REGISTRATION NO. [ ]

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

NATIONSBANK CORPORATION

(name of registrant as specified in its charter)

| NORTH CAROLINA | 6711 | 56-0906609 |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

NATIONSBANK CORPORATE CENTER
100 NORTH TRYON STREET
CHARLOTTE, NORTH CAROLINA 28255
(704) 386-5000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

PAUL J. POLKING
EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL
NATIONSBANK CORPORATION
NATIONSBANK CORPORATE CENTER
100 NORTH TRYON STREET
CHARLOTTE, NORTH CAROLINA 28255
(704) 386-5000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

| | |
|---|---|
| R. DOUGLAS HARMON<br>SMITH HELMS MULLISS & MOORE, L.L.P.<br>214 NORTH CHURCH STREET<br>CHARLOTTE, NORTH CAROLINA 28202<br>(704) 343-2000 | JOHN P. GREELEY<br>SMITH, MACKINNON, GREELEY, BOWDOIN & EDWARDS, P.A.<br>255 SOUTH ORANGE AVENUE, SUITE 800<br>ORLANDO, FLORIDA 32801<br>(407) 843-7300 |

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF THE SECURITIES TO THE PUBLIC:
As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box:

CALCULATION OF REGISTRATION FEE

| TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED | AMOUNT TO BE REGISTERED | PROPOSED MAXIMUM OFFERING PRICE PER UNIT | PROPOSED MAXIMUM AGGREGATE OFFER-ING PRICE |
|---|---|---|---|
| Common Stock................ | 1,224,200 shares | (1) | $123,567,688 (2) |

| TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED | AMOUNT OF REGISTRATION FEE |
|---|---|
| Common Stock................ | $37,445 |

(1) Not applicable
(2) Computed in accordance with Rule 457(f) under the Securities Act of 1933, as amended, based on the average of the high and low prices reported on The Nasdaq Stock Market on January 15, 1997 of the securities to be received by the Registrant in exchange for the securities registered hereby.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY STATE.

SUBJECT TO COMPLETION DATED JANUARY 22, 1997

PROXY STATEMENT-PROSPECTUS , 1997

PROSPECTUS

This Proxy Statement-Prospectus relates to the shares of common stock (the "NationsBank Common Stock") of NationsBank Corporation, a North Carolina corporation ("NationsBank"), offered hereby to the stockholders of First Federal Savings Bank of Brunswick, Georgia, a federally chartered stock savings bank organized and existing under the laws of the United States ("First Federal"), upon consummation of a proposed merger (the "Merger") of Interim First Federal Savings Bank of Brunswick, Charlotte, North Carolina, an interim federal stock savings bank and wholly owned subsidiary of NationsBank ("Merger Sub"), with and into First Federal. The Merger will be effected pursuant to a series of agreements and amendments thereto between NationsBank (as successor to C&S/Sovran Corporation, The Citizens and Southern Corporation, Citizens and Southern Georgia Corporation and The Citizens and Southern National Bank (collectively, "C&S/Sovran")) and First Federal, two orders issued by the Superior Court of Glynn County, Georgia (the "Court") in connection with litigation brought by First Federal against predecessors of NationsBank (the "Litigation") and certain letters between NationsBank and First Federal (collectively, the "Agreement"). The Agreement and the Litigation are more fully described below in "SUMMARY -- General" and " -- Litigation" and "THE MERGER -- Background of the Merger."

Upon completion of the Merger (the "Effective Date"), the outstanding shares of First Federal common stock, $1.00 par value per share ("First Federal Common Stock"), will be converted into the right to receive an aggregate of 1,224,200 shares of NationsBank Common Stock (assuming that all First Federal Options (as defined below) are exercised prior to the Effective Date), which equates to 0.80 shares of NationsBank Common Stock for each share of First Federal Common Stock (the "Exchange Ratio"), based upon the calculations set forth in the Share Calculation Letter (as defined below). Consummation of the Merger is subject to several conditions, including, among others, the approval of the stockholders of First Federal and the approval of appropriate regulatory agencies. Upon consummation of the merger of Merger Sub with and into First Federal, First Federal will be the surviving entity and will continue to conduct its business and operations after the merger as a wholly owned subsidiary of NationsBank and as a federal stock savings bank under the name of First Federal Savings Bank of Brunswick, Georgia. See "THE MERGER -- Description of the Merger" and " -- Conditions to the Merger."

NationsBank Common Stock is listed on the New York Stock Exchange, Inc. (the "NYSE") and The Pacific Stock Exchange Incorporated (the "PSE") under the trading symbol "NB." NationsBank Common Stock is also listed on the London Stock Exchange (the "LSE") and certain shares of NationsBank Common Stock are listed also on the Tokyo Stock Exchange. The last reported sales price of NationsBank Common Stock on the NYSE Composite Transactions List on , 1997 was $ per share and on October 10, 1996, the last trading day preceding the final order of the Court related to the Litigation, was $87.50 per share. First Federal Common Stock is traded on The Nasdaq Stock Market as a National Market System security under the trading symbol "FFBG." The last reported sales price per share of First Federal Common Stock as reported by The Nasdaq Stock Market on , 1997 was $ per share and on October 10, 1996 was $72.00 per share. See "PRICE RANGE OF COMMON STOCK AND DIVIDENDS."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, THE COMMISSIONER OF INSURANCE OF THE STATE OF NORTH CAROLINA (THE "COMMISSIONER") OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION, THE COMMISSIONER OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROXY STATEMENT-PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE SHARES OF NATIONSBANK COMMON STOCK OFFERED HEREBY ARE NOT SAVINGS ACCOUNTS OR BANK DEPOSITS, ARE NOT OBLIGATIONS OF OR GUARANTEED BY ANY BANKING OR NON-BANKING AFFILIATE OF NATIONSBANK AND ARE NOT INSURED BY THE FEDERAL

DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.

PROXY STATEMENT
SPECIAL MEETING OF STOCKHOLDERS OF
FIRST FEDERAL SAVINGS BANK
OF BRUNSWICK, GEORGIA TO BE HELD
APRIL 11, 1997

THIS PROXY STATEMENT-PROSPECTUS SERVES AS A PROXY STATEMENT OF FIRST FEDERAL IN CONNECTION WITH THE SOLICITATION OF PROXIES TO BE USED AT THE SPECIAL MEETING OF STOCKHOLDERS OF FIRST FEDERAL TO BE HELD ON APRIL 11, 1997 FOR THE PURPOSES DESCRIBED HEREIN (THE "SPECIAL MEETING") AND IS FIRST BEING MAILED TO STOCKHOLDERS OF FIRST FEDERAL ON OR ABOUT             , 1997.

No person is authorized to give any information or make any representation other than those contained or incorporated in this Proxy Statement-Prospectus, and, if given or made, such information or representation should not be relied upon as having been authorized by NationsBank or First Federal. This Proxy Statement-Prospectus does not constitute an offer to exchange or sell, or a solicitation of an offer to exchange or purchase, the securities offered by this Proxy Statement-Prospectus, or the solicitation of a proxy, in any jurisdiction in which such offer or solicitation is not authorized or to or from any person to whom it is unlawful to make such offer or solicitation. The information contained in this Proxy Statement-Prospectus speaks as of the date hereof unless otherwise specifically indicated. Information contained in this Proxy Statement-Prospectus regarding NationsBank has been furnished by NationsBank, and information herein regarding First Federal has been furnished by First Federal.

TABLE OF CONTENTS

<TABLE>
<CAPTION>
PAGE
PAGE
<S> <C> <C>
<C>
</TABLE>

<TABLE>
<S> <C>

</TABLE>



## AVAILABLE INFORMATION

NationsBank has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-4 (the "Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act"), relating to the shares of NationsBank Common Stock to be issued in connection with the Merger. For further information pertaining to the shares of NationsBank Common Stock to which this Proxy Statement-Prospectus relates, reference is made to such Registration Statement, including the exhibits and schedules filed as a part thereof. As permitted by the rules and regulations of the Commission, certain information included in the Registration Statement is omitted from this Proxy Statement-Prospectus. In addition, NationsBank is subject to certain of the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files certain reports, proxy statements and other information with the Commission. Such reports, proxy statements and other information can be inspected and copied at the public reference room of the Commission, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and copies of such materials can be obtained by mail from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, at prescribed rates. The Commission maintains an Internet web site that contains reports, proxy and information statements and other information regarding issuers who file electronically with the Commission. The address of that site is http://www.sec.gov. In addition, copies of such materials are available for inspection and reproduction at the public reference facilities of the Commission at its New York Regional Office, 7 World Trade Center, Suite 1300, New York, New York 10048; and at its Chicago Regional Office, Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Reports, proxy statements and other information concerning NationsBank also may be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005 and at the offices of the PSE, 301 Pine Street, San Francisco, California 94104.

First Federal is subject to certain of the informational requirements of the Office of Thrift Supervision ("OTS") under Section 12 (i) of the Exchange Act and, in accordance therewith, files certain reports, proxy statements and other information with the OTS. Such reports, proxy statements and other information can be inspected and copied at prescribed rates at the public reference facilities maintained by the OTS at 1776 G Street, N.W., Washington, D.C. 20552. Copies of such materials can be obtained at prescribed rates by writing to the OTS, 1700 G Street, N.W., Washington, D.C. 20552.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents previously filed with the Commission are hereby incorporated by reference in this Proxy Statement-Prospectus: (a) the NationsBank Annual Report on Form 10-K for the year ended December 31, 1995, as filed March 29, 1996; (b) the NationsBank Quarterly Reports on Form 10-Q for the quarters ended March 31, 1996, as filed May 10, 1996; June 30, 1996, as filed August 14, 1996; and September 30, 1996, as filed November 13, 1996; (c) the description of NationsBank Common Stock contained in the NationsBank registration statement filed pursuant to Section 12 of the Exchange Act as modified by the NationsBank Current Report on Form 8-K filed January 16, 1997; (d) the Boatmen's Bancshares, Inc. Quarterly Reports on Form 10-Q for the quarters ended March 31, 1996, as filed on May 15, 1996, June 30, 1996, as filed on August 12, 1996, and September 30, 1996, as filed on November 13, 1996; and (e) the NationsBank Current Reports on Form 8-K filed January 12, 1996; February 1, 1996; March 8, 1996; April 17, 1996; May 16, 1996; July 5, 1996; July 31, 1996; September 6, 1996 (as amended on September 11, 1996 and November 13, 1996); September 20, 1996 (as amended on September 23, 1996); October 25, 1996; November 14, 1996; December 4, 1996; December 17, 1996 (two Forms 8-K); and January 16, 1997.

The following documents previously filed by First Federal with the OTS are hereby incorporated by reference in this Proxy Statement-Prospectus: the First Federal Annual Report on Form 10-K for the year ended September 30, 1996, as filed December 30, 1996; and the First Federal Quarterly Report on Form 10-Q for the quarter ended December 31, 1996, as filed February   , 1997.

In addition, all documents filed by NationsBank and First Federal with the Commission and the OTS, respectively, pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date hereof and prior to the time at which the Special Meeting has been finally adjourned are hereby deemed to be incorporated by reference herein. Any statements contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Proxy Statement-Prospectus to the extent that a statement contained herein or in any other subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Proxy Statement-Prospectus.

THIS PROXY STATEMENT-PROSPECTUS INCORPORATES CERTAIN DOCUMENTS BY REFERENCE WHICH ARE NOT PRESENTED HEREIN OR DELIVERED HEREWITH. THE DOCUMENTS RELATING TO NATIONSBANK (OTHER THAN EXHIBITS TO SUCH DOCUMENTS WHICH EXHIBITS ARE NOT SPECIFICALLY INCORPORATED BY REFERENCE IN SUCH DOCUMENTS) ARE AVAILABLE WITHOUT CHARGE



UPON REQUEST FROM JOHN E. MACK, SENIOR VICE PRESIDENT AND TREASURER, NATIONSBANK CORPORATION, NATIONSBANK CORPORATE CENTER, CHARLOTTE, NORTH CAROLINA 28255, TELEPHONE (704)386-5972. THE DOCUMENTS RELATING TO FIRST FEDERAL (OTHER THAN EXHIBITS TO SUCH DOCUMENTS WHICH EXHIBITS ARE NOT SPECIFICALLY INCORPORATED BY REFERENCE IN SUCH DOCUMENTS) ARE AVAILABLE WITHOUT CHARGE UPON REQUEST FROM ROBERT B. SAMS, FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, 777 GLOUCESTER STREET, BRUNSWICK, GEORGIA 31520, TELEPHONE (912) 265-1410. NATIONSBANK OR FIRST FEDERAL, AS THE CASE MAY BE, WILL SEND THE REQUESTED DOCUMENTS BY FIRST-CLASS MAIL WITHIN ONE BUSINESS DAY OF THE RECEIPT OF THE REQUEST. IN ORDER TO ENSURE TIMELY DELIVERY OF THE DOCUMENTS, ANY REQUEST SHOULD BE MADE BY APRIL 4, 1997. Persons requesting copies of exhibits to such documents that are not specifically incorporated by reference in such documents will be charged the costs of reproduction and mailing.



# SUMMARY

THE FOLLOWING IS A BRIEF SUMMARY OF CERTAIN INFORMATION SET FORTH ELSEWHERE IN THIS PROXY STATEMENT-PROSPECTUS AND IS NOT INTENDED TO BE COMPLETE. IT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO MORE DETAILED INFORMATION CONTAINED ELSEWHERE IN THIS PROXY STATEMENT-PROSPECTUS, THE ACCOMPANYING APPENDIX AND THE DOCUMENTS INCORPORATED HEREIN BY REFERENCE.

## GENERAL

This Proxy Statement-Prospectus, notice of Special Meeting of First Federal stockholders to be held on April 11, 1997 and form of proxy solicited in connection therewith are first being mailed to First Federal stockholders on or about          , 1997. At the Special Meeting, the holders of First Federal Common Stock will consider and vote on whether to approve the Agreement and the transactions contemplated thereby.

For purposes of the Special Meeting and this Proxy Statement-Prospectus, the Agreement is deemed to include the following documents, each of which is filed as an exhibit to the Registration Statement of which this Proxy Statement-Prospectus forms a part: Amended and Restated Agreement and Plan of Reorganization, dated as of November 20, 1989, between NationsBank (as successor to C&S/Sovran) and First Federal (the "Restated Agreement"); Amendment Number One to the Amended and Restated Agreement and Plan of Reorganization, dated as of August 20, 1990, between NationsBank (as successor to C&S/Sovran) and First Federal ("Amendment No. 1"); Amendment Number Two to the Amended and Restated Agreement and Plan of Reorganization, dated as of December 19, 1990, between NationsBank (as successor to C&S/Sovran) and First Federal ("Amendment No. 2"); Order of the Court, dated December 16, 1994 (the "First Order"); Order of the Court, dated October 11, 1996 (the "Second Order"); letter from First Federal to NationsBank, dated November 12, 1996, regarding the calculation of the Exchange Ratio (the "Share Calculation Letter"); and letter from First Federal to NationsBank, dated January 17, 1997, regarding the waiver of certain provisions of the Agreement (the "Waiver Letter").

## THE COMPANIES

NATIONSBANK. NationsBank is a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "BHCA"), was organized under the laws of the State of North Carolina in 1968 and has as its principal assets the stock of its subsidiaries. Through its banking subsidiaries (the "Banks") and its various non-banking subsidiaries, NationsBank provides banking and banking-related services, primarily throughout the Southeast and Mid-Atlantic states and Texas. As of December 31, 1996, NationsBank had total assets of $185.79 billion. The principal executive offices of NationsBank are located at NationsBank Corporate Center, 100 North Tryon Street, Charlotte, North Carolina 28255, and its telephone number is (704) 386-5000. All references herein to NationsBank refer to NationsBank Corporation and its subsidiaries, unless the context otherwise requires.

For additional information regarding NationsBank and the combined company that would result from the Merger, see "THE MERGER," "INFORMATION ABOUT NATIONSBANK" and "SUMMARY -- Recent Developments; Acquisition of Boatmen's Bancshares, Inc."

FIRST FEDERAL. First Federal is a federally chartered stock savings bank, originally chartered in 1926. First Federal is subject to supervision and regulation by the OTS and the Federal Deposit Insurance Corporation ("FDIC"), and its deposits are insured through the Savings Association Insurance Fund

("SAIF") of the FDIC. First Federal's operations are conducted from its headquarters in Brunswick, Georgia, two branch offices in Brunswick, Georgia, and two branch offices on St. Simon's Island, Georgia. As of December 31, 1996, First Federal had total assets of $254 million, total deposits of $220 million, and total stockholders' equity of $27 million. First Federal's principal executive offices are located at 777 Gloucester Street, Brunswick, Georgia 31520, and its telephone number is (912) 265-1410.

For additional information regarding First Federal, see "THE MERGER" and "INFORMATION ABOUT FIRST FEDERAL."

SPECIAL MEETING AND VOTE REQUIRED

The Special Meeting will be held on April 11, 1997, at which time the stockholders of First Federal will be asked to approve the Agreement and the transactions contemplated thereby. The record holders of First Federal Common Stock at the close of business on                    (the "Record Date") are entitled to notice of and to vote at the Special Meeting. On the Record Date, there were approximately      holders of record of First Federal Common Stock and        shares of First Federal Common Stock outstanding.

The affirmative vote of the holders of at least two-thirds of the outstanding shares of First Federal Common Stock is required to approve the Agreement and the transactions contemplated thereby. As of the Record Date, directors and executive



officers of First Federal and their affiliates beneficially owned        shares, or      %, of the First Federal Common Stock entitled to vote at the Special Meeting. All such directors and officers have indicated that they intend to vote such shares in favor of the Agreement, although they are not obligated to do so. See "THE SPECIAL MEETING OF STOCKHOLDERS OF FIRST FEDERAL."

Shareholders of NationsBank are not required to approve the Agreement and the transactions contemplated thereby.

THE MERGER

In the Merger, subject to the terms of the Agreement, Merger Sub will merge with and into First Federal, which will be the surviving entity, and will continue to conduct its business and operations after the Merger as a wholly owned subsidiary of NationsBank and as a federal stock savings bank under the name of First Federal Savings Bank of Brunswick, Georgia. Each executive officer and each director of First Federal will resign as such, effective immediately upon consummation of the Merger, and NationsBank will fill those positions, in its discretion, immediately thereafter. All of the shares of NationsBank Common Stock issued and outstanding on the Effective Date shall remain issued and outstanding after the Effective Date and shall be unaffected by the Merger. Each of the shares of Merger Sub common stock shall be converted into one share of First Federal Common Stock. All of the shares of First Federal Common Stock issued and outstanding on the Effective Date shall be converted into the right to receive an aggregate of 1,224,200 shares of NationsBank Common Stock (assuming that all First Federal Options are exercised prior to the Effective Date), which equates to 0.80 shares of NationsBank Common Stock for each share of First Federal Common Stock.

No fractional shares of NationsBank Common Stock will be issued as a result of the Merger. Each holder of First Federal Common Stock who would otherwise be entitled to receive a fraction of a share of NationsBank Common Stock (after taking into account all of the shareholder's certificates) will receive, in lieu thereof, the equivalent cash value of such fractional share based upon the average closing price of a share of NationsBank Common Stock as reported by the NYSE for the 20 trading days immediately preceding the five consecutive calendar days immediately preceding the Effective Date (the "Base Period Trading Price"), without interest.

There are currently outstanding options to acquire an aggregate of 5,111 shares of First Federal Common Stock (the "First Federal Options") pursuant to the First Federal Savings Bank of Brunswick, Georgia 1984 Stock Option Plan (the "First Federal Stock Option Plan"). The First Federal Options are held by Ben T. Slade III, Chairman of the Board and President of First Federal (3,111 shares), James H. Gash, Senior Vice President of First Federal (1,000 shares), and John J. Rogers, Senior Vice President of First Federal (1,000 shares). Each of Messrs. Slade, Gash and Rogers have notified First Federal in writing that he intends to exercise all of his First Federal Options on or before the Effective Date. Under the terms of the First Federal Stock Option Plan, no new First Federal Options may be granted. Therefore, there will be no First Federal Options outstanding on the Effective Date. See "THE MERGER -- Effect on First Federal Options" and " -- Interests of Certain Persons in the Merger."

Consummation of the Merger is subject to several conditions, including, among others, the approval of the stockholders of First Federal and the approval of appropriate regulatory agencies. The Merger will be effected by filing the Plan of Merger as part of the Articles of Combination executed by First Federal and Merger Sub (the "Articles of Combination") with the OTS. See "THE

MERGER -- Conditions to the Merger."

For additional information relating to the Merger, see "THE MERGER."

LITIGATION

In September 1991, First Federal filed suit against C&S/Sovran alleging that C&S/Sovran breached a merger agreement then in effect between them by failing to use its best efforts to consummate the merger described therein and further alleging that First Federal was entitled to damages and/or specific performance of the agreement on terms unaffected by C&S/Sovran's alleged breaches which, if granted, would result in an exchange of approximately one share of C&S/Sovran stock for each share of First Federal stock. After extensive discovery, the trial court split the case into two parts for separate determinations of liability and, if necessary, damages. A jury trial was held on the issue of liability in May 1994. That jury found that C&S/Sovran had breached the merger agreement in March 1991. Following the jury trial, the Court issued its First Order on December 16, 1994 requiring C&S/Sovran to specifically perform the merger agreement. The issue remained as to when the transaction would have closed but for C&S/Sovran's breach of the merger agreement, and this issue was reserved for a second trial. The Georgia Supreme Court affirmed the First Order in December 1995. In July 1996, a second jury found that the merger would have closed on June 19, 1991 but for C&S/Sovran's breach of the merger agreement. The Court then



held an evidentiary hearing in August 1996 to determine certain issues relating to the merger. On October 11, 1996, the Court issued its Second Order as a result of which NationsBank (as successor to C&S/Sovran) is obligated to specifically perform the terms of the merger agreement and to consummate the merger as promptly as possible, consistent with applicable law, in accordance with the merger agreement, as modified by the Second Order. The 1,224,200 shares of NationsBank Common Stock to be offered to First Federal shareholders in the Merger, as described above, was derived by the First Federal Board of Directors from the Second Order.

The Second Order held that (a) the number of shares of NationsBank Common Stock to be offered to First Federal's stockholders was 1,280,268 (subsequently adjusted to 1,282,093 in accordance with the Share Calculation Letter) plus a number of shares based on the difference between dividends paid on First Federal Common Stock and dividends paid on C&S/Sovran common stock or NationsBank Common Stock, as appropriate, since June 19, 1991 (the "Dividend Differential"); (b) NationsBank may reduce the number of shares so offered by the amounts First Federal is required to pay to its executive officers under certain change of control agreements (the "Change in Control Agreements"); and (c) First Federal may compensate its litigation attorneys at a rate of $200 per hour plus a lump sum payment of $250,000, with the number of offered shares to be reduced by an amount equal to any legal fees paid by First Federal in excess thereof, including contingency fees First Federal believes it is obligated to pay under a September 27, 1991 contingency agreement entered into by First Federal with its litigation attorneys.

On November 12, 1996, First Federal sent to NationsBank the Share Calculation Letter, which addresses the method by which the Second Order will be implemented. Through a series of adjustments, the Share Calculation Letter provides that $1,260,371 of the Dividend Differential will be paid in cash to certain First Federal executive officers pursuant to the Change in Control Agreements. The Share Calculation Letter provides further that First Federal will pay its litigation attorneys the remaining Dividend Differential ($6,284,282) plus an amount equal to the fair market value of 57,893 shares of NationsBank Common Stock in full satisfaction of the September 21, 1991 contingency fee agreement. As a result of these adjustments, an aggregate of 1,224,200 shares of NationsBank Common Stock will be offered to First Federal's shareholders (assuming that all First Federal Options are exercised prior to the Effective Date), which equates to 0.80 shares of NationsBank Common Stock for each share of First Federal Common Stock.

See "THE MERGER -- Background of the Merger" for a more detailed description of the Second Order and the Share Calculation Letter and " Interests of Certain Persons in the Merger" for a more detailed description of the Change in Control Agreements.

RECOMMENDATION OF BOARD OF DIRECTORS

First Federal's Board of Directors believes that the Merger is in the best interests of First Federal and its stockholders and has unanimously approved the Agreement and the transactions contemplated thereby. FIRST FEDERAL'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR APPROVAL OF THE AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY. FOR A DISCUSSION OF THE FACTORS CONSIDERED BY THE FIRST FEDERAL BOARD OF DIRECTORS IN REACHING ITS CONCLUSIONS, SEE "THE MERGER -- FIRST FEDERAL REASONS FOR THE MERGER."

OPINION OF FIRST FEDERAL'S FINANCIAL ADVISOR

Interstate/Johnson Lane Corporation ("Interstate/Johnson Lane"), which has served as financial advisor to First Federal, has rendered its opinion to the First Federal Board of Directors that the consideration to be received by stockholders of First Federal upon consummation of the Merger is fair, from a financial point of view, to the stockholders of First Federal. A copy of a written confirmation of such opinion, dated the date hereof, is attached hereto as Appendix A and should be read in its entirety with respect to assumptions made, matters considered and limitations of the review undertaken by Interstate/Johnson Lane in rendering such opinion. See "THE MERGER -- Opinion of First Federal's Financial Advisor."

EFFECTIVE DATE OF THE MERGER

The Merger shall become effective on the date and at the time of endorsement of the Articles of Combination filed with the OTS or on such other date that the OTS declares the Merger effective. Unless otherwise mutually agreed upon in writing by First Federal and NationsBank, the Effective Date shall be as soon as practicable following the date that all of the conditions precedent specified in the Agreement have been satisfied or waived by the party permitted to do so pursuant to the terms of the Agreement. See "THE MERGER -- Effective Date of the Merger" and " -- Conditions to the Merger."



COMPARISON OF NATIONSBANK COMMON STOCK AND FIRST FEDERAL COMMON STOCK

The rights of NationsBank shareholders and other corporate matters relating to NationsBank Common Stock are controlled by the NationsBank Restated Articles of Incorporation (the "NationsBank Articles") and Amended and Restated Bylaws (the "NationsBank Bylaws") and by the North Carolina Business Corporation Act (the "NCBCA"). The rights of First Federal stockholders and other corporate matters relating to First Federal Common Stock are controlled by the Charter and Bylaws of First Federal and by federal law. Upon consummation of the Merger, stockholders of First Federal will become shareholders of NationsBank whose rights will be governed by the NationsBank Articles and the NationsBank Bylaws and by the provisions of the NCBCA. See "COMPARISON OF NATIONSBANK COMMON STOCK AND FIRST FEDERAL COMMON STOCK."

MODIFICATION, WAIVER AND TERMINATION; EXPENSES

The Agreement provides that to the extent permitted by law, it may be amended by a subsequent writing signed by NationsBank and First Federal upon the approval of each of their respective Boards of Directors. However, the provisions of the Agreement relating to the manner or basis in which shares of First Federal Common Stock will be exchanged for NationsBank Common Stock shall not be amended after the Special Meeting without the requisite approval of the holders of the outstanding shares of First Federal Common Stock, and no amendment to the Agreement shall modify the requirements relating to the requisite regulatory approval and other action necessary to authorize the execution, delivery and performance of the Agreement and the consummation of the transactions contemplated thereby. See "THE MERGER -- Conditions to the Merger" and " Bank Regulatory Matters." The Agreement provides that each party may waive any default in the performance of any term of the Agreement, waive or extend the time for the compliance or fulfillment of any obligations under the Agreement and waive any of the conditions precedent to the Agreement, except any condition which, if not satisfied, would result in the violation of any law or applicable governmental regulation.

The Agreement may be terminated by majority vote of the Board of Directors of both First Federal and NationsBank. The Agreement may also be terminated by the majority vote of the Board of Directors of either First Federal or NationsBank (i) in the event of a material breach of the Agreement by the other party of any representation, warranty, covenant or agreement which cannot or has not been cured within 30 days after written notice of such breach; (ii) if (a) the approval of any governmental or other regulatory authority shall have been denied by final non-appealable action or if any such action by such authority is not appealed within the time limit for appeal or (b) the required approval of the First Federal stockholders is not obtained; or (iii) in the event of the acquisition of 40% or more of the outstanding shares of common stock of the other party or the Board of Directors of the other party accepts or publicly recommends acceptance of an offer from a third party to acquire 50% or more of its common stock or consolidated assets.

In the Agreement, each of the parties has agreed to bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated by the Agreement, except for instances in which the Agreement is terminated by First Federal for the reasons set forth in clauses (i) or (ii) (a) of the preceding paragraph or by NationsBank for the reasons set forth in clause (ii) (a) of the preceding paragraph, in which instances NationsBank shall reimburse First Federal for any and all of the reasonable expenses incurred by First Federal in attempting to effect the transactions contemplated by the Agreement. Furthermore, if the Agreement is terminated by the willful breach of a party, such party shall pay all reasonable expenses of the non-breaching party incurred by such non-breaching party in attempting to effect the transactions contemplated by the Agreement. Furthermore, the parties have agreed to each pay one-half of the printing cost of this Proxy Statement-Prospectus and related materials.

See "THE MERGER -- Modification, Waiver and Termination; Expenses."

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The Merger is intended to qualify as a reorganization under Section 368(a)(2)(E) of the Internal Revenue Code of 1986, as amended (the "Code"). King & Spaulding, special tax counsel to First Federal, is expected to deliver an opinion to the effect that no gain or loss will be recognized by the First Federal stockholders as a result of the Merger to the extent that they receive NationsBank Common Stock solely in exchange for their First Federal Common Stock.

For a more complete description of the federal income tax consequences, see "THE MERGER -- Certain Federal Income Tax Consequences."



INTERESTS OF CERTAIN PERSONS IN THE MERGER

Certain members of First Federal's management and Board of Directors may be deemed to have interests in the Merger in addition to their interests, if any, as stockholders of First Federal generally. Those interests include the Change in Control Agreements, which provide for severance pay and other benefits to be paid to Ben T. Slade III, Chairman of the Board and President of First Federal, James H. Gash, Senior Vice President, John J. Rogers, Senior Vice President, and Robert B. Sams, Vice President, upon the occurrence of a merger or other change in control, including the Merger.

Messrs. Slade, Gash and Rogers hold First Federal Options to acquire 3,111 shares, 1,000 shares and 1,000 shares of First Federal Common Stock, respectively. Each of Messrs. Slade, Gash and Rogers has notified First Federal in writing that he will exercise all of his First Federal Options on or before the Effective Date.

See "THE MERGER -- Interests of Certain Persons in the Merger."

ABSENCE OF DISSENTERS' RIGHTS

Holders of First Federal Common Stock are not entitled to any rights of appraisal or other dissenters' rights with respect to the Merger. See "THE MERGER -- Absence of Dissenters' Rights."

ACCOUNTING TREATMENT

It is intended that the Merger will be accounted for by the purchase method of accounting under generally accepted accounting principles. See "THE MERGER -- Accounting Treatment."

REGULATORY APPROVALS

The Merger is subject to the approval of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), the OTS and the Georgia Department of Banking and Finance (the "State Authority"). The Merger may not be consummated until expiration of applicable regulatory waiting periods. NationsBank and First Federal have filed all required applications for regulatory review and approval or notice with the Federal Reserve Board, the OTS and the State Authority in connection with the Merger. There can be no assurance that such approvals will be obtained or as to the date of any such approvals. See "THE MERGER -- Conditions to the Merger" and " -- Bank Regulatory Matters."

RESALES BY AFFILIATES

The Agreement provides that First Federal will use its best efforts to cause each person who is identified by it as an affiliate to deliver to NationsBank written agreement providing that such person will not sell, pledge, transfer or otherwise dispose of the shares of First Federal Common Stock held by such person except as contemplated by such agreement and will not sell, pledge, transfer or otherwise dispose of the shares of NationsBank Common Stock to be received by such person upon consummation of the Merger except in compliance with applicable provisions of the Securities Act and the rules and regulations thereunder and until such time as the financial results covering at least 30 days of combined operations of First Federal and NationsBank have been published within the meaning of Section 201.01 of the Securities and Exchange Commission's Codification of Financial Reporting Policies. NationsBank shall not be required to maintain the effectiveness of the Registration Statement under the Securities Act for the purposes of resale of NationsBank Common Stock by such affiliates. See "THE MERGER -- Restrictions on Resales by Affiliates."

SHARE INFORMATION AND MARKET PRICES

The NationsBank Common Stock is listed on the NYSE and the PSE under the symbol "NB." The NationsBank Common Stock is also listed on the LSE and certain shares are listed on the Tokyo Stock Exchange. As of December 31, 1996, there were 286,746,154 shares of NationsBank Common Stock outstanding held by approximately 106,345 holders of record. The First Federal Common Stock is included for quotation in The Nasdaq Stock Market as a National Market System security under the trading symbol "FFBG." As of the Record Date, there were shares of First Federal Common Stock outstanding held by approximately holders of record.

