firms and insurance companies in mutual funds and annuities. Competition may also increase as a result of the lifting of restrictions on the interstate operations of financial institutions.

LENDING ACTIVITIES

LOAN PORTFOLIO COMPOSITION. The Association's loan portfolio consists primarily of conventional first mortgage loans secured by single-family residences. At December 31, 2002, the Association had gross loans receivable of $63.1 million, of which $48.4 million were single-family, residential mortgage loans, or 76.6% of the Association's gross loans receivable. The remainder of the portfolio consisted of: consumer loans of $13.0 million, or 20.6% of gross loans receivable; $128,000 of construction and land loans, or .20% of gross loans receivable; $1.5 million of multi-family mortgage and commercial real estate loans, or 2.4% of gross loans receivable; and $120,000 of commercial loans, or .2% of gross loans receivable. At that same date, 70.1% of the Association's loan portfolio had fixed interest rates. The Association had no single-family residential mortgage loans held-for-sale at December 31, 2002.

The types of loans that the Association may originate are subject to federal and state law and regulations. Interest rates charged by the Association on loans are affected by the demand for such loans and the supply of money available for lending purposes and the rates offered by competitors. In turn, these factors are affected by, among other things, economic conditions, fiscal policies of the federal government, the monetary policies of the Federal Reserve Board and legislative tax policies.

The following table sets forth the composition of the Association's loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated.

	AT DECEMBER 31,			
	2002		2001	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)			
Real estate loans:				
Single-family(1)	$ 48,365	76.62%	$ 59,246	74.57%
Multi-family and commercial	1,536	2.44	1,381	1.74
Construction	128	0.20	675	0.85
Total real estate loans	50,029	79.26	61,302	77.16
Consumer loans:				
Home equity loans	1,378	2.18	2,416	3.04
Automobile	10,719	16.98	15,549	19.57
Other	876	1.39	--	--
Total consumer loans	12,973	20.55	17,965	22.61
Commercial loans	120	0.19	184	0.23
Total loans	63,122	100.00%	79,451	100.00%
Less:				
Deferred loan origination fees and discounts	(196)		(287)	
Allowance for loan losses	(361)		(373)	
Total loans, net	$ 62,565		$ 78,791	

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(1) Includes loans held-for-sale.

LOAN MATURITY. The following table shows the remaining contractual maturity of the Association's commercial and construction loans at December 31, 2002. The table does not include the effect of future principal prepayments.

	AT DECEMBER 31, 2002		
	CONSTRUCTION (1)	COMMERCIAL	TOTAL
	(DOLLARS IN THOUSANDS)		
Amounts due in:			

One year or less	$ --	$ 46	$ 46
After one year:			
More than one year to three years		46	46
More than three years to five years		146	146
More than five years to 10 years		329	329
More than 10 years to 15 years	128	547	675
More than 15 years	--	541	541
Total amount due	$ 128	$ 1,655	$ 1,783

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(1) Construction loans, which consist of loans to the owner for the construction of single-family residences, automatically convert to permanent financing upon completion of the construction phase.

The following table sets forth, at December 31, 2002, the dollar amount of commercial loans contractually due after December 31, 2003, and whether such loans have fixed interest rates or adjustable interest rates.

	DUE AFTER DECEMBER 31, 2003 (DOLLARS IN THOUSANDS)		
	FIXED	ADJUSTABLE	TOTAL
Commercial loans	$ 1,417	$ 238	$ 1,655

ORIGINATION OF LOANS. The Association's mortgage lending activities are conducted through its home office and its branch office. Although the Association may originate both adjustable-rate and fixed-rate mortgage loans, a substantial majority of the Association's loan originations have been fixed-rate mortgage loans. The Association's ability to originate loans depends upon the relative customer demand for fixed-rate or adjustable-rate mortgage loans, which is affected by the current and expected future level of interest rates. The Association has not emphasized the origination of adjustable-rate mortgage loans due to the relatively low demand for such loans in the Association's primary market area. The Association sells a portion of the mortgage loans that it originates, primarily to Freddie Mac, and retains only loans that bear an interest rate above levels established from time to time by the Association's board of directors based on current market rates. At December 31, 2002, there were no single-family residential mortgage loans categorized as held-for-sale. The Association also emphasizes the origination of home equity loans and construction loans secured primarily by owner-occupied properties.

The following table sets forth the Association's loan originations, purchases, sales and principal repayments for the periods indicated:

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(DOLLARS IN THOUSANDS)		
Loans at beginning of period..................	$78,791	$86,265	$73,32
Originations:			
Real estate:			
Single-family.........................	14,447	23,462	16,93
Multi-family and commercial...........	450	458	31
Construction..........................	306	1,034	1,13
Consumer..............................	5,063	8,367	12,07
Commercial............................	120	27	38
Total loans originated............	20,386	33,348	30,84
Principal loan repayments and prepayments...	(16,180)	(29,166)	(17,45
Loan sales..............................	(20,005)	(11,430)	(41
Transfers to REO........................	(151)	(145)	-
Change in unearned origination fees......	(288)	(62)	(5
Change in allowance for loan losses......	12	(19)	1
Net loan activity............................	(16,226)	(7,474)	12,94
Loans at end of period(1)...............	$62,565	$78,791	$86,26

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(1) Loans at end of period include loans in process of $116,000, $688,000 and $814,000 for fiscal years 2002, 2001 and 2000, respectively.

SINGLE-FAMILY MORTGAGE LENDING. The primary lending activity of the Association has been and continues to be the origination of permanent conventional mortgage loans secured by single-family residences located in the Association's primary market area. The Association sells a portion of the fixed-rate loans that it originates. The Association retains the servicing rights on the loans it sells. The Association retains fixed-rate loans with a rate of interest higher than the level established by the Association's board of directors as high in relation to the current market based on Freddie Mac's levels. At December 31, 2002, the Association retained 30-year loans with a rate of interest of 7.5% or higher and 15-year loans with a rate of interest of 7.0% or higher. The Association generally retains for its portfolio any adjustable rate mortgage ("ARM") loans that it originates. Most single-family mortgage loans are underwritten according to Freddie Mac guidelines. Loan originations are obtained from the Association's loan officers and their contacts with the local real estate industry, existing or past customers, and members of the local communities. The Association primarily originates fixed-rate loans in the current low interest rate environment, but also offers adjustable-rate mortgage loans. At December 31, 2002, single-family mortgage loans totaled $48.5 million, or 76.9% of total loans at such date. At that date, of the Association's mortgage loans secured by single-family residences, $29.8 million, or 61.6%, were fixed-rate loans.

The Association's policy is to originate single-family residential mortgage loans in amounts up to 80% of the appraised value of the property securing the loan and up to 95% of the appraised value if private mortgage insurance is obtained. Mortgage loans originated by the Association generally include due-on-sale clauses which provide the Association with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property without the

Association's consent. Due-on-sale clauses are an important means of adjusting the rates on the Association's fixed-rate mortgage loan portfolio and the Association exercises its rights under these clauses. The residential mortgage loans originated by the Association are generally for terms to maturity of up to 30 years.