The following table sets forth the last sales price reported on the NYSE Composite Transactions List for shares of NationsBank Common Stock on October 10, 1996, the last trading day preceding the Second Order, and on , 1997. It also sets forth the last reported sales price per share reported by The Nasdaq Stock Market for shares of First Federal Common Stock on October 10, 1996 and on , 1997. The First Federal Equivalent represents the last sales price of a share of NationsBank Common Stock on such date multiplied by the Exchange Ratio.



| | NATIONSBANK | FIRST FEDERAL | FIRST FEDERAL EQUIVALENT |
|---|---|---|---|
| October 10, 1996 | $ 87.50 | $ 72.00 | $ 70.00 |
| , 1997 | $ | $ | $ |

For additional information regarding the market prices of the NationsBank Common Stock and First Federal Common Stock during the previous two years, see "PRICE RANGE OF COMMON STOCK AND DIVIDENDS."

RECENT DEVELOPMENTS

ACQUISITION OF BOATMEN'S BANCSHARES, INC. On January 7, 1997, NationsBank completed the acquisition of Boatmen's Bancshares, Inc., a corporation organized and existing under the laws of the State of Missouri and registered as a bank holding company under the BHCA. Pursuant to an Agreement and Plan of Merger dated August 29, 1996, Boatmen's was merged into a wholly owned subsidiary of NationsBank (the "Boatmen's Acquisition"). As permitted by the terms of the Boatmen's Acquisition, common shareholders of Boatmen's elected to receive an aggregate of approximately 98 million shares of NationsBank Common Stock (96% of total consideration paid by NationsBank) and an aggregate of approximately $372 million in cash (4% of total consideration) in exchange for the shares of Boatmen's common stock. NationsBank intends to continue its program of repurchasing shares of NationsBank Common Stock so that the net shares of NationsBank Common Stock issued in connection with the Boatmen's Acquisition represent 60% of the total consideration paid by NationsBank in the Boatmen's Acquisition.

In addition, (i) each share of Cumulative Convertible Preferred Stock, Series A, of Boatmen's (the "Boatmen's Series A Preferred Stock") was converted into one share of NationsBank's Cumulative Convertible Preferred Stock, Series A (the "NationsBank New Series A Preferred Stock"); (ii) each share of 7% Cumulative Redeemable Preferred Stock, Series B, of Boatmen's (the "Boatmen's Series B Preferred Stock") was converted into one share of NationsBank's 7% Cumulative Redeemable Preferred Stock, Series B (the "NationsBank New Series B Preferred Stock"); and (iii) each depositary share relating to the Boatmen's Series A Preferred Stock (the "Boatmen's Depositary Shares") was converted into one depositary share of NationsBank (the "NationsBank Depositary Shares"). The NationsBank New Series A Preferred Stock, NationsBank New Series B Preferred Stock and NationsBank Depositary Shares have rights, preferences and terms substantially identical to the rights, preferences and terms of the Boatmen's Series A Preferred Stock, Boatmen's Series B Preferred Stock and Boatmen's Depositary Shares, respectively.

The Boatmen's Acquisition constituted a tax-free reorganization under the Code and was accounted for as a purchase. At December 31, 1996, Boatmen's had total assets of $41 billion and had over 600 banking offices in Missouri, Kansas, Arkansas, Oklahoma, New Mexico, Texas, Iowa, Illinois and Tennessee.

For additional information regarding the Boatmen's Acquisition, see NationsBank's Current Report on Form 8-K filed September 6, 1996, as amended by Form 8-K/A-1 filed September 11, 1996, Form 8-K/A-2 filed November 13, 1996, and Form 8-K filed December 17, 1996, incorporated herein by reference.

RECENT NATIONSBANK FINANCIAL INFORMATION. NationsBank had net income for 1996 of $2.38 billion, a 22% increase over 1995 net income of $1.95 billion. Earnings per share of common stock for 1996 were $8.00, compared to $7.13 per share in 1995. For the fourth quarter of 1996, the net income was $632 million, or $2.19 per share, as compared to $510 million, or $1.87 per share, in the fourth quarter of 1995.

Taxable-equivalent net interest income increased 16% in 1996 to $6.42 billion. The net interest yield in 1996 was 3.62%, compared to 3.33% in 1995. Noninterest income increased 18% to $3.65 billion in 1996, compared to $3.08 billion in 1995, due primarily to higher income from investment banking, deposit accounts and mortgage-related activities. Noninterest expense was $5.67 billion in 1996, compared to $5.16 billion in 1995, an increase of 10%.

The provision for credit losses increased to $605 million in 1996, compared to $382 million in 1995. Net charge-offs were $598 million in 1996, or .48% of average net loans, leases and factored accounts receivable, compared to $421 million, or .38% of average levels in 1995. The allowance for credit losses was $2.32 billion at December 31, 1996, or 1.89% of net loans, leases and factored accounts receivable, compared to $2.16 billion at December 31, 1995, or 1.85% of net loans, leases and factored accounts receivable. The allowance represented 260% of nonperforming loans at December 31, 1996, compared to 306% at December 31, 1995. Total nonperforming assets were $1.04 billion on December 31, 1996, or .85% of net loans, leases and factored accounts receivables and other real estate owned, compared to $853 million on December 31, 1995, or .73% of net levels.



Average loans and leases were $122.3 billion in 1996, a 12% increase over 1995, driven primarily by a 19% increase in average consumer loans. Average deposits in 1996 were $107.59 billion, compared to $99.28 billion in 1995. On December 31, 1996, total earning assets were $165.28 billion, of which net loans and leases were $121.58 billion and securities were $14.39 billion.

Total shareholders' equity was $13.71 billion at December 31, 1996, or 7.38% of total assets. Return on average common shareholder equity was 18.53% in 1996, compared to 17.01% in 1995. Revenue growth outpaced expense growth, improving the efficiency ratio in 1996 to 56.3%, compared to 59.8% in 1995.

At December 31, 1996, the NationsBank Tier 1 and total risk-based capital ratios were 7.76% and 12.66%, respectively. The NationsBank's leverage ratio was 7.09% at December 31, 1996. NationsBank and its subsidiaries had issued an outstanding $16.56 billion of senior debt instruments and $6.13 billion of subordinated debt instruments at December 31, 1996.

COMPARATIVE UNAUDITED PER SHARE DATA

The following tables set forth (i) selected comparative per share data for each of NationsBank and First Federal on an historical basis and (ii) selected unaudited pro forma comparative per share data reflecting the consummation by NationsBank of (a) the Merger, (b) the Boatmen's Acquisition and (c) the Merger and the Boatmen's Acquisition. The unaudited pro forma comparative per share data assume the Merger and the Boatmen's Acquisition had been consummated at the beginning of the periods presented. The Merger and the Boatmen's Acquisition are reflected in the unaudited pro forma data using the purchase method of accounting. For a description of the effect of purchase accounting on the Merger and the historical financial statements of NationsBank, see "THE MERGER -- Accounting Treatment." The First Federal pro forma equivalent amounts are presented with respect to each set of pro forma information, and have been calculated by multiplying the corresponding pro forma combined amounts per share of NationsBank Common Stock by the Exchange Ratio.

The unaudited pro forma comparative per share data reflect the Merger and the Boatmen's Acquisition based upon preliminary purchase accounting adjustments. Actual adjustments, which may include adjustments to additional assets, liabilities and other items, will be made on the basis of appraisals and evaluations as of the Effective Date and, therefore, are likely to differ from those reflected in the unaudited pro forma comparative per share data.

The unaudited pro forma comparative per share data do not reflect any direct costs, potential savings or revenue enhancements which are expected to result from the consolidation of operations of NationsBank, First Federal and Boatmen's and, therefore, do not purport to be indicative of the results of future operations.



The comparative per share data presented are based on and derived from, and should be read in conjunction with, the historical consolidated financial statements and the related notes thereto of each of NationsBank, Boatmen's and First Federal incorporated by reference herein. See "AVAILABLE INFORMATION" and "INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE." Results of each of NationsBank and Boatmen's for the nine months ended September 30, 1996 are not necessarily indicative of results expected for the entire year, nor are pro forma amounts necessarily indicative of results of operations or combined financial position that would have resulted had the Merger and the Boatmen's Acquisition been consummated at the beginning of the period indicated. All adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of results of interim periods have been included.

<TABLE>
<CAPTION>

NINE MONTHS

| | ENDED SEPTEMBER 30, 1996 | YEAR ENDED DECEMBER 31, 1995 |
|---|---|---|
| NATIONSBANK HISTORICAL | | |
| Earnings per common share (primary) | $ 5.82 | $ 7.13 |
| Cash dividends per common share | 1.74 | 2.08 |
| Shareholders' equity per common share (period end) | 45.77 | 46.52 |
| NATIONSBANK PRO FORMA COMBINED | | |
| Earnings per common share (1) | | |
| Pro forma combined for the Merger | 5.80 | 7.11 |
| Pro forma combined for the Boatmen's Acquisition (2) | 4.82 | 5.77 |
| Pro forma combined for the Merger and the Boatmen's Acquisition (2) | 4.81 | 5.76 |
| Cash dividends per common share (3) | | |
| Pro forma combined for the Merger | 1.74 | 2.08 |
| Pro forma combined for the Boatmen's Acquisition (2) | 1.74 | 2.08 |
| Pro forma combined for the Merger and the Boatmen's Acquisition (2) | 1.74 | 2.08 |
| Shareholders' equity per common share (period end) | | |
| Pro forma combined for the Merger | 45.67 | 46.42 |
| Pro forma combined for the Boatmen's Acquisition (2) | 54.38 | 54.51 |
| Pro forma combined for the Merger and the Boatmen's Acquisition (2) | 54.27 | 54.39 |

</TABLE>

<TABLE>
<CAPTION>

| | YEAR ENDED SEPTEMBER 30, 1996 |
|---|---|
| FIRST FEDERAL HISTORICAL | |
| Earnings per common share | $ 1.42 |
| Cash dividends per common share | .93 |
| Shareholders' equity per common share (period end) | 17.29 |

</TABLE>

<TABLE>
<CAPTION>

| | NINE MONTHS ENDED SEPTEMBER 30, 1996 | YEAR ENDED DECEMBER 31, 1995 |
|---|---|---|
| FIRST FEDERAL PRO FORMA EQUIVALENT (4) | | |
| Earnings per common share | | |
| Pro forma equivalent for the Merger | $ 4.64 | $ 5.69 |
| Pro forma equivalent for the Boatmen's Acquisition (2) | 3.86 | 4.62 |
| Pro forma equivalent for the Merger and the Boatmen's Acquisition (2) | 3.85 | 4.61 |
| Cash dividends per common share | | |
| Pro forma equivalent for the Merger | 1.39 | 1.66 |
| Pro forma equivalent for the Boatmen's Acquisition (2) | 1.39 | 1.66 |
| Pro forma equivalent for the Merger and the Boatmen's Acquisition (2) | 1.39 | 1.66 |

| | | |
|---|---|---|
| Shareholders' equity per common share (period end) | | |
| Pro forma equivalent for the Merger | 36.54 | 37.14 |
| Pro forma equivalent for the Boatmen's Acquisition (2) | 43.50 | 43.61 |
| Pro forma equivalent for the Merger and the Boatmen's Acquisition (2) | 43.42 | 43.51 |

</TABLE>

(1) For purposes of preparing pro forma combined per share information, First Federal's operating results for the nine months ended September 30, 1996 and the year ended September 30, 1995 were combined with NationsBank's operating results for the nine months ended September 30, 1996 and the year ended December 31, 1995, respectively.



(2) A cash election of 40% in the Boatmen's Acquisition has been assumed. An actual cash election of approximately 4% was made by the holders of Boatmen's common stock. However, NationsBank currently expects to repurchase shares of NationsBank Common Stock from time to time so that the pro forma impact of the Boatmen's Acquisition will be the issuance of approximately 60% of the aggregate consideration in NationsBank Common Stock and 40% of the aggregate consideration in cash. See "SUMMARY -- Recent Developments; Acquisition of Boatmen's Bancshares, Inc."

(3) Pro forma combined dividends per share represent historical dividends per share paid by NationsBank.

(4) Pro forma equivalent amounts for the Merger are calculated by multiplying the pro forma combined amounts by the Exchange Ratio. See "THE MERGER -- Background of The Merger; Share Calculation Letter."

SELECTED FINANCIAL DATA

The following tables present (i) summary selected financial data for each of NationsBank and First Federal on an historical basis and (ii) summary unaudited pro forma selected financial data reflecting the consummation of the Boatmen's Acquisition. The unaudited pro forma selected financial data have been prepared giving effect to the Boatmen's Acquisition using the purchase method of accounting.

The summary unaudited pro forma selected financial data for NationsBank reflecting the acquisition of Boatmen's is based on and derived from, and should be read in conjunction with, the historical consolidated financial statements and the related notes thereto of each of NationsBank and Boatmen's, which are incorporated herein by reference.

The summary unaudited pro forma selected financial data reflect the Boatmen's Acquisition based upon preliminary purchase accounting adjustments. Actual adjustments, which may include adjustments to additional assets, liabilities and other items, will be made on the basis of appraisals and evaluations as of the effective date thereof and, therefore, is likely to differ from those reflected in the summary unaudited pro forma selected financial data.

NationsBank and Boatmen's expect that the combined company will achieve substantial benefits from the Boatmen's Acquisition, including operating costs savings and revenue enhancements. However, the summary unaudited pro forma selected financial data does not reflect any direct costs, potential savings or revenue enhancements, which are expected to result from the consolidation of operations of NationsBank and Boatmen's and, therefore, does not purport to be indicative of the results of future operations.

The summary selected financial data are based on and derived from, and should be read in conjunction with, the historical consolidated financial statements and the related notes thereto of each of NationsBank and First Federal incorporated by reference herein. Results of NationsBank for the nine months ended September 30, 1996 and for First Federal for the three months ended December 31, 1996 are not necessarily indicative of results expected for the entire year, nor are pro forma amounts necessarily indicative of results of operations or combined financial position that would have resulted had the Boatmen's Acquisition been consummated at the beginning of the period indicated. All adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of results of interim periods have been included.



SELECTED HISTORICAL FINANCIAL DATA OF NATIONSBANK

<TABLE>
<CAPTION>

| | NINE MONTHS ENDED SEPTEMBER 30, | | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|---|---|
| | 1996 | 1995 | 1995 | 1994 | 1993 | 1992 | 1991 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |

(DOLLARS IN MILLIONS, EXCEPT PER-SHARE INFORMATION AND RATIOS)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Income statement | | | | | | | |
| Income from earning assets | $ 10,438 | $ 9,859 | $ 13,220 | $ 10,529 | $ 8,327 | $ 7,780 | $ 9,398 |
| Interest expense | 5,699 | 5,825 | 7,773 | 5,318 | 3,690 | 3,682 | 5,599 |
| Net interest income | 4,739 | 4,034 | 5,447 | 5,211 | 4,637 | 4,098 | 3,799 |
| Provision for credit losses | 455 | 240 | 382 | 310 | 430 | 715 | 1,582 |
| Gains (losses) on sales of securities | 34 | 8 | 29 | (13) | 84 | 249 | 454 |
| Noninterest income | 2,688 | 2,232 | 3,078 | 2,597 | 2,101 | 1,913 | 1,742 |
| Merger-related charge | 118 | -- | -- | -- | 30 | -- | 330 |
| Noninterest expense (including OREO expense) | 4,212 | 3,831 | 5,181 | 4,930 | 4,371 | 4,149 | 3,974 |
| Income before income taxes and effect of change in method of accounting for income taxes | 2,676 | 2,203 | 2,991 | 2,555 | 1,991 | 1,396 | 109 |
| Income tax expense (benefit) | 933 | 763 | 1,041 | 865 | 690 | 251 | (93) |
| Net income | 1,743 | 1,440 | 1,950 | 1,690 | 1,501(1) | 1,145 | 202 |
| Net income applicable to common shareholders | 1,732 | 1,434 | 1,942 | 1,680 | 1,491(1) | 1,121 | 171 |
| Per common share | | | | | | | |
| Net income (primary) | $ 5.82 | $ 5.26 | $ 7.13 | $ 6.12 | $ 5.78(1) | $ 4.60 | $ .76 |
| Net income (fully diluted) | 5.73 | 5.19 | 7.04 | 6.06 | 5.72(1) | 4.52 | .75 |
| Cash dividends paid | 1.74 | 1.50 | 2.08 | 1.88 | 1.64 | 1.51 | 1.48 |
| Shareholders' equity (period end) | 45.77 | 44.00 | 46.52 | 39.70 | 36.39 | 30.80 | 27.03 |
| Balance sheet (period end) | | | | | | | |
| Total assets | $187,671 | $182,138 | $187,298 | $169,604 | $157,686 | $118,059 | $110,319 |
| Total loans, leases and factored accounts receivable, net of unearned income | 122,078 | 114,601 | 117,033 | 103,371 | 92,007 | 72,714 | 69,108 |
| Total deposits | 108,132 | 97,870 | 100,691 | 100,470 | 91,113 | 82,727 | 88,075 |
| Long-term debt | 22,034 | 15,741 | 17,775 | 8,488 | 8,352 | 3,066 | 2,876 |
| Common shareholders' equity | 13,186 | 11,904 | 12,759 | 10,976 | 9,859 | 7,793 | 6,252 |
| Total shareholders' equity | 13,304 | 11,941 | 12,801 | 11,011 | 9,979 | 7,814 | 6,518 |
| Common shares outstanding at period end (in thousands) | 288,112 | 270,544 | 274,269 | 276,452 | 270,905 | 252,990 | 231,246 |
| Performance ratios | | | | | | | |
| Return on average assets | 1.15%(2) | 1.03%(2) | 1.03% | 1.02% | .97% | 1.00% | .17% |
| Return on average common shareholders' equity (3) | 17.58(2) | 17.02(2) | 17.01 | 16.10 | 15.00 | 15.83 | 2.70 |
| Risk-based capital ratios | | | | | | | |
| Tier 1 | 7.05 | 7.16 | 7.24 | 7.43 | 7.41 | 7.54 | 6.38 |
| Total | 12.05 | 11.23 | 11.58 | 11.47 | 11.73 | 11.52 | 10.30 |
| Leverage capital ratio | 6.30 | 5.96 | 6.27 | 6.18 | 6.00 | 6.16 | 5.07 |
| Total equity to total assets | 7.09 | 6.56 | 6.83 | 6.49 | 6.33 | 6.62 | 5.91 |
| Asset quality ratios Allowance for credit losses as a percentage of total loans, leases and factored accounts receivable, net of unearned income (period end) | 1.90 | 1.89 | 1.85 | 2.11 | 2.36 | 2.00 | 2.32 |
| Allowance for credit losses as a percentage of nonperforming loans (period end) | 235.64 | 255.57 | 306.49 | 273.07 | 193.38 | 103.11 | 81.82 |
| Net charge-offs as a percentage of average loans, leases and factored accounts receivable, net of unearned income | .48(2) | .33(2) | .38 | .33 | .51 | 1.25 | 1.86 |
| Nonperforming assets as a percentage of net loans, leases, factored accounts receivable, net of unearned income, and other real estate owned (period end) | .93 | .90 | .73 | 1.10 | 1.92 | | |

2.72       4.01
</TABLE>

(1) Includes cumulative effect benefit of $200 million for the adoption of SFAS 109. The effect on primary and fully diluted earnings per share was $.78 and $.77, respectively, for the year ended December 31, 1993.

(2) Annualized.

(3) Average common shareholders' equity does not include the effect of market value adjustments to securities available for sale and marketable equity securities.



SELECTED HISTORICAL FINANCIAL DATA OF FIRST FEDERAL

<TABLE>
<CAPTION>

| | THREE MONTHS ENDED DECEMBER 31, | | YEAR ENDED SEPTEMBER 30, | | | | |
|---|---|---|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 | 1994 | 1993 | 1992 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| | (DOLLARS IN MILLIONS, EXCEPT PER-SHARE INFORMATION) | | | | | | |
| Income statement | | | | | | | |
| Income from earning assets | $ 5 | $ 5 | $ 20 | $ 19 | $ 17 | $ 17 | $ 19 |
| Interest expense | 2 | 3 | 10 | 9 | 8 | 8 | 11 |
| Net interest income | 3 | 2 | 10 | 10 | 9 | 9 | 8 |
| Noninterest income | 1 | 1 | 3 | 2 | 2 | 2 | 3 |
| Noninterest expense | 2 | 2 | 10 | 7 | 7 | 7 | 7 |
| Income before income taxes | 2 | 1 | 3 | 5 | 4 | 4 | 4 |
| Income tax expense | 1 | -- | 1 | 2 | 1 | 1 | 2 |
| Net income | 1 | 1 | 2(1) | 3 | 3 | 3 | 2 |
| Per common share | | | | | | | |
| Net income (loss) | $ .64 | $ .47 | $1.42(1) | $2.05 | $2.17 | $1.77 | $1.50 |
| Cash dividends declared | .19 | .36 | .93 | .89 | .75 | .61 | .58 |
| Balance sheet (period end) | | | | | | | |
| Total assets | $ 254 | $ 264 | $ 249 | $ 253 | $ 232 | $ 228 | $ 221 |
| Total loans, net of unearned discount | 219 | 195 | 210 | 187 | 179 | 173 | 158 |
| Total deposits | 220 | 222 | 218 | 223 | 201 | 197 | 192 |
| Long-term debt | 2 | 2 | 2 | 2 | 4 | 5 | 3 |
| Shareholders' equity | 27 | 26 | 26 | 26 | 24 | 22 | 20 |
| Common shares outstanding at period end (in thousands) | 1,500 | 1,500 | 1,500 | 1,500 | 1,498 | 1,497 | 1,497 |

</TABLE>

(1) Fiscal year 1996 results included a charge of approximately $1.4 million, representing a provision made for the payment of a special assessment imposed by Congress for the purpose of recapitalizing the thrift portion of the Federal Deposit Insurance Fund. This charge reduced fiscal year 1996 net income by approximately $1 million, or $.58 per share.



SELECTED PRO FORMA FINANCIAL DATA FOR NATIONSBANK
REFLECTING THE BOATMEN'S ACQUISITION (1)

(DOLLARS IN MILLIONS, EXCEPT PER-SHARE INFORMATION AND RATIOS)

<TABLE>
<CAPTION>

| | NINE MONTHS ENDED SEPTEMBER 30, | YEAR ENDED DECEMBER 31, |
|---|---|---|
| | 1996 | 1995 |

<S> <C>
<C>

| | | |
|---|---|---|
| INCOME STATEMENT | | |
| Income from earning assets | $ 12,110 | $ 15,450 |
| Interest expense | 6,445 | 8,838 |
| Net interest income | 5,665 | 6,612 |
| Provision for credit losses | 520 | 442 |
| Gains on sales of securities | 36 | 22 |
| Noninterest income | 3,320 | 3,840 |
| Merger-related charge | 178 | -- |
| Noninterest expense (including OREO expense) | 5,525 | 6,924 |
| Income before income taxes | 2,798 | 3,108 |
| Income tax expense | 1,043 | 1,161 |
| Net income | 1,755 | 1,947 |
| Net income applicable to common shareholders | 1,739 | 1,932 |
| Per common share | | |
| Net income (primary) | $ 4.82 | $ 5.77 |
| Net income (fully diluted) | 4.77 | 5.72 |
| Cash dividends paid (2) | 1.74 | 2.08 |
| Shareholders' equity (period end) | 54.38 | 54.51 |
| Balance sheet (period end) | | |
| Total assets | $ 224,756 | $ 224,803 |
| Total loans, leases and factored accounts receivable, net of unearned income | 146,393 | 141,084 |
| Total deposits | 138,694 | 132,669 |
| Long-term debt | 26,533 | 22,285 |
| Common shareholders' equity | 18,973 | 18,263 |
| Total shareholders' equity | 19,182 | 18,682 |
| Common shares outstanding period end (in thousands) | 348,895 | 335,052 |
| Performance ratios | | |
| Return on average assets | 0.98%(2) | 0.86% |
| Return on average common shareholders' equity (4) | 12.19(3) | 11.37 |
| Risk-based capital ratios (5) | | |
| Tier 1 | 5.57 | 5.64 |
| Total | 10.20 | 10.26 |
| Leverage capital ratio | 5.03 | 4.94 |
| Total equity to total assets | 8.53 | 8.31 |
| Asset quality ratios | | |
| Allowance for credit losses as a percentage of total loans, leases and factored accounts receivable, net of unearned income (period end) | 1.91 | 1.85 |
| Allowance for credit losses as a percentage of nonperforming loans (period end) | 242.60 | 297.50 |
| Net charge-off's as a percentage of average loans, leases and factored accounts receivable, net of unearned income | 0.45(3) | 0.36 |
| Nonperforming assets as a percentage of net loans, leases, factored accounts receivable, net of unearned income, and other real estate owned (period end) | 0.91 | 0.75 |

</TABLE>

(1) A cash election of 40% in the Boatmen's Acquisition has been assumed. An actual cash election of approximately 4% was made by the holders of Boatmen's common stock. However, NationsBank currently expects to repurchase shares of NationsBank Common Stock from time to time so that the pro forma impact of the Boatmen's Acquisition will be the issuance of approximately 60% of the aggregate consideration in NationsBank Common Stock and 40% of

the aggregate consideration in cash. See "SUMMARY -- Recent Developments; Acquisition of Boatmen's Bancshares, Inc."

(2) Pro forma combined dividends per common share represent the historical dividends per common share paid by NationsBank.

(3) Annualized.

(4) Average common shareholders' equity does not include the effect of market value adjustments to securities available for sale and marketable equity securities.

(5) NationsBank and Boatmen's expect the combined company to be well capitalized under regulatory guidelines. Not included in the above capital ratios are fourth quarter earnings net of dividends and the issuance of approximately $1 billion of qualifying Tier 1 capital. See "SUMMARY -- Recent Developments; Recent NationsBank Financial Information."



THE SPECIAL MEETING OF STOCKHOLDERS OF FIRST FEDERAL

GENERAL

This Proxy Statement-Prospectus is first being mailed to the holders of First Federal Common Stock on or about , 1997, and is accompanied by the notice of Special Meeting and a form of proxy that is solicited by the Board of Directors of First Federal for use at the Special Meeting of Stockholders of First Federal to be held on April 11, 1997 and at any adjournments or postponements thereof. The purpose of the Special Meeting is to take action with respect to the approval of the Agreement and the transactions contemplated thereby.

PROXIES

A stockholder of First Federal may use the accompanying proxy if such stockholder is unable to attend the Special Meeting in person or wishes to have his or her shares voted by proxy even if such stockholder does attend the meeting. A stockholder may revoke any proxy given pursuant to this solicitation by delivering to the President of First Federal, prior to or at the Special Meeting, a written notice revoking the proxy or a duly executed proxy relating to the same shares bearing a later date, or by voting in person at the Special Meeting. All written notices of revocation and other communications with respect to the revocation of First Federal proxies should be addressed to First Federal Savings Bank of Brunswick, Georgia, 777 Gloucester Street, Brunswick, Georgia 31520, Attention: Ben T. Slade III, President. For such notice of revocation or later proxy to be valid, however, it must actually be received by First Federal prior to the vote of the stockholders.

All shares represented by valid proxies received pursuant to the solicitation, and not revoked before they are exercised, will be voted in the manner specified therein. If no specification is made, the proxies will be voted in favor of approval of the Agreement. The Board of Directors of First Federal is unaware of any other matters that may be presented for action at the Special Meeting. If other matters do properly come before the Special Meeting, however, it is intended that shares represented by proxies in the accompanying form will be voted or not voted by the persons named in the proxies in their discretion. If there are not sufficient votes to approve the Agreement at the Special Meeting, the proxy holder may vote in favor of a proposal to adjourn the Special Meeting to permit further solicitation of proxies.

SOLICITATION OF PROXIES

Solicitation of proxies may be made in person or by mail, telephone or facsimile, by directors, officers and employees of First Federal, who will not be specially compensated for such solicitation. Nominees, fiduciaries and other custodians will be requested to forward solicitation materials to beneficial owners and to secure their voting instructions, if necessary, and will be reimbursed for the expenses incurred in sending proxy materials to beneficial owners. All costs of solicitation of proxies from First Federal stockholders will be borne by First Federal; provided, however, that NationsBank and First Federal have each agreed to pay one-half of the printing cost of this Proxy Statement-Prospectus and related materials.

RECORD DATE AND VOTING RIGHTS

First Federal's Board of Directors has fixed the close of business on , 1997, as the Record Date for determination of stockholders of First Federal entitled to receive notice of and to vote at the Special Meeting. At the close of business on the Record Date, there were outstanding shares of First Federal Common Stock held by approximately holders of record. Each share of First Federal Common Stock outstanding on the Record Date is entitled to one vote as to (i) the approval of the Agreement and the transactions contemplated thereby, and (ii) any other proposal that may properly come before the Special Meeting. Approval of the Agreement will require the affirmative vote of the holders of at least two-thirds of the issued and outstanding First Federal Common Stock entitled to vote at the Special Meeting. As of the Record Date, the directors and executive officers of First Federal and their affiliates beneficially owned an aggregate of shares, or %, of First Federal Common Stock entitled to vote at the Special Meeting. All such directors and executive officers have indicated that they intend to vote such shares in favor of the Agreement, although they are not obligated to do so. Included in the shares of First Federal Common Stock beneficially owned by First Federal's directors and executive officers and their affiliates are shares held by First Federal's profit sharing plan. The voting power over those shares is held by three of First Federal's directors in their capacities as trustees for the plan. These directors have indicated that they intend to vote those shares in favor of the Agreement. None of the directors or executive officers, or their affiliates, of NationsBank owned any shares of First Federal Common Stock as of the Record Date.

BECAUSE APPROVAL OF THE AGREEMENT REQUIRES THE AFFIRMATIVE VOTE OF THE HOLDERS OF AT LEAST TWO-THIRDS OF THE OUTSTANDING SHARES OF FIRST FEDERAL COMMON STOCK, ABSTENTIONS AND BROKER NON-VOTES WILL HAVE THE SAME EFFECT AS NEGATIVE VOTES. ACCORDINGLY,



THE BOARD OF DIRECTORS OF FIRST FEDERAL URGES ITS STOCKHOLDERS TO COMPLETE, DATE AND SIGN THE ACCOMPANYING PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED, POSTAGE-PAID ENVELOPE.

RECOMMENDATION OF FIRST FEDERAL BOARD OF DIRECTORS

First Federal's Board of Directors believe that the Merger is in the best interests of First Federal and its stockholders and has unanimously approved the Agreement and the transactions contemplated thereby. FIRST FEDERAL'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR APPROVAL OF THE AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY. See "THE MERGER -- Background of the Merger" and " -- First Federal Reasons for the Merger."

## THE MERGER

THE FOLLOWING SUMMARY OF CERTAIN TERMS AND PROVISIONS OF THE AGREEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE AGREEMENT, WHICH IS INCORPORATED HEREIN BY REFERENCE AND IS INCLUDED IN THE EXHIBITS FILED WITH THE REGISTRATION STATEMENT, OF WHICH THIS PROXY STATEMENT-PROSPECTUS IS A PART.

DESCRIPTION OF THE MERGER

At the Effective Date, subject to the terms of the Agreement, Merger Sub will merge with and into First Federal, the separate corporate existence of Merger Sub will cease and First Federal will survive and continue to exist and to be governed by the laws of the United States as a federal stock savings bank operating under the name First Federal Savings Bank of Brunswick, Georgia and as a wholly owned subsidiary of NationsBank. Each executive officer and each director of First Federal has submitted his resignation as such, effective immediately upon consummation of the Merger, and NationsBank is expected to fill those positions, in its discretion, immediately thereafter. The Merger is subject to the approvals of the Federal Reserve Board, the OTS and the State Authority. See "THE MERGER -- Bank Regulatory Matters."

All of the shares of NationsBank Common Stock issued and outstanding on the Effective Date shall remain issued and outstanding after the Effective Date and shall be unaffected by the Merger. Each outstanding share of Merger Sub common stock shall be converted into one share of First Federal Common Stock. The outstanding shares of First Federal Common Stock will be converted into an aggregate of 1,224,200 shares of NationsBank Common Stock (assuming the exercise of all First Federal Options prior to the Effective Date), which equates to an Exchange Ratio of 0.80 shares of NationsBank Common Stock for each share of First Federal Common Stock. Cash will be paid in lieu of any resulting fractional shares of NationsBank Common Stock.

There are currently outstanding options to acquire an aggregate of 5,111 shares of First Federal Options pursuant to the First Federal Stock Option Plan. The First Federal Options are held by Ben T. Slade III (3,111 shares), James H. Gash (1,000 shares), and John J. Rogers (1,000 shares). Each of Messrs. Slade, Gash and Rogers have notified First Federal in writing that he intends to exercise all of his First Federal Options on or before the Effective Date. Under the terms of the First Federal Stock Option Plan, no new First Federal Options may be granted. Therefore, there will be no First Federal Options outstanding on the Effective Date. See "THE MERGER -- Effect on First Federal Options" and " -- Interests of Certain Persons in the Merger."

No fractional shares of NationsBank Common Stock will be issued as a result of the Merger. Each holder of First Federal Common Stock who would otherwise be entitled to receive a fraction of a share of NationsBank Common Stock (after taking into account all of the stockholder's certificates) will receive, in lieu thereof, the equivalent cash value of such fractional share based upon the average closing price of a share of NationsBank Common Stock as reported by the NYSE for the 20 trading days immediately preceding the five consecutive calendar days immediately preceding the Effective Date.

In the event NationsBank changes the number of shares of NationsBank Common Stock issued and outstanding prior to the Effective Date as a result of a stock split, stock dividend, or similar recapitalization, the Exchange Ratio will be adjusted to appropriately adjust the ratio under which shares of First Federal Common Stock will be converted into and exchanged for shares of NationsBank Common Stock.

Consummation of the Merger is subject to several conditions, including, among others, the approval of the stockholders of First Federal and the approval of appropriate regulatory agencies. The Merger will be effected by filing the Plan of Merger as part of the Articles of Combination executed by First Federal and Merger Sub with the OTS. See "THE MERGER -- Conditions to the Merger."



EFFECTIVE DATE OF THE MERGER

The Merger shall become effective on the date and at the time of endorsement of the Articles of Combination filed with the OTS or on such other date that the OTS declares the Merger effective. Unless otherwise mutually agreed upon in writing by First Federal and NationsBank, the Effective Date shall be as soon as practicable following the date that all of the conditions precedent specified in the Agreement have been satisfied or waived by the party permitted to do so pursuant to the terms of the Agreement.

EXCHANGE OF CERTIFICATES

As soon as practicable after the Effective Date, but in no event later than two business days after the Effective Date, a form of transmittal letter ("Transmittal Letter") pursuant to which each holder of shares of First Federal Common Stock may transmit certificates representing shares of First Federal Common Stock in exchange for shares of NationsBank Common Stock in accordance with the Exchange Ratio, and any other appropriate materials, shall be mailed by NationsBank or the exchange agent selected by NationsBank, to each holder of record of First Federal Common Stock as of the Effective Date.

After the Effective Date, each holder of shares of First Federal Common Stock issued and outstanding on the Effective Date shall surrender the certificate or certificates representing such shares, together with a properly completed Transmittal Letter, to the exchange agent selected by NationsBank and shall promptly upon surrender receive in exchange therefor shares of NationsBank Common Stock in accordance with the Exchange Ratio. The certificate or certificates of First Federal Common Stock so surrendered shall be duly endorsed as NationsBank or the exchange agent may require. No fractional shares of NationsBank Common Stock will be issued as a result of the Merger. Each holder of shares of First Federal Common Stock issued and outstanding on the Effective Date also shall receive, upon surrender of the certificate or certificates representing such shares, cash, without interest, in lieu of any fractional share of NationsBank Common Stock to which such holder may be entitled. NationsBank shall not be obligated to deliver the consideration to which any former holder of First Federal Common Stock is entitled as a result of the Merger until such holder surrenders his certificate or certificates representing the shares of First Federal Common Stock for exchange as provided in the Agreement. In addition, no dividend or other distribution payable to the holders of record of NationsBank Common Stock as of any time subsequent to the Effective Date shall be paid to the holder of any certificate representing shares of First Federal Common Stock issued and outstanding on the Effective Date until such holder surrenders such certificate for exchange as provided in the Agreement. Upon surrender of the First Federal Common Stock certificate, however, both the NationsBank Common Stock certificates (together with all such withheld dividends or other distributions) and any withheld cash payments (each without interest) shall be delivered and paid with respect to each share represented by such certificate. In the event a holder of shares of First Federal Common Stock has lost such holder's certificate or certificates representing the shares of First Federal Common Stock held by such holder, such holder shall comply with the policies and procedures of the exchange agent for lost certificates prior to receiving the consideration to which the holder is entitled as provided in the Agreement. After the Effective Date each outstanding certificate that represented shares of First Federal Common Stock prior to the Effective Date shall be deemed for all corporate purposes (other than the payment of dividends and other distributions to which the former stockholders of First Federal may be entitled) to evidence only the right of the holder thereof to receive the consideration in exchange therefor provided for in the Agreement.

BACKGROUND OF THE MERGER

GENERAL. In late 1987, First Federal had discussions concerning the possible acquisition of First Federal with another thrift institution located in the State of Georgia, with The Citizens and Southern Corporation, predecessor to C&S/Sovran ("C&S"), and with one other regional interstate bank holding company. After the significant decline in market prices that occurred in the stock market during October 1987, discussions with the thrift institution were terminated. Thereafter, First Federal pursued merger discussions with C&S and the other regional interstate bank holding company. First Federal received a written offer in the form of a letter of intent from C&S and an oral proposal from the other bank holding company in response to a request for its best and final proposal. First Federal's Board of Directors determined that the offer from C&S was financially superior to the oral proposal from the other bank holding company. C&S and First Federal entered into a letter of intent for the acquisition of First Federal on February 16, 1988, and began negotiating the terms of a definitive agreement, which was executed by the parties as of April 19, 1988 (the "Original Agreement").

When the Original Agreement was entered into on April 19, 1988, the parties thereto contemplated that First Federal would be acquired by C&S through a merger of First Federal with and into The Citizens and Southern National Bank, a wholly owned subsidiary of C&S ("CSNB"), after the conversion of First Federal from a federal stock savings bank to a state-chartered stock savings and loan association. That structure would have required that First Federal also convert its



insurance of accounts from the Federal Savings and Loan Insurance Corporation (the "FSLIC") (which then was the insurance fund for federally chartered thrift institutions) to the FDIC (which then insured only commercial banks). The acquisition was so structured because statutes and policies then applicable would not permit C&S to acquire First Federal as a separate thrift institution, but would permit C&S to so acquire First Federal if First Federal, in effect, converted to a commercial bank through a merger with CSNB.

Although the structure originally contemplated by the parties would have permitted C&S to acquire First Federal, the acquisition could not have been consummated until the expiration of a then one-year moratorium on insurance fund conversions from the FSLIC to the FDIC, which moratorium was scheduled to expire on August 10, 1988, but was later extended until August 10, 1989. Congress then enacted the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), which extended the insurance fund conversion moratorium until August 10, 1994. Thus, the structure originally contemplated by the parties for acquiring First Federal was no longer feasible.

On September 26, 1989, C&S entered into a definitive agreement with Sovran Financial Corporation ("Sovran"), which provided for the reorganization of C&S and Sovran into a single entity (I.E., C&S/Sovran) (the "C&S/Sovran Reorganization"). In light of the enactment of FIRREA and the C&S/Sovran Reorganization, First Federal and C&S amended and restated the Original Agreement pursuant to the terms of the Restated Agreement dated as of November 20, 1989, to provide for the acquisition of First Federal by C&S or C&S/Sovran pursuant to a structure which contemplated that First Federal would remain a separate thrift subsidiary of C&S or C&S/Sovran. Due to various operational considerations, the parties further amended, as of August 20, 1990, the Restated Agreement pursuant to Amendment No. 1 to restructure the proposed acquisition such that First Federal would be a wholly owned bank subsidiary of C&S/Sovran, with its deposits insured by the SAIF. As of December 19, 1990, the parties further amended the Agreement pursuant to Amendment No. 2 to extend the time for completing the transaction to September 30, 1991. With the exception of substituting C&S/Sovran common stock for C&S common stock, none of the amendments to the Original Agreement affected the exchange ratio in the transaction; they merely changed the structure used to acquire First Federal as the applicable statutes changed. On July 21, 1991, NationsBank and C&S/Sovran entered into an agreement pursuant to which C&S/Sovran would become a wholly owned subsidiary of NationsBank through a stock-for-stock merger. This acquisition was consummated on December 31, 1991, whereupon NationsBank became a party to the Litigation as the successor to C&S/Sovran.

LITIGATION. In September 1991, First Federal commenced the Litigation against C&S/Sovran alleging that C&S/Sovran had breached a merger agreement then in effect between the parties by failing to consummate the transaction in a timely fashion. First Federal sought alternative remedies of damages and specific performance of the agreement unaffected by the alleged breach. Prior to filing suit, First Federal entered into a contingency fee agreement on September 27, 1991 with the law firm of McAlpin & Henson. This contingency agreement obligated First Federal to pay a contingency fee to McAlpin & Henson based on the gross value of the amount recovered from the defendants in excess of a base value of First Federal. The base value used the definition of "Per Share Purchase Price" that was included in the original agreement to value First Federal Common Stock. The contingency percentages were 0% for the first $5 million recovered over the base value, 10% for $5 million to $15 million recovered, 15% for $15 million to $25 million recovered, and 20% for all amounts recovered in excess of $25 million over the base value.

As part of the original suit, First Federal sought to have the Defendants pay the full amount of the contingency under principles of Georgia law. The Court declined, however, in the Second Order to require NationsBank to pay the contingent fees and further specified how the payment could be made by First Federal, as described below.

On December 16, 1994, after a civil jury trial in May 1994 determined that C&S/Sovran had breached the Agreement, the Court issued the First Order, which ordered NationsBank to specifically perform under the terms of the Agreement. In

December 1995, the Georgia Supreme Court affirmed the jury verdict and the First Order. On October 11, 1996, after an advisory jury trial in July 1996 determined that the transaction should have closed on June 19, 1991 but for the breach of the Agreement, and following a hearing before the Court in August 1996, the Court issued the Second Order, which ordered NationsBank to consummate the merger of NationsBank and First Federal on the basis of a June 1991 closing date as promptly as possible, consistent with applicable law, and in accordance with the terms of the Restated Agreement, Amendment No. 1, and Amendment No. 2, as modified by the Second Order.

The Second Order resolved three issues remaining in the Litigation. First, it held that the number of shares of NationsBank Common Stock to be offered to First Federal's stockholders was 1,280,268, plus that number of shares of NationsBank Common Stock that can be purchased for an amount equal to the difference between dividends paid on First Federal Common Stock and dividends paid on C&S/Sovran common stock or NationsBank Common Stock, as appropriate,



since June 19, 1991. The Second Order also held that NationsBank may reduce the number of shares of NationsBank Common Stock to be offered to First Federal's stockholders by the amounts paid by First Federal to Messrs. Ben T. Slade, III, John J. Rogers, James H. Gash and Robert B. Sams under the Change in Control Agreements. See "THE MERGER -- Interests of Certain Persons in the Merger." Finally, the Second Order held that First Federal could not recover any of the contingency payment for its litigation legal fees from NationsBank. The Second Order did permit First Federal to compensate its litigation attorneys for fees in connection with the Litigation at a rate of $200 per hour plus a lump sum enhancement of $250,000 without affecting the number of shares of NationsBank Common Stock to be offered to First Federal stockholders in the Merger. The Second Order further provided that the number of shares of NationsBank Common Stock to be offered to First Federal's stockholders would be reduced by an amount equal to legal fees paid by First Federal in excess of the foregoing, including fees paid pursuant to the September 27, 1991 contingency agreement between First Federal and McAlpin & Henson.

SHARE CALCULATION LETTER. On November 12, 1996, First Federal sent to NationsBank the Share Calculation Letter, which addresses the method by which the Second Order will be implemented and advises NationsBank how shares of NationsBank Common Stock should be paid in the Merger. The Share Calculation Letter provides as follows:

(a) Because of a computation error, the Second Order incorrectly set the number of shares of NationsBank Common Stock to be offered to First Federal stockholders at 1,280,268. The correct number of shares is 1,282,093.

(b) The aggregate additional amount of legal fees of Whelchel Brown Readdick & Bumgartner and of McAlpin & Henson (the "Litigation Attorneys"), calculated at a rate of an additional $25 per hour above the $175 per hour fee in accordance with the Second Order, is $213,350. The Court also authorized First Federal to pay the Litigation Attorneys a lump sum enhancement of $250,000, or an aggregate of $463,350. Pursuant to the Second Order, payment by First Federal of this amount does not reduce the number of shares of NationsBank Common Stock offered to First Federal stockholders.

(c) The Dividend Differential is $7,544,653.

(d) The First Federal Board of Directors determined that the aggregate amount to be paid to Messrs. Slade, Rogers, Gash and Sams under the Change in Control Agreements is $1,260,371 and that this amount will be paid from the proceeds of the Dividend Differential. The First Federal Board of Directors further determined that the remainder of the Dividend Differential, $6,284,282, will be paid to the Litigation Attorneys as additional compensation.

(e) The amount of the contingency obligation under the September 27, 1991 contingency agreement fluctuates with the market value of NationsBank Common Stock. On November 12, 1996, the approximate value of the contingency was $14.9 million. McAlpin & Henson has agreed to reduce this to an amount equal to the amount described in paragraph (b) above, plus the remaining Dividend Differential ($6,284,282), plus an amount equal to the market value of 57,893 shares of NationsBank Common Stock (using the average trading price described in the calculation of the Base Period Trading Price). On November 12, 1996, the approximate value of the sum of these amounts was $12.1 million.

(f) Based on the above paragraphs (a) through (e), the First Federal Board of Directors determined that the First Federal stockholders will receive 1,224,200 shares of NationsBank Common Stock (assuming that all First Federal Options are exercised prior to the Effective Date), which equates to 0.80 shares of NationsBank Common Stock for each share of First Federal Common Stock.

Neither NationsBank nor its agents have endorsed or participated in any way in the determinations by the First Federal Board of Directors set forth in the Share Calculation Letter, as described above in paragraphs (b), (d), (e) and (f), which were solely the determinations of the First Federal Board of Directors.

On January 17, 1997, NationsBank and First Federal executed the Waiver Letter, which provides as follows:

(a) The provisions of Amendment No. 1 are waived in their entirety. As a result, the Merger will be structured as provided in the Restated Agreement and as described above in "THE MERGER -- Description of the Merger."

(b) The provisions of Amendment No. 2 are waived in their entirety in order to make the timing of the Effective Date consistent with the Second Order, which provides that NationsBank and First Federal shall consummate the Merger as promptly as possible consistent with applicable law.



(c) Except as to those matters specifically addressed in the Waiver Letter, the waivers contained therein shall not prejudice any rights of First Federal or NationsBank under the Agreement, including without limitation the First Order or the Second Order.

NATIONSBANK REASONS FOR THE MERGER

As previously noted, First Federal commenced litigation in September 1991 over whether C&S/Sovran must perform under the Agreement. As a result of its acquisition of C&S/Sovran on December 31, 1991, NationsBank became a party to the Litigation as the successor to C&S/Sovran. Therefore, NationsBank is bound by the First Order and Second Order to perform the Agreement. See "THE MERGER -- Background of the Merger."

FIRST FEDERAL REASONS FOR THE MERGER

The First Federal Board of Directors approved the Restated Agreement in 1989 and Amendment No. 1 and Amendment No. 2 in 1990, which provided for the receipt of C&S/Sovran common stock by First Federal stockholders in the Merger. In doing so, First Federal's Board of Directors considered a number of factors. The First Federal Board of Directors did not assign any relative or specific weights to the factors considered. Among the material factors considered by the First Federal Board of Directors were the value of the C&S/Sovran common stock to be received in the Merger relative to the then book value of First Federal Common Stock; that the Merger afforded First Federal's stockholders an enhanced opportunity to receive cash dividends; and that the Merger also provided First Federal's stockholders with the opportunity for greater liquidity for their First Federal Common Stock given the larger capitalization and more established trading market for the shares to be received by First Federal's stockholders in the Merger. First Federal's Board of Directors also considered the oral opinion of Interstate/Johnson Lane presented to the Board of Directors in 1990 that the terms of the Merger were fair, from a financial point of view, to First Federal's stockholders.

As a result of the acquisition by NationsBank of C&S/Sovran in 1991, the Agreement provides for First Federal stockholders to receive shares of NationsBank Common stock in the Merger. First Federal's Board of Directors believes that the proposed Merger is in the best interests of First Federal and its stockholders. In reaching that conclusion, the First Federal Board of Directors considered various factors, including the following:

- ADVICE OF FINANCIAL ADVISOR AND FAIRNESS OPINION. The opinion of Interstate/Johnson Lane that, as of the date hereof, the consideration to be received by stockholders of First Federal upon consummation of the Merger is fair, from a financial point of view, to the stockholders of First Federal. See "THE MERGER -- Opinion of First Federal's Financial Advisor."

- THE FINANCIAL TERMS OF THE MERGER. The information presented by Interstate/Johnson Lane to First Federal's Board of Directors included transaction multiples for selected comparable mergers and acquisitions. The Board of Directors determined that the transaction multiples to be received by First Federal stockholders, based on the Exchange Ratio in the Merger and the NationsBank Common Stock price on December 31, 1996, compared favorably with such multiples. See "THE MERGER -- Opinion of First Federal's Financial Advisor."

- THE EFFECT ON STOCKHOLDER VALUE OF FIRST FEDERAL REMAINING INDEPENDENT COMPARED TO THE EFFECT OF ITS COMBINING WITH NATIONSBANK. In this respect, the Board of Directors considered several matters. First, the Board of Directors considered whether it was reasonable to anticipate that First

Federal, as an independent enterprise, could meet the earnings projections necessary to produce a value comparable to the value to be received in the Merger. Second, there is no reliable evidence to suggest that another strategic alternative would produce better value for the First Federal stockholders. Third, a decision to remain independent in the context of the NationsBank proposal would likely have a material adverse effect on the market price of First Federal Common Stock.

- THE OPPORTUNITY TO PROVIDE FIRST FEDERAL'S STOCKHOLDERS WITH ENHANCED LIQUIDITY FOR THEIR SHARES. The Board of Directors also considered that the Merger will enable First Federal stockholders to exchange their shares of First Federal Common Stock for shares of common stock of a larger and more diversified entity, the stock of which is more widely held and more actively traded.

- THE TAX-FREE NATURE OF THE TRANSACTION AND CERTAIN NON-FINANCIAL INFORMATION. The Board of Directors took into account that it is expected that the Merger will be a tax-free transaction (other than with respect to cash paid in lieu of fractional shares) to First Federal stockholders for federal income tax purposes. The Board of Directors also took into consideration that the Merger would trigger certain change in control provisions of the Change in



Control Agreements previously entered into with several of First Federal's executives. See "THE MERGER -- Interests of Certain Persons in the Merger."

- REGULATORY APPROVALS. The likelihood of obtaining the regulatory approvals that would be required with respect to the Merger. See "THE MERGER -- Bank Regulatory Matters."

The foregoing discussion of the information and factors considered by the First Federal Board of Directors is not intended to be exhaustive but is believed to include all material factors considered by the First Federal Board of Directors. The First Federal Board of Directors did not assign any relative or specific weights to the foregoing factors, and individual directors may have given different weights to different factors.

FOR THE REASONS DESCRIBED ABOVE, THE FIRST FEDERAL BOARD OF DIRECTORS BELIEVES THE MERGER IS FAIR TO, AND IS IN THE BEST INTERESTS OF, THE FIRST FEDERAL STOCKHOLDERS. ACCORDINGLY, THE FIRST FEDERAL BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE FIRST FEDERAL STOCKHOLDERS VOTE "FOR" APPROVAL OF THE AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY.

## OPINION OF FIRST FEDERAL'S FINANCIAL ADVISOR

Interstate/Johnson Lane was retained by First Federal to act as its financial advisor in connection with the Merger. Interstate/Johnson Lane delivered to the First Federal Board of Directors its written opinion dated the date hereof (the "Interstate/Johnson Lane Opinion") to the effect that, as of the date thereof, based on the matters set forth therein, the consideration to be received by stockholders of First Federal upon consummation of the Merger is fair, from a financial point of view, to the stockholders of First Federal.

Interstate/Johnson Lane has consented to the inclusion of the Interstate/Johnson Lane Opinion in this Proxy Statement-Prospectus.

THE FULL TEXT OF THE INTERSTATE/JOHNSON LANE OPINION, WHICH SETS FORTH THE ASSUMPTIONS MADE, PROCEDURES FOLLOWED, MATTERS CONSIDERED AND LIMITS ON THE REVIEW UNDERTAKEN, IS ATTACHED AS APPENDIX A TO THIS PROXY STATEMENT-PROSPECTUS AND IS INCORPORATED HEREIN BY REFERENCE. THE DESCRIPTION OF THE INTERSTATE/JOHNSON LANE OPINION SET FORTH HEREIN IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO APPENDIX A. FIRST FEDERAL'S STOCKHOLDERS ARE URGED TO READ THE INTERSTATE/JOHNSON LANE OPINION IN ITS ENTIRETY.

Interstate/Johnson Lane is a nationally recognized investment banking firm and was selected by First Federal based on the firm's reputation and experience in investment banking in general, based on its recognized expertise in the valuation of banking businesses and because of its familiarity with, and prior work for, First Federal. Interstate/Johnson Lane, as part of its investment banking business, is engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

In connection with rendering its opinion dated as of the date hereof, Interstate/Johnson Lane, among other things, (i) reviewed the Agreement; (ii) reviewed annual audited financial statements for First Federal and NationsBank, interim unaudited financial statements through September 30, 1996 for NationsBank and the interim unaudited financial statements through December 31, 1996 for First Federal; (iii) reviewed publicly available information including recent OTS and Commission filings and stockholder communications for First Federal and for NationsBank, respectively; (iv) met with members of the senior managements of First Federal and NationsBank to discuss their respective businesses, financial conditions and operating results; (v) considered the pro forma effects of the Merger and the Boatmen's Acquisition on NationsBank's financial results and the pro forma equivalent for the Merger and the Boatmen's Acquisition on First Federal's financial results; (vi) compared certain financial and stock market data for First Federal and for NationsBank with similar data for selected publicly held savings banks and banks; (vii) reviewed the financial terms of certain recent business combinations in the commercial banking industry; (viii) reviewed historical market price and volume data for the First Federal Common Stock and the NationsBank Common Stock; (ix) reviewed various published research reports and investment opinions on NationsBank; and (x) performed such other financial studies and analyses as it deemed appropriate.

In rendering the Interstate/Johnson Lane Opinion, Interstate/Johnson Lane relied without independent verification upon the accuracy and completeness of all the financial and other information furnished to it by or on behalf of First Federal and NationsBank, and other published information that it considered in its review. Interstate/Johnson Lane relied upon the reasonableness of all projections and forecasts provided to it by First Federal and assumed that they were prepared in accordance



with accepted practice on a basis reflecting the best currently available good faith judgments and estimates of First Federal's management and that such forecasts would be realized in the amounts and at the times contemplated thereby. Interstate/Johnson Lane's opinion is based on the circumstances existing and known to it as of the date of the Interstate/Johnson Lane Opinion. Interstate/Johnson Lane is not an expert in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of the allowances for losses with respect thereto and has assumed, with First Federal's consent, that such allowances for each of First Federal and NationsBank are in the aggregate adequate to cover all such losses. In addition, Interstate/Johnson Lane has not reviewed individual credit files nor has it made any independent evaluations or appraisals of the assets and liabilities (contingent or otherwise) of First Federal and NationsBank or any of their respective subsidiaries or been furnished with any such evaluation or appraisal. Interstate/Johnson Lane does not express any opinion regarding the value of any of First Federal's or NationsBank's specific individual assets. Interstate/Johnson Lane has also assumed, with First Federal's consent, that obtaining any necessary regulatory approvals and third party consents for the Merger or otherwise will not have an adverse effect on First Federal, NationsBank or the combined company pursuant to the Merger.

The following is a summary of the material financial analyses presented by Interstate/Johnson Lane to the First Federal Board of Directors in connection with providing its opinion to the First Federal Board of Directors, and does not purport to be a complete description of the analyses performed by Interstate/Johnson Lane.

COMPARABLE COMPANIES ANALYSIS. Based on publicly available information, First Call and IBES consensus earnings estimates and First Federal's fiscal 1997 budget, Interstate/Johnson Lane reviewed and compared actual and estimated selected financial, operating and stock market information and financial ratios of First Federal and NationsBank to groups of six and seven additional banking organizations, respectively. (First Call and IBES compile earnings estimates published by selected research analysts for use by the investment community.) First Federal was compared to a group of six Georgia savings banks consisting of CCF Holding Company, Eagle Bancshares, Inc., First Georgia Holding, Inc., First Liberty Financial Corp., FLAG Financial Corporation and Bank of Newnan ("the Selected Georgia Savings Banks"). NationsBank was compared to a group of seven national and super-regional banks consisting of BankAmerica Corporation, Citicorp, First Union Corporation, The Chase Manhattan Corporation, BancOne Corporation, Norwest Corporation and Wells Fargo & Co. (the "Selected National Banks"). The historical financial information and ratios analyzed for the companies are as of their respective most recent reported periods.

Interstate/Johnson Lane's observations included, among other things, the following: First Federal had a ratio of common stockholders' equity to assets of 10.4% compared with median common stockholders' equity to assets for the Selected Georgia Savings Banks of 8.9%. First Federal had a return on average assets and a return on average common stockholders' equity of 0.9% and 8.4%, respectively, compared with a median return on assets and a median return on common stockholders' equity for the Selected Georgia Savings Banks of -0.1% and - -0.4%, respectively. First Federal had an efficiency ratio of 71.0% compared with a median efficiency ratio for the Selected Georgia Savings Banks of 69.6%. First Federal had a stock price to book value ratio of 448% compared to a median stock price to book value ratio for the Selected Georgia Savings Banks of 140%. The analysis reflected a deposit premium and price to earnings multiples for 1995, 1996 and 1997 for First Federal of 41.4%, 37.8 times, 54.6 times and 34.0 times, respectively, compared to a deposit premium and price to earnings multiples for 1995, 1996 and 1997 for the Selected Georgia Savings Banks of

4.4%, 13.6 times, 12.3 times and 11.2 times, respectively.

Interstate/Johnson Lane's observations also included, among other things, the following: NationsBank had a ratio of common stockholders' equity to assets of 7.1% compared with a median common stockholders' equity to assets for the Selected National Banks of 7.6%. NationsBank had a return on average assets and a return on average common stockholders' equity of 1.2% and 17.6%, respectively, compared with a median return on assets and a median return on common stockholders' equity for the Selected National Banks of 1.0% and 11.4%, respectively. NationsBank had an efficiency ratio of 55.5% compared with a median efficiency ratio for the Selected National Banks of 59.2%. NationsBank had a stock price to book value ratio of 215% compared to a median stock price to book value ratio for the Selected National Banks of 226%. The analysis reflected a deposit premium and price to earnings multiples for 1995, 1996 and 1997 for NationsBank of 13.9%, 13.8 times, 12.1 times and 11.4 times, respectively, compared to a deposit premium and price to earnings multiples for 1995, 1996 and 1997 for the Selected National Banks of 13.0%, 15.0 times, 13.5 times and 12.1 times, respectively.

COMPARABLE TRANSACTIONS ANALYSIS. Interstate/Johnson Lane reviewed certain information relating to 32 announced or completed mergers since December 1, 1995 in which a United States savings bank having assets between $100 million and $500 million was acquired or merged into another entity (the "Selected U.S. Savings Bank Mergers"). Such analysis indicated that the median values of the price paid as a percentage of the seller's stock price (calculated 30 days prior to the public announcement of a possible acquisition of the acquired banking organization or the acquiror's interest in the transaction) was



123.5% for the Selected U.S. Savings Bank Mergers compared to a price of approximately 142.9% to be paid pursuant to the Merger. Such analysis also indicated that the median values of the price paid to book value, to tangible book value and to the latest 12-month earnings per share for the Selected U.S. Savings Bank Mergers were 143.5%, 144.3% and 17.8 times, respectively, compared with the Merger multiples of the price paid to book value, to tangible book value and to the latest 12-month earnings per share of 462.2%, 462.2% and 55.4 times, respectively. The median values of the price paid to assets and the tangible book premium to core deposits for the Selected U.S. Savings Bank Mergers were 13.2% and 5.4%, respectively, compared to a price of 48.3% of assets and a tangible book premium to deposits of 43.2% to be paid pursuant to the Merger.

Interstate/Johnson Lane reviewed certain information relating to five announced or completed mergers since December 1, 1995 in which a Southeastern savings bank having assets between $100 million and $500 million was acquired or merged into another entity (the "Selected Southeastern Savings Bank Mergers"). Such analysis indicated that the median values of the price paid as a percentage of the seller's stock price (calculated 30 days prior to the public announcement of a possible acquisition of the acquired banking organization or the acquiror's interest in the transaction) was 114.8% for the Selected Southeastern Savings Bank Mergers compared to a price of approximately 142.9% to be paid pursuant to the Merger. Such analysis also indicated that the median values of the price paid to book value, to tangible book value and to the latest 12-month earnings per share for the Selected Southeastern Savings Bank Mergers were 143.5%, 143.5% and 14.2 times, respectively, compared with the Merger multiples of the price paid to book value, to tangible book value and to the latest 12-month earnings per share of 462.2%, 462.2% and 55.4 times, respectively. The median values of the price paid to assets and the tangible book premium to core deposits for the Selected Southeastern Savings Bank Mergers were 8.7% and 3.1%, respectively, compared to a price of 48.3% of assets and a tangible book premium to deposits of 43.2% to be paid pursuant to the Merger.

Interstate/Johnson Lane reviewed certain information relating to four announced or completed mergers since December 1, 1995 in which a Georgia bank having assets between $100 million and $500 million was acquired or merged into another entity (the "Selected Georgia Bank Mergers"). Such analysis indicated that the median values of the price paid to book value, to tangible book value and to the latest 12-month earnings per share for the Selected Georgia Bank Mergers were 195.5%, 201.8% and 14.0 times, respectively, compared with the Merger multiples of the price paid to book value, to tangible book value and to the latest 12-month earnings per share of 462.2%, 462.2% and 55.4 times, respectively. The median values of the price paid to assets and the tangible book premium to core deposits for the Selected Georgia Bank Mergers were 15.3% and 9.4%, respectively, compared to a price of 48.3% of assets and a tangible book premium to deposits of 43.2% to be paid pursuant to the Merger.

Interstate/Johnson Lane reviewed certain information relating to six announced or completed mergers since January 1, 1995 in which a Georgia savings bank, of any asset size, was acquired or merged into another entity (the "Selected Georgia Savings Bank Mergers"). Such analysis indicated that the median values of the price paid as a percentage of the seller's stock price (calculated 30 days prior to the public announcement of a possible acquisition of the acquired banking organization or the acquiror's interest in the transaction) was 231.1% for the Selected Georgia Savings Bank Mergers, compared to a price of approximately 142.9% to be paid pursuant to the Merger. Such analysis also indicated that the median values of the price paid to book value, to tangible book value and to the latest 12-month earnings per share for the Selected Georgia Savings Bank Mergers were 146.1%, 150.7% and 12.4 times, respectively, compared with the Merger multiples of the price paid to book value, to tangible book value and to the latest 12-month earnings per share of 462.2%, 462.2% and 55.4 times, respectively. The median values of the price paid to assets and the tangible book premium to core deposits for the Selected Georgia Savings Bank Mergers were 13.7% and 7.1%, respectively, compared to a price of 48.3% of assets and a tangible book premium to deposits of 43.2% to be paid pursuant to the Merger.

PRO FORMA MERGER ANALYSIS. Interstate/Johnson Lane reviewed certain pro forma summaries of selected financial data for NationsBank for the fiscal year ended 1995 and the interim period ended September 30, 1996 and for First Federal for the fiscal year ended September 30, 1996 and the interim period ended December 31, 1996, reflecting the Merger as if the Merger had been consummated as of the beginning of each period presented. Interstate/Johnson Lane examined the pro forma effects of the Merger on earnings per common share, cash dividends per common share and shareholders' equity per share.

DIVIDEND DISCOUNT ANALYSIS. Interstate/Johnson Lane performed a dividend discount analysis to determine a range of present values per share of First Federal Common Stock assuming First Federal continued as either a stand-alone entity (the "Stand-Alone Case") or was sold at the end of five years (the "Sale Case"). Based on First Federal's fiscal 1997 budget and additional information supplied by management, Interstate/Johnson Lane assumed a steady 2% increase in earnings per share from 1997 through 2001. Additionally, the dividend stream is projected to increase $.04 per year from its estimated 1997 level through 2001.