The Association offers several adjustable-rate loan programs with terms of up to 25 years and interest rates that adjust either annually or every three years. Of the Association's mortgage loans secured by single-family residences, $6.5 million, or 11.0%, had adjustable rates. Certain of the Association's one-year ARM loans have a maximum adjustment limitation of 2% per year and a 6% lifetime cap on adjustments. The Association has additional one-year ARM loans that have no caps. The Association's three-year ARM loan has a maximum adjustment limitation of 1.5% per change and a 6% lifetime cap. The interest rate adjustments on ARM loans currently offered are indexed to the monthly average rate on a variety of established indices.

The volume and types of ARM loans originated by the Association have been affected by such market factors as the level of interest rates, consumer preferences, competition and the availability of funds. In recent years, demand for ARM loans in the Association's primary market area has been weak due to the low interest rate environment and consumer preference for fixed-rate loans. Consequently, in recent years the Association has not originated a significant amount of ARM loans as compared to its originations of fixed-rate loans. The ARM loans offered by the Association do not provide for initial deep discount interest rates or for negative amortization. Although the Association expects to offer ARM loans, the Association cannot be certain that in the future it will be able to originate a sufficient volume of ARM loans to constitute a significant portion of the Association's loan portfolio.

MULTI-FAMILY AND COMMERCIAL REAL ESTATE LENDING. On a limited basis, the Association occasionally originates multi-family mortgage loans generally secured by properties located in the Association's primary market area. In reaching its decision on whether to make a multi-family loan, the Association considers a number of factors including: the net operating income of the mortgaged premises before debt service and depreciation; the debt service ratio (the ratio of net operating income to debt service); and the ratio of loan amount to appraised value. Pursuant to the Association's current underwriting policies, a multi-family mortgage loan may be made in an amount up to 80% of the appraised value of the underlying property. In addition, the Association generally requires a debt service ratio of 120%. Properties securing a multi-family loan are appraised by an independent appraiser.

When evaluating a multi-family loan, the Association also considers the financial resources and income level of the borrower, the borrower's experience in owning or managing similar property, and the Association's lending experience with the borrower. The Association's underwriting policies require that the borrower be able to demonstrate strong management skills and the ability to maintain the property from current rental income. The borrower is required to present evidence of the ability to repay the mortgage and a satisfactory credit history. In making its assessment of the creditworthiness of the borrower, the Association generally reviews the financial statements, employment and credit history of the borrower, as well as other related documentation.

On a limited basis, the Association originates commercial real estate loans that are generally secured by properties used for business or religious purposes such as farms, churches, small office buildings or retail facilities located in its primary market area. The Association's underwriting procedures provide that commercial real estate loans may be made in amounts up to 70% of the appraised value of the property. The Association's underwriting standards and procedures are similar to those applicable to its multi-family loans, whereby the Association considers the net operating income of the property, the debt service ratio and the borrower's expertise, credit history and profitability. The largest commercial real estate loan in the Association's portfolio at December 31, 2002 was $250,000. The loan was current and performing in accordance with its contractual terms at December 31, 2002.

Multi-family and commercial real estate loans are generally considered to involve a greater degree of risk than single-family residential mortgage loans. Because payments on loans secured by multi-family and commercial real estate properties are dependent on successful operation or management of the properties, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. The Association seeks to minimize these risks through its underwriting policies, which require such loans to be qualified at origination on the basis of the property's income and debt coverage ratio.

The Association's multi-family and commercial real estate loan portfolio at December 31, 2002 totaled $1.5 million or 2.3% of gross loans receivable.

COMMERCIAL LENDING. On a very limited basis, the Association makes commercial business loans generally secured by business equipment, inventory, accounts receivable and other business assets. At December 31, 2002, the Association's commercial loan portfolio was $120,000, or .2% of gross loans receivable, none of which were in non-accrual status. The Association does not currently anticipate that commercial lending activities will significantly increase in the immediate future.

CONSTRUCTION AND LAND LENDING. The Association generally originates construction and land development loans to contractors and individuals in its primary market area. The Association's construction loans primarily are made to finance the construction of owner-occupied single-family residential properties and, to a significantly lesser extent, individual properties built by developers for future sale. The Association's construction loans to individuals are primarily fixed-rate loans which, after a four-month construction period, convert to permanent loans with maturities of up to 30 years. The Association's policies provide that construction loans may be made in amounts up to 80% of the appraised value of the property for construction of single-family residences. The Association requires an independent appraisal of the property. Loan proceeds are disbursed in increments as construction progresses and as inspections warrant. The Association requires regular inspections to monitor the progress of construction. Land loans are determined on an individual basis, but generally they do not exceed 75% of the actual cost or current appraised value of the property, whichever is less. The largest construction and land loan in the Association's portfolio at December 31, 2002 had a balance of $128,000 and is secured by a mortgage. This loan is currently performing in accordance with its terms. At December 31, 2002, the Association had $189,000 of construction and land loans totaling .3% of the Association's gross loans receivable.

Construction and land financing is considered to involve a higher degree of credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development compared to the estimated cost (including interest) of construction. If the estimate of value proves to be inaccurate, the Association may be confronted with a project, when completed, having a value which is insufficient to assure full repayment.

CONSUMER AND OTHER LENDING. The Association's originated consumer loans generally consist of automobile loans, second mortgage loans, home equity loans and loans secured by deposits. The Association originates a relatively small number of home equity lines of credit, which are generally ARM loans with the rate adjusting monthly at 2% above the prime rate of interest as disclosed in The Wall Street Journal. At December 31, 2002, the Association's consumer loan portfolio was $12.8 million, or 20.3%, of gross loans receivable.

Loans secured by rapidly depreciable assets such as automobiles entail greater risks than single-family residential mortgage loans. In such cases, repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance, since there is a greater likelihood of damage, loss or depreciation of the underlying collateral. Further, consumer loan collections on these loans depend on the borrower's continuing financial stability and, therefore, are more

likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Finally, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans in the event of a default. A significant portion of the Association's automobile loans are originated on the Association's behalf by automobile dealers at the time of sale. This indirect lending requires the maintenance of relationships with such dealers. Such loans do not have the benefit of direct interaction between the borrowers and the Association's lending officers during the underwriting process.

LOAN APPROVAL PROCEDURES AND AUTHORITY. The Board of Directors establishes the lending policies of the Association. Consumer loans in amounts up to $25,000 may be approved by the Association's loan officers. Loans in excess of $25,000 and up to $50,000 must be approved by the President or Vice President. Consumer loans in excess of $50,000 must be approved by the Board of Directors. All mortgage loans are approved by the Executive Committee. Pursuant to OTS regulations, loans to one borrower cannot exceed 15% of the Association's unimpaired capital and surplus. The Association will not make loans to one borrower that are in excess of regulatory limits.

DELINQUENCIES AND CLASSIFIED ASSETS. The Board of Directors performs a quarterly review of all delinquent loans thirty days or more past due. The procedures taken by the Association with respect to delinquencies vary depending on the nature of the loan and period of delinquency. When a borrower fails to make a required payment on a loan, the Association takes a number of steps to have the borrower cure the delinquency and restore the loan to current status. The Association sends the borrower a written notice of non-payment after the loan is first past due and if payment is not received, then the Association sends out additional letters and makes phone calls. If management believes that the loan is well-secured, the Association generally will try to work with the borrower to have the loan brought current. If the loan is still not brought current and it becomes necessary for the Association to take legal action, the Association will commence foreclosure proceedings against any real property that secures the loan. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan is foreclosed upon and sold at a sheriff's sale.