The terminal values differ in the two scenarios. In the Stand-Alone Case, Interstate/Johnson Lane utilized a range of price-earnings multiples consistent with the range of price-earnings multiples at which stocks in the group of Selected Georgia Savings Banks trade (12 to 17 times current earnings per share). In the Sale Case, Interstate/Johnson Lane assumed that First Federal would be sold at an earnings multiple consistent with those seen in the Selected Mergers (12 to 18 times the previous 12-month earnings per share). The dividend streams and terminal values were presently valued using a range of discount rates from 5% to 15%.

Applying the above multiples and discount rates, Interstate/Johnson Lane determined that the value of First Federal Common Stock in the Stand-Alone Case ranged from approximately $18.04 to $37.19 per share, and in the Sale Case ranged from approximately $18.04 to $39.12 per share.

OTHER ANALYSES. Interstate/Johnson Lane reviewed various published research reports on NationsBank and, among other things, the investment opinions, stock price targets and earnings estimates contained therein. In addition, Interstate/Johnson Lane reviewed and analyzed the historical trading prices and volumes for NationsBank Common Stock and for First Federal Common Stock.

The summary set forth above describes the material analyses that Interstate/Johnson Lane performed, but does not purport to be a complete description of such analyses. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or a summary description.

Interstate/Johnson Lane believes that its analyses must be considered as a whole and that selecting portions of its analyses without considering all factors and analyses would create an incomplete view of the analyses and processes underlying its opinion. In its analyses, Interstate/Johnson Lane relied upon numerous assumptions made by First Federal and NationsBank with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of First Federal or NationsBank. Analyses based on forecasts of future results are not necessarily indicative of actual values, which may be significantly more or less favorable than suggested by such analyses. No company or transaction used as a comparison in the analysis is identical to First Federal or NationsBank or to the Merger. Additionally, estimates of the value of businesses do not purport to be appraisals or necessarily reflective of the prices at which businesses actually may be sold. Because such estimates are inherently subject to uncertainty, Interstate/Johnson Lane does not assume responsibility for the accuracy of such estimates. Interstate/Johnson Lane's analyses were prepared solely for purposes of its opinion dated the date hereof rendered to the First Federal Board of Directors regarding the fairness of the proposed consideration to be received for shares of First Federal Common Stock pursuant to the Merger to holders of such shares and do not purport to be appraisals or necessarily reflect the prices at which First Federal or the First Federal Common Stock actually may be sold. Furthermore, Interstate/Johnson Lane is not expressing any opinion as to the range of prices at which the NationsBank Common Stock will trade subsequent to consummation of the Merger.

For the services of Interstate/Johnson Lane as financial advisor to First Federal in connection with the Merger, Interstate/Johnson Lane will receive a fee of $75,000 ($37,500 of which has been previously paid). No portion of

Interstate/Johnson Lane's fee is contingent upon the closing of the Merger. In addition, First Federal has agreed to reimburse Interstate/Johnson Lane for its reasonable out-of-pocket expenses incurred in connection with the Merger, but not to exceed $10,000, and to indemnify Interstate/Johnson Lane against certain liabilities, including certain liabilities arising under the federal securities laws. Interstate/Johnson Lane has provided certain investment banking services to First Federal from time to time, for which it has received customary compensation. In addition, Interstate/Johnson Lane has provided, and may provide in the future, certain investment banking services to NationsBank, for which it has received, and will receive, customary compensation. Most recently, Interstate/Johnson Lane acted as a co-managing underwriter in a sale of NationsBank senior notes completed October 26, 1993.

Interstate/Johnson Lane has advised First Federal that, in the ordinary course of its business as a full-service securities firm, Interstate/Johnson Lane may, subject to certain restrictions, actively trade the equity or debt securities of First Federal or of NationsBank for its own account or for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

EFFECT ON FIRST FEDERAL OPTIONS

There are currently outstanding options to acquire an aggregate of 5,111 shares of First Federal Options pursuant to the First Federal Stock Option Plan. The First Federal Options are held by Ben T. Slade III (3,111 shares), James H. Gash (1,000 shares) and John J. Rogers (1,000 shares). Each of Messrs. Slade, Gash and Rogers have notified First Federal in writing that he intends to exercise all of his First Federal Options on or before the Effective Date. Under the terms of the First Federal



Stock Option Plan, no new First Federal Options may be granted. Therefore, there will be no First Federal Options outstanding on the Effective Date. See "THE MERGER -- Interests of Certain Persons in the Merger."

CONDITIONS TO THE MERGER

The obligations of NationsBank and First Federal to consummate the Merger are subject to the satisfaction (unless otherwise waived by the party so permitted in accordance with the terms of the Agreement) of each of the following conditions:

(a) the representations and warranties of each of NationsBank and First Federal set forth or referred to in the Agreement shall be true and correct in all material respects as of the date of the Agreement and as of the Effective Date with the same effect as though all such representations and warranties had been made on and as of the Effective Date, except for (i) any such representations and warranties confined to a specified date, which shall be true and correct in all material respects as of such date, (ii) changes in the ordinary course of business consistent with past practice, or (iii) changes resulting from effecting the transactions specifically contemplated by the Agreement or the Plan of Merger, including the fees and expenses incurred in connection therewith;

(b) each and all of the covenants and agreements of each of NationsBank and First Federal to be performed and complied with pursuant to the Agreement and the other agreements contemplated thereby prior to the Effective Date shall have been duly performed and complied with in all material respects;

(c) each of NationsBank and First Federal shall have delivered to the other a certificate, dated as of the Effective Date and signed on its behalf by its Chairman of the Board or its President, and its Treasurer, to the effect that (i) the conditions of its obligations have been satisfied and (ii) that there has been no material adverse change in the consolidated financial condition or consolidated results of operations of such party, other than changes in the consolidated financial condition or consolidated results of operations of such party resulting from effecting the transactions specifically contemplated by the Agreement or the Plan of Merger, all in such reasonable detail as the other party shall request;

(d) all action necessary to authorize the execution, delivery and performance of the Agreement and the consummation of the transactions contemplated thereby shall have been duly and validly taken by each of NationsBank and First Federal and each shall have furnished to the other certified copies of resolutions duly adopted by such party's Board of Directors evidencing the same;

(e) the stockholders of First Federal shall have approved the Agreement, and the consummation of the transactions contemplated thereby including the Merger, as and to the extent required by law and by the provisions of any governing instruments, and First Federal shall have furnished to NationsBank certified copies of resolutions duly adopted by First Federal's stockholders evidencing the same; provided further, the holders of no more than 7% of the issued and outstanding shares of First Federal Common Stock shall have voted against adoption of the Agreement;

(f) all approvals and authorizations of, filings and registrations with, and notifications to, all federal and state authorities required for consummation of the Merger and for the preventing of any termination of any right, privilege, license or agreement of either NationsBank or First Federal, or any of their respective subsidiaries which, if not obtained or made, would have a material adverse impact on the financial condition or results of operation of either NationsBank or First Federal (as applicable) and its subsidiaries on a consolidated basis, shall have been obtained or made and shall be in full force and effect and all waiting periods required by law shall have expired; provided further, to the extent that any lease, license, loan or financing agreement or other contract or agreement to which First Federal or any of its subsidiaries, as the case may be, is a party requires the consent of or waiver from the other party thereto as a result of the transactions contemplated by the Agreement, such consent or waiver shall have been obtained, unless (i) waived by the appropriate party, or (ii) the failure to obtain such consent or waiver would not have a material adverse impact on the business, operations or financial condition of First Federal or any of its subsidiaries following the Merger or the transactions contemplated thereby; provided further, any approval obtained from any regulatory authority which is necessary to consummate the transactions contemplated by the Agreement shall not be conditioned or restricted in a manner in which in the judgment of the Board of Directors of either party materially adversely affects the economic assumptions of the transactions contemplated hereby or the business of either party so as to render inadvisable the consummation of the Merger;



(g) no action or proceedings shall have been instituted by any governmental authority or to the knowledge of either NationsBank or First Federal threatened by any governmental authority seeking to restrain the consummation of the transactions contemplated by the Agreement which, in the opinion of the Board of Directors of NationsBank or First Federal, renders it impossible or inadvisable to consummate the transactions provided for in the Agreement;

(h) there shall have been no determination by the Board of Directors of either NationsBank or First Federal that the Merger or the other transactions contemplated by the Agreement have become impractical because any state of war, national emergency, or banking moratorium shall have been declared in the United States or a general suspension of trading on the NYSE occurred; provided further, there shall have been no determination by the Board of Directors of either NationsBank or First Federal that the consummation of the Merger or the other transactions contemplated by the Agreement is not in the best interests of such party or its stockholders by reason of a material adverse change in the consolidated financial condition or consolidated results of operations of the other party, other than changes in the consolidated financial condition or consolidated results of operations of such party resulting from effecting the transactions specifically contemplated by the Agreement;

(i) each director and officer of First Federal shall have delivered to NationsBank a letter concerning claims such directors and officers may have against First Federal, in which the directors and officers shall: (i) acknowledge the assumption by NationsBank of all liability (to the extent First Federal is so liable) for claims for indemnification arising under the charter or bylaws of First Federal as existing on December 31, 1996, or as may be afforded by Georgia law or the laws of the United States and for claims for salaries, wages or other compensation, employee benefits, reimbursement of expenses or worker's compensation arising out of employment through the Effective Date; (ii) affirm in their capacities as officers and directors, they do not have nor are they aware of any claims they might have (other than those referred to in (i) above) against First Federal; and (iii) release any and all claims that they may have other than those referred to in (i) above; provided further, NationsBank shall acknowledge receipt of the letter and affirm its assumption of the liabilities described in (i) above;

(j) NationsBank shall have delivered to First Federal an opinion of Smith Helms Mulliss & Moore, L.L.P, dated as of the Effective Date, and First Federal shall have delivered to NationsBank an opinion of Smith, Mackinnon, Greeley, Bowdoin & Edwards, P.A., dated as of the Effective Date, each in substantially the form and to the effect specified in Exhibit 6 to the Agreement;

(k) NationsBank shall have received from Arthur Andersen letters dated as of (i) the date of this Proxy Statement-Prospectus and (ii) the Effective Date, with respect to certain financial information regarding First Federal;

(l) each of NationsBank and First Federal shall have delivered to the other a certificate, dated as of the Effective Date, signed by its Chairman of the Board or its President and by its Treasurer to the effect that, to the best knowledge and belief of such officers, the statement of facts and representations made on behalf of the management of such party, presented to Arthur Andersen, were at the date of such request or presentation and of any such supplement, true, correct and complete and are on the date of such certificate, to the extent contemplated by the request or presentation and any such supplemental request, true, correct and complete as though such request or presentation and any such supplemental request had been made on the date of such certificate, and each party shall have received a copy of the tax opinion referred to in the Agreement;

(m) First Federal shall have received a letter from Interstate/Johnson Lane, dated as of the date of this Proxy Statement-Prospectus, to the effect that in the opinion of such firm the terms of the Merger are fair to the stockholders of First Federal from a financial point of view; and

(n) the Registration Statement shall be effective under the Securities Act, and no stop orders suspending the effectiveness of the Registration Statement shall be in effect and no proceedings for such purpose, or under the proxy rules of the OTS pursuant to the Exchange Act, and with respect to the transactions contemplated hereby, shall be pending before or threatened by the Commission or the OTS.

CONDUCT OF BUSINESS PRIOR TO THE MERGER

In the Agreement, First Federal has agreed that from the date of the Original Agreement until the earlier of the Effective Date or the termination of the Agreement, First Federal will not do or agree or commit to do, any of the



following without the prior written consent of the chief executive officer or chief financial officer of NationsBank, which consent shall not be unreasonably withheld:

(a) Amend its charter or bylaws;

(b) Impose on any share of stock held by it in any of its subsidiaries, any material lien, charge, or encumbrance, or permit any such lien, charge, or encumbrance to exist;

(c) Except as otherwise expressly permitted in the Agreement, repurchase, redeem, or otherwise acquire or exchange, directly or indirectly, any shares of its capital stock or any securities convertible into any shares of its capital stock;

(d) Except as otherwise expressly permitted in the Agreement, make or effect any change in equity capitalization;

(e) Acquire direct or indirect control over any corporation, association, firm or organization, other than in connection with (i) exercise of rights as a secured party or creditor in the ordinary course of business, or (ii) acquisitions of control by First Federal in its fiduciary capacity;

(f) Sell or otherwise dispose of, or permit any of its subsidiaries, as the case may be, to sell or otherwise dispose of: (i) any shares of capital stock of any subsidiary; (ii) all or substantially all of the assets of First Federal or any subsidiary; (iii) any subsidiary; or (iv) assets other than in the ordinary course of business for reasonable and adequate consideration;

(g) Incur, or permit any of its subsidiaries to incur, any additional debt obligation or other obligation for borrowed money in excess of an aggregate of $100,000 (for First Federal and its subsidiaries on a consolidated basis) except in the ordinary course of the business of First Federal and its subsidiaries consistent with applicable laws and regulations and past practices (and such ordinary course of business shall include, but shall not be limited to, creation of deposit liabilities, purchases of federal funds, liabilities to the Federal Home Loan Banks under advances therefrom, sales of certificates of deposit, and entry into repurchase agreements);

(h) Grant any general increase in compensation to its employees as a class or to its officers, except in accordance with its past practice or as required by law; pay any bonus except in accordance with past practice or the provisions of any applicable program or plan adopted by the Board of Directors of First Federal prior to the date of the Original Agreement; grant any increase in fees or other increases in compensation or other benefits to any of its directors; or effect any change in retirement benefits for any class of its employees or officers (unless such change is required by applicable law) that would materially increase the retirement benefit liabilities of First Federal and its subsidiaries on a consolidated basis;

(i) Amend any existing employment, management, consulting or other service, deferred compensation, supplemental retirement benefit, excess benefit or retainer contract between First Federal or any subsidiary and any person (unless such amendment is required by law) to increase the compensation or benefits payable thereunder or enter into any new employment contract with any person that First Federal or its applicable subsidiary does not have the unconditional right to terminate without liability (other than liability for services already rendered), at any time on or after the Effective Date or;

(j) Adopt any new employee benefit plan of First Federal or any subsidiary or make any material change in or to any existing employee benefit plan of First Federal or any subsidiary other than (i) as disclosed in the Agreement, or (ii) any such change that is required by law or that, in the opinion of counsel, is necessary or advisable to maintain the tax qualified status of any such plan.

In addition, First Federal has agreed that unless the prior written consent of NationsBank shall have been obtained and except as otherwise contemplated by the Agreement, First Federal will and will cause its subsidiaries (a) to operate their respective businesses only in the usual, regular and ordinary course including the payment or accrual of as much of its costs and expenses in carrying out the transactions contemplated by the Agreement as practicable consistent with generally accepted accounting principles prior to the Effective Date; (b) to preserve intact their respective business organizations and assets and maintain their respective rights and franchises; and (c) to take no action which would (i) adversely affect the ability of any of them to obtain any necessary approvals of governmental authorities required for the transactions contemplated hereby without imposition of a condition or restriction of the type referred to in the Agreement, or (ii) adversely affect the ability of First Federal to perform its covenants and agreements under the Agreement.



MODIFICATION, WAIVER AND TERMINATION; EXPENSES

The Agreement provides that to the extent permitted by law, it may be amended by a subsequent writing signed by NationsBank and First Federal upon the approval of each of their respective Boards of Directors. However, the provisions of the Agreement relating to the manner or basis in which shares of First Federal Common Stock will be exchanged for NationsBank Common Stock shall not be amended after the Special Meeting without the requisite approval of the holders of the outstanding shares of First Federal Common Stock, and no amendment to the Agreement shall modify the requirements relating to the requisite regulatory approval and other action necessary to authorize the execution, delivery and performance of the Agreement and the consummation of the transactions contemplated thereby. See "THE MERGER -- Conditions to the Merger" and " -- Bank Regulatory Matters." The Agreement provides that each party may waive any default in the performance of any term of the Agreement, waive or extend the time for the compliance or fulfillment of any obligations under the Agreement and waive any of the conditions precedent to the Agreement, except any condition which, if not satisfied, would result in the violation of any law or applicable governmental regulation.

The Agreement may be terminated by majority vote of the Board of Directors of both First Federal and NationsBank. The Agreement may also be terminated by the majority vote of the Board of Directors of either First Federal or NationsBank (i) in the event of a material breach of the Agreement by the other party of any representation, warranty, covenant or agreement which cannot or has not been cured within 30 days after written notice of such breach; (ii) if (a) the approval of any governmental or other regulatory authority shall have been denied by final non-appealable action or if any such action by such authority is not appealed within the time limit for appeal or (b) the required approval of the First Federal stockholders is not obtained; or (iii) in the event of the acquisition of 40% or more of the outstanding shares of common stock of the other party or the Board of Directors of the other party accepts or publicly recommends acceptance of an offer from a third party to acquire 50% or more of its common stock or consolidated assets.

In the Agreement, each of the parties has agreed to bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated by the Agreement, except for instances in which the Agreement is terminated by First Federal for the reasons set forth in clauses (i) or (ii) (a) of the preceding paragraph or by NationsBank for the reasons set forth in clause (ii) (a) of the preceding paragraph, in which instances NationsBank shall reimburse First Federal for any and all of the reasonable expenses incurred by First Federal in attempting to effect the transactions contemplated by the Agreement. Furthermore, if the Agreement is terminated by the willful breach of a party, such party shall pay all reasonable expenses of the non-breaching party incurred by such non-breaching party in attempting to effect the transactions contemplated by the Agreement. Furthermore, the parties have agreed to each pay one-half of the printing cost of this Proxy Statement-Prospectus and related materials.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

King & Spaulding is expected to deliver to First Federal and NationsBank its opinion that, based upon certain customary assumptions and representations, under Federal law as currently in effect (a) the transactions contemplated by the Agreement, including the Merger, will constitute a reorganization within the meaning of Section 368(a)(2)(E) of the Code; (b) the exchange in the Merger of NationsBank Common Stock for First Federal Common Stock will not give rise to gain or loss to the stockholders of First Federal with respect to such exchange (except to the extent of any cash paid in lieu of fractional shares); (c) the Federal income tax basis of the NationsBank Common Stock for which shares of First Federal Common Stock are exchanged pursuant to the Merger will be the same as the basis of such shares of First Federal Common Stock exchanged therefor (less any proportionate part of such basis allocable to any fractional interest in any share of NationsBank Common Stock); (d) the holding period of NationsBank Common Stock for which shares of First Federal Common Stock are exchanged will include the period that such shares of First Federal Common Stock were held by the holder, provided such shares were capital assets of the holder; and (e) the receipt of cash in lieu of fractional shares will be treated as if the fractional shares were distributed as part of the exchange and then redeemed by NationsBank, and gain or loss will be recognized in an amount of equal to the difference between the cash received and the basis of the First Federal Common Stock surrendered, which gain or loss will be capital gain or loss if the First Federal Common Stock was a capital asset in the hands of the holder.

THE FOREGOING IS A SUMMARY OF THE ANTICIPATED FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER UNDER THE CODE AND IS FOR GENERAL INFORMATION ONLY. IT DOES NOT INCLUDE CONSEQUENCES OF STATE, LOCAL OR OTHER TAX LAWS OR SPECIAL CONSEQUENCES TO PARTICULAR STOCKHOLDERS HAVING SPECIAL SITUATIONS. STOCKHOLDERS OF FIRST FEDERAL SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING SPECIFIC TAX CONSEQUENCES OF THE



MERGER TO THEM, INCLUDING THE APPLICATION AND EFFECT OF FEDERAL, STATE AND LOCAL TAX LAWS AND TAX CONSEQUENCES OF SUBSEQUENT SALES OF NATIONSBANK COMMON STOCK.

INTERESTS OF CERTAIN PERSONS IN THE MERGER

GENERAL. Certain members of First Federal management have interests in the Merger that are in addition to any interests they may have as stockholders of First Federal generally. These interests include, among other provisions, certain severance and other employee benefits, as described below. In the ordinary course of business and from time to time, NationsBank may do business with First Federal, NationsBank may enter into banking transactions with certain of First Federal's directors, executive officers, and their affiliates, First Federal may do business with NationsBank, and First Federal may enter into banking transactions with certain of NationsBank's directors, executive officers and their affiliates.

CHANGE IN CONTROL AGREEMENTS. Beginning in 1992, First Federal entered into Change in Control Agreements with each of Messrs. Slade, Gash, Rogers, and Sams (collectively, the "Officers"). The Change in Control Agreements, which have since been modified and extended through December 31, 1998, provide that in the event the Officer's employment is terminated by First Federal except for "cause" (as defined in the agreements) or by the Officer for "good reason" (as defined in the agreements) within three years following a Change in Control of First Federal, or if the Officer resigns for any reason within one year following a Change in Control of First Federal, the Officer is entitled to receive a lump sum cash amount equal to three times (two times for Mr. Sams) the aggregate of the Officer's base salary plus the average of the incentive compensation payments received by him during the three preceding fiscal years. The Change in Control Agreements also require First Federal to provide the Officer with coverage under First Federal's group life insurance plan at no cost to the Officer for three years (two years for Mr. Sams) following the termination at a level equal to three times (two times for Mr. Sams) the aggregate of the Officer's base salary and the average incentive compensation payments received by him during the three preceding fiscal years. The Change in Control Agreements also require First Federal to provide for a period of three years (two years for Mr. Sams) following the date of termination continued coverage to the Officer under First Federal's dental and medical related insurance plans or equivalent benefits and, for each officer other than Mr. Sams, an automobile as then provided by First Federal, at no cost to the Officer. The Change in Control Agreements also provide that, generally, First Federal's obligations are suspended (or, in certain circumstances terminated) if the Officer is suspended or temporarily prohibited from participating in First Federal's affairs by notice from a bank regulatory agency, if the Officer is removed by a regulatory agency, or if First Federal is in default of certain obligations under the Federal Deposit Insurance Act.

Under the Change in Control Agreements, a Change in Control is deemed to have occurred if (a) any person or group acquires 30% or more of First Federal's voting stock; (b) a majority of First Federal's Board of Directors ceases to be comprised of individuals who are presently serving as directors of First Federal; or (c) any spin-off, split-off, split-up or similar corporate division occurs that results in the distribution to First Federal stockholders of a business whose assets represent 20% or more of the fair market value of the total assets of First Federal immediately before the division. The Merger constitutes a Change in Control. The Change in Control Agreements provide that the employment of the Officer will be deemed terminated by him for "good reason" if the Officer's base salary, position, level of responsibilities or authority are reduced, the Officer's employment is terminated without "cause," the Officer's job location is changed, or the Change in Control Agreement is not renewed or is terminated as a result of the Board's annual review of the Change in Control Agreement, all without the Officer's written consent. Termination by First Federal for "cause" consists of any termination because of the Officer's personal dishonesty, incompetence, wilful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, wilful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease-and-desist order, or material breach of any provision of the Change in Control Agreement.

The Change in Control Agreements also provide that the payments required to be made by First Federal would be reduced to an amount which maximizes the aggregate payments to be made without causing any payment to be nondeductible by First Federal as a result of certain provisions of the Code. The Change in Control Agreements are subject to review and approval by First Federal's Board of Directors on each anniversary of the effective date of the Change in Control Agreements in January of each year.

If, pursuant to the provisions described above, payments were required to be made to the Officers, and assuming the Effective Date occurs prior to December 31, 1997, the estimated amounts of such payments would be $497,430, $307,583, $298,943 and $156,415, for Messrs. Slade, Gash, Rogers and Sams, respectively, or an aggregate of $1,260,371. Computation of the foregoing benefit amounts assumes that the Officers will terminate their employment on the date on which the Effective Date occurs.



As previously described, the Second Order held that the number of shares of NationsBank Common Stock to be offered to the First Federal stockholders will be reduced by the amounts First Federal may choose to pay to Messrs. Slade, Gash, Rogers and Sams under the Change in Control Agreements. The amounts set forth in the preceding paragraph were used by the First Federal Board of Directors to determine the amount of that reduction, as described by First Federal in the Share Calculation Letter. See "THE MERGER -- Background of the Merger; Share Calculation Letter."

EXECUTIVE OFFICER STOCK OPTIONS. First Federal has granted stock options to the Officers and certain other executive officers and employees under the First Federal Stock Option Plan. Options granted consist of incentive stock options.

The following table sets forth with respect to Messrs. Slade, Gash and Rogers and all executive officers as a group (a) the number of shares covered by options held by such persons, (b) the number of shares covered by currently exercisable options held by such persons, (c) the number of shares covered by options held by such persons which will become exercisable upon consummation of the Merger, (d) the weighted average exercise price of all such options held by such persons, and (e) the aggregate value (I.E., stock price less option exercise price) of all such options based upon the per share value of First Federal Common Stock on the Record Date.

<TABLE>
<CAPTION>

OPTIONS

WEIGHTED

EXERCISABLE

AVERAGE

UPON

EXERCISE

OPTIONS CONSUMMATION PRICE

AGGREGATE

OPTIONS CURRENTLY OF THE PER

VALUE OF

| | HELD | EXERCISABLE | MERGER | |
|---|---|---|---|---|
| OPTION OPTIONS (1) | | | | |
| <S> | <C> | <C> | <C> | <C> |
| <C> | | | | |
| Ben T. Slade III................................................ | 3,111 | 3,111 | 3,111 | $12.00 |
| James H. Gash................................................... | 1,000 | 1,000 | 1,000 | 12.00 |
| John J. Rogers.................................................. | 1,000 | 1,000 | 1,000 | 12.00 |
| All executive officers as a group (3 persons).................. | 5,111 | 5,111 | 5,111 | 12.00 |

</TABLE>

(1) Based on the Exchange Ratio and the last sales price reported on the NYSE Composite Transactions List for shares of NationsBank Common Stock on , 1997.

Each of Messrs. Slade, Gash and Rogers has notified First Federal in writing that he will exercise all of his First Federal Options on or before the Effective Date.

ABSENCE OF DISSENTERS' RIGHTS

Pursuant to OTS regulations, holders of First Federal Common Stock will not have dissenters' rights of appraisal with respect to the Merger if First Federal Common Stock is quoted on The Nasdaq Stock Market on the date of the Special Meeting and NationsBank Common Stock is quoted on the NYSE on the Effective Date. First Federal Common Stock currently is quoted on The Nasdaq Stock Market, and it is anticipated that First Federal Common Stock will continue to be so quoted on the date of the Special Meeting. Similarly, NationsBank Common Stock currently is quoted on the NYSE, and it is anticipated that NationsBank Common Stock will continue to be so quoted on the Effective Date.

ACCOUNTING TREATMENT

Upon consummation of the Merger, the transaction will be accounted for as a purchase, and all of the assets and liabilities of First Federal will be recorded in NationsBank's consolidated financial statements at their estimated fair value. The amount, if any, by which the purchase price paid by NationsBank exceeds the fair value of the net assets acquired by NationsBank through the Merger will be recorded as goodwill. NationsBank's consolidated financial statements will include the operations of First Federal after the Effective Date.

BANK REGULATORY MATTERS

FEDERAL RESERVE BOARD. The Merger is subject to prior approval by the Federal Reserve Board under the BHCA. The BHCA requires the Federal Reserve Board, when approving a transaction such as the Merger, to take into consideration whether the operation of First Federal by NationsBank can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests or unsound banking practices. In addition, the Federal Reserve Board must consider the financial and managerial resources (including the competence, experience and integrity of the officers, directors and principal shareholders) and future prospects of the existing and proposed institutions and the convenience and needs of the communities to be served. In considering financial resources and future prospects, the



Federal Reserve Board will, among other things, evaluate the adequacy of the capital levels of the parties to a proposed transaction.

OFFICE OF THRIFT SUPERVISION. The Merger is subject to the approval of the OTS pursuant to the Bank Merger Act. As a Federal stock savings bank, First Federal is subject to extensive regulation by the OTS. Lending activities and other investments of First Federal must comply with various Federal regulatory requirements. The OTS periodically examines First Federal for compliance with various regulatory requirements, and First Federal must file reports with the OTS describing its activities and financial condition. First Federal is also subject to certain reserve requirements promulgated by the Federal Reserve Board. This supervision and regulation is intended primarily for the protection of depositors.

Under the Bank Merger Act, the OTS may not approve the Merger if (a) it would result in a monopoly, or would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States, or (b) the effect of the Merger in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade, unless it finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. The OTS is also required to take into consideration the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served.

Regulations of the OTS also require consideration of the fairness of the proposed transaction and the adequacy of disclosure, including but not limited to consideration of the fairness of the transaction to all parties (including the accountholders, borrowers, creditors, and stockholders), the accuracy and completeness of any disclosure made, and the reasonableness of compensation to directors and officers of the institutions. In addition, under the Community Reinvestment Act of 1977, as amended (the "CRA"), the OTS is required to take into account the record of performance of the existing institutions in meeting the credit needs of the entire community, including low- to moderate-income neighborhoods, served by the institutions.

Applicable Federal law provides for the publication of notice and public comment on applications filed with the Federal Reserve Board and the OTS and authorizes such agencies to permit interested parties to intervene in the proceedings. If an interested party is permitted to intervene, such intervention could delay the regulatory approvals required for consummation of the Merger.

The Merger generally may not be consummated until 15 days following the date of applicable Federal regulatory approval, during which time the United States Department of Justice may challenge the Merger on antitrust grounds. The commencement of an antitrust action would stay the effectiveness of the regulatory agency's approval unless a court specifically ordered otherwise. NationsBank and First Federal believe that the Merger does not raise substantial antitrust or other significant regulatory concerns and that any divestitures that may be required in order to consummate the Merger will not be material to the financial condition or results of operations of NationsBank or First Federal prior to the Effective Date, or NationsBank after the Effective Date.

STATE AUTHORITIES. The Merger is subject to the approval of the State Authority.

STATUS OF REGULATORY APPROVALS AND OTHER INFORMATION. NationsBank and First Federal have filed all applications and notices and have taken (or will take) other appropriate action with respect to any requisite approvals or other action of any governmental authority. The Agreement provides that the obligation of each of NationsBank and First Federal to consummate the Merger is conditioned upon the receipt of all requisite regulatory approvals, including the approvals of the Federal Reserve Board, the OTS and the State Authorities. THERE CAN BE NO ASSURANCE THAT ANY GOVERNMENTAL AGENCY WILL APPROVE OR TAKE ANY OTHER REQUIRED ACTION WITH RESPECT TO THE MERGER, AND, IF APPROVALS ARE RECEIVED OR ACTION IS TAKEN, THERE CAN BE NO ASSURANCE AS TO THE DATE OF SUCH APPROVALS OR ACTION, THAT SUCH APPROVALS OR ACTION WILL NOT BE CONDITIONED UPON MATTERS THAT WOULD CAUSE THE PARTIES TO ABANDON THE MERGER OR THAT NO ACTION WILL BE BROUGHT CHALLENGING SUCH APPROVALS OR ACTION, INCLUDING A CHALLENGE BY THE UNITED STATES DEPARTMENT OF JUSTICE OR, IF SUCH A CHALLENGE IS MADE, THE RESULT THEREOF.

NationsBank and First Federal are not aware of any governmental approvals or actions that may be required for consummation of the Merger other than as described above. Should any other approval or action be required, NationsBank and First Federal currently contemplate that such approval or action would be sought.

See "THE MERGER -- Effective Date of the Merger," " -- Conditions to the Merger" and " -- Modification, Waiver and Termination; Expenses."



RESTRICTIONS ON RESALES BY AFFILIATES

The shares of NationsBank Common Stock to be issued to stockholders of First Federal in the Merger have been registered under the Securities Act. Such shares may be traded freely and without restriction by those stockholders not deemed to be "affiliates" of First Federal as that term is defined under the Securities Act. Any subsequent transfer of such shares, however, by any person who is an affiliate of First Federal at the time the Merger is submitted for vote or consent of the stockholders of First Federal will, under existing law, require either (a) the further registration under the Securities Act of the shares of NationsBank Common Stock to be transferred, (b) compliance with Rule 145 promulgated under the Securities Act (permitting limited sales under certain circumstances) or (c) the availability of another exemption from registration. An "affiliate" of First Federal, as defined by the rules promulgated pursuant to the Securities Act, is a person who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with First Federal. The foregoing restrictions are expected to apply to the directors, executive officers and the holders of 10% or more of the First Federal Common Stock (and to certain relatives or the spouse of any such person and any trusts, estates, corporations, or other entities in which any such person has a 10% or greater beneficial or equity interest). Stop transfer instructions will be given by NationsBank to the transfer agent with respect to the NationsBank Common Stock to be received by persons subject to the restrictions described above, and the certificates for such stock will be appropriately legended.

In addition, the Agreement provides that First Federal will use its best efforts to cause each person who is identified by it as an affiliate to deliver to NationsBank a written agreement providing that such person will not sell, pledge, transfer or otherwise dispose of the shares of First Federal Common Stock held by such person except as contemplated by such agreement and will not sell, pledge, transfer or otherwise dispose of the shares of NationsBank Common Stock to be received by such person upon consummation of the Merger except in compliance with applicable provisions of the Securities Act and the rules and regulations thereunder and until such time as the financial results covering at least 30 days of combined operations of First Federal and NationsBank have been published within the meaning of Section 201.01 of the Security and Exchange Commission's Codification of Financial Reporting Policies. NationsBank shall not be required to maintain the effectiveness of the Registration Statement under the Securities Act for the purposes of resale of NationsBank Common Stock by such affiliates.

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

NationsBank has a dividend reinvestment and stock purchase plan that provides, for those shareholders who elect to participate, that dividends on NationsBank Common Stock will be used to purchase either original issue shares or shares in the open market at market value of NationsBank Common Stock on a quarterly basis. The plan also permits participants to invest in additional shares of NationsBank Common Stock through optional cash payments, within certain dollar limitations, at the then-current market price of such stock at the time of purchase on any of 12 monthly investment dates each year. It is anticipated that NationsBank will continue its dividend reinvestment and stock purchase plan and that stockholders of First Federal who receive shares of NationsBank Common Stock in the Merger will have the right to participate therein, although NationsBank may terminate the plan, in its sole discretion, at any time.



PRICE RANGE OF COMMON STOCK AND DIVIDENDS

NATIONSBANK

NationsBank Common Stock is listed on the NYSE and the PSE under the trading symbol "NB." NationsBank Common Stock is also listed on the LSE and certain shares are listed on the Tokyo Stock Exchange. As of December 31, 1996, NationsBank Common Stock was held of record by approximately 106,345 persons. The following table sets forth the high and low sales prices of the NationsBank Common Stock as reported on the NYSE Composite Transactions List and the dividends declared per share of NationsBank Common Stock for the periods indicated. The ability of NationsBank to pay dividends to its shareholders is subject to certain restrictions. See "INFORMATION ABOUT NATIONSBANK -- Supervision and Regulation."

<TABLE>
<CAPTION>

| | SALES PRICES | | |
|---|---|---|---|
| | HIGH | LOW | DIVIDENDS |
| <S> | <C> | <C> | <C> |
| Year Ended December 31, 1995: | | | |
| First Quarter | $ 51 3/4 | $ 44 5/8 | $ .50 |
| Second Quarter | 57 3/4 | 49 5/8 | .50 |
| Third Quarter | 68 7/8 | 53 3/4 | .50 |
| Fourth Quarter | 74 3/4 | 64 | .58 |
| Year Ended December 31, 1996: | | | |
| First Quarter | $ 81 3/8 | $ 64 3/8 | $ .58 |
| Second Quarter | 84 5/8 | 74 3/4 | .58 |
| Third Quarter | 94 1/8 | 76 3/8 | .58 |
| Fourth Quarter | 104 1/4 | 86 3/8 | .66 |
| Year Ending December 31, 1997: | | | |
| First Quarter (through , 1997) | $ | $ | $ |

</TABLE>

FIRST FEDERAL

First Federal Common Stock is included for quotation in The Nasdaq Stock Market under the symbol "FFBG." The following table sets forth the high and low sales prices for First Federal Common Stock as reported by The Nasdaq Stock Market and the dividends declared per share of First Federal Common Stock for the indicated periods. As of the Record Date, First Federal Common Stock was held of record by approximately persons. The ability of First Federal to pay dividends to its shareholders is subject to certain restrictions. See "INFORMATION ABOUT FIRST FEDERAL -- Supervision and Regulation."

<TABLE>
<CAPTION>

| | SALES PRICES | | |
|---|---|---|---|
| | HIGH | LOW | DIVIDENDS |
| <S> | <C> | <C> | <C> |
| Year Ended September 30, 1995: | | | |
| First Quarter | $ 32 | $ 281/8 | $.35 |
| Second Quarter | 331/2 | 277/8 | .18 |
| Third Quarter | 33 | 28 | .18 |

| | | | |
|---|---|---|---|
| Fourth Quarter | 341/2 | 283/4 | .18 |
| Year Ended September 30, 1996: | | | |
| First Quarter | $ 47 | $ 30 | $.36 |
| Second Quarter | 52 | 42 | .19 |
| Third Quarter | 60 | 50 | .19 |
| Fourth Quarter | 82 | 54 | .19 |
| Year Ending September 30, 1997: | | | |
| First Quarter | $ 791/2 | $ 65 | $.19 |
| Second Quarter (through , 1997) | | | |

</TABLE>

## INFORMATION ABOUT NATIONSBANK

### GENERAL

NationsBank is a bank holding company established as a North Carolina corporation in 1968 and is registered under the BHCA, with its principal assets being the stock of its subsidiaries. Through its banking subsidiaries (the "Banks") and its various non-banking subsidiaries, NationsBank provides banking and banking-related services, primarily throughout the



Southeast and Mid-Atlantic states and Texas. The principal executive offices of NationsBank are located at NationsBank Corporate Center in Charlotte, North Carolina 28255. Its telephone number is (704) 386-5000.

NationsBank provides a diversified range of banking and certain nonbanking financial services and products through its various subsidiaries. NationsBank manages its activities through three major business units: the General Bank, Global Finance and Financial Services.

The General Bank provides comprehensive services in the commercial and retail banking fields, including the origination and servicing of home mortgage loans, the issuance and servicing of credit cards (through a Delaware subsidiary), indirect lending, dealer finance and certain insurance services. The General Bank also provides retirement services for defined benefit and defined contribution plans, full service and discount brokerage services and investment advisory services to a proprietary mutual fund, as well as investment management, private banking and fiduciary services through subsidiaries of NationsBank. As of December 31, 1996, the General Bank operated 1,979 banking offices through the following Banks: NationsBank, N.A. (serving the states of North Carolina, South Carolina, Maryland and Virginia and the District of Columbia); NationsBank, N.A. (South) (serving the states of Florida and Georgia); NationsBank of Kentucky, N.A.; NationsBank of Tennessee, N.A.; NationsBank of Texas, N.A.; and Sun World, N.A. (serving the state of Texas). The General Bank also provides fully automated, 24-hour cash dispensing and depositing services throughout the states in which it is located, through 3,948 automated teller machines.

Global Finance provides comprehensive corporate and investment banking as well as trading and distribution services to domestic and international customers. The group serves as a principal lender and investor, as well as an advisor, arranger and underwriter, and manages treasury and trade transactions for clients and customers. Loan origination and syndication, asset-back lending, leasing, factoring, project finance and mergers and acquisitions are representative of the services provided by the group. Global Finance also underwrites, trades and distributes a wide range of securities (including bank-eligible securities and, to a limited extent, bank-ineligible securities as authorized by the Federal Reserve Board), and trades and distributes a wide range of derivative products in certain interest rate, foreign exchange, commodity and equity markets. Global Finance provides its services through various offices located in major United States cities as well as in London, Frankfurt, Singapore, Bogota, Mexico City, Grand Cayman, Nassau, Seoul, Tokyo, Osaka, Taipei and Hong Kong.

Financial Services includes NationsCredit Consumer Corporation, primarily a consumer finance subsidiary, and NationsCredit Commercial Corporation, primarily a commercial finance subsidiary. NationsCredit Consumer Corporation, which as of December 31, 1996 had approximately 356 offices located in 35 states, provides personal, mortgage and automobile loans to consumers and retail finance programs to dealers. NationsCredit Commercial Corporation consists of seven divisions that specialize in one or more of the following areas: equipment loans and leasing; loans for debt restructuring, mergers and acquisitions and working capital; real estate, golf/recreational and health care financing; and inventory financing to manufacturers, distributors and dealers.

As part of its operations, NationsBank regularly evaluates the potential acquisition of, and holds discussions with, various financial institutions and other businesses of a type eligible for bank holding company investment. In addition, NationsBank regularly analyzes the values of, and submits bids for, the acquisition of customer-based funds and other liabilities and assets of such financial institutions and other businesses. As a general rule, NationsBank publicly announces such material acquisitions when a definitive agreement has been reached.

MANAGEMENT AND ADDITIONAL INFORMATION

Certain information relating to the executive compensation, various benefit plans (including stock option plans), voting securities and the principal holders thereof, certain relationships and related transactions and other related matters as to NationsBank is incorporated by reference or set forth in the NationsBank Annual Report on Form 10-K for the year ended December 31, 1995, incorporated herein by reference. Stockholders of First Federal desiring copies of such documents may contact NationsBank at its address or telephone number indicated under "INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE."

SUPERVISION AND REGULATION

GENERAL. As a registered bank holding company, NationsBank is subject to the supervision of, and to regular inspection by, the Federal Reserve Board. The Banks are organized as national banking associations, which are subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (the "Comptroller"). The Banks are also



subject to regulation by the FDIC and other federal regulatory agencies. In addition to banking laws, regulations and regulatory agencies, NationsBank and its subsidiaries and affiliates are subject to various other laws and regulations and supervision and examination by other regulatory agencies, all of which directly or indirectly affect the Corporation's operations, management and ability to make distributions. The following discussion summarizes certain aspects of those laws and regulations that affect NationsBank.

Under the BHCA, the activities of NationsBank, and those of companies which it controls or in which it holds more than 5% of the voting stock, are limited to banking or managing or controlling banks or furnishing services to or performing services for its subsidiaries, or any other activity which the Federal Reserve Board determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making such determinations, the Federal Reserve Board is required to consider whether the performance of such activities by a bank holding company or its subsidiaries can reasonably be expected to produce benefits to the public such as greater convenience, increased competition or gains in efficiency that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. Generally, bank holding companies, such as NationsBank, are required to obtain prior approval of the Federal Reserve Board to engage in any new activity not previously approved by the Federal Reserve Board or to acquire more than 5% of any class of voting stock of any company.

The BHCA also requires bank holding companies to obtain the prior approval of the Federal Reserve Board before acquiring more than 5% of any class of voting stock of any bank which is not already majority-owned by the bank holding company. Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking and Branching Act"), a bank holding company became able to acquire banks in states other than its home state beginning September 29, 1995, without regard to the permissibility of such acquisition under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, prior to or following the proposed acquisition, controls no more than 10% of the total amount of deposits of insured depository institutions in the United States and no more than 30% of such deposits in that state (or such lesser or greater amount set by state law).

The Interstate Banking and Branching Act also authorizes banks to merge across state lines, therefore creating interstate branches, beginning June 1, 1997. Under such legislation, each state has the opportunity to "opt out" of this provision, thereby prohibiting interstate branching in such states, or to "opt in" at an earlier time, thereby allowing interstate branching within that state prior to June 1, 1997. Furthermore, pursuant to such act, a bank is now able to open new branches in a state in which it does not already have banking operations if the laws of such state permit such DE NOVO branching. Of those states in which the Banks are located, Delaware, Maryland, North Carolina and Virginia have enacted legislation to "opt in," thereby permitting interstate branching prior to June 1, 1997, and Texas has adopted legislation to "opt out" of the interstate branching provisions (which Texas law currently expires on September 2, 1999).

As previously described, NationsBank regularly evaluates merger and acquisition opportunities, and it anticipates that it will continue to evaluate such opportunities in light of the new legislation.

Proposals to change the laws and regulations governing the banking industry are frequently introduced in Congress, in the state legislatures and before the various bank regulatory agencies.

CAPITAL AND OPERATIONAL REQUIREMENTS. The Federal Reserve Board, the Comptroller and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, those regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels, whether because of its financial condition or actual or anticipated growth.

The Federal Reserve Board risk-based guidelines define a two-tier capital framework. Tier 1 capital consists of common and qualifying preferred shareholders' equity, less certain intangibles and other adjustments. Tier 2 capital consists of subordinated and other qualifying debt, and the allowance for credit losses up to 1.25% of risk-weighted assets. The sum of Tier 1 and Tier 2 capital less investments in unconsolidated subsidiaries represents qualifying total capital, at least 50% of which must consist of Tier 1 capital. Risk-based capital ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets. Assets and off-balance sheet exposures are assigned to one of four categories of risk-weights, based primarily on relative credit risk. The minimum Tier 1 capital ratio is 4% and the minimum total capital ratio is 8%. NationsBank's Tier 1 and total risk-based capital ratios under these guidelines at December 31, 1996 were 7.76% and 12.66%, respectively.

The leverage ratio is determined by dividing Tier 1 capital by adjusted total assets. Although the stated minimum ratio is 3%, most banking organizations are required to maintain ratios of at least 100 to 200 basis points above 3%. NationsBank's



leverage ratio at December 31, 1996 was 7.09%. Management believes that NationsBank meets its leverage ratio requirement.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), among other things, identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective Federal regulatory agencies to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. An "undercapitalized" bank must develop a capital restoration plan and its parent holding company must guarantee that bank's compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of 5% of the bank's assets at the time it became "undercapitalized" or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent's general unsecured creditors. In addition, FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, Tier 1 risk-based capital and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a "well capitalized" institution must have a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a leverage ratio of at least 5% and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least 4%, a total capital ratio of at least 8% and a leverage ratio of at least 4%, or 3% in some cases. Under these guidelines, as of December 31, 1996, each of the Banks was considered adequately or well capitalized.

Banking agencies have recently adopted final regulations which mandate that regulators take into consideration concentrations of credit risk and risks from non-traditional activities, as well as an institution's ability to manage those risks, when determining the adequacy of an institution's capital. This evaluation will be made as a part of the institution's regular safety and soundness examination. Banking agencies also have recently adopted final regulations requiring regulators to consider interest rate risk (when the interest rate sensitivity of an institution's assets does not match the sensitivity of its liabilities or its off-balance-sheet position) in the evaluation of a bank's capital adequacy. Concurrently, banking agencies have proposed a methodology for evaluating interest rate risk. After gaining experience with the proposed measurement process, those banking agencies intend to propose further regulations to establish an explicit risk-based capital charge for interest rate risk.

DISTRIBUTIONS. NationsBank funds for cash distributions to its shareholders are derived from a variety of sources, including cash and temporary investments. The primary source of such funds, however, is dividends received from the Banks. The amount of dividends that each Bank may declare in a calendar year without approval of the Comptroller is the Bank's net profits for that year, as defined by statute, combined with its net retained profits, as defined, for the preceding two years. In addition, from time to time NationsBank applies for, and may receive, permission from the Comptroller for one or more of the Banks to declare special dividends. As of January 1, 1997, the Banks can initiate dividend payments without prior regulatory approval of up to $1.01 billion plus an additional amount equal to their net profits for 1996 up to the date of any such dividend declaration.

In addition to the foregoing, the ability of NationsBank and the Banks to pay dividends may be affected by the various minimum capital requirements and the capital and non-capital standards established under FDICIA as described above. Furthermore, the Comptroller may prohibit the payment of a dividend by a national bank if it determines that such payment would constitute an unsafe or unsound practice. The right of NationsBank, its shareholders and its creditors to participate in any distribution of the assets or earnings of its subsidiaries is further subject to the prior claims of creditors of the respective subsidiaries.

SOURCE OF STRENGTH. According to Federal Reserve Board policy, bank holding companies are expected to act as a source of financial strength to each subsidiary bank and to commit resources to support each such subsidiary. This support may be required at times when a bank holding company may not be able to provide such support. In the event of a loss suffered or anticipated by the FDIC -- either as a result of default of a banking or thrift subsidiary of NationsBank or related to FDIC assistance provided to a subsidiary in danger of default the other banking subsidiaries of NationsBank may be assessed for the FDIC's loss, subject to certain exceptions.



# INFORMATION ABOUT FIRST FEDERAL

## GENERAL

First Federal is a federally chartered stock savings bank, which began its operations in 1926 as a Georgia-chartered building and loan association. First Federal converted to a federal savings and loan association in 1935, conducting its business under the name Brunswick Federal Savings and Loan Association, and changed its name to First Federal Savings and Loan Association of Brunswick in 1959. First Federal converted to a federal mutual savings bank on December 5, 1983, and became a federal capital stock savings bank on July 21, 1984. First Federal primarily engages in the business of attracting deposits from the general public and investing those funds in real estate, commercial and consumer loans. First Federal's operations are conducted from its headquarters, two branch offices in Brunswick, and two branch offices on St. Simon's Island, Georgia. First Federal's principal executive offices are located at 777 Gloucester Street, Brunswick, Georgia 31520. Its telephone number is (912) 265-1410. As of December 31, 1996, First Federal had total assets of $254 million and approximately 103 full-time and 36 part-time employees.

## MANAGEMENT AND ADDITIONAL INFORMATION

Certain information relating to the executive compensation, benefit plans (including the First Federal Stock Option Plan), voting securities and the principal holders thereof, certain relationships and related transactions and other related matters as to First Federal is incorporated by reference or set forth in First Federal's Annual Report on Form 10-K for the year ended September 30, 1996, incorporated herein by reference. Stockholders of First Federal desiring copies of such documents may contact First Federal at its address or telephone number indicated under "INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE."

## SUPERVISION AND REGULATION

GENERAL. First Federal is a member of the Federal Home Loan Bank System and its deposit accounts are insured up to applicable limits through the SAIF of the FDIC. First Federal is subject to supervision, regulation, and examination by the OTS and the FDIC and must file reports with the OTS concerning its activities and financial condition, in addition to obtaining regulatory approval prior to entering into certain transactions such as mergers with or acquisitions of other depository institutions. The OTS also monitors all areas of the operations of First Federal, including reserves, loans, mortgages, issuances of securities, payment of dividends, establishment of branches, and capital. The OTS conducts periodic examinations to determine First Federal's compliance with various regulatory requirements.

In addition to banking laws, regulations and regulatory agencies, First Federal is subject to various other laws and regulations, all of which directly or indirectly affect First Federal's operations, management and the ability to make distributions. The following discussion summarizes certain aspects of those laws and regulations that affect First Federal. This summary is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below and is not intended to be an exhaustive description of the statutes or regulations applicable to First Federal's business. Supervision, regulation and examination of First Federal by the regulatory agencies are intended primarily for the protection of depositors rather than the holders of stock of First Federal.

CAPITAL REQUIREMENTS. The OTS has issued capital guidelines applicable to savings associations. From time to time, the OTS may require that a savings association maintain capital above the minimum levels, whether because of its financial condition or actual or anticipated growth. The capital standards issued by the OTS include (a) a core capital requirement, (b) a tangible capital requirement and (c) a risk-based capital requirement.

The core capital standard requires a savings association to maintain "core capital" of not less than 3% of adjusted total assets. "Core capital" includes common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries, certain nonwithdrawable accounts, pledged deposits of mutual savings associations, and certain goodwill resulting from prior regulatory accounting practices. The tangible capital requirement requires a savings association to maintain tangible capital in an amount not less than 1.5% of adjusted total assets. "Tangible capital" is defined as core capital minus intangible assets. The risk-based capital requirement requires a savings association to maintain risk-based capital of not less than 8% of risk-weighted assets. Risk-based capital includes core capital and supplementary capital, provided that the amount of supplementary capital counting toward the requirement may not exceed core capital.

In calculating the risk-based capital requirement for a savings association, risk-weighted assets equals total assets plus consolidated off-balance sheet items, where each asset or item is multiplied by the appropriate risk weight as described



below. Before an off-balance sheet item is assigned a risk weight, it must be converted to an on-balance sheet credit equivalent amount. That conversion generally is accomplished by multiplying the item by either 100%, 50%, 20%, or 0%, whichever is applicable under the OTS regulations. Each asset and each credit equivalent amount is assigned a risk weight as follows: (a) 0%, for cash and certain government securities; (b) 20%, for securities of the United States government or its agencies not backed by the full faith and credit of the United States government and for high-quality mortgage-related securities; (c) 50%, for certain revenue bonds and qualifying residential mortgage loans; or (d) 100%, for most other loans.

First Federal must maintain core capital at least equal to 3.0% of total adjusted assets and risk-based capital at least equal to 8.0% of risk-weighted assets. Additionally, First Federal must maintain tangible capital at least equal to 1.5% of total adjusted assets. The following table presents First Federal's capital levels at December 31, 1996, relative to these requirements.

<TABLE>
<CAPTION>

| | AMOUNT REQUIRED | PERCENT REQUIRED | ACTUAL AMOUNT | ACTUAL PERCENT | EXCESS AMOUNT |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| | | | (DOLLARS IN THOUSANDS) | | |
| Core Capital.......................................................... | $7,659 | 3.0% | $26,870 | 10.5% | $19,211 |
| Tangible Capital...................................................... | 3,829 | 1.5 | 26,870 | 10.5 | 23,041 |
| Risk-Based Capital.................................................... | 14,728 | 8.0 | 27,475 | 14.9(1) | 12,747 |

</TABLE>

(1) Represents risk-based capital as a percentage of risk-weighted assets.

Savings associations with "above normal" interest rate risk exposure are subject to a deduction from total capital for purposes of calculating their risk-based capital requirements. A savings association's interest rate risk is measured by the decline in the net portfolio value of its assets (I.E., the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts) that generally would result from a hypothetical 2% increase or decrease in market interest rates divided by the estimated economic value of the association's assets, as calculated in accordance with guidelines set forth by the OTS. A savings association whose measured interest rate risk exposure exceeds 2% must deduct an interest rate component in calculating its total capital under the risk-based capital rule. The interest rate risk component is an amount equal to one-half of the difference between the institution's measured interest rate risk and 2%, multiplied by the estimated economic value of the association's assets. That dollar amount is deducted from an association's total capital in calculating compliance with its risk-based capital requirement. Under the rule, there is a two-quarter lag between the reporting date of an institution's financial data and the effective date for the new capital requirement based on that data. The rule also provides that the Director of the OTS may waive or defer an association's interest rate risk component on a case-by-case basis.

The OTS also has adopted regulations to implement the system of prompt corrective action established by law. The rules permit the OTS to take certain supervisory actions when an insured association falls within one of five specifically enumerated capital categories. Under the rules, an institution will be deemed to be (a) "well-capitalized" if the association has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and the association is not subject to any enforcement agreement relating to capital; (b) "adequately capitalized" if the association exceeds a risk-based capital ratio of 8%, a Tier 1 risk-based capital ratio of 4%, and a leverage ratio of 4% (3% if the association has a composite one rating); (c) "undercapitalized" if the association's risk-based capital ratio is less than 8%, Tier 1 capital ratio is less than 4%, or leverage ratio is less than 4% (3% if it has a composite one rating); (d) "significantly undercapitalized" if the association's risk-based capital is less than 6%, Tier 1 capital ratio is less than 3%, or leverage ratio is less than 3%; and (e) "critically undercapitalized" if the association has a ratio of tangible equity to total assets that is 2% or below. The regulations provide a framework of supervisory actions based on the capital level of an insured association. Generally, an association may not declare any dividends, make any other capital distribution, or pay a management fee if, following the distribution or payment, the institution would be within any one of the three undercapitalized categories. There is a limited exception to this prohibition for stock redemptions that do not result in any decrease in an association's capital and would improve the association's financial condition, provided the redemption has been approved by the OTS. Institutions that are classified as undercapitalized also are subject to additional mandatory supervisory actions, including increased monitoring by the OTS, a requirement to submit a capital restoration plan, and restrictions on growth of the institution's assets as well as a limitation on its ability to make acquisitions and open branches. In addition to the foregoing, a significantly undercapitalized institution may not pay bonuses or raises to its senior executive officers without prior OTS approval and also must comply with additional mandatory requirements regarding the operation of the association in the interim. Based upon the foregoing regulations and First Federal's capital ratios as of December 31, 1996, First Federal would be considered in the well-capitalized category.



The Director may grant an exemption from a capital directive imposing operational restrictions or corrective actions if (a) the exemption would pose no significant risk to the affected deposit insurance fund; (b) the association's management is competent; (c) the association is in substantial compliance with all applicable statutes, regulations, orders, and supervisory agreements and directives; and (d) the association's management has not engaged in any activities that have jeopardized the association's safety and soundness or contributed to impairing its capital. In addition, a savings association that does not meet applicable capital standards may not increase its assets without the Director's prior written approval, and in no event may increase its assets beyond the amount of net interest credited to its deposit liabilities.

In addition to the foregoing prompt corrective action provisions, federal banking agencies, including the OTS, are required to review their capital standards every two years to ensure that their standards require sufficient capital to facilitate prompt corrective action and to minimize loss to the SAIF and the BIF.

LIMITATION ON CAPITAL DISTRIBUTIONS. The OTS has promulgated a rule governing capital distributions such as dividends, stock repurchases, and cash-out mergers by savings associations. The rule establishes three tiers of institutions. An institution that meets or exceeds its fully phased-in capital requirement after giving effect to a proposed distribution is considered a "Tier 1 Institution" under the rule and may make aggregate capital distributions during a calendar year, without prior OTS approval, of up to the greater of (a) all of its net income to date during the year plus an amount that would reduce its excess capital ratio to one-half of such excess capital ratio at the beginning of the calendar year or (b) 75% of its net income over the most recent four-quarter period. An institution that meets its current regulatory capital requirement, but not its fully phased-in requirement, after giving effect to a proposed distribution is a "Tier 2 Institution" and may make capital distributions without prior OTS approval of up to the following percentage of net income for the most recent four-quarter period: (a) 75% of such net income if the association meets its fully phased-in risk-based capital requirements before the distribution; or (b) 50% of such net income if the association meets only its current risk-based capital standards before the distribution. A savings association that fails to meet its regulatory capital requirements (a "Tier 3 Institution") may not make capital distributions without the OTS's prior written approval. An institution meeting the Tier 1 capital criteria but that has been notified by the OTS that it is in need of more than normal supervision may be treated as a Tier 2 or a Tier 3 institution. As of December 31, 1996, First Federal was a Tier 1 Institution and would be permitted to distribute 100% of net income and one-half of its excess capital in a given year. The OTS also has the right to preclude an association from paying any capital distribution if it would constitute an unsafe or unsound practice or if the association's capital was decreasing due to substantial losses.

TRANSACTIONS WITH AFFILIATES. The Federal Reserve Act ("FRA") Sections 23A, 23B, and 22(h) are applicable to savings associations. Those sections limit extensions of credit to affiliated entities, executive officers, directors, and 10% stockholders. Generally, Sections 23A and 23B (a) limit the extent to which the insured association or its subsidiaries may engage in certain covered transactions with an affiliated entity to an amount equal to 10% of such institution's capital stock and surplus, and place an aggregate limit on all such transactions with all affiliated institutions of an amount equal to 20% of such capital stock and surplus, and (b) require that all such transactions be on terms consistent with safe and sound banking practices. "Covered transactions" include the making of loans, the purchasing of assets, the issuance of a guarantee and similar transactions. Federal law also imposes three additional rules on savings associations: (i) a savings association may not make any extension of credit to an affiliate unless that affiliate is engaged only in activities permissible for bank holding companies; (ii) a savings association may not purchase or invest in securities insured by an affiliate, other than a subsidiary; and (iii) the Director may impose more stringent restrictions on savings associations than those set forth in Sections 23A, 23B, and 22(h) of the FRA.

RESTRICTIONS ON ACQUISITION. Federal law also generally provides that no company may acquire "control" of an insured savings association without the Director's prior approval, and that any company that acquires such control becomes a "savings and loan holding company" subject to registration, examination, and regulation under applicable law. Federal law does not require the Director's approval if the acquiring company is a bank holding company registered pursuant to the BHCA.

Federal law also authorizes the Federal Reserve Board to approve bank holding company acquisitions of savings associations and provides that the Federal Reserve Board may not impose "tandem restrictions" in connection with such approvals.

INSURANCE OF DEPOSIT ACCOUNTS. First Federal's deposit accounts are insured by the FDIC to the maximum amount permitted by law, currently $100,000 for each insured account, through the SAIF fund. With respect to assessments paid by associations, the FDIC historically imposed assessments on each association based on the institution's assessment risk classification. The rates ranged from $.23 to $.31 for each $100 of domestic deposits. The rate at which a SAIF member institution paid assessments was determined on the basis of capital and supervisory measures. On September 30, 1996, legislation was enacted which, among other things, imposed a special one-time assessment on SAIF member institutions, including First



Federal, in order to recapitalize the SAIF and allocate to SAIF and BIF-insured institutions an annual assessment to cover interest payments on Financing Corp. (FICO) bonds issued in the 1980's to assist the thrift industry. The special one-time assessment levied by the FDIC amounted to 65.7 basis points on SAIF assessable deposits held by an institution as of March 31, 1995. SAIF-insured institutions were required to recognize the special assessment, which is tax deductible, as of September 30, 1996. Accordingly, First Federal took a charge of $1.36 million before taxes as a result of the FDIC special assessment. Beginning on January 1, 1997, SAIF members began paying an annual assessment of 6.4 basis points on SAIF-insured deposits to cover interest payments on the FICO bonds. The FDIC also has proposed a base assessment schedule for SAIF institutions which would range from 4 to 31 basis points, with an adjusted assessment schedule that would immediately reduce those rates by 4 basis points. Accordingly, well-capitalized thrifts would effectively have an assessment rate of zero for deposit insurance, excepting the FICO assessment of 6.4 basis points discussed above. The new rate applies to all SAIF-insured institutions effective January 1, 1997.

LOANS TO ONE BORROWER AND CERTAIN LOAN LIMITS. Generally, a savings association may lend to a single or related group of borrowers, on an unsecured basis, an amount equal to 15% of its unimpaired capital and surplus. An additional amount equal to 10% of unimpaired capital and surplus, may be loaned if secured by readily marketable collateral, which is defined to include securities and gold bullion, but generally does not include real estate. Notwithstanding such provisions, a savings association may make loans to one borrower (a) for any purpose, up to $500,000, or (b) to develop domestic residential housing units, up to the lesser $30 million or 30% of the association's unimpaired capital and unimpaired surplus, if certain conditions are satisfied. In addition, a savings association's loans to one borrower to finance a sale of real property acquired in satisfaction of debts previously contracted in good faith may not exceed the 15% limit.

## COMPARISON OF NATIONSBANK COMMON STOCK AND FIRST FEDERAL COMMON STOCK

### NATIONSBANK

NationsBank is authorized to issue 1,250,000,000 shares of NationsBank Common Stock, of which 286,746,000 shares were outstanding as of December 31, 1996. NationsBank Common Stock is listed on the NYSE and the PSE under the trading symbol "NB". NationsBank Common Stock is also listed on the LSE and certain shares of NationsBank Common Stock are listed on the Tokyo Stock Exchange. As of December 31, 1996, 60.3 million shares of NationsBank Common Stock were reserved for issuance under various employee and director benefit plans of NationsBank and upon conversion of the NationsBank ESOP Convertible Preferred Stock, Series C (the "ESOP Preferred Stock"); 2.8 million shares were reserved for issuance under the NationsBank Dividend Reinvestment and Stock Purchase Plan; up to 110 million shares were reserved for issuance in connection with the Boatmen's Acquisition, and up to 1.5 million shares were reserved for issuance in connection with the merger. After taking into account the shares reserved as described above, in the number of authorized shares of NationsBank Common Stock available for other corporate purposes as of December 31, 1996 was approximately 788.7 million.

NationsBank has authorized 45,000,000 shares of preferred stock and may issue such preferred stock in one or more series, each with such preferences, limitations, designations, conversion rights, voting rights, distribution rights, voluntary and involuntary liquidation rights and other rights as it may determine (the "Preferred Stock"). NationsBank has designated 3,000,000 shares of ESOP Preferred Stock, of which 2.3 million shares were issued and outstanding as of December 31, 1996. In addition, on the effective date of the Boatmen's Acquisition, (i) each share of Boatmen's Series A Preferred Stock was converted into one share of NationsBank New Series A Preferred Stock; (ii) each share of Boatmen's Series B Preferred Stock was converted into one share of NationsBank New Series B Preferred Stock and (iii) each Boatmen's Depositary Share was converted into one depositary share of NationsBank Depositary Share. The NationsBank New Series A Preferred Stock, NationsBank New Series B Preferred Stock and NationsBank Depositary Shares have rights, preferences and terms substantially identical to the rights, preferences and terms of the Boatmen's Series A Preferred Stock, Boatmen's Series B Preferred Stock and Boatmen's Depositary Shares, respectively.

FIRST FEDERAL

First Federal is authorized to issue 4,000,000 shares of First Federal Common Stock, $1.00 par value, of which        shares were issued and outstanding as of the Record Date, and 1,000,000 shares of preferred stock, of which no shares were issued and outstanding as of the Record Date.