Federal regulations and the Association's Classification of Assets Policy require that the Association use an internal asset classification system as a means of reporting problem and potential problem assets. The Association has incorporated the OTS internal asset classifications as a part of its credit monitoring system. The Association currently classifies problem and potential problem assets as "substandard," "doubtful" or "loss" assets. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and having so little value that their continuance as assets without the establishment of a specific loss allowance is not warranted. Assets are required to be designated "special mention" when they posses weaknesses but do not currently expose the insured institution to sufficient risk to warrant classification in one of these categories.

When an insured institution classifies one or more assets, or portions thereof, as substandard or doubtful, under current OTS policy the Association is required to consider establishing a general valuation allowance in an amount deemed prudent by management. The general valuation allowance, which is a regulatory term, represents a loss allowance which has been established to recognize the inherent credit risk associated with lending and investing activities, but which, unlike specific allowances, has not been allocated to particular problem assets. When an insured institution classifies one or more assets, or portions thereof, as "loss," it is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge off such amount.

A savings institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OTS which can order the establishment of additional general or specific loss allowances. The OTS, in conjunction with the other federal banking agencies, has adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation allowances. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management has analyzed all significant factors that affect the collectibility of the portfolio in a reasonable manner; and that management has established acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Management believes that an adequate allowance for loan losses has been established. However, actual losses are dependent upon future events and, as such, further additions to the level of allowances for estimated loan losses may become necessary.

The Association's Classification of Assets Committee reviews and classifies the Association's assets on a quarterly basis and the Board of Directors reviews the results of the reports on a quarterly basis. The Association classifies assets in accordance with the management guidelines described above. At December 31, 2002, the Association had no assets designated as special mention, $1.38 million of assets classified as substandard consisting of 24 loans, and no assets classified as doubtful and loss.

The following table(1) sets forth the delinquencies in the Association's loan portfolio as of the dates indicated.

	DECEMBER 31, 2002				DECEMBER	
	60-89 DAYS		90 DAYS OR MORE		60-89 DAYS	
	NUMBER OF LOANS	PRINCIPAL BALANCE OF LOANS	NUMBER OF LOANS	PRINCIPAL BALANCE OF LOANS	NUMBER OF LOANS	PRINCIPAL BALANCE OF LOANS
	(DOLLARS IN THOUSANDS)					
Real estate loans:						
Single-family..............	10	$559	10	$761	5	$134
Multi-family and commercial					--	--
Consumer Loans:						
Home equity loans and lines of credit............					--	--
Automobile.................	1	5	3	19	2	10
Unsecured lines of credit..			1	1	--	--
Other......................	2	6			7	1
Commercial Loans.............	--	--	--	--	--	--
Total...................	13	$570	14	$781	14	$145
Delinquent loans to total loans......................			0.90%			0.18%

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(1) The table does not include delinquent loans less than 60 days past due. At December 31, 2002 and 2001, total loans past due 30 to 59 days amounted to $517,000 and $662,000, respectively.

NON-PERFORMING ASSETS AND IMPAIRED LOANS. The following table sets forth information regarding non-accrual loans and real estate owned ("REO"). At December 31, 2002, non-accrual loans totaled $781,000 consisting of 14 loans. It is the policy of the Association to cease accruing interest on loans 90 days or more past due (unless the loan principal and interest are determined by management to be fully secured and in the process of collection) and to charge off all accrued interest. At December 31, 2002, the amount of additional interest income that would have been recognized on non-accrual loans if such loans had continued to perform in accordance with their contractual terms was $88,954. At December 31, 2002 and 2001, the Association had no impaired loans.

	AT DECEMBER 31,		
	2002	2001	2000
	(DOLLARS IN THOUSANDS)		
Non-accruing loans:			
Single-family real estate	$761	$871	$465
Consumer	20	12	24
Commercial	--	--	--
Total(1)	781	883	489
Real estate owned (REO)	0	98	--
Other repossessed assets	2	4	--
Total nonperforming assets(2)	783	985	489
Troubled debt restructurings	0	--	--
Troubled debt restructurings and total nonperforming assets	$783	$985	$489
Total nonperforming loans and troubled debt restructurings as a percentage of total loans	1.24%	1.11%	0.56%
Total nonperforming assets and troubled debt restructurings as a percentage of total assets	0.70%	0.81%	0.35%

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(1) Total non-accruing loans equals total nonperforming loans.
(2) Nonperforming assets consist of nonperforming loans (and impaired loans), other repossessed assets and REO.

ALLOWANCE FOR LOAN LOSSES. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risks inherent in the Association's loan portfolio and the general economy. The allowance for loan losses is maintained at an amount management considers adequate to cover estimated losses in loans receivable which are deemed probable and estimable. The allowance is based upon a number of factors, including current economic conditions, actual loss experience and industry trends. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Association's allowance for loan losses. Such agencies may require the Association to make additional provisions for loan losses based upon information available at the time of the review. As of December 31, 2002, the Association's allowance for loan losses was .57% of gross loans receivable as compared to 0.47% as of December 31, 2001. The Association had non-accrual loans of $781,000 and $883,000 at December 31, 2002 and December 31, 2001, respectively. The Association will continue to monitor and modify its allowances for loan losses as conditions dictate.

The following table sets forth activity in the Association's allowance for loan losses for the periods indicated.

	AT OR FOR THE YEAR ENDED DECEMBER	
	2002	2001
	(DOLLARS IN THOUSANDS)	
Allowance for loan losses, beginning of year	$373	$354
Charged-off loans:		
Single-family real estate	--	--
Multi-family and commercial real estate	--	--
Consumer	35	53
Total charged-off loans	35	53
Recoveries on loans previously charged off:		
Single-family real estate	--	--
Consumer	4	10
Total recoveries	4	10
Net loans charged-off	31	43
Provision for loan losses	19	62
Allowance for loan losses, end of period	$361	$373
Allowance for loan losses to total loans	0.57%	0.47%
Allowance for loan losses to nonperforming loans and troubled debt restructuring	46.10%	42.24%
Net loans charged-off to allowance for loan losses	8.60%	11.53%
Net loans charged-off to average loans	0.05%	0.05%

The following table sets forth the Association's allowance for loan losses in each of the categories listed at the dates indicated and the percentage of such amounts to the total allowance and to total loans.

	AT DECEMBER 31,							
	2002			2001				
	AMOUNT	% OF ALLOWANCE IN EACH CATEGORY TO TOTAL ALLOWANCE	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	% OF ALLOWANCE IN EACH CATEGORY TO TOTAL ALLOWANCE	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	% ALL IN CAT TO ALL
	(DOLLARS IN THOUSANDS)							
Real estate..............	$296	82.00%	79.54%	$280	75.07%	77.16%	$276	77
Consumer.................	64	17.73	20.27	90	24.13	22.61	66	18
Commercial...............	1	0.27	0.19	3	0.80	0.23	12	3
Unallocated..............	--	--	--	--	--	--	--	
Total allowance for loan losses........	$361	100.00%	100.00%	$373	100.00%	100.00%	$354	100

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REAL ESTATE OWNED

At December 31, 2002, the Association had no real estate owned.