The Board of Directors has the authority to issue First Federal preferred stock in one or more series and to fix the dividend rights, dividend rate, liquidation preference, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and the number of shares constituting any such series, without any further action by the stockholders unless such action is required by applicable rules or regulations or by the terms of other outstanding series of First Federal preferred stock. Any shares of First Federal preferred stock which may be issued may rank prior to shares of First Federal Common Stock as to payment of dividends and upon liquidation.

COMPARISON OF VOTING AND OTHER RIGHTS

NationsBank is a North Carolina corporation subject to the provisions of the NCBCA. Stockholders of First Federal, whose rights are governed by First Federal's Charter and Bylaws and by federal law, will upon consummation of the Merger, become shareholders of NationsBank. As shareholders of NationsBank, their rights will then be governed by the NationsBank Articles, the NationsBank Bylaws and the NCBCA. Except as set forth below, there are no material differences between the rights of First Federal stockholders under First Federal's Charter and NationsBank Bylaws and under federal law, on the one hand, and the rights of NationsBank shareholders under the NationsBank Articles and Bylaws and the NCBCA, on the other hand.

MEETINGS OF SHAREHOLDERS. A special meeting of NationsBank shareholders may be called for any purpose by the NationsBank Board of Directors, by the Chairman of the Board of NationsBank or by the Chief Executive Officer or President of NationsBank. A quorum for a meeting of NationsBank shareholders is a majority of the outstanding shares of NationsBank Common Stock entitled to vote. A majority of the votes cast is generally required for an action by the NationsBank shareholders. North Carolina law provides that these quorum and voting requirements may only be increased with approval of NationsBank shareholders.

Under First Federal's Bylaws, unless otherwise prescribed by OTS regulations, special meetings of the stockholders may be called at any time by the Chairman of the Board, the President, or a majority of the Board of Directors, and will be called by the Chairman of the Board, the President, or the Secretary upon the written request of the holders of at least one-tenth of the outstanding capital stock of First Federal entitled to vote at the meeting.

A quorum for a meeting of First Federal stockholders is a majority of the outstanding First Federal Common Stock entitled to vote. A majority of the votes cast is generally required for an action by the First Federal shareholders.

DISTRIBUTIONS. The payment of distributions to holders of NationsBank Common Stock is subject to the provisions of the NCBCA, the preferential rights of the holders of NationsBank Preferred Stock, certain indebtedness of NationsBank and the ability of the Banks to pay dividends to NationsBank, as restricted by various bank regulatory agencies. See "INFORMATION ABOUT NATIONSBANK -- Supervision and Regulation."

The payment of distributions to holders of First Federal Common Stock is subject to the provisions of Federal law applicable to the declaration of distributions by a savings association, the preferential rights of any holders of First Federal preferred stock and the ability of First Federal to pay dividends as restricted by the OTS. See "INFORMATION ABOUT FIRST FEDERAL -- Supervision and Regulation."

SIZE AND CLASSIFICATION OF THE BOARD OF DIRECTORS. The size of the NationsBank Board of Directors may be established by the shareholders or by the NationsBank Board of Directors, provided that the NationsBank Board of Directors may not set the number of directors at less than five nor more than 30. Any change to this permissible range for the size of the NationsBank Board of Directors must be approved by the NationsBank shareholders. The NationsBank Board of Directors is not divided into classes, and all directors are elected annually.

First Federal's Charter provides that the number of First Federal directors shall not be less than seven nor more than 15, except when a greater number is approved by the First Federal Board of Directors. First Federal's Bylaws provide that the Board of Directors is divided into three classes serving staggered three-year terms, with the terms of one class of directors expiring each year.

REMOVAL OF DIRECTORS. Generally, directors of NationsBank may be removed by the shareholders with or without cause by the affirmative vote of a majority of the votes cast, unless the NationsBank Articles are amended to provide otherwise. In addition, the NCBCA provides that an appropriate court can remove a director upon petition of the holders of at least 10% of the outstanding shares of any class of stock of NationsBank upon certain findings by such court.

First Federal's Bylaws provide that any director may be removed for cause, by the affirmative vote of the holders of a majority of the shares then entitled to vote in an election of directors, at a stockholders' meeting with respect to which notice



of such purpose has been expressly given. If less than the entire Board of Directors is to be removed, no director may be removed if the votes cast against his removal would be sufficient to elect a director if then cumulatively voted at an election of the class of directors of which such director is a part.

SHAREHOLDER INSPECTION RIGHTS; SHAREHOLDER LISTS. Under North Carolina law, qualified shareholders have the right to inspect and copy (a) certain of the NationsBank official corporate documents and (b) the NationsBank books and records in good faith and for a proper purpose. Such right of inspection requires that the shareholder give NationsBank written notice of the demand, describing with reasonable particularity his purpose and the requested records. The right of inspection extends not only to shareholders of record but also beneficial owners whose beneficial ownership is certified to NationsBank by the shareholder of record. However, NationsBank is under no duty to provide any accounting records or any records with respect to any matter that it determines in good faith may, if disclosed, adversely effect NationsBank in the conduct of its business or may constitute material nonpublic information, and the right of inspection is limited to NationsBank shareholders who either have been NationsBank shareholders at least six months or who hold at least 5% of the outstanding shares of any class of NationsBank stock. In addition, NationsBank is required to prepare a shareholder list with respect to any shareholders' meeting and to make such list available to NationsBank shareholders beginning two business days after notice of such meeting is given and continuing through such meeting and any adjournments thereof.

OTS regulations applicable to First Federal provide that any stockholder or group of stockholders holding of record (a) voting shares having a cost of at least $100,000 or constituting at least 1% of the total outstanding voting shares, provided in either case that such stockholder or group has held those shares of record for at least six months, or (b) at least 5% of the total outstanding voting shares, has the right to examine, with certain exceptions, books and records of account, minutes, and records of stockholders, upon written demand stating a proper purpose.

ANTI-TAKEOVER PROVISIONS. First Federal's Charter provides that First Federal's Board of Directors is divided into three classes serving staggered three-year terms, with the terms of one class of directors expiring each year. The purposes of dividing First Federal's Board of Directors into classes is to facilitate continuity and stability of leadership of First Federal by ensuring that experienced personnel familiar with the business and policies of First Federal will be represented on the Board of Directors at all times, and to permit First Federal's management to plan for a reasonable period into the future. The effect of First Federal's having a classified Board of Directors is that only approximately one-third of the members of the Board of Directors is elected each year, which effectively requires two annual meetings for First

Federal's stockholders to change a majority of the members of the Board of Directors. By delaying the time in which an acquiror could obtain working control of the Board of Directors, this provision may discourage some potential merger proposals, tender offers or other acquisition proposals.

The NationsBank Articles do not contain any anti-takeover provisions.

ANTI-TAKEOVER STATUTES. North Carolina has two anti-takeover statutes in force, the North Carolina Shareholder Protection Act and the North Carolina Control Share Acquisition Act which restrict business combinations with, and the accumulation of shares of voting stock of, North Carolina corporations. NationsBank has taken action to irrevocably "opt out" of the restrictions imposed by these statutes.

Any company generally would be required to obtain the approval of the OTS (or, in certain cases, the Federal Reserve Board) before acquiring control over First Federal. Generally, the acquisition of 25% or more of the outstanding First Federal Common Stock, among other things, would constitute control of First Federal; provided that control may be presumed under OTS regulations once such person or group of persons owns more than 10% of the outstanding shares of First Federal Common Stock.

DISSENTER'S RIGHTS. The NCBCA generally provides dissenter's rights for mergers and share exchanges that require shareholder approval, sales of substantially all the assets (other than sales that are in the usual and regular course of business and certain liquidations and court-ordered sales), and certain amendments to the articles of incorporation of a North Carolina corporation.

The rights of appraisal of dissenting stockholders of First Federal are governed by federal regulations applicable to federally chartered thrifts. Pursuant thereto, except as described below, any stockholder has the right to demand payment of the fair or appraised value of his stock in the event that First Federal enters into any combination permissible for a federally chartered thrift, including permissible mergers, consolidations, and bulk purchases of assets or assumptions of deposit liabilities. No appraisal rights are available to a stockholder who is required to accept only "qualified consideration" (cash, shares of stock of any association or corporation that, at the effective date of the combination, would be listed on a national securities exchange or quoted on The Nasdaq Stock Market, or any combination of such cash and stock) for such holder's stock, if



that stock were listed on a national securities exchange or quoted on The Nasdaq Stock Market on the date of the meeting at which the combination was acted upon or if the combination is one of a specified type for which stockholder action is not required. Because First Federal Common Stock currently is quoted on The Nasdaq Stock Market, First Federal stockholders generally do not have appraisal rights in the event of any combination involving First Federal, unless those stockholders are required to accept something other than "qualified consideration" for their First Federal Common Stock.

MISCELLANEOUS. Chase Mellon Shareholder Services, L.L.C. acts as transfer agent and registrar for the NationsBank Common Stock. NationsBank Common Stock is listed and traded on the NYSE and the PSE. Certain shares of NationsBank Common Stock are also listed on the LSE and on the Tokyo Stock Exchange.

Wachovia Bank of North Carolina, N.A. acts as transfer agent and registrar for the First Federal Common Stock. First Federal Common Stock is included for quotation in The Nasdaq Stock Market under the symbol "FFBG."

## LEGAL OPINIONS

The legality of the NationsBank Common Stock to be issued in connection with the Merger and certain other legal matters in connection with the Merger will be passed upon by Smith Helms Mulliss & Moore, L.L.P., Charlotte, North Carolina. As of the date of this Proxy Statement-Prospectus, certain members of Smith Helms Mulliss & Moore, L.L.P., beneficially owned approximately 80,000 shares of NationsBank Common Stock. Certain tax consequences of the Merger will be passed upon by King & Spaulding. Certain legal matters in connection with the Merger will be passed upon for First Federal by Smith, Mackinnon, Greeley, Bowdoin & Edwards, P.A.

## EXPERTS

The consolidated financial statements of NationsBank incorporated in this Proxy Statement-Prospectus by reference to the NationsBank Annual Report on Form 10-K for the year ended December 31, 1995, have been so incorporated in reliance on the report of Price Waterhouse LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Boatmen's at December 31, 1995 and 1994, and for the three years ended December 31, 1995, incorporated in this Proxy Statement-Prospectus by reference to the NationsBank Current Report on Form 8-K filed with the Commission on September 6, 1996 (as amended by Forms

8-K/A on September 11, 1996 and November 13, 1996) have been so incorporated in reliance on the report of Ernst & Young LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of First Federal incorporated in this Proxy Statement-Prospectus by reference to the First Federal Annual Report on Form 10-K for the year ended September 30, 1996 have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report with respect thereto, and are so incorporated in reliance upon the authority of said firm as experts in auditing and accounting.

## SHAREHOLDER PROPOSALS

The 1998 Annual Meeting of Stockholders of First Federal is tentatively scheduled to be held January 28, 1998, subject to the earlier consummation of the Merger. In the event that the First Federal 1998 Annual Meeting of Stockholders is held, proposals of stockholders intended to be presented at that meeting must be received by First Federal at its executive offices on or before September 1, 1997, in order to be included in First Federal's Proxy Statement and form of Proxy relating to such meeting.

## OTHER MATTERS

As of the date of this Proxy Statement-Prospectus, the First Federal Board of Directors knows of no matters that will be presented for consideration at the Special Meeting other than as described in this Proxy Statement-Prospectus. However, if any other matters shall properly come before the Special Meeting or any adjournments or postponements thereof and be voted upon, the enclosed proxies shall be deemed to confer discretionary authority on the individuals named as proxies therein to vote the shares represented by such proxies as to any such matters. The persons named as proxies intend to vote or not to vote in accordance with the recommendation of the management of First Federal.



# APPENDIX A

[Date]

Board of Directors
First Federal Savings Bank of Brunswick, Georgia
777 Gloucester Street
Brunswick, Georgia 31520

Gentlemen:

You have requested our opinion as to the fairness, from a financial point of view, to the holders of the outstanding common stock of First Federal Savings Bank of Brunswick, Georgia ("First Federal") of the consideration to be received in the proposed merger (the "Merger") of Interim First Federal Savings Bank of Brunswick, Georgia, Charlotte, North Carolina, an interim federal stock savings bank and a wholly owned subsidiary of NationsBank Corporation ("NationsBank"), into First Federal. The Merger will be effected pursuant to an agreement between NationsBank (as successor to C&S/Sovran Corporation, The Citizens and Southern Corporation, Citizens and Southern Georgia Corporation and The Citizens and Southern National Bank (collectively, "C&S/Sovran")) and First Federal (the "Agreement"). The Agreement consists of the Amended and Restated Agreement and Plan of Reorganization, dated as of November 20, 1989, between NationsBank (as successor to C&S/Sovran) and First Federal; Amendment Number One to the Amended and Restated Agreement and Plan of Reorganization, dated as of August 20, 1990, between NationsBank (as successor to C&S/Sovran) and First Federal; Amendment Number Two to the Amended and Restated Agreement and Plan of Reorganization, dated as of December 19, 1990, between NationsBank (as successor to C&S/Sovran) and First Federal; Order of the Superior Court of Glynn County, Georgia, dated December 16, 1994; Order of the Superior Court of Glynn County, Georgia, dated October 11, 1996; letter from First Federal to NationsBank, dated November 12, 1996, regarding the calculation of the Exchange Ratio; and letter from First Federal to NationsBank, dated December 27, 1996, waiving certain provisions of the Agreement.

In arriving at our opinion, we, among other things, (i) reviewed the Agreement; (ii) reviewed annual audited financial statements for First Federal and NationsBank, interim unaudited financial statements through September 30, 1996 for NationsBank and interim unaudited financial statements through December 31, 1996 for First Federal; (iii) reviewed publicly available information including recent Office of Thrift Supervision and Securities and Exchange Commission filings and stockholder communication for First Federal and for NationsBank, respectively; (iv) met with members of the senior managements of First Federal and NationsBank to discuss their respective businesses, financial conditions and operating results; (v) considered the pro forma effects of the Merger and the Boatmen's Acquisition on NationsBank's financial results and the pro forma equivalent for the Merger and the Boatmen's Acquisition on First Federal's financial results; (vi) compared certain financial and stock market data for First Federal and for NationsBank with similar data for selected publicly held savings banks and banks; (vii) reviewed the financial terms of certain recent business combinations in the banking industry; (viii) reviewed historical market price and volume data for the common stock of First Federal and the common stock of NationsBank; (ix) reviewed various published research reports and investment opinions on NationsBank; and (x) performed such other financial studies and analyses as we deemed appropriate. We were not requested to and did not solicit the interest of third parties in submitting a competing offer for the acquisition of First Federal.

In rendering this opinion, we have relied upon the accuracy and completeness of all financial and other information furnished to us by or on behalf of First Federal and NationsBank, and other published information that we considered in our review. We were not requested to and generally have not undertaken to verify independently the accuracy and completeness of such information. We have relied upon the reasonableness of all projections and forecasts provided to us and have assumed that they were prepared in accordance with accepted practice on bases reflecting the best currently available estimates and good faith judgments of First Federal and NationsBank managements. Our opinion herein is based on the circumstances existing and known to us as of the date hereof. We have not made or obtained any independent evaluations or appraisals of the assets or liabilities (contingent or otherwise) of either First Federal or NationsBank, nor were we furnished with any such evaluations or appraisals. Consequently, we do not express any opinion regarding the value of any of First Federal's or NationsBank's specific individual assets We were not requested to, and therefore did not, participate in the structuring or negotiating of the Merger. Furthermore, we are not expressing any opinion herein as to the range of prices at which NationsBank's common stock will trade subsequent to consummation of the Merger.



Interstate/Johnson Lane Corporation, as part of its investment banking business, is engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. Pursuant to our engagement in connection with this fairness opinion, we will receive a fee for our services in rendering said opinion. We are familiar with both First Federal and NationsBank and have performed investment banking services for both companies in the past, including having acted as a co-managing underwriter in a sale of NationsBank senior notes completed October 26, 1993.

The opinion expressed herein is provided solely for the benefit of the First Federal Board of Directors and the opinion, and any supporting analysis or other material supplied by us may not be quoted, referred to, or used in any public filing or in any written document or for any other purpose without the prior written approval of Interstate/Johnson Lane Corporation; provided that we hereby consent to the inclusion of this letter as Appendix A to the Proxy Statement-Prospectus to be filed as a part of the Registration Statement on Form S-4 of NationsBank in connection with the Merger.

Based upon the foregoing considerations, it is our opinion that as of the date hereof the consideration to be received by the stockholders of First Federal upon consummation of the Merger is fair, from a financial point of view, to the stockholders of First Federal.

Sincerely,
INTERSTATE/JOHNSON LANE CORPORATION



# PART II: INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS

There are no provisions in the Registrant's Restated Articles of Incorporation and no contracts between the Registrant and its directors and officers relating to indemnification. The Registrant's Restated Articles of Incorporation prevent the recovery by the Registrant of monetary damages against its directors. However, in accordance with the provisions of the NCBCA, the Registrant's Amended and Restated Bylaws provide that, in addition to the indemnification of directors and officers otherwise provided by the NCBCA, the Registrant shall, under certain circumstances, indemnify its directors, executive officers and certain other designated officers against any and all liability and litigation expense, including reasonable attorneys' fees, arising out of their status or activities as directors and officers, except for liability or litigation expense incurred on account of activities that were at the time known or reasonably should have been known by such director or officer to be clearly in conflict with the best interests of the Registrant. Pursuant to such bylaw and as authorized by statute, the Registrant maintains insurance on behalf of its directors and officers against liability asserted against such persons in such capacity whether or not such directors or officers have the right to indemnification pursuant to the bylaw or otherwise.

In addition to the above-described provisions, Sections 55-8-50 through 55-8-58 of the NCBCA contain provisions prescribing the extent to which directors and officers shall or may be indemnified. Section 55-8-51 of the NCBCA permits a corporation, with certain exceptions, to indemnify a current or former director against liability if (i) he conducted himself in good faith, (ii) he reasonably believed (x) that his conduct in his official capacity with the corporation was in its best interests and (y) in all other cases his conduct was at least not opposed to the corporation's best interests, and (iii) in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful. A corporation may not indemnify a current or former director in connection with a proceeding by or in the right of the corporation in which the director was adjudged liable to the corporation or in connection with a proceeding charging improper personal benefit to him in which he was adjudged liable on such basis. The above standard of conduct is determined by the Board of Directors or a committee thereof or special legal counsel or the shareholders as prescribed in Section 55-8-55.

Sections 55-8-52 and 55-8-56 of the NCBCA require a corporation to indemnify a director or officer in the defense of any proceeding to which he was a party because of his capacity as a director or officer against reasonable expenses when he is wholly successful in his defense, unless the articles of incorporation provide otherwise. Upon application, the court may order indemnification of the director or officer if he is adjudged fairly and reasonably so entitled under Section 55-8-54. Section 55-8-56 allows a corporation to indemnify and advance expenses to an officer, employee or agent who is not a director to the same extent as a director or as otherwise set forth in the corporation's articles of incorporation or bylaws or by resolution of the Board of Directors.

In addition, Section 55-8-57 permits a corporation to provide for indemnification of directors, officers, employees or agents, in its articles of incorporation or bylaws or by contract or resolution, against liability in various proceedings and to purchase and maintain insurance policies on behalf of these individuals.

THE FOREGOING IS ONLY A GENERAL SUMMARY OF CERTAIN ASPECTS OF NORTH CAROLINA LAW DEALING WITH INDEMNIFICATION OF DIRECTORS AND OFFICERS AND DOES NOT PURPORT TO BE COMPLETE. IT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE RELEVANT STATUTES WHICH CONTAIN DETAILED SPECIFIC PROVISIONS REGARDING THE CIRCUMSTANCES UNDER WHICH AND THE PERSON FOR WHOSE BENEFIT INDEMNIFICATION SHALL OR MAY BE MADE AND ACCORDINGLY ARE INCORPORATED HEREIN BY REFERENCE AS EXHIBIT 99.7 TO THIS REGISTRATION STATEMENT.



ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following exhibits and financial statement schedules are filed with or incorporated by reference in this Registration Statement:

(a) Exhibits

<TABLE>
<CAPTION>

| EXHIBIT NO. | |
|---|---|
| <C> | <S> |
| 2.1 | Amended and Restated Agreement and Plan of Reorganization, dated as of November 20, 1989, among NationsBank (as successor to C&S/Sovran) and First Federal |
| 2.2 | Amendment Number One to the Amended and Restated Agreement and Plan of Reorganization, dated as of August 20, 1990, among NationsBank (as successor to C&S/Sovran) and First Federal |
| 2.3 | Amendment Number Two to the Amended and Restated Agreement and Plan of Reorganization, dated as of December 19, 1990, among NationsBank (as successor to C&S/Sovran) and First Federal |
| 2.4 | Order of the Superior Court of Glynn County, Georgia, dated December 16, 1994 |
| 2.5 | Order of the Superior Court of Glynn County, Georgia, dated October 11, 1996 |
| 2.6 | Letter from First Federal to NationsBank, dated November 12, 1996 |
| 2.7 | Letter from First Federal to NationsBank, dated January 17, 1997 |
| 5.1 | Opinion of Smith Helms Mulliss & Moore, L.L.P. regarding legality of shares |
| 8.1 | Opinion of King & Spaulding regarding federal income tax consequences * |
| 10.1 | Letter from McAlpin & Henson to First Federal, dated September 27, 1991 |
| 10.2 | Letter from McAlpin & Henson to First Federal, dated March 16, 1993 |
| 10.3 | Letter from First Federal to Whelchel Brown Readdick & Bumgartner and McAlpin & Henson, dated April 22, 1994 |
| 10.4 | Letter from McAlpin & Henson to First Federal, dated November 8, 1996 |
| 23.1 | Consent of Price Waterhouse LLP |
| 23.2 | Consent of Arthur Andersen LLP |
| 23.3 | Consent of Ernst & Young LLP |
| 23.4 | Consent of Smith Helms Mulliss & Moore, L.L.P. (included in Exhibit 5.1) |
| 23.5 | Consent of Interstate/Johnson Lane Corporation (included in Appendix A) |
| 23.6 | Consent of King & Spaulding (included in Exhibit 8.1) |
| 24.1 | Power of Attorney and Certified Resolutions |
| 99.1 | Notice of Special Meeting of Stockholders of First Federal |
| 99.2 | Form of Proxy for Special Meeting of Stockholders of First Federal |
| 99.3 | President's letter to First Federal Stockholders |
| 99.4 | First Federal Annual Report on Form 10-K for the year ended September 30, 1996 |
| 99.5 | First Federal Quarterly Report on Form 10-Q for the three months ended December 31, 1996* |
| 99.6 | Opinion of Interstate/Johnson Lane Corporation (included as Appendix A to the Prospectus-Proxy Statement) |
| 99.7 | Provisions of North Carolina law regarding indemnification of directors and officers (incorporated herein by reference to Exhibit 99.1 of the NationsBank Registration Statement on Form S-3, Registration No. |

33-63097)
</TABLE>

* To be provided by amendment

ITEM 22. UNDERTAKINGS

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and



price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change in such information in the registration statement:

PROVIDED, HOWEVER, that paragraphs (a)(1) (i) and (a)(1) (ii) do not apply if the Registration Statement is on Form S-3, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Exchange that are incorporated by reference in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

(c) (1) The undersigned Registrant hereby undertakes as follows: that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this Registration Statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(2) The Registrant undertakes that every prospectus (i) that is filed pursuant to paragraph (1) immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the Registration Statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

(d) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(e) The undersigned Registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to items 4, 10(b), 11, or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(f) The undersigned Registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the Registration Statement when it became effective.



SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Charlotte, State of North Carolina, on January 22, 1997.

NATIONSBANK CORPORATION

By: HUGH L. MCCOLL, JR.*

HUGH L. MCCOLL, JR.
CHIEF EXECUTIVE OFFICER

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

| SIGNATURE | TITLE | DATE |
|---|---|---|
| <S> | <C> | <C> |
| HUGH L. MCCOLL, JR.*<br>HUGH L. MCCOLL, JR. | Chief Executive Officer and Director<br>(Principal Executive Officer) | January 22, 1997 |
| JAMES H. HANCE, JR.*<br>JAMES H. HANCE, JR. | Vice Chairman and Chief Financial Officer<br>(Principal Financial Officer) | January 22, 1997 |
| MARC D. OKEN*<br>MARC D. OKEN | Executive Vice President and Chief Accounting<br>Officer (Principal Accounting Officer) | January 22, 1997 |
| ANDREW B. CRAIG, III | Chairman of the Board and Director | |
| RONALD W. ALLEN*<br>RONALD W. ALLEN | Director | January 22, 1997 |
| RAY C. ANDERSON*<br>RAY C. ANDERSON | Director | January 22, 1997 |
| WILLIAM M. BARNHARDT*<br>WILLIAM M. BARNHARDT | Director | January 22, 1997 |
| B.A. BRIDGEWATER, JR. | Director | |
| THOMAS E. CAPPS*<br>THOMAS E. CAPPS | Director | January 22, 1997 |
| CHARLES W. COKER* | Director | January 22, |

1997
CHARLES W. COKER
</TABLE>



<TABLE>
<CAPTION>
SIGNATURE TITLE DATE

<S> <C> <C>
THOMAS G. COUSINS* Director January 22,
1997
THOMAS G. COUSINS

ALAN T. DICKSON* Director January 22,
1997
ALAN T. DICKSON

W. FRANK DOWD, JR.* Director January 22,
1997
W. FRANK DOWD, JR.

PAUL FULTON* Director January
22, 1997
PAUL FULTON

TIMOTHY L. GUZZLE* Director January 22,
1997
TIMOTHY L. GUZZLE

Director
C. RAY HOLMAN

W. W. JOHNSON* Director January 22,
1997
W. W. JOHNSON

Director
RUSSELL W. MEYER, JR.

Director
JOHN J. MURPHY

Director
RICHARD B. PRIORY

JOHN C. SLANE* Director January
22, 1997
JOHN C. SLANE

O. TEMPLE SLOAN, JR.* Director January 22,
1997
O. TEMPLE SLOAN, JR.

JOHN W. SNOW* Director January
22, 1997
JOHN W. SNOW

MEREDITH R. SPANGLER* Director January 22,
1997
MEREDITH R. SPANGLER

ROBERT H. SPILMAN* Director January 22,
1997
ROBERT H. SPILMAN
</TABLE>



<TABLE>
<CAPTION>
SIGNATURE TITLE DATE

<S> <C> <C>
Director
ALBERT E. SUTER

RONALD TOWNSEND* Director January
22, 1997
RONALD TOWNSEND

E. CRAIG WALL, JR.* Director January 22,
1997
E. CRAIG WALL, JR.

JACKIE M. WARD* Director January

22, 1997
JACKIE M. WARD

VIRGIL R. WILLIAMS* Director January 22,
1997
VIRGIL R. WILLIAMS

* By: /s/ CHARLES M. BERGER
CHARLES M. BERGER
ATTORNEY-IN-FACT
</TABLE>

(logo) FIRST FEDERAL SAVINGS BANK
OF BRUNSWICK, GEORGIA

January 17, 1997

Mr. Kenneth D. Lewis
President
NationsBank Corporation
NationsBank Corporate Center
100 North Tryon Street
Charlotte, North Carolina 28255-0065

RE; Amended and Restated Agreement and Plan of Reorganization, dated as of November 20, 1989, as amended by Amendment Number One, dated as of August 20, 1990 ("Amendment Number One"), and Amendment Number Two, dated as of December 19, 1990 ("Amendment Number Two"), by and between NationsBank Corporation (as successor to The Citizens and Southern Corporation, et al.) and First Federal Savings Bank of Brunswick, Georgia (together, the "Agreement")--Waiver of Certain Provisions

Dear Mr. Lewis:

This letter, which reflects recent discussions between First Federal Savings Bank of Brunswick, Georgia ("First Federal") and NationsBank Corporation ("NationsBank"), is intended to constitute an effective waiver of certain provisions of the Agreement, in accordance with Section 11.5 thereof, as described below. This letter is in lieu of my letter to you dated December 27, 1996, which should be disregarded in its entirety.

1. NationsBank and First Federal mutually agree that, to reduce the number of regulatory filings and related costs, the acquisition of First Federal by NationsBank should be accomplished by the organization of an interim federal stock savings bank as a direct wholly owned subsidiary of NationsBank and the merger of that entity with and into First Federal, which shall be the surviving entity. Therefore, NationsBank and First Federal each hereby waives any and all obligations of the other to comply with any and all of the provisions of Amendment Number One to the Agreement, and each hereby waives any and all conditions precedent to the obligations of the other in connection with such waived provisions.

777 Gloucester Street o Brunswick, Georgia 31520-1706 o (912) 265-1410

o Facsimile (912) 267-6546

Reply To: Post Office Box 1877 o Brunswick, Georgia 31521-1877



2. NationsBank and First Federal each hereby waives any and all rights under Section 10.1(c) of the Agreement and any and all obligations of the other to comply with any and all of the provisions of Amendment Number Two, and each hereby waives any and all conditions precedent to the obligations of the other in connection with such waived provisions. In so waiving these provisions, NationsBank and First Federal each acknowledge the Order and Judgement of the Superior Court for the County of Glynn, State of Georgia, dated October 11, 1996, in which it was adjudged and decreed that "the parties shall consummate the merger agreement, as promptly as possible consistent with applicable law and regulations governing such transactions."

Except as to those matters specifically addressed above, the foregoing waivers shall not prejudice any rights of First Federal or NationsBank under the Agreement, including without limitation the separate Orders of the Superior Court of Glynn County, Georgia dated December 16, 1994 or October 11, 1996.

By signing below, NationsBank and First Federal each agrees to the foregoing and acknowledges compliance by the other with the notice provisions of Section 11.8 of the Agreement.

Sincerely yours,

FIRST FEDERAL SAVINGS BANK OF
BRUNSWICK, GEORGIA

By: /S/ Ben T. Slade III
Ben T. Slade III

Chairman of the Board



Acknowledged and agreed to this 17th day of January, 1997.

NATIONSBANK CORPORATION

By: /s/ Kenneth D. Lewis
_________________________
Kenneth D. Lewis
President

EXHIBIT 2.7

(logo) FIRST FEDERAL SAVINGS BANK
OF BRUNSWICK, GEORGIA

January 17, 1997

Mr. Kenneth D. Lewis
President
NationsBank Corporation
NationsBank Corporate Center
100 North Tryon Street
Charlotte, North Carolina 28255-0065

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1. NationsBank and First Federal mutually agree that, to reduce the number of regulatory filings and related costs, the acquisition of First Federal by NationsBank should be accomplished by the organization of an interim federal stock savings bank as a direct wholly owned subsidiary of NationsBank and the merger of that entity with and into First Federal, which shall be the surviving entity. Therefore, NationsBank and First Federal each hereby waives any and all obligations of the other to comply with any and all of the provisions of Amendment Number One to the Agreement, and each hereby waives any and all conditions precedent to the obligations of the other in connection with such waived provisions.





2. NationsBank and First Federal each hereby waives any and all rights under Section 10.1(c) of the Agreement and any and all obligations of the other to comply with any and all of the provisions of Amendment Number Two, and each hereby waives any and all conditions precedent to the obligations of the other in connection with such waived provisions. In so waiving these provisions, NationsBank and First Federal each acknowledge the Order and Judgement of the Superior Court for the County of Glynn, State of Georgia, dated October 11, 1996, in which it was adjudged and decreed that "the parties shall consummate the merger agreement, as promptly as possible consistent with applicable law and regulations governing such transactions."

Except as to those matters specifically addressed above, the foregoing waivers shall not prejudice any rights of First Federal or NationsBank under the Agreement, including without limitation the separate Orders of the Superior Court of Glynn County, Georgia dated December 16, 1994 or October 11, 1996.

By signing below, NationsBank and First Federal each agrees to the foregoing and acknowledges compliance by the other with the notice provisions of Section 11.8 of the Agreement.

Sincerely yours,

FIRST FEDERAL SAVINGS BANK OF
BRUNSWICK, GEORGIA

By: /S/ Ben T. Slade III
Ben T. Slade III

Chairman of the Board



Acknowledged and agreed to this 17th day of January, 1997.