INVESTMENT ACTIVITIES

Federally-chartered savings institutions have the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, certificates of deposit of insured banks and savings institutions, bankers' acceptances and federal funds. Subject to various restrictions, federally-chartered savings institutions may also invest their assets in commercial paper, investment-grade corporate debt securities and mutual funds whose assets conform to the investments that a federally-chartered savings institution is otherwise authorized to make directly. Additionally, the Association must maintain minimum levels of investments that qualify as liquid assets under OTS regulations. Historically, the Association has maintained liquid assets above the minimum OTS requirements and at a level considered to be more than adequate to meet its normal daily activities.

The investment policy of the Association as established by the Board of Directors attempts to provide and maintain liquidity, generate a favorable return on investments without incurring undue interest rate and credit risk, and complement the Association's lending activities. The Association's policies generally limit investments to government and federal agency securities. The Association's policies provide the authority to invest in United States Treasury and federal agency securities meeting the Association's guidelines and in mortgage-backed securities guaranteed by the U.S. government and agencies thereof. The Association funds such investments not only through payments on deposit accounts and the proceeds from the repayment of loans and the Association's operations, but also through FHLB advances. The success of such use of FHLB advances depends on management's ability to maintain a positive spread between the interest earned on the investment securities and the interest cost of the FHLB advances. At December 31, 2002, the Association had investment and mortgage-backed securities with a carrying value of $19.3 million and a market value of $19.6 million. At December 31, 2002, the Association had $1.4 million in mortgage-backed and investment securities classified as available-for-sale and $17.8 million in investment and mortgage-backed securities classified as held-to-maturity. Of the Association's mortgage-backed securities, $1.4 million had adjustable rates at December 31, 2002.

At December 31, 2002, all of the Association's mortgage-backed securities were insured or guaranteed by either Freddie Mac, Fannie Mae or Ginnie Mae. In addition, the Association owned one CMO which failed a stress test at December 31, 2002. The security failed the portion of the test in which the life of the security would shorten beyond the prescribed limit in the event interest rates drop 200 basis points or more. The security failed the portion of the test in which the percentage change in price would drop more than the prescribed amount in the event interest rates rise 300 basis points or more. The risk involved is the inability to sell the security to reinvest at more favorable rates. Management does not consider these security to be high risk.

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The following table sets forth certain information regarding the amortized cost and fair value of the Association's securities at the dates indicated.

	AT DECEMBER 31,				
	2002		2001		
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE	AMO C
	(DOLLARS IN THOUSANDS)				
Investment securities:					
Debt securities held-to-maturity:					
Obligations of U.S. government agencies............................	$ 2,527	$2,557	$ 2,000	$2,017	
Corporate obligations................	1,996	1,996	--	--	
Total..........................	4,523	4,553	2,000	2,017	
Total debt securities...........	--	--	2,000	2,017	
Equity securities available for sale:					

Fannie Mae Stock	--	--	78	79
Mortgage-related securities:				
Mortgage-related securities held-to-maturity:				
Freddie Mac	776	780	12,590	12,750
Fannie Mae	12,521	12,834	5,270	5,283
Collateralized Mortgage Obligations	2	2	3,483	3,478
Total mortgage-related securities held-to-maturity	13,299	13,616	21,343	21,511
Mortgage-related securities available-for-sale:				
Freddie Mac	152	151	181	178
Fannie Mae	558	579	753	750
Ginnie Mae	685	709	1,056	1,085
Total mortgage-related securities available-for-sale	1,395	1,439	1,990	2,013
Total mortgage-related securities	14,694	15,054	23,333	23,524
Net unrealized gains on available-for-sale securities	44	--	24	--
Total securities	$19,261	$19,608	$25,435	$25,620

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The following table sets forth the Association's securities activities for the periods indicated.

	FOR THE YEAR ENDED DECEMBER 3	
	2002	2001
	(DOLLARS IN THOUSANDS)	
INVESTMENT SECURITIES:		
Investment securities, beginning of period(1)	$25,435	$38,886
Purchases:		
Investment securities -- held-to-maturity	21,508	--
Investment securities -- available-for-sale	290	233
Sales:		
Investment securities -- available-for-sale	(386)	(230)
Calls, maturities and payments:		
Investment securities -- held-to-maturity	(27,056)	(12,493)
Investment securities -- available-for-sale	(594)	(1,077)
Net increase (decrease) in premium amortization and discount accretion	44	114
Net increase (decrease) in unrealized gain (loss)	20	2

Net increase (decrease) in investment securities..........	$(6,174)	$13,451
Investment securities, end of period......................	$19,261	$25,435

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(1) Includes mortgage-related securities.

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The table below sets forth certain information regarding the carrying value, weighted average yields and contractual maturities of the Association's investment securities and mortgage-related securities as of December 31, 2002.

	AT DECEMBER 31, 2002				
	ONE YEAR OR LESS		MORE THAN ONE YEAR TO FIVE YEARS		MO FIV TO T
	CARRYING VALUE	WEIGHTED AVERAGE YIELD	CARRYING VALUE	WEIGHTED AVERAGE YIELD	CARRYING VALUE
			(DOLLARS IN THOUSANDS)		
Held-to-maturity securities:					
Investment securities:					
Obligations of U.S. government agencies.........	$ 509	3.21%	$ 2,018	3.30%	
Corporate obligations	$ 1,996	2.12%			
Mortgage-related securities:					
Freddie Mac...................					$ 693
Fannie Mae....................			1,286	4.76%	1,516
Collateralized Mortgage Obligations................					
Total securities at amortized cost...........	$ 2,505	2.34%	$ 3,304	3.87%	$ 2,209
Available-for-sale securities:					
Mortgage-related securities:					
Freddie Mac...................					
Fannie Mae....................					
Ginnie Mae....................					
Total securities at fair value....................					

	AT DECEMBER 31, 2002			
	MORE THAN TEN YEARS		TOTAL	
	CARRYING VALUE	WEIGHTED AVERAGE YIELD	CARRYING VALUE	WEIGHTED AVERAGE YIELD
	(DOLLARS IN THOUSANDS)			
Held-to-maturity securities:				
Investment securities:				
Obligations of U.S. government agencies.........			$ 2,527	3.28%
Corporate obligations			1,996	2.12%
Mortgage-related securities:				
Freddie Mac....................	83	7.00%	776	6.11%
Fannie Mae.....................	9,719	6.59%	12,521	6.33%
Collateralized Mortgage Obligations................	2	6.50%	2	6.50%
Total securities at amortized cost...........	$ 9,804	6.59%	$17,822	5.42%
Available-for-sale securities:				
Mortgage-related securities:				
Freddie Mac....................	$ 151	4.35%	$ 151	4.35%
Fannie Mae.....................	579	5.45%	579	5.45%
Ginnie Mae.....................	709	6.70%	709	6.70%
Total securities at fair value.....................	$ 1,439	5.95%	$ 1,439	5.95%

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SOURCES OF FUNDS

GENERAL. Deposits, loan repayments and prepayments and cash flows generated from operations are the primary sources of the Association's funds for use in lending, investing and for other general purposes. The Association has historically also used FHLB advances as a source of funds.