NATIONSBANK CORPORATION

By: /s/ Kenneth D. Lewis
_________________________
Kenneth D. Lewis
President

(logo) FIRST FEDERAL SAVINGS BANK
OF BRUNSWICK, GEORGIA

January 17, 1997

Mr. Kenneth D. Lewis
President
NationsBank Corporation
NationsBank Corporate Center
100 North Tryon Street
Charlotte, North Carolina 28255-0065

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1. NationsBank and First Federal mutually agree that, to reduce the number of regulatory filings and related costs, the acquisition of First Federal by NationsBank should be accomplished by the organization of an interim federal stock savings bank as a direct wholly owned subsidiary of NationsBank and the merger of that entity with and into First Federal, which shall be the surviving entity. Therefore, NationsBank and First Federal each hereby waives any and all obligations of the other to comply with any and all of the provisions of Amendment Number One to the Agreement, and each hereby waives any and all conditions precedent to the obligations of the other in connection with such waived provisions.





2. NationsBank and First Federal each hereby waives any and all rights under Section 10.1(c) of the Agreement and any and all obligations of the other to comply with any and all of the provisions of Amendment Number Two, and each hereby waives any and all conditions precedent to the obligations of the other in connection with such waived provisions. In so waiving these provisions, NationsBank and First Federal each acknowledge the Order and Judgement of the Superior Court for the County of Glynn, State of Georgia, dated October 11, 1996, in which it was adjudged and decreed that "the parties shall consummate the merger agreement, as promptly as possible consistent with applicable law and regulations governing such transactions."

Except as to those matters specifically addressed above, the foregoing waivers shall not prejudice any rights of First Federal or NationsBank under the Agreement, including without limitation the separate Orders of the Superior Court of Glynn County, Georgia dated December 16, 1994 or October 11, 1996.

By signing below, NationsBank and First Federal each agrees to the foregoing and acknowledges compliance by the other with the notice provisions of Section 11.8 of the Agreement.

Sincerely yours,

FIRST FEDERAL SAVINGS BANK OF
BRUNSWICK, GEORGIA

By: /S/ Ben T. Slade III
Ben T. Slade III

Chairman of the Board



Acknowledged and agreed to this 17th day of January, 1997.

NATIONSBANK CORPORATION

By: /s/ Kenneth D. Lewis
_________________________
Kenneth D. Lewis
President

(logo) FIRST FEDERAL SAVINGS BANK
OF BRUNSWICK, GEORGIA

January 17, 1997

Mr. Kenneth D. Lewis
President
NationsBank Corporation
NationsBank Corporate Center
100 North Tryon Street
Charlotte, North Carolina 28255-0065

RE; Amended and Restated Agreement and Plan of Reorganization, dated as of November 20, 1989, as amended by Amendment Number One, dated as of August 20, 1990 ("Amendment Number One"), and Amendment Number Two, dated as of December 19, 1990 ("Amendment Number Two"), by and between NationsBank Corporation (as successor to The Citizens and Southern Corporation, et al.) and First Federal Savings Bank of Brunswick, Georgia (together, the "Agreement")--Waiver of Certain Provisions

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BRUNSWICK, GEORGIA

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Ben T. Slade III

Chairman of the Board



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Kenneth D. Lewis
President

(logo) FIRST FEDERAL SAVINGS BANK
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January 17, 1997

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777 Gloucester Street o Brunswick, Georgia 31520-1706 o (912) 265-1410

o Facsimile (912) 267-6546

Reply To: Post Office Box 1877 o Brunswick, Georgia 31521-1877



2. NationsBank and First Federal each hereby waives any and all rights under Section 10.1(c) of the Agreement and any and all obligations of the other to comply with any and all of the provisions of Amendment Number Two, and each hereby waives any and all conditions precedent to the obligations of the other in connection with such waived provisions. In so waiving these provisions, NationsBank and First Federal each acknowledge the Order and Judgement of the Superior Court for the County of Glynn, State of Georgia, dated October 11, 1996, in which it was adjudged and decreed that "the parties shall consummate the merger agreement, as promptly as possible consistent with applicable law and regulations governing such transactions."

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BRUNSWICK, GEORGIA

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Ben T. Slade III

Chairman of the Board



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NATIONSBANK CORPORATION

By: /s/ Kenneth D. Lewis

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Kenneth D. Lewis
President

EXHIBIT 2.7

(logo) FIRST FEDERAL SAVINGS BANK
OF BRUNSWICK, GEORGIA

January 17, 1997

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President
NationsBank Corporation
NationsBank Corporate Center
100 North Tryon Street
Charlotte, North Carolina 28255-0065

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Ben T. Slade III

Chairman of the Board



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Kenneth D. Lewis
President

(logo) FIRST FEDERAL SAVINGS BANK
OF BRUNSWICK, GEORGIA

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President
NationsBank Corporation
NationsBank Corporate Center
100 North Tryon Street
Charlotte, North Carolina 28255-0065

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777 Gloucester Street o Brunswick, Georgia 31520-1706 o (912) 265-1410

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Reply To: Post Office Box 1877 o Brunswick, Georgia 31521-1877



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BRUNSWICK, GEORGIA

By: /S/ Ben T. Slade III
Ben T. Slade III

Chairman of the Board



Acknowledged and agreed to this 17th day of January, 1997.

NATIONSBANK CORPORATION

By: /s/ Kenneth D. Lewis
_________________________
Kenneth D. Lewis
President

EXHIBIT 5.1

SMITH HELMS MULLISS & MOORE, L.L.P.
Attorneys at Law
Charlotte, North Carolina

Mailing Address
Post Office Box 31247
Charlotte, N.C. 28231-1247

Street Address
214 North Church Street
Charlotte, N.C. 28202

Telephone 704/343-2000
Facsimile 704/334-8467

January 22, 1997

NationsBank Corporation
NationsBank Corporate Center
100 North Tryon Street
Charlotte, North Carolina 28255

RE: Registration Statement on Form S-4 Related to 1,224,200 Shares of NationsBank Common Stock

Ladies and Gentlemen:

We have acted as counsel to NationsBank Corporation, a North Carolina corporation (the "Corporation"), in connection with the registration under the Securities Act of 1933, as amended, pursuant to the Registration Statement on Form S-4 (the "Registration Statement") filed with the Securities and Exchange Commission (the "Commission") on January 22, 1997 related to 1,224,200 shares of the Corporation's common stock (the "Shares") to be issued by the Corporation in connection with the merger of Interim First Federal Savings Bank of Brunswick, Charlotte, North Carolina, a wholly owned subsidiary of the Corporation, with and into First Federal Savings Bank of Brunswick, Georgia, a Federally chartered stock savings bank (the "Merger"). This opinion letter is Exhibit 5.1 to the Registration Statement.

In rendering this opinion, we have reviewed resolutions of the Board of Directors of the Corporation approving the Merger and issuance of the Shares.

Based on the foregoing, we are of the opinion that the Shares are legally authorized, and when the Registration Statement shall have been declared effective by order of the Commission and such Shares shall have been issued upon the terms and conditions set forth in the Registration Statement, then the Shares shall be validly issued, fully paid and nonassessable.

We hereby consent (1) to be named in the Registration Statement and in the prospectus contained therein as attorneys who passed upon the legality of the Shares and (2) to the filing of a copy of this opinion as Exhibit 5.1 to the Registration Statement.

Very truly yours,

/s/ SMITH HELMS MULLISS & MOORE, L.L.P.

EXHIBIT 10.4

MCALPIN & HENSON
Attorneys at Law
A Professional Corporation
550 Pharr Road, N.E.
Suite 540
Atlanta, Georgia 30305
404-816-1101
Facsimile: 404-816-1109

November 8, 1996

Mr. John J. Rogers
First Federal Savings Bank
of Brunswick
777 Gloucester Street
P.O. Box 1877
Brunswick, Georgia 31521-1877

Dear John:

At your request, this letter supplements those terms set forth in the draft letter I prepared for you to send to Frank Gentry.

1. First, we have agreed that our fee will not exceed the amount that would have been paid under the September 1991 letter agreement. My calculations show that NationsBank stock must drop significantly before this begins to come into effect, but if that does happen, the fee would be reduced to the amount covered by the previous agreement. In whatever amount the fee was reduced under these circumstances, that amount would be paid to the shareholders either in the form of a special dividend or additional shares. I think I can safely say that we all hope that these circumstances do not arise.

2. Because the write down in attorney fees is being used to fund the management contracts, if for any reason any portion of the management contracts are not paid to the four persons named, then that money will be paid to McAlpin & Henson. Again, I think we can safely say this is a remote possibility.

Also, in reviewing the reference to stock splits and stock dividends on page 3 of the draft to Gentry, I noticed that this did not reference the change on page 2 that makes stock a portion of the attorney fees. When you finalize the letter, please add the phrase "and attorney fees" to the second sentence on page 3 of the draft.

Finally, I have also enclosed another draft to Gentry that addresses his comment regarding the tax issue.



- --------------------

Please let me know if there are any other issues you want me to address.

Sincerely yours,

McALPIN & HENSON, P.C.

/s/ Carlton M. Henson
- -----------------------
Carlton M. Henson

EXHIBIT 10.4

MCALPIN & HENSON
Attorneys at Law
A Professional Corporation
550 Pharr Road, N.E.
Suite 540
Atlanta, Georgia 30305
404-816-1101
Facsimile: 404-816-1109

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- -----------------------
Carlton M. Henson

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Carlton M. Henson

EXHIBIT 23.3

CONSENT OF ERNST & YOUNG LLP

We consent to the reference to our firm under the caption "Experts" in the Registration Statement (Form S-4) and related prospectus of NationsBank Corporation for the registration of 1,224,200 shares of its common stock and to the incorporation by reference therein of our report dated January 18, 1996 (except for the pooling of interests with Fourth Financial Corporation as of January 31, 1996, and Note 3, for which the date is January 31, 1996) with respect to the supplemental consolidated financial statements of Boatmen's Bancshares, Inc. for the three years ended December 31, 1995, 1994, and 1993 incorporated by reference in NationsBank Corporation's Current Report on Form 8-K dated September 6, 1996 (as amended by Form 8-K/A-1 on September 11, 1996, and Form 8-K/A-2 on November 13, 1996), as filed with the Securities and Exchange Commission.

ERNST & YOUNG LLP

St. Louis, Missouri
January 22, 1997

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ERNST & YOUNG LLP

St. Louis, Missouri
January 22, 1997

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each of NationsBank Corporation, and the several undersigned Officers and Directors thereof whose signatures appear below, hereby makes, constitutes and appoints Paul J. Polking and Charles M. Berger, and each of them acting individually, its, his and her true and lawful attorneys with power to act without any other and with full power of substitution, to execute, deliver and file in its, his or her name and on its, his and her behalf, and in each of the undersigned Officer's and Director's capacity or capacities as shown below, (a) a Registration Statement of NationsBank Corporation on Form S-4 (or other appropriate form) with respect to the registration under the Securities Act of 1933, as amended, of up to 1,500,000 shares of common stock of NationsBank Corporation to be issued in exchange for shares of common stock , par value $1.00 per share, of First Federal Savings Bank of Brunswick, Georgia, upon consummation of the proposed merger of Interim First Federal Savings Bank of Brunswick, Charlotte, North Carolina, an interim federal stock savings bank and wholly owned subsidiary of NationsBank, with and into First Federal and any and all documents in support thereof or supplemental thereto and any and all amendments, including any and all post-effective amendments, to the foregoing (hereinafter called the "Registration Statement") and (b) such registration statements, petitions, applications, consents to service of process or other instruments, any and all documents in support thereof or supplemental thereto, and any and all amendments or supplements to the foregoing, as may be necessary or advisable to qualify or register the securities covered by said Registration Statement under such securities laws, regulations or requirements as may be applicable; and each NationsBank Corporation and said Officers and Directors hereby grants said attorneys and to each of them, full power and authority to do and perform each and every act and thing whatsoever as said attorneys or attorney may deem necessary or advisable to carry out fully the intent of this power of attorney to the same extent and with the same effect as NationsBank Corporation might or could do as each of said Officers and Directors might or could do personally in his or her capacity or capacities as aforesaid, and each of NationsBank Corporation and said Officers and Directors hereby ratifies and confirms all acts and things which said attorneys or attorney might do or cause to be done by virtue of this power of attorney and its, his or her signature as the same may be signed by said attorneys or attorney, or any of them, to any or all of the following (and/or any and all amendments and supplements to any or all thereof): such Registration Statement under the Securities Act of 1933, as amended, and all such registration statements, petitions, applications, consents to service of process and other instruments, and any and all documents in support thereof or supplemental thereto, under such securities laws, regulations and requirements as may be applicable.

IN WITNESS WHEREOF, NationsBank Corporation has caused this power of attorney to be signed on is behalf, and each of the undersigned Officers and Directors in the capacity or capacities noted has hereunto set his or her hand as of the date indicated below.

NationsBank Corporation
(Registrant)

By: /s/ Hugh L. McColl, Jr.
-----------------------------------
Hugh L. McColl, Jr.
Chairman of the Board and
Chief Executive Officer

Dated: December 17, 1996

<TABLE>
<CAPTION>

| Signature | Title | Date |
|---|---|---|
| <S> | <C> | <C> |
| /s/ Hugh L. McColl, Jr.<br>- -------------------------------<br>Hugh L. McColl, Jr. | Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer) | December 17, 1996 |
| /s/ James H. Hance, Jr.<br>- -------------------------------<br>James H. Hance, Jr. | Vice Chairman and Chief Financial Officer (Principal Financial Officer) | December 17, 1996 |
| /s/ Marc D. Oken<br>- -------------------------------<br>Marc D. Oken | Executive Vice President and Chief Accounting Officer (Principal Accounting Officer) | December 17, 1996 |
| /s/ Ronald W. Allen | Director | December 17, 1996 |

| | | |
|---|---|---|
| Ronald W. Allen | | |
| /s/ Ray C. Anderson<br>Ray C. Anderson | Director | December 17, 1996 |
| /s/ William M. Barnhardt<br>William M. Barnhardt | Director | December 17, 1996 |
| /s/ Thomas E. Capps<br>Thomas E. Capps | Director | December 17, 1996 |
| /s/ Charles W. Coker<br>Charles W. Coker | Director | December 17, 1996 |
| /s/ Thomas G. Cousins<br>Thomas G. Cousins | Director | December 17, 1996 |
| /s/ Alan T. Dickson<br>Alan T. Dickson | Director | December 17, 1996 |
| /s/ W. Frank Dowd, Jr.<br>W. Frank Dowd, Jr. | Director | December 17, 1996 |
| /s/ Paul Fulton<br>Paul Fulton | Director | December 17, 1996 |
| /s/ Timothy L. Guzzle<br>Timothy L. Guzzle | Director | December 17, 1996 |

</TABLE>



<TABLE>
<CAPTION>

| Signature | Title | Date |
|---|---|---|
| <S> | <C> | <C> |
| /s/ W. W. Johnson<br>W. W. Johnson | Director | December 17, 1996 |
| John J. Murphy | Director | |
| /s/ John C. Slane<br>John C. Slane | Director | December 17, 1996 |
| /s/ O. Temple Sloan, Jr.<br>O. Temple Sloan, Jr. | Director | December 17, 1996 |
| /s/ John W.Snow<br>John W. Snow | Director | December 17, 1996 |
| /s/ Meredith R. Spangler<br>Meredith R. Spangler | Director | December 17, 1996 |
| /s/ Robert H. Spilman<br>Robert H. Spilman | Director | December 17, 1996 |
| /s/ Ronald Townsend<br>Ronald Townsend | Director | December 17, 1996 |

| | | |
|---|---|---|
| /s/ E.Craig Wall, Jr.<br>- ------------------------------<br>E. Craig Wall, Jr. | Director | December 17, 1996 |
| /s/ Jackie M. Ward<br>- ------------------------------<br>Jackie M. Ward | Director | December 17, 1996 |
| /s/ Virgil R. Williams<br>- ------------------------------<br>Virgil R. Williams | Director | December 17, 1996 |



NATIONSBANK CORPORATION
BOARD OF DIRECTORS
RESOLUTIONS

ACQUISITION OF FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA

DECEMBER 17, 1996

WHEREAS, the Superior Court of Glynn County, Georgia (the "Court") has entered an Order dated December 16, 1994 and an Order dated October 11, 1996 (the "Orders") obligating NationsBank Corporation (the "Corporation") to specifically perform the terms of an Acquisition Agreement (as defined below) between the Corporation (as successor to C&S/Sovran Corporation ("C&S/Sovran")) and First Federal Savings Bank of Brunswick, Georgia ("First Federal"); and

WHEREAS, the Acquisition Agreement is deemed to include the following documents: Agreement and Plan of Reorganization, dated as of April 19, 1988, among NationsBank (as successor to C&S/Sovran) and First Federal; Amended and Restated Agreement and Plan of Reorganization, dated as of November 20, 1989, among NationsBank (as successor to C&S/Sovran) and First Federal; Amendment Number One to the Amended and Restated Agreement and Plan of Reorganization, dated as of August 20, 1990, among NationsBank (as successor to C&S/Sovran) and First Federal; Amendment Number Two to the Amended and Restated Agreement and Plan of Reorganization, dated as of December 19, 1990, among NationsBank (as successor to C&S/Sovran) and First Federal; the Orders; letter from First Federal to NationsBank, dated November 12, 1996; and draft letter to be sent from First Federal to NationsBank waiving certain provisions of the Agreement (the "Waiver Letter"); and

WHEREAS, pursuant to the Agreement, the Corporation will purchase all of the outstanding capital stock of First Federal pursuant to a merger of an interim federal stock savings bank subsidiary of the Corporation with and into First Federal (the "Acquisition"); and

WHEREAS, the purchase price for the Acquisition will be paid in shares of the Corporation's common stock (the "NationsBank Common Stock") in accordance with the terms of the transaction as described to the Board of Directors and to be reflected in the provisions of the Acquisition Agreement; and

WHEREAS, it is deemed to be advisable and in the best interests of the Corporation to effect the Acquisition;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Corporation hereby approves the Acquisition and the other transactions contemplated in connection therewith, which has been negotiated and evidenced by the Acquisition Agreement, including the issuance of NationsBank Common Stock in exchange for the outstanding shares of First Federal capital stock (the "First Federal Stock") upon consummation of the Acquisition; and

RESOLVED FURTHER, that the Board of Directors of the Corporation hereby determines that the First Federal Stock as the consideration to be received by the Corporation in exchange for shares of NationsBank Common Stock is adequate; and

RESOLVED FURTHER, that the Board of Directors of the Corporation hereby authorizes the appropriate officers of the Corporation to perform the Acquisition Agreement; and

RESOLVED FURTHER, that the appropriate officers of the Corporation are hereby authorized, empowered and directed, subject to the terms and conditions of the Acquisition Agreement, to do any and all things necessary to effectuate and consummate the transactions contemplated by the Acquisition Agreement as may be prescribed by law or as they may deem necessary or advisable; to prepare all documentation and to effect all filings and obtain appropriate permits, consents, approvals and authorizations of all third parties, including the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, the Georgia Department of Banking and Finance and any other applicable federal or state regulatory authority; and to execute personally or by attorney-in-fact such required filings or amendments or supplements to such required filings, and otherwise to cause such filings and any amendments thereto to become effective or otherwise approved; and

RESOLVED FURTHER, that the appropriate officers of the Corporation are hereby authorized, empowered and directed to do any and all things necessary, appropriate or convenient to cause an interim federal stock savings bank (or any other subsidiary) to be organized as a subsidiary of the Corporation for purposes of effecting the Acquisition by means of a merger of such interim



federal stock savings bank with and into First Federal (or for any other form of merger, acquisition or consolidation); and

RESOLVED FURTHER, that the appropriate officers of the Corporation are hereby authorized, empowered and directed to vote any shares of any subsidiary of the Corporation (other than those shares held by any subsidiary in a fiduciary capacity, in which event the fiduciary shall make all decisions related to such shares, including whether or not and how to vote any shares held by it in such capacity) as may be necessary to effect the consummation of the Acquisition; and

RESOLVED FURTHER, that the Corporation hereby reserves, sets aside and authorizes for issuance up to 1,500,000 shares of the authorized but unissued shares of NationsBank Common Stock (the "Shares"), and that the appropriate officers of the Corporation are hereby authorized and empowered to cause the Corporation to issue the Shares, or such portion thereof, as may be necessary in connection with the conversion and exchange of the First Federal Stock, as well as outstanding stock options of First Federal, if any, in accordance with the provisions of such conversion and exchange as set forth in the Acquisition Agreement; and

RESOLVED FURTHER, that the appropriate officers of the Corporation are hereby authorized, empowered and directed to convert any rights with respect to First Federal Stock pursuant to stock options which are outstanding as of the closing of the Acquisition into rights with respect to NationsBank Common Stock, such conversion and the terms of any converted stock options to be in accordance with the terms of the Acquisition Agreement; and

RESOLVED FURTHER, that, in connection with the issuance of the Shares pursuant to the Acquisition Agreement, the appropriate officers of the Corporation are hereby authorized, empowered and directed to execute and file with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-4 (or such other form as such officers, upon advice of counsel, may determine to be necessary or appropriate) under the Securities Act of 1933, as amended (the "Securities Act"), to execute and file all such other instruments and documents, and to do all such other acts and things in connection with the Registration Statement, including the execution and filing of such amendment or amendments (including any post-effective amendments) thereto, as they may deem necessary or advisable to effect such filings and to procure the



effectiveness of the Registration Statement (and any such post-effective amendments thereto) and to make such supplements to the Proxy Statement-Prospectus forming a part of said Registration Statement as may be required or otherwise as they may deem advisable; and

RESOLVED FURTHER, that Paul J. Polking and Charles M. Berger, and each of them with full power to act without the other, are hereby authorized and empowered to sign the aforesaid Registration Statement and any amendment or amendments thereto (including any post-effective amendments) on behalf of and as attorneys for the Corporation and on behalf of and as attorneys for any of the following: the Principal Executive Officer, the Principal Financial Officer, the Principal Accounting Officer and any other officer of the Corporation; and

RESOLVED FURTHER, that Paul J. Polking is hereby designated as Agent for Service of the Corporation with all such powers and functions as are provided by the General Rules and Regulations of the Commission under the Securities Act and the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and

RESOLVED FURTHER, that the Shares, when issued and distributed in accordance with and pursuant to the Acquisition Agreement, shall be fully paid and non-assessable and the holders of such Shares shall be subject to no further call or liability with respect thereto; and

RESOLVED FURTHER, that the appropriate officers of the Corporation are hereby authorized, empowered and directed, in the name of and on behalf of the Corporation, to take all such actions and to execute all such documents as such officers may deem necessary or appropriate for compliance with the Securities Act or the Exchange Act in connection with the transactions contemplated by the Acquisition Agreement; and

RESOLVED FURTHER, that the listing of the Shares to be issued pursuant to the Acquisition Agreement on the New York Stock Exchange, the Pacific Stock Exchange and the London Stock Exchange hereby is approved, and that the appropriate officers of the Corporation are hereby authorized, empowered and directed, with the assistance of counsel, to prepare, execute and file listing applications and any requests for determinations as to the application of certain rules to the Acquisition with the New York



Stock Exchange, the Pacific Stock Exchange and the London Stock Exchange and to take all actions necessary or appropriate to effect such listings and requests; and

RESOLVED FURTHER, that it is desirable and in the best interests of the Corporation that the Shares to be issued in accordance with and pursuant to the Acquisition Agreement be qualified or registered for distribution in various states where appropriate, that the Chairman and Chief Executive Officer, the Chief Financial Officer, any Executive Vice President, any Senior Vice President or any Associate General Counsel and the Secretary or any Assistant Secretary hereby are authorized, empowered and directed to determine the states in which appropriate action shall be taken to qualify or register for distribution the Shares as such officers may deem advisable; that said officers are hereby authorized, empowered and directed to perform on behalf of the Corporation any and all such acts as they may deem necessary or advisable in order to comply with the applicable laws of any such states, and in connection therewith to execute and file all requisite papers and documents, including, without limitation, resolutions, applications, reports, surety bonds, irrevocable consents and appointments of attorneys for service of process; and the execution by such officers of any such paper or document or the doing by them of any act in connection with the foregoing matters shall establish conclusively their authority therefor from the Corporation and the approval and ratification by the Corporation of the papers and documents so executed and the actions so taken; and

RESOLVED FURTHER, that the foregoing officers are hereby authorized, empowered and directed to do any and all things which in their judgment may be necessary or appropriate to obtain a permit, exemption, registration or qualification for, and a dealer's license with respect to, the distribution of the Shares in accordance with and under the securities or insurance laws of any one or more of the states as such officers may deem advisable, and in connection therewith to execute, acknowledge, verify, deliver, file and publish all applications, reports, resolutions, consents, consents to service of process, powers of attorneys, commitments and other papers and instruments as may be required under such laws and to take any and all further action which they may deem necessary or appropriate to secure and to maintain such permits, exemptions, registrations and qualifications in effect for so long as they shall deem in the best interests of the Corporation; and



RESOLVED FURTHER, that the appropriate officers of the Corporation are hereby authorized, if they deem it necessary or advisable, to appoint Chase Mellon Shareholder Services, L.L.C., transfer agent and registrar for the Shares; that, if so appointed, Chase Mellon Shareholder Services, L.L.C., will be vested with all the power and authority as transfer agent and registrar with respect to the Shares as it has heretofore been vested with for the shares of NationsBank Common Stock currently issued and outstanding; and that, if determined to be necessary or advisable by the appropriate officers of the Corporation, Chase Mellon Shareholder Services, L.L.C., may be appointed exchange agent for the Acquisition; and

RESOLVED FURTHER, that the Board of Directors of the Corporation hereby adopts, as if expressly set forth herein, the form of any resolution required by any authority to be filed in connection with any applications, consents to service, issuer's covenants or other documents, applications, reports or filings relating to the foregoing resolutions if (i) in the opinion of the officers of the Corporation executing same, the adoption of such resolutions is necessary or desirable and (ii) the Secretary or an Assistant Secretary of the Corporation evidences such adoption by inserting in the minutes of this meeting copies of such resolutions, which will thereupon be deemed to be adopted by the Board of Directors of the Corporation with the same force and effect as if presented at this meeting; and

RESOLVED FURTHER, that the appropriate officers of the Corporation hereby are authorized, empowered and directed to do any and all things necessary, appropriate or convenient to carry into effect the foregoing resolutions, including the execution and delivery of all such instruments, agreements, certificates, reports, applications, notices, letters and other documents.



CERTIFICATE OF SECRETARY

I, Allison L. Gilliam, Assistant Secretary of NationsBank Corporation, a corporation duly organized and existing under the laws of the State of North Carolina (the "Corporation"), do hereby certify that the foregoing is a true and correct copy of the resolutions duly adopted by the Board of Directors of the Corporation at a meeting of the Board of directors held on December 17, 1996, at which meeting a quorum was present and acting throughout and that said resolution is in full force and effect and has not been amended or rescinded as of the date hereof.

IN WITNESS WHEREOF, I have hereupon set my hand and affixed the seal of the Corporation as of this 13th day of January, 1997.

/S/ ALLISON L. GILLIAM
Assistant Secretary

(CORPORATE SEAL)



</TABLE>

OFFICE OF THRIFT SUPERVISION
Washington, D.C. 20552

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

| | |
|---|---|
| For the Fiscal Year Ended September 30, 1996 | Office of Thrift Supervision Docket Number: 3175 |

FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Chartered by the Office of Thrift Supervision under the laws of the United States (State or other jurisdiction of incorporation or organization) | 58-0175025 (I.R.S. Employer Identification No.) |
| 777 Gloucester Street, Brunswick, Georgia (Address of principal executive offices) | 31520 (Zip Code) |

Registrant's telephone number, including area code: (912) 265-1410

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 $1.00 per share
(Title of Class)

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

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant is $83,031,444, based on the price at which shares of Common Stock were sold on December 24, 1996.

As of December 24, 1996 there were issued and outstanding 1,499,939 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the 1996 Annual Report to Stockholders for year ended September 30, 1996 are incorporated into Part II, Items 5 - 9 of this Annual Report on Form 10-K.

2. Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on January 22, 1997, to be filed with the Office of Thrift Supervision pursuant to Regulation 14A within 120 days of the registrant's fiscal year end are incorporated into Part III, Items 10 - 13 of this Annual Report on Form 10-K.

# PART I

## Item 1. Business

### General

First Federal Savings Bank of Brunswick, Georgia ("Brunswick") began its operations in 1926 as a Georgia-chartered building and loan association. Brunswick converted to a federal savings and loan association in 1935, conducting its business under the name of Brunswick Federal Savings and Loan Association, and changed its name to First Federal Savings and Loan Association of Brunswick in 1959. Brunswick converted to a federal mutual savings bank on December 5, 1983, and became a federal capital stock savings bank on July 21,

1984. Brunswick is subject to supervision and regulation by the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC"), and its deposits are insured through the Savings Association Insurance Fund ("SAIF") of the FDIC. Brunswick's operations are conducted from its headquarters, two branch offices in Brunswick, and two branch offices on St. Simons Island, Georgia.

Brunswick primarily engages in the business of attracting deposits from the general public and investing those funds in real estate, commercial and consumer loans.

Lending Activities

General. As a federally chartered thrift institution, Brunswick may invest in real estate loans throughout the United States. Brunswick has, however, limited its lending area primarily to Southeast Georgia. Historically, Brunswick's lending activities have concentrated on the origination of conventional permanent loans on single-family dwellings and, to a lesser degree, on construction loans for residential dwellings. Brunswick's loans are predominantly conventional loans, i.e., loans that are not insured by the Federal Housing Administration ("FHA") or guaranteed by the Veterans Administration ("VA").

In recent years Brunswick has sought to increase the amount of construction, commercial, and consumer loans in its portfolio. The shorter term and the normally higher interest rates available on these loans are consistent with Brunswick's efforts to shorten the term of its loan portfolio and to improve the spread between the average yield on its assets and its cost of funds. In addition, in an effort to increase the interest-sensitivity of Brunswick's loan portfolio, Brunswick offers a variety of adjustable-rate loan products. By originating adjustable-rate loans, management believes that Brunswick is better able to match increases in the rates paid on its liabilities with increased rates received on its assets.

First Mortgage Loans. On September 30, 1996, Brunswick held in its loan portfolio approximately $150.3 million of first mortgage loans (including $19.9 million in construction loans) secured by one-to four-family residential units, which represented 71.6% of its total net loan portfolio. As of that date, Brunswick also held $42.3 million, or 20.2% of its total net loan portfolio of first mortgage loans secured by commercial real estate, multi-family residential property and land. For purposes of this discussion, the term "net" when used with respect to Brunswick's total loan portfolio, means (i) net of loans in process, deferred loan fees and other, and the allowance for possible loan losses and (ii) inclusive of mortgage loans held for sale.

Reflecting prior federal regulations, approximately $67 million or 37.7% of Brunswick's total mortgage loans due subsequent to one year after September 30, 1996 provided for fixed rates of interest and for repayment of principal over a fixed period. Regulatory changes in recent years have provided substantial flexibility to federally chartered institutions such as Brunswick in structuring the terms of mortgage loans to adjust more easily to changes in interest rates. These regulations permit, among other things, mortgage loans



to be written for shorter maturities and at adjustable interest rates, as compared to longer term, fixed rate mortgage instruments. Approximately $110 million or 62.3% of Brunswick's total mortgage loans due subsequent to one year after September 30, 1996 were adjustable rate loans, compared to 67.4% and 63.2% due subsequent to one year after September 30, 1995 and 1994, respectively. The adjustable-rate loans that are currently being made have terms of 30 years or 15 years and interest rate adjustment periods of one or three years. However, the extent of this interest-sensitivity is limited by annual and lifetime "caps" on interest rate adjustments. The terms of such loans also increase the likelihood of delinquencies in periods of high interest rates, particularly if such loans are offered with initial discounted interest rates. Generally, Brunswick offers adjustable-rate mortgage loans with annual adjustment caps of 2.0% and lifetime adjustment caps of 6.0%.

Permanent residential mortgage loans originated by Brunswick have generally been 30-year fixed and adjustable rate loans amortized on a monthly basis with principal and interest due monthly. Based upon historical experience, these loans generally have average lives of approximately 12 years. Most of the residential loans originated by Brunswick are conventional loans. Brunswick's permanent loans on commercial real estate have been 15 to 25 year loans with principal and interest due monthly. The loans generally have a three or five year adjustable rate or balloon feature.

Construction Loans. As of September 30, 1996, construction loans totalled $21.6 million, or 10.3% of Brunswick's net total loan portfolio. This amount is

composed of $19.9 million of construction loans secured by one- to four-family residential units. In past years, Brunswick has solicited construction loans for a variety of structures, including residences, nursing homes, strip shopping centers, medical buildings, warehouses, condominiums and motels. Generally, the loans are made for six to 12 months at interest rates tied to the prime rate and adjusted monthly. Because of certain lending restrictions based on the amount of the institution's regulatory capital, Brunswick sometimes sells participations in the construction loans that it originates. Brunswick also makes combined construction and permanent loans.