DEPOSITS. The Association offers a variety of deposit accounts with a range of interest rates and terms. The Association's deposits consist of passbook accounts, savings and club accounts, NOW accounts, money market accounts and certificates of deposit. For the year ended December 31, 2002, certificates of deposit constituted 55.8% of total average deposits. The term of the certificates of deposit offered by the Association vary from six months to four years and the offering rates are established by the Association on a weekly basis. Once a certificate account is established, no additional amounts are permitted to be deposited in that account, with the exception of Individual Retirement Account certificates. Specific terms of an individual account vary according to the type of account, the minimum balance required, the time period funds must remain on deposit and the interest rate, among other factors. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. At December 31, 2002, the Association had $21.9 million of certificate accounts maturing in less than one year. The Association expects that most of these accounts will be reinvested and does not believe that there are any material risks associated with the respective maturities of these certificates. The Association's deposits are obtained predominantly from the area in which its banking offices are located. The Association relies primarily on a willingness to pay market-competitive interest rates to attract and retain these deposits. Accordingly, rates offered by competing financial institutions significantly affect the Association's ability to attract and retain deposits.

The following table presents the deposit activity of the Association for the periods indicated:

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	20
	(DOLLARS IN THOUSANDS)		
Increase (decrease) before interest credited.........	$ (504)	$ (508)	$(
Interest credited..................................	1,982	2,679	
Net increase (decrease)............................	$ 1,478	$ 2,171	$(

At December 31, 2002, the Association had $5.1 million in certificate accounts in amounts of $100,000 or more maturing as follows:

MATURITY PERIOD	AMOUNT	WEIGHTED AVERAGE RATE
	(DOLLARS IN THOUSANDS)	
Three months or less.................	$1,090	5.17%
Over 3 through 6 months..............	210	3.61%
Over 6 through 12 months.............	599	3.29%
Over 12 months.......................	3,222	3.89%
Total.........................	$5,121	4.07%

The following table sets forth the distribution of the Association's average deposit accounts for the periods indicated and the weighted average interest rates on each category of deposits presented and such information at December 31, 2002. Averages for the periods presented utilize month-end balances.

	FOR THE YEAR ENDED DECEMBER 31,						
	2002			2001			
	AVERAGE BALANCE	PERCENT OF TOTAL AVERAGE DEPOSITS	AVERAGE RATE PAID	AVERAGE BALANCE	PERCENT OF TOTAL AVERAGE DEPOSITS	AVERAGE RATE PAID	AVERAG BALANC
	(DOLLARS IN THOUSANDS)						
NOW accounts..............	$ 8,748	11.43%	1.66%	$ 8,611	11.28%	1.64%	$5,49
Money market accounts.....	7,038	9.20%	1.49	7,038	9.22	3.38	5,81
Savings accounts..........	17,653	23.07%	1.69	17,653	23.12	2.42	19,84
Certificates of deposit...	42,338	55.32%	4.63	42,338	55.46	5.76	40,27
Non-interest-bearing deposits:							
Demand deposits........	754	0.99%	--	702	0.92	--	1,46
Total average deposits..........	$76,531	100.00%	3.31%	$76,342	100.00%	4.29%	$72,89

The following table presents by various rate categories, the amount of certificate accounts outstanding at the dates indicated and the periods to maturity of the certificate accounts outstanding.

	PERIOD TO MATURITY FROM DECEMBER 31, 2002					
	LESS THAN ONE YEAR	ONE TO TWO YEARS	TWO TO THREE YEARS	OVER THREE YEARS	TOTAL	2001
	(DOLLARS IN THOUSANDS)					
CERTIFICATE ACCOUNTS:						
0 to 3.99%................	$12,638	$ 9,821	$ 107	$ 793	$23,359	$ 5,72
4.00 to 4.99%............	5,108	2,520	1,675	2,864	12,167	11,27
5.00 to 5.99%............	2,465	499	457		3,421	17,29
6.00 to 6.99%............	1,487	60			1,547	6,44
7.00 to 7.99%............	160				160	2,69
Over 8.00%................	52	5	--	10	67	24
Total certificate accounts............	$21,910	$12,905	$2,239	$3,667	$40,721	$43,67

BORROWINGS. The Association utilizes FHLB advances as an alternative to retail deposits to fund its operations as part of its operating strategy. These FHLB advances are collateralized primarily by certain of the Association's mortgage loans and mortgage-backed securities and secondarily by the Association's investment in capital stock of the FHLB. FHLB advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the FHLB will advance to member institutions, including the Association, fluctuates from time to time in accordance with the policies of the FHLB.

The following table sets forth certain information regarding the Association's borrowed funds at or for the periods ended on the dates indicated:

	AT OR FOR THE YEAR DECEMBER 31,	
	2002	2001
	(DOLLARS IN THOUS	
FHLB advances and other borrowings:		
Average balance outstanding..................................	$ 13,802	$ 31,367
Maximum amount outstanding at any month-end during the period..	12,370	36,678
Balance outstanding at end of period........................	11,430	18,393
Weighted average interest rate during the period............	4.81%	5.00%
Weighted average interest rate at end of period.............	5.53%	4.62%

SUBSIDIARY ACTIVITIES

As of December 31, 2002, the Company maintained the Association as a wholly owned subsidiary. The Association has no subsidiaries.

PERSONNEL

As of December 31, 2002, the Association had 30 full-time employees and 8 part-time employees. The employees are not represented by a collective bargaining unit and the Association believes it has a good relationship with its employees.

SELECTED FINANCIAL AND OTHER DATA OF THE COMPANY

The selected financial and other data of the Company set forth below is derived in part from, and should be read in conjunction with, the Financial Statements of the Company and Notes thereto presented elsewhere in this report.

	AT DECEMBER 31,			
	2002	2001	2000	1999
		(DOLLARS IN THOUSANDS)		
SELECTED FINANCIAL DATA:				
Total assets	$ 110,519	$120,927	$140,933	$142,
Cash and cash equivalents	12,879	4,380	2,930	4,
Loans, net(1)	62,565	78,791	86,265	73,
Securities held-to-maturity:				
Mortgage-related securities, net	13,299	21,343	27,803	33,
Investment securities, net	4,523	2,000	7,993	21,
Securities available-for-sale:				
Mortgage-related securities, net	1,439	2,013	3,090	3,
Investment securities, net	--	79	--	
Deposits	74,690	76,168	73,997	75,
FHLB advances	11,430	18,393	40,536	36,
Total equity	17,583	18,160	17,833	29,
Real estate owned, net	--	98	--	
Nonperforming assets and troubled debt restructurings	781	985	489	

	FOR THE YEAR ENDED DECEMBER 31,			
	2002	2001	2000	199
		(DOLLARS IN THOUSANDS)		
SELECTED OPERATING DATA:				
Total interest income	$7,083	$9,588	$9,834	$9
Interest expense	3,470	5,308	5,802	4
Net interest income	3,613	4,280	4,032	4
Provision for loan losses	19	62	--	
Net interest income after provision for loan losses	3,594	4,218	4,032	4
Non-interest income:				
Net gain (loss) on sale of securities	16	15	10	
Other	664	179	284	
Total non-interest income	680	194	294	
Non-interest expense	3,287	3,502	3,900	4
Income (loss) before income taxes	987	910	426	
Income taxes	313	312	150	

Net income (loss)	$ 674	$ 598	$ 276	$

(See footnotes on next page)

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	AT OR FOR THE YEAR ENDED DECEMBE			
	2002	2001	2000	199
SELECTED OPERATING RATIOS AND OTHER DATA:				
PERFORMANCE RATIOS:				
Average yield on interest-earning assets(3)	7.00%	7.71%	7.42%	
Average rate paid on interest-bearing liabilities	3.64	4.66	5.01	
Average interest rate spread(4)	3.36	3.05	2.21	
Net interest margin(5)	3.57	3.44	2.96	
Ratio of interest-earning assets to interest-bearing liabilities	106.09	109.07	120.16	12
Efficiency ratio(6)	76.85	78.54	90.36	10
Non-interest expense as a percent of average Assets	2.85	2.63	2.82	
Return on average assets	0.58	0.45	0.20	(
Return on average equity	3.76	3.32	1.27	(
Ratio of average equity to average assets		13.54	15.68	2
Earnings per shares(7)	0.44	0.38	0.17	(
REGULATORY CAPITAL RATIOS:				
Tangible capital ratio	18.90	18.40	15.60	1
Core capital ratio	18.90	18.40	15.60	1
Risk-based capital ratio	38.60	35.70	32.40	3
ASSET QUALITY RATIOS:				
Nonperforming loans and troubled debt restructurings as a percent of total loans(8)	1.24	1.11	0.56	
Nonperforming assets and troubled debt restructurings as a percent of total assets(9)	0.70	0.81	0.35	
Allowance for loan losses as a percent of total loans	0.57	0.47	0.41	
Allowance for loan losses as a percent of nonperforming loans and troubled debt restructurings(1)(8)	0.46%	0.42%	0.72%	
FULL SERVICE OFFICES AT END OF PERIOD	2	2	3	

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(1) Loans, net, represents gross loans receivable and loans held for sale net of the allowance for loan losses, loans in process and deferred loan origination fees. The allowance for loan losses at December 31, 2002, 2001, 2000, 1999 and 1998 was $361,000, $373,000, $354,000, $369,000 and $379,000, respectively.
(2) Asset Quality Ratios and Regulatory Capital Ratios are end of period ratios. With the exception of end of period ratios, all ratios are based on average monthly balances during the indicated periods.
(3) Calculations of yield are presented on a taxable equivalent basis using the Federal income tax rate of 34%.
(4) The average interest rate spread represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities.
(5) The net interest margin represents net interest income as a percent of average interest-earning assets.
(6) Equals non-interest expense divided by net interest income plus non-interest income (excluding gains or losses on securities transactions).
(7) Earnings per shares is not applicable for 1998.
(8) Non-performing loans consist of all non-accrual loans and all other loans 90 days or more past due. The Association ceases to accrue interest on loans 90 days or more past due (unless the loan principal and interest are determined by management to be fully secured and in the process of collection) and to charge off all accrued interest.
(9) Non-performing assets consist of non-performing loans, other repossessed assets and REO.

REGULATION AND SUPERVISION

GENERAL

As a savings and loan holding company, the Company is required by federal law to report to, and otherwise comply with the rules and regulations of, the Office of Thrift Supervision ("OTS"). The Association is subject to extensive regulation, examination and supervision by the OTS, as its primary federal regulator, and the Federal Deposit Insurance Corporation ("FDIC"), as the deposit insurer. The Association is a member of the Federal Home Loan Bank System and, with respect to deposit insurance, of the Savings Association Insurance Fund ("SAIF") managed by the FDIC. The Association must file reports with the OTS and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other savings institutions. The OTS and/or the FDIC conduct periodic examinations to test the Association's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the OTS, the FDIC or Congress, could have a material adverse impact on the Company, the Association and their operations. Certain regulatory requirements applicable to the Association and to the Company are referred to below or elsewhere herein. The description of statutory provisions and regulations applicable to savings institutions and their holding companies set forth in this Form 10-KSB does not purport to be a complete description of such statutes and regulations and their effects on the Association and the Company.

HOLDING COMPANY REGULATION

The Company is a nondiversified unitary savings and loan holding company within the meaning of federal law. Under prior law, a unitary savings and loan holding company, such as the Company, was not generally restricted as to the types of business activities in which it may engage, provided that the Association continued to be a qualified thrift lender. See "Federal Savings Institution Regulation - QTL Test." The Gramm-Leach-Bliley Act of 1999 provides that no company may acquire control of a savings association after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies under the law or for multiple savings and loan holding companies as described below. Further, the Gramm-Leach-Bliley Act specifies that existing savings and loan holding companies may only engage in such activities. The Gramm-Leach-Bliley Act, however, grandfathered the unrestricted authority for activities with respect to unitary savings and loan holding companies existing prior to May 4, 1999, so long as the holding company's savings association subsidiary continues to comply with the QTL Test. The Company does qualify for the grandfathering. Upon any non-supervisory acquisition by the Company of another savings institution or savings bank that meets the qualified thrift lender test and is deemed to be a savings institution by the OTS, the Company would become a multiple savings and loan holding company (if the acquired institution is held as a separate subsidiary) and would generally be limited to activities permissible for bank holding companies under Section 4(c)(8) of the Association Holding Company Act, subject to the prior approval of the OTS, and certain activities authorized by OTS regulation. However, the OTS has issued an interpretation concluding that multiple savings and loan holding companies may also engage in activities permitted for financial holding companies.

A savings and loan holding company is prohibited from, directly or indirectly, acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company, without prior written approval of the OTS and from acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating applications by holding companies to acquire savings institutions, the OTS considers the financial and managerial resources and future prospects of the

company and institution involved, the effect of the acquisition on the risk to the deposit insurance funds, the convenience and needs of the community and competitive factors.

The OTS may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Although savings and loan holding companies are not currently subject to specific capital requirements or specific restrictions on the payment of dividends or other capital distributions, federal regulations do prescribe such restrictions on subsidiary savings institutions as described below. The Association must notify the OTS 30 days before declaring any dividend to the Company. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the OTS and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

ACQUISITION OF THE HOLDING COMPANY. Under the Federal Change in Bank Control Act ("CIBCA"), a notice must be submitted to the OTS if any person (including a company), or group acting in concert, seeks to acquire 10% or more of the Company's outstanding voting stock, unless the OTS has found that the acquisition will not result in a change of control of the Company. Under the CIBCA, the OTS has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that acquires control would then be subject to regulation as a savings and loan holding company.

FEDERAL SAVINGS INSTITUTION REGULATION

BUSINESS ACTIVITIES. The activities of federal savings associations are governed by federal law and regulations. These laws and regulations delineate the nature and extent of the activities in which federal associations may engage. In particular, certain lending authority for federal associations, e.g., commercial, non-residential real property loans and consumer loans, is limited to a specified percentage of the institution's capital or assets.

CAPITAL REQUIREMENTS. The OTS capital regulations require savings institutions to meet three minimum capital standards: a 1.5% tangible capital to total assets ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest CAMELS rating), and, together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. The OTS regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard for savings institutions requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OTS capital regulation based on the risks believed inherent in the type of asset. Core (Tier 1) capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus, and minority interests in equity accounts of consolidated subsidiaries less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The OTS also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At December 31, 2002, the Association met each of its capital requirements.

The following table presents the Association's capital position at December 31, 2002:

	ACTUAL CAPITAL	REQUIRED CAPITAL	EXCESS (DEFICIENCY) AMOUNT	CAPITAL ACTUAL PERCENT
	(DOLLARS IN THOUSANDS)			
Tangible............	$20,802	$1,651	$19,151	18.89%
Core (Leverage).....	$20,802	$4,403	$16,399	18.89%
Risk-based..........	$21,163	$4,385	$16,778	38.60%

PROMPT CORRECTIVE REGULATORY ACTION. The OTS is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, a savings institution that has a ratio of total capital to risk weighted assets of less than 8%, a ratio of Tier 1 (core) capital to risk-weighted assets of less than 4% or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." A savings institution that has a total risk-based capital ratio less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and a savings institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OTS is required to appoint a receiver or conservator for an institution that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the OTS within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent holding company. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The OTS could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

INSURANCE OF DEPOSIT ACCOUNTS. The Association is a member of the SAIF. The FDIC maintains a risk-based assessment system by which institutions are assigned to one of three categories based on their capitalization and one of three subcategories based on examination ratings and other supervisory information. An institution's assessment rate depends upon the categories to which it is assigned. Assessment rates for SAIF member institutions are determined semi-annually by the FDIC and currently range from zero basis points for the healthiest institutions to 27 basis points of assessable deposits for the riskiest.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation ("FICO") to recapitalize the predecessor to the SAIF. During fiscal 2002, FICO payments for SAIF members approximated 1.75 basis points of assessable deposits.

The Association's assessment rate for the fiscal year 2002 was .0001715 and the total assessment paid for this period (including the FICO assessment) was $13,571. The FDIC has authority to increase insurance assessments. A significant increase in SAIF insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Association. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS. The management of the Association does not know of any practice, condition or violation that might lead to termination of deposit insurance.

LOANS TO ONE BORROWER. Federal law provides that savings institutions are generally subject to the limits on loans to one borrower applicable to national banks. A savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral. At December 31, 2002, the Association's limit on loans to one borrower was $5.2 million, and the Association's largest aggregate outstanding balance of loans to one borrower was $450,000.

QTL TEST. The HOLA requires savings institutions to meet a qualified thrift lender test. Under the test, a savings association is required to either qualify as a "domestic building and loan association" under the Internal Revenue Code or maintain at least 65% of its "portfolio assets" (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain "qualified thrift investments" (primarily residential mortgages and related investments, including certain mortgage-backed securities) in at least 9 months out of each 12 month period.

A savings institution that fails the qualified thrift lender test is subject to certain operating restrictions and may be required to convert to a bank charter. As of December 31, 2002, the Association maintained 93% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test. Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered "qualified thrift investments."

LIMITATION ON CAPITAL DISTRIBUTIONS. OTS regulations impose limitations upon all capital distributions by a savings institution, including cash dividends, payments to repurchase its shares and payments to shareholders of another institution in a cash-out merger. Under the regulation, an application to and the prior approval of the OTS is required prior to any capital distribution if the institution does not meet the criteria for "expedited treatment" of applications under OTS regulations (i.e., generally, examination ratings in the two top categories), the total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years, the institution would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with the OTS. If an application is not required, the institution must still provide prior notice to the OTS of the capital distribution if, like the Bank, it is a subsidiary of a holding company. In the event the Association's capital fell below its regulatory requirements or the OTS notified it that it was in need of increased supervision, the Association's ability to make capital distributions could be restricted. In addition, the OTS could prohibit a proposed capital

distribution by any institution, which would otherwise be permitted by the regulation, if the OTS determines that such distribution would constitute an unsafe or unsound practice.

ASSESSMENTS. Savings institutions are required to pay assessments to the OTS to fund the agency's operations. The general assessments, paid on a semi-annual basis, are computed upon the savings institution's total assets, including consolidated subsidiaries, as reported in the Association's latest quarterly thrift financial report. The assessments paid by the Association for the fiscal year ended December 31,2002 totaled $38,215.

TRANSACTIONS WITH RELATED PARTIES. The Association's authority to engage in transactions with "affiliates" (e.g., any company that controls or is under common control with an institution, including the Company and its non-savings institution subsidiaries) is limited by federal law. The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings institution's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in federal law. The purchase of low quality assets from affiliates is generally prohibited. The transactions with affiliates must be on terms and under circumstances, that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The recently enacted Sarbanes Oxley Act generally prohibits loans by the Company to its executive officers and directors. However, that act contains a specific exception for loans by the Association to its executive officer's and directors in compliance with federal banking laws. Under such laws the

Association's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities such persons control, is limited. The law limits both the individual and aggregate amount of loans the Association may make to insiders based, in part, on the Association's capital position and requires certain board approval procedures to be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees.

ENFORCEMENT. The OTS has primary enforcement responsibility over savings institutions and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. The FDIC has the authority to recommend to the Director of the OTS that enforcement action to be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

STANDARDS FOR SAFETY AND SOUNDNESS. The federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OTS determines that a savings institution fails to meet any standard prescribed by the guidelines, the OTS may require the institution to submit an acceptable plan to achieve compliance with the standard.

FEDERAL HOME LOAN BANK SYSTEM

The Association is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. The Association, as a member of the Federal Home Loan Bank, is required to acquire and hold shares of capital stock in that Federal Home Loan Bank in an amount at least equal to 1.0% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its advances (borrowings) from the Federal Home Loan Bank, whichever is greater. The Association was in compliance with this requirement with an investment in Federal Home Loan Bank stock at December 31, 2002 of $3.5 million.

The Federal Home Loan Banks are required to provide funds for the resolution of insolvent thrifts in the late 1980s and to contribute funds for affordable housing programs. These requirements could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and could also result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. If dividends were reduced, or interest on future

Federal Home Loan Bank advances increased, The Association's net interest income would likely also be reduced. Recent legislation has changed the structure of the Federal Home Loan Banks funding obligations for insolvent thrifts, revised the capital structure of the Federal Home Loan Banks and implemented entirely voluntary membership for Federal Home Loan Banks. Management cannot predict the effect that these changes may have with respect to its Federal Home Loan Bank membership.

FEDERAL RESERVE SYSTEM

The Federal Reserve Board regulations require savings institutions to maintain non-interest earning reserves against their transaction accounts (primarily Negotiable Order of Withdrawal (NOW) and regular checking accounts). The regulations generally provide that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including $42.1 million; a 10% reserve ratio is applied above $42.1. The first $6.0 million of otherwise reservable balances (subject to adjustments by the Federal Reserve Board) are exempted from the reserve requirements. These amounts are adjusted annually. The Association complies with the foregoing requirements.

FEDERAL AND STATE TAXATION

FEDERAL TAXATION

GENERAL. The Company and the Association report their income on a fiscal year, consolidated basis and the accrual method of accounting, and are subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Association's reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Association or the Company. For its 2002 taxable year, the Association is subject to a maximum federal income tax rate of 34%.

BAD DEBT RESERVE. Historically, savings institutions such as the Association which met certain definitional tests primarily related to their assets and the nature of their business ("qualifying thrifts") were permitted to establish a reserve for bad debts and to make annual additions thereto, which may have been deducted in arriving at their taxable income. The Association's deductions with respect to "qualifying real property loans," which are generally loans secured by certain interest in real property, were computed using an amount based on the Association's actual loss experience, or a percentage equal to 8% of the Association's taxable income, computed with certain modifications and reduced by the amount of any permitted addition to the non-qualifying reserve. Due to the Association's loss experience, the Association generally recognized a bad debt deduction equal to 8% of taxable income.

In August 1996, the provisions repealing the above thrift bad debt rules were passed by Congress as part of "The Small Business Job Protection Act of 1996." The new rules eliminate the 8% of taxable income method for deducting additions to the tax bad debt reserves for all thrifts for tax years beginning after December 31, 1995. Those rules also require that all thrift institutions recapture all or a portion of their bad debt reserves added since the base year (last taxable year beginning before January 1, 1988). The Association has previously recorded a deferred tax liability equal to the bad debt recapture and as such, the new rules will have no effect on net income or federal income tax expense. For taxable years beginning after December 31, 1995, the Association's bad debt deduction will be equal to net charge-offs. The new rules allowed an institution to suspend the bad debt reserve recapture for the 1996 and 1997 tax years if the institution's lending activity for those years was equal to or greater than the institution's average mortgage lending activity for the six taxable years preceding 1996. For this purpose, only home purchase and home improvement loans are included and the institution can elect to have the tax years with the highest and lowest lending activity removed from the average calculation. If an institution was permitted to postpone the reserve capture, it was required to begin its six year recapture no later than the 1998 tax year. The unrecaptured base year reserves will not be subject to recapture as long as the institution continues to carry on the business of banking. In addition, the balance of the pre-1988 bad debt reserves continue to be subject to a provision of present law referred to below that require recapture in the case of certain excess distributions to shareholders.

DISTRIBUTIONS. Under the 1996 Act, if the Association makes "non-dividend distributions" to the Company, such distributions will be considered to have been made from the Association's unrecaptured tax bad debt reserves (including the balance of its reserves as of December 31, 1987) to the extent thereof, and then from the Association's supplemental reserve for losses on loans, to the extent thereof, and an amount based on the amount distributed (but not in excess of the amount of such reserves) will be included in the Association's income. Non-dividend distributions include distributions in excess of the Association's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation.

Dividends paid out of the Association's current or accumulated earnings and profits will not be so included in the Association's income.

The amount of additional taxable income triggered by a non-dividend is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Association makes a non-dividend distribution to the Company, approximately one and one-half times the amount of such distribution (but not in excess of the amount of such reserves) would be includable in income for federal income tax purposes, assuming a 35% federal corporate income tax rate. The Association does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

OHIO TAXATION

The Company is subject to the Ohio corporation franchise tax, which, as applied to the Company, is a tax measured by both net earnings and net worth. In general, the tax liability is the greater of 5.1% on the first $50,000 of computed Ohio taxable income and 8.5% of computed Ohio taxable income in excess of $50,000 or 0.4% times of taxable net worth. Under these alternative measures of computing tax liability, complex formulas determine the jurisdictions to which total net income and total net worth are apportioned or allocated. The minimum tax is $50 per year and maximum tax liability as measured by net worth is limited to $150,000 per year.

A special litter tax also applies to all corporations, including the Company, subject to the Ohio Corporation franchise tax. This litter tax does not apply to "financial institutions." If the franchise tax is paid on the net income basis, the litter tax is equal to 0.11% of the first $50,000 of computed Ohio taxable income and 0.22% of computer Ohio taxable income in excess of $50,000. If the franchise tax is paid on the net worth basis, the litter tax is equal to 0.014% times taxable net worth.

Certain holding companies, such as the Company, will qualify for complete exemption from the net worth tax if certain conditions are met. The Company will most likely meet these conditions, and thus, calculate its Ohio franchise tax on the net income basis.

The Association is a "financial institution" for State of Ohio tax purposes. As such, it is subject to the Ohio corporate franchise tax on "financial institutions," which is imposed annually at a rate of 1.3% for 2000 and 1.4% for 1999 and thereafter of the Association's apportioned book net worth, determined in accordance with Generally Accepted Accounting Principles, less any statutory deduction. As a "financial institution," the Association is not subject to any tax based upon net income or net profits imposed by the State of Ohio.

DELAWARE TAXATION. As a Delaware holding company not earning income in Delaware, the Company is exempted from Delaware corporate income tax but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

ITEM 2. DESCRIPTION OF PROPERTY.

The Association conducts its business through two banking offices located in Columbiana and Jefferson Counties, Ohio.

LOCATION	LEASED OR OWNED	ORIGINAL YEAR LEASED OR ACQUIRED	DATE OF LEASE EXPIRATION	NET B OF PR LEA IMPROV DECEMBE (IN TH
ADMINISTRATIVE/HOME OFFICE:				
601 Main Street				
Wellsville, Ohio 43968	Owned	1989	--	
BRANCH OFFICE:				
49028 Foulks Drive				
East Liverpool, Ohio 43920	Owned	1979	--	

ITEM 3. LEGAL PROCEEDINGS.

Neither the Company nor the Association is a party to any pending legal proceedings. Periodically, there have been various claims and lawsuits involving the Association, such as claims to enforce liens, condemnation proceedings on properties in which the Association holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Association's business. The Association is not a party to any pending legal proceedings that it believes would have a material adverse effect on the financial condition or operations of the Association.

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's common stock is traded on the Nasdaq SmallCap Market under the symbol "GCFC." As of December 31, 2002, there were 1,645,921 shares of common stock outstanding and 580 stockholders, excluding persons or entities who hold stock in nominee or "street name." Dividend payments by the Company are dependent primarily on dividends received by the Company from the Association. Under federal regulations, the dollar amount of dividends the Association may pay is dependent upon its capital position and recent net income. Generally, if the Association satisfies its regulatory capital requirements, it may make dividend payments up to the limits prescribed in the OTS regulations. However, institutions that have converted to the stock form of ownership may not declare or pay a dividend on, or repurchase any of, its common stock if the effect thereof would cause the regulatory capital of the institution to be reduced below the amount required for the liquidation account which was established in the conversion in accordance with the OTS regulations.

The table below shows the price range of common stock and dividends paid for the years ended December 31, 2002 and 2001. This information was provided by the Nasdaq SmallCap Market.

	FISCAL 2002			FISCAL 2	
	HIGH	LOW	DIVIDENDS	HIGH	LOW
First Quarter.......	$11.00	$ 9.90	$0.09	$14.50	$9.0
Second Quarter......	11.36	10.40	0.09	10.50	8.9
Third Quarter.......	10.79	9.03	0.09	9.87	8.5
Fourth Quarter......	10.00	9.10	0.09	10.25	8.5

The information set forth under the section captioned "Proposal 2. Ratification of the Grand Central Financial Corp. 2003 Equity Compensation Plan" in the Proxy Statement for the 2003 Annual Meeting of Shareholders to be held on April 23, 2003 at page 14 is incorporated herein by reference.

Plan category	Number of securities to	Weighted-average exercise	Number of

	be issued upon exercise of outstanding options, warrants and rights (a)	price of outstanding options, warrants and rights (b)	remaining future is equity co (excludin reflected (c)
- Equity compensation plans approved by security holders	182,497	$9.22	
- Equity compensation plans not approved by security holders	--	--	
Total	182,497	$9.22	

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

GENERAL

The Company's results of operations are dependent primarily on net interest income, which is the difference ("spread") between the interest income earned on its loans, mortgage-backed securities, and securities portfolio and its cost of funds, consisting of interest paid on its deposits and borrowed funds. The interest rate spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. The Company's net income is also affected by, among other things, loan fee income, provisions for loan losses, service charges, operating expenses and franchise and income taxes. The Company's revenues are derived primarily from interest o