Commercial Loans. A federally chartered savings institution is permitted to invest up to 10% of its assets in commercial loans not secured by real estate. Brunswick makes commercial loans for purposes such as working capital, inventory accumulations, equipment acquisition and similar purposes. These loans are either made at a fixed rate of interest or at an interest rate tied to a regional bank's prime rate, with rate adjustments at monthly, annual or less frequent intervals. At September 30, 1996, commercial loans totalled approximately $7.4 million, or 3.5% of Brunswick's total net loan portfolio.

Consumer Loans. A federally chartered savings institution is permitted to make secured and unsecured consumer loans up to 35% of the institution's assets. Certain consumer loans may be made without being included in the 35% limitation. At September 30, 1996, Brunswick's consumer loans included $1.5 million of loans secured by deposit accounts at Brunswick, $9.6 million of consumer loans (including unsecured loans, boat loans, automobile loans, equipment loans and educational loans) and $17.3 million of home equity loans secured in part by a mortgage on the borrower's home. At September 30, 1996, all consumer loans comprised 13.6% of Brunswick's total net loan portfolio. Home equity consumer loans generally have adjustable rates of interest tied to a regional bank's prime rate, with monthly rate adjustments. Other consumer loans are generally made for a term of three to five years and have fixed rates of interest. Brunswick also offers lines of credit secured by home equity. This type of loan, which is made at an interest rate at a margin above the prime rate that adjusts monthly, is intended to combine both high quality and high yield.



The composition of Brunswick's loan portfolio at the end of the fiscal years during the three-year period ended September 30, 1996 is set forth below. At September 30, 1996, Brunswick's total net loan portfolio represented 84.2% of its total assets.
<TABLE>
<CAPTION>

| | At September 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| <S> <C> | | | |
| Conventional real estate loans: | | | |
| Interim construction loans ............... | $ 21,564,508 | $ 12,951,880 | $ 11,016,556 |
| Loans on existing property ............... | 129,083,083 | 140,932,677 | 136,781,662 |
| Loans refinanced ......................... | 31,803,954 | 9,439,855 | 10,234,595 |
| Insured or guaranteed real estate loans............................ | 446,415 | 507,609 | 564,504 |
| Commercial loans........................... | 7,441,666 | 4,512,256 | 5,046,800 |
| Consumer loans | | | |
| Education loans........................... | 48,490 | 74,523 | 106,314 |
| Savings account loans..................... | 1,525,713 | 1,379,482 | 1,262,012 |
| Home improvement loans.................... | 17,279,232 | 15,836,687 | 14,018,318 |
| Others.................................... | 9,585,484 | 6,866,660 | 5,183,438 |
| Total loans receivable................. | $218,778,545 | $192,501,629 | $184,214,199 |
| Less: | | | |
| Undisbursed loans in process............... | $ 7,279,329 | $ 4,212,944 | $3,458,863 |
| Deferred loan fees and other............... | 830,384 | 763,316 | 925,589 |
| Allowance for possible loan losses ............................ | 800,786 | 861,356 | 812,585 |
| Total net loan portfolio........... | $209,868,046 | $186,664,013 | $179,017,162 |
| Type of Security: | | | |
| Residential real estate | | | |
| Single-family............................ | $ 150,261,872 | $ 136,233,631 | $124,195,721 |
| 2-to-4 family............................ | 3,323,157 | 5,074,844 | 5,754,995 |

| | | | |
|---|---|---|---|
| Other dwelling units...................... | 4,255,430 | 2,324,341 | 2,971,440 |
| Commercial or industrial real estate ........................... | 42,336,733 | 36,035,892 | 39,693,479 |
| Savings accounts.......................... | 1,525,713 | 1,379,482 | 1,262,012 |
| Other..................................... | 17,075,640 | 11,534,439 | 10,336,552 |
| Total loans receivable.................. | $218,778,545 | $192,501,629 | $184,214,199 |
| Less: | | | |
| Undisbursed loans in process............... | 7,279,329 | 4,212,944 | 3,458,863 |
| Deferred loan fees and other............... | 830,384 | 763,316 | 964,957 |
| Allowance for possible loan losses.............................. | 800,786 | 861,356 | 812,585 |
| Total net loan portfolio ........... | $209,868,046 | $186,664,013 | $179,017,162 |

</TABLE>

FIRREA makes applicable to savings associations the current national bank limits on loans to one borrower. Generally, national banks may lend to a single or related group of borrowers, on an unsecured basis, an amount equal to 15% of its unimpaired capital and surplus. An additional amount, equal to 10% of unimpaired capital and surplus, may be loaned if such loan is secured by readily marketable collateral, which is defined to include certain securities and bullion, but generally does not include real estate. Under such provisions, as of September 30, 1996, Brunswick could lend to a single borrower and its related entities



on an unsecured basis an amount not to exceed $3.9 million. Also, as of such date, it could lend an additional $2.6 million secured by readily marketable collateral. As of September 30, 1996, the amount outstanding to the largest single borrower of Brunswick was approximately $3.3 million.

Loan Originations. Loan originations were approximately $91.9 million for the year ended September 30, 1996. Loan originations come from a number of sources. Most real estate loans are attributable to walk-in customers at Brunswick's offices, real estate brokers and referrals by a mortgage broker. In addition, Brunswick has solicited applications for consumer loans through newspaper advertisements.

Each loan is underwritten by qualified personnel in Brunswick's main office, and independent appraisers are engaged to appraise property intended to secure real estate loans. The underwriting procedures of Brunswick are intended to assess a borrower's ability to repay the loan and the value of any collateral property. Loan applications must be reviewed and approved by authorized officers or directors in accordance with Brunswick's loan policy. After a loan application is approved, Brunswick customarily gives the applicant a commitment to make the loan at any time within 30 days thereafter on terms determined on the basis of market conditions as of the date of the commitment. Commitments for longer periods are issued at rates to be set at the time of closing, and, generally, a 1% commitment fee is charged.

Federal regulations require boards of directors of federally chartered savings institutions to establish their own loan-to-value ratios for loans made on the security of real estate, subject to certain conditions. The regulations provide that an institution must require appropriate credit enhancement in the form of mortgage insurance or readily marketable collateral for all owner-occupied family or home equity loans which at the time of origination are in excess of 90% of the appraised value of the collateral property. Brunswick makes permanent residential mortgage loans with up to a 95% loan-to-value ratio. Brunswick usually lends up to 75% of the appraised value for construction loans on commercial real estate and 80% of the appraised value for permanent loans on commercial real estate.

Although Brunswick continues to originate long-term fixed-rate loans, most of the loans are originated with documentation and underwriting guidelines which will allow their sale in the secondary market to the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC"). All other long-term loans originated by Brunswick are adjustable-rate loans.

Brunswick includes due-on-sale provisions in its permanent real estate loans. Due-on-sale clauses give Brunswick the right to declare a loan immediately due and payable in the event that the borrower sells the property securing the mortgage. This provides Brunswick with a means of increasing the interest rate on existing low interest fixed-rate loans. It is Brunswick's

policy to waive the due-on-sale clause, subject to the approval of the borrower, and to increase the interest rate to the market rate of interest at the time of the sale if the loan is saleable or to charge an adjustable rate of interest if it is not saleable. The effect of this policy, however, is essentially the same as enforcing the due-on-sale clause.

Brunswick requires title insurance to insure the priority of its property lien on its mortgage loans. It also requires fire and casualty insurance to be maintained on all security property in amounts at least equal to the principal balance on the loans.



The following table sets forth certain information at September 30, 1996, regarding the dollar amount of loans maturing in Brunswick's portfolio based on their contractual terms to maturity. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less.

Principal Repayments Contractually Due in the Year(s) Ending September 30,

<TABLE>
<CAPTION>

(Dollars in Thousands)

<S> <C>

| | 1997 | 1998 | 1999 | 2000 2001 | 2002 2006 | 2007 2011 | 2012 and there-after | Total |
|---|---|---|---|---|---|---|---|---|
| Real estate mortgage....... | $14,038 | $ 6,855 | $2,231 | $7,603 | $20,928 | $44,617 | $65,061 | $161,333 |
| Real estate construction... | 21,565 | 0 | 0 | 0 | 0 | 0 | 0 | 21,565 |
| Consumer................... | 4,888 | 3,675 | 3,526 | 7,118 | 8,580 | 605 | 47 | 28,439 |
| Commercial................. | 1,801 | 618 | 844 | 1,055 | 3,124 | 0 | 0 | 7,442 |
| Total.................... | $42,292 | $11,148 | $6,601 | $15,776 | $32,632 | $45,222 | $65,108 | $218,779 |

</TABLE>

The following table sets forth the dollar amount of all loans due more than one year after September 30, 1996, which have pre-determined interest rates and have floating or adjustable interest rates.

<TABLE>
<CAPTION>

(Dollars in Thousands)

<S> <C>

| | Predetermined Rates | Floating or Adjustable Rates |
|---|---|---|
| Real estate mortgage................ | $51,781 | $ 95,514 |
| Real estate construction............ | -- | -- |
| Consumer............................ | 13,971 | 9,580 |
| Commercial.......................... | 825 | 4,816 |
| Total......................... | $66,577 | $109,910 |

</TABLE>

In comparison, at September 30, 1995, Brunswick had total loans due more than one year after such date with predetermined interest rates and floating or adjustable interest rates of approximately $56.5 million and $104.1 million, respectively.

Loan Purchases and Sales. Most of the loans in Brunswick's portfolio have been originated by Brunswick. However, prior to 1986, Brunswick purchased construction or adjustable-rate mortgage loans during periods when it was unable to originate a sufficient amount of such loans to meet its intended investment goals. After fiscal year 1985, Brunswick deemphasized such activities because management believed that there was a lack of such loans that met Brunswick's underwriting standards.

Brunswick is active in the sale of participations and whole loans in the secondary market to thrift institutions, commercial banks, FNMA and FHLMC. Participations in construction loans are sold particularly to ensure compliance with regulatory limitations on investment in loans to a single borrower. Brunswick also sells loans to provide additional funds for lending or to reduce Brunswick's investment in long-term, fixed-rate mortgage loans. Brunswick also

has exchanged participating interests in pools of mortgage loans. From time to time, Brunswick converts additional amounts of its fixed-rate, long-term mortgage loans into mortgage-backed securities through similar transactions. The purpose of these transactions is to convert the loans into marketable securities which can be easily sold for cash or used as collateral for borrowings. Brunswick did not sell any loans with recourse against Brunswick in fiscal years 1996, 1995, and 1994. At September 30,



1996, Brunswick was servicing approximately $133.3 million in loans for others, on which it receives an average of 27% per annum in servicing fees.

The Bank sells loans on a cash gain or loss basis, a method which does not necessitate the creation of an excess servicing balance upon sale. The Bank has continued this policy during fiscal year 1996, and generally all gains (losses) recorded during fiscal year 1996 reflect such treatment.

Set forth below is a table showing Brunswick's loan origination, purchase, and sales for the periods indicated.

<TABLE>
<CAPTION>

| | Year Ended September 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| <S> <C> | | | |
| Loans Originated: | | | |
| Conventional real estate loans: | | | |
| Construction loans............. | $18,367,505 | $11,274,329 | $14,069,125 |
| Loans on existing property ..................... | 30,886,985 | 49,630,201 | 51,947,624 |
| Loans refinanced ............. | 33,423,992 | 10,392,350 | 22,627,910 |
| Other Loans (1) ................ | 9,246,959 | 9,128,733 | 7,263,905 |
| Total Loans Originated................... | $91,925,441 | $80,425,613 | $95,908,564 |
| Loans Sold: | | | |
| Participation loans............. | $ 950,000 | $ -0- | $ -0- |
| Whole Loans (2) ................ | 32,330,171 | 12,019,672 | 33,500,598 |
| Total loans sold.............. | $33,280,171 | $12,019,672 | $33,500,598 |

</TABLE>

- -------------------

(1) Includes consumer loans on a net change basis. Total consumer loan originations, including multiple rollovers of short term credits, for the fiscal years 1996, 1995, and 1994 were $25,263,332, $22,500,501, and $20,400,473, respectively.

(2) Fiscal year 1996 amount includes $6,445,235 in loans exchanged with the Federal Home Loan Mortgage Corporation for mortgage-backed securities.

Income from Lending Activities. Brunswick's primary source of income is from the interest earned on the loans that it has in its loan portfolio. Interest rates charged on loans originated by Brunswick are primarily determined by the level of prevailing interest rates, the availability of lendable funds, the demand for such loans and competitive conditions.

In addition to interest earned on loans, Brunswick receives fees in connection with loan originations, long-term commitments to lend funds and the servicing of loans sold by Brunswick. Brunswick also receives other income relating to existing loans in its portfolio, including loan prepayment penalties, late charges and fees collected in connection with loan modifications. Income realized from these sources varies significantly from period to period with the volume and types of loans made in response to competitive factors.

At September 30, 1996, Brunswick had $690,856 in deferred mortgage loan fees. Pursuant to Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 91, loan fees and costs are deferred and amortized net as an adjustment of yield over the life of the related loan.

Nonperforming Assets. Brunswick's collection procedures on delinquent loans provide that the borrower will be contacted by mail and payment will be requested when a loan payment is 15 days past due and again after 30 days. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower by telephone. If the loan continues in a delinquent status for 90 days, Brunswick generally will initiate foreclosure proceedings. Any property acquired by Brunswick as a result of foreclosure or by deed in lieu of foreclosure is then sold to recover all or part of Brunswick's investment.

The table below sets forth the amounts and categories of Brunswick's non-performing assets, as computed by Brunswick.

<TABLE>
<CAPTION>

| | At September 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| <S> <C> | | | |
| Non-accrual loans (1) | $261,193 | $ 788,116 | $1,080,021 |
| Restructured Loans (2) | 779,706 | 1,143,462 | 776,959 |
| Real estate owned (3) | 954,904 | 2,208,679 | 1,743,374 |
| Total non-performing assets | 1,995,803 | 4,140,257 | 3,600,354 |
| Potential problem loans (4) | 2,904,673 | 210,416 | 1,422,471 |
| Total non-performing assets and potential problem loans | $4,900,476 | $4,350,673 | $5,022,825 |
| Non-performing assets and potential problem loans as a percentage of assets | 1.97% | 1.72% | 2.17% |

</TABLE>

- --------------------

(1) Generally refers to (i) certain loans (based primarily on the age of the loans) that are contractually delinquent for 60 to 90 days, or (ii) certain mortgage loans on which taxes on the security property are delinquent for two or more years.

(2) Refers to certain loans wherein concessions have been granted to the borrower(s) for economic reasons related to the borrower's financial difficulties, as defined by FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring."

(3) Refers to real estate acquired by Brunswick through foreclosure or voluntary deed.

(4) Potential problem loans are those loans that management has identified as having certain characteristics that could impair the ability of the borrower to comply with the present loan repayment terms and that may result in such loans being placed on non-accrual status or becoming a troubled debt restructuring, or real estate owned in the future. These loans are generally 60 days past due and are monitored by management to facilitate further attention if necessary.

Also, at September 30, 1996, Brunswick had 10 properties that were real estate owned, which were composed of five residential and five commercial properties. The five residential properties consist of one



apartment building having a value of $47,109, one developed tract of residential lots valued at $45,932, and one individual residential lot valued at $4,979. Residential properties also include two single family units valued at $27,953 in aggregate, net of amounts owned by investors. Of the five commercial properties, three represent improved properties having a value in aggregate of $303,708. The remaining commercial properties consist of two developed parcels of land having values of $212,034 and $313,189, respectively. The properties are recorded at the lower of cost or fair value at the date of acquisition and are carried at the lower of acquisition value or net realizable value subsequent to the date of acquisition. If the amount is less than cost, the difference is charged to operations.

Loans on which accrual of interest has been discontinued amounted to

approximately $1.0 million at September 30, 1996. If interest on these loans had been accrued in accordance with the original contractual terms, such income for the year ended September 30, 1996 would have approximated $32,000. Interest payments on these loans of approximately $100,000 were received and recorded as interest income in the year ended September 30, 1996.

Provision and Allowance for Probable Loan Losses. The following table sets forth an analysis of loan losses for the periods indicated:
<TABLE>
<CAPTION>

| | Year Ended September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> <C> | | | |
| Balance at beginning of period.......................... | $834,882 | $786,111 | $869,297 |
| Provision for possible loan losses....................... | 240,000 | 195,000 | 180,000 |
| Amounts charged off................ | (299,318) | (189,497) | (300,605) |
| Recoveries......................... | 25,222 | 43,768 | 37,419 |
| Balance at end of period............................. | $800,786 | $834,882 | $786,111 |

</TABLE>

Management establishes an allowance for probable loan losses based upon management's evaluation of the pertinent factors underlying the types and quality of loans, current and anticipated economic conditions, collection experience, detailed analysis of individual loans to which full collectibility may not be assured, and determination of the existence and realizable value of the collateral and guarantees securing such loans. At September 30, 1996, Brunswick had $800,786 in general and $-0- in specific reserves for potential losses. Brunswick's total reserves at September 30, 1996 were allocated at approximately 43%, 25% and 32% to its three primary loan types, i.e., first mortgages, commercial loans, and consumer loans, respectively. Management believes that the allowance for probable loan losses was adequate at September 30, 1996. Although management believes that it uses the best information available to make determinations with respect to loan loss reserves, subsequent adjustments to reserves may be necessary if future economic conditions differ substantially from the assumptions used in making the initial determinations.

SFAS No. 114 and 118. On October 1, 1994, Brunswick adopted Statements of Financial Accounting Standards No. 114 and 118 ("SFAS 114 and 118"). These Statements address the accounting by creditors for impairment of certain loans. The Statements generally require Brunswick to identify loans for which Brunswick probably will not receive full payment of principal and interest, as impaired loans. The Statements require that impaired loans be valued at the present value of expected future cash flows, discounted at the loan's effective interest rate, or at the observable market price of the loan, or the fair value of the underlying collateral if the loan is collateral dependent. Brunswick has implemented the Statements by modifying its periodic review of the adequacy of the allowance for loan losses to also identify in value impaired loans in accordance with guidance in the Statements. The adoption of the Statements did not have any material effect on the results of operations for the year ended September 30, 1996.



For impairment recognized in accordance with SFAS 114 and 118, the entire change in the present value of expected cash flows, or the entire change in estimated fair value of collateral for collateral dependent loans, is reported as a provision for credit losses in the same manner in which impairment was initially recognized or as a reduction in the amount of the provision that otherwise would be reported. Brunswick maintains an allowance for the possible loss of accrued but uncollected interest on impaired loans when management believes that the collection of the interest is doubtful. If the ultimate collectibility of principal, either in whole or in part, is in doubt, any payment received on a loan for which the accrual of interest has been discontinued is applied to reduce principal to the extent necessary to eliminate such doubt. If the ultimate collectibility of principal is not in doubt, interest is credited to income in the period of recovery.

The following summarizes the September 30, 1996 amounts that were reclassified as a result of Brunswick adopting SFAS 114 and 118, the amounts of impaired loans at September 30, 1996, and the average net investment in impaired loans and interest income recognized and received on impaired loans during the years ended September 30, 1996 and 1995:

<TABLE>

<CAPTION>

| | September 30, 1996 |
|---|---|
| <S> <C> | |
| Insubstance foreclosures reclassified to loans receivable | $ 0 |
| Allowance for loss on insubstance foreclosures reclassified to allowances for losses | 0 |
| Loans identified as impaired: | |
| Gross loans with no related allowance for losses | 779,706 |
| Gross loans with related allowance for losses recorded | 0 |
| Less: Allowances on these loans | 0 |
| | ---------- |
| Net investment in impaired loans | 779,706 |

</TABLE>
<TABLE>
<CAPTION>

| | Year Ended September 30 1996 | 1995 |
|---|---|---|
| | ------------ | ----------- |
| <S> <C> | | |
| Average investment in impaired loans | $ 951.646 | $ 831,869 |
| Interest income recognized on impaired loans | 78,466 | 113,610 |
| Interest income received on impaired loans | 78,466 | 85,169 |

</TABLE>

Other Investment Activities

Brunswick invests in short-term and long-term government securities primarily for the purpose of meeting the federal regulation requiring savings institutions to maintain a ratio of cash and short-term securities to net withdrawable deposit accounts and short-term borrowings of 5%. At September 30, 1996, Brunswick maintained a liquidity ratio of 8.4%. See "Regulation and Supervision -- Liquidity." It has been Brunswick's policy to maintain liquidity above the required amounts.



Investment Securities and Mortgage-Backed Securities

Brunswick's investment securities at September 30, 1996, 1995, and 1994 consisted of U.S. Government treasury and agency and tax-free municipal obligations. The carrying values and estimated market values of investment securities on the dates indicated were as follows:

| | Amortized Cost | Estimated Market Value |
|---|---|---|
| September 30, 1996 | $ 8,032,109 | $ 8,024,132 |
| September 30, 1995 | $ 16,353,511 | $ 16,488,815 |
| September 30, 1994 | $ 15,976,701 | $ 15,815,769 |

At September 30, 1996, Brunswick had unrealized gains and losses in its investment securities portfolio of $33,366 and $41,343, respectively, as compared to unrealized gains and losses at September 30, 1995 of $156,286 and $20,982, respectively. At September 30, 1996, Brunswick had unrealized gains and losses of $3,612 and $246,354, respectively, as compared to unrealized gains and losses of $77,895 and $89,917, respectively, at September 30, 1995 on mortgage-backed securities.

The amortized cost and estimated market values of debt securities held as investments at September 30, 1996, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

<TABLE>
<CAPTION>

| | Amortized Cost | Estimated Market Value |
|---|---|---|
| <S> <C> | | |
| Due in one year or less | $3,004,145 | $3,010,320 |
| Due after one year through five years | 4,027,964 | 4,040,681 |
| Due after five years through ten years | 1,000,000 | 973,131 |

| | | |
|---|---|---|
| Due after ten years | -- | -- |
| | $8,032,109 | $8,024,132 |
| Mortgage-backed securities | 8,582,633 | 8,339,891 |
| | $16,614,742 | $16,364,023 |

</TABLE>

Sources of Funds

General. Savings accounts and other types of deposits have traditionally been the primary source of funds for Brunswick's lending activities and for other general business purposes. In addition, Brunswick derives funds from loan repayments and Federal Home Loan Bank ("FHLB") advances, as well as other borrowings. Loan repayments are a relatively stable source of funds while deposit inflows and outflows vary widely and are influenced by prevailing interest rates and market conditions. Borrowings may be used to compensate for 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. Brunswick offers a variety of savings programs and related services. Deposits are obtained primarily from the communities in which Brunswick's offices are located. Brunswick does not advertise outside of these areas and does not solicit deposits from brokers. It offers premiums on certain accounts in order to attract funds.

Savings deposits in Brunswick as of September 30, 1996, were represented by the various types of savings programs set forth below.
<TABLE>
<CAPTION>

| Category | Interest Rate (1) | Minimum Term | Minimum Balance | Total Amount | Percentage of Savings |
|---|---|---|---|---|---|
| <S> <C> | | | | | |
| Now Account-Non Interest | None | None | $ -- | $ 10,099,015 | 4.63% |
| Now Account | 2.25% | None | 50 | 21,309,582 | 9.77 |
| Passbook Statement Account | 2.50% | None | 50 | 20,104,167 | 9.22 |
| Wall Street Checking | 2.25%(3) | None | 2,500 | 4,161,181 | 1.91 |
| Money Market Deposit Account | 2.25%(4) | None | 2,500 | 10,570,806 | 4.85 |
| Commercial Check-Interest | 2.25% | None | 50 | 5,525,179 | 2.53 |
| Commercial Checking | None | None | 50 | 7,729,774 | 3.55 |
| Gold Edge | 2.50% | 90 days | 50 | 524,762 | .24 |
| | | | | $ 80,024,466 | 36.70% |
| Certificates of Deposit: | | | | | |
| Fixed-Term - Fixed-Rate | 5.50% | 48 months | 500 | 7,415,705 | 3.40 |
| Fixed-Term - Fixed-Rate | 5.30% | 12 months | 500 | 46,392,962 | 21.27 |
| Fixed-Term - Fixed-Rate | 5.30% | 18 months | 500 | 3,297,778 | 1.51 |
| 6-Month Money Market | 5.00% | 182 days | 1,000 | 12,758,797 | 5.85 |
| 3-Month Money Market | 4.25% | 91 days | 1,000 | 2,142,585 | .98 |
| Fixed-Term - Fixed-Rate | 5.50% | 36 months | 500 | 5,756,833 | 2.64 |
| Negotiated Jumbo | 5.30%(2) | 1-12 mos. | 100,000 | 27,261,881 | 12.50 |
| Fixed-Term - Fixed-Rate | 5.30% | 24 months | 500 | 15,676,559 | 7.19 |
| Fixed-Term - Fixed-Rate | * % | 30 months | NONE | 163,335 | .08 |
| Fixed-Term - Fixed-Rate | 5.50% | 60 months | 500 | 17,184,958 | 7.88 |
| | | | | 138,051,393 | 63.30 |
| | | | | $218,075,859 | 100.00% |

* Plan no longer offered

</TABLE>

(1) Rates offered as of September 30, 1996.
(2) Rate on 12-month term.
(3) Rate tiers up to 3.00%.
(4) Rate tiers up to 3.50%.



The following table sets forth the time deposits in Brunswick classified

by rates being paid as of the dates indicated.

<TABLE>
<CAPTION>

| <S> <C> | At September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| 1.75% - 3.75% | $ 325,001 | $ 658,691 | $ 25,931,085 |
| 3.76% - 5.75% | 72,406,637 | 31,124,375 | 62,478,823 |
| 5.76% - 7.75% | 64,594,186 | 111,556,545 | 27,855,210 |
| 7.76% - 9.75% | 334,156 | 608,452 | 1,795,672 |
| 9.76% - 11.75% | 391,413 | 451,427 | 529,075 |
| 11.76% - 13.75% | -0- | -0- | 78,433 |
| | $138,051,393 | $144,399,490 | $118,668,298 |

</TABLE>

The following table sets forth the amount and maturities of time deposits in Brunswick at September 30, 1996.

<TABLE>
<CAPTION>

| Rate | Less than One Year | 1-2 Years | Amount Due 2-3 Years | 3 Years and Thereafter | Total |
|---|---|---|---|---|---|
| <S> <C> | | | | | |
| 2 - 4% | $ -0- | $ 135,344 | $ 221,393 | $ -0- | $ 356,737 |
| 4 - 6% | 1,086,629 | 77,439,888 | 12,390,921 | 7,532,768 | 98,450,206 |
| 6 - 8% | 5,329,589 | 17,702,328 | 8,656,900 | 6,895,066 | 38,583,883 |
| 8 - 10% | -0- | 52,307 | 567,885 | -0- | 620,192 |
| 10 - 12% | -0- | -0- | 40,375 | -0- | 40,375 |
| - | | | | | |
| | $6,416,218 | $95,329,867 | $21,877,474 | $14,427,834 | $138,051,398 |

</TABLE>

As part of its strategy to maintain its interest rate sensitivity within desired tolerances, Brunswick periodically seeks to lengthen the term of its liabilities so as to match such liabilities with assets of similar terms. Brunswick seeks to attract such deposits through advertising campaigns and by offering competitive rates, gifts and incentives to employees.



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

<TABLE>
<CAPTION>

| <S> | Year Ended September 30, 1996 <C> | 1995 <C> | 1994 |
|---|---|---|---|
| Deposits......................... | $1,268,795,400 | $1,144,975,849 | $1,063,073,724 |
| Withdrawals ..................... | 1,282,953,549 | 1,131,564,224 | 1,065,862,680 |
| Net cash increase (decrease) before interested credited........... | (14,158,149) | 13,411,625 | (2,788,956) |
| Interest credited................ | $9,428,012 | $ 8,678,990 | 6,957,844 |
| Net increase (decrease) in deposits...................... | $ (4,730,137 | $ 22,090,615 | $ 4,168,888 |

</TABLE>

The following table sets forth time deposits of $100,000 or more (jumbo deposits) by remaining time to maturity, as of September 30, 1996.

| | |
|---|---|
| 0 - 3 months.......................... | $ 7,198,719 |
| 4 - 6 months.......................... | 5,316,189 |
| 7 - 12 months.......................... | 8,844,676 |
| Greater than 12 months.......................... | 10,639,697 |

$31,999,281
==========

Borrowings. Brunswick periodically obtains funds through borrowings from the FHLB of Atlanta. At September 30, 1996, Brunswick had $1,500,000 in advances at interest rates ranging from 7.90% to 7.91% compared to advances of $2,200,000 and $4,000,000 at September 30, 1995 and 1994, respectively. FHLB borrowings have been made on the security of Brunswick's FHLB stock, mortgage-backed securities, investment securities and cash. Brunswick had no other short-term borrowings during fiscal years 1996, 1995, and 1994.

A savings institution is required to be a "qualified thrift lender" in order to have full access to FHLB advances. Generally, an institution must have at least 65% of its portfolio assets invested in housing and housing related investments in order to qualify. As of September 30, 1996, Brunswick satisfied the qualified thrift lender test. For information regarding the "qualified thrift lender" requirements, see "Regulation and Supervision" below.

Interest Rate Comparison and Profitability

Brunswick's earnings are affected by its "spread", that is, the difference between the rate of return on its loan and investment portfolios and its cost of money (consisting principally of interest paid on savings deposits and on borrowings). The return on its loan portfolio changes primarily as a result of the rates and volumes of new and existing loans, and the return on its investment portfolio depends on the interest rates paid on such securities and the amount of funds invested. The cost of money is primarily dependent on short-term interest rates, which are subject to volatile movements. Expanded investment authority and the ability to make adjustable rate mortgage loans has provided Brunswick with better means to match the maturities of its assets and liabilities.

Brunswick has implemented a number of measures in recent years in an effort to make the yields on its loan and investment portfolios more responsive to changes in its cost of money. These steps include an emphasis on consumer, construction and other short-term or variable rate loans, and efforts to reduce the amount of long-term, fixed-rate real estate loans with low interest rates in Brunswick's portfolio. Moreover,



substantially all long-term, fixed-rate loans currently being originated are being sold in the secondary market. In addition, Brunswick is trying to solicit deposits with longer terms, to increase core deposits and to match assets with liabilities to the extent possible.

The following tables set forth for the periods and at the dates indicated the weighted average yields earned on Brunswick's assets and the weighted average interest rates paid on Brunswick's liabilities (e.g., deposits and borrowings), together with the net spread on interest-earning assets for the periods indicated (loan portfolio data includes mortgage-backed securities and non-accrual loans) and selected performance ratios.

<TABLE>
<CAPTION>

| | Year Ended September 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| <S> <C> | | | |
| Weighted average yield on loan portfolio.................... | 8.64% | 8.68% | 8.10% |
| Weighted average yield on mortgage-backed securities........................... | 6.74 | 6.99 | 6.84 |
| Weighted average yield on investment securi- ties ............................ | 6.56 | 6.43 | 5.81 |
| Weighted average yield on other investments................. | 5.65 | 6.36 | 4.24 |
| Weighted average yield on all interest-earning assets ............................ | 8.31 | 8.27 | 7.62 |
| Weighted average rate paid on savings deposits............................ | 4.66 | 4.40 | 3.71 |
| Weighted average rate paid on FHLB advances................ | 6.96 | 5.87 | 5.99 |
| Weighted average rate paid on short-term borrowings....... | 2.25 | 2.50 | -- |
| Weighted average rate | | | |

| | | | |
|---|---|---|---|
| paid on all interest-bearing liabilities | 4.69 | 4.42 | 3.77 |
| Net yield on average interest earning assets | 4.05 | 4.21 | 4.16 |
| Return on assets | .86 | 1.28 | 1.42 |
| Return on equity | 8.31 | 12.82 | 13.89 |
| Equity to assets | 10.31 | 10.01 | 9.80 |



<CAPTION>

<S> <C>

| | At September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| Weighted average yield on loan portfolio | 8.62% | 8.59% | 8.34% |
| Weighted average yield on mortgage-backed securities | 6.44 | 6.99 | 6.88 |
| Weighted average yield on investment securities | 6.48 | 6.41 | 6.08 |
| Weighted average yield on other investments | 5.47 | 5.74 | 4.77 |
| Weighted average yield on all interest-earning assets | 8.30 | 8.08 | 7.90 |
| Weighted average rate paid on savings deposits | 4.43 | 4.81 | 3.77 |
| Weighted average rate paid on FHLB advances | 7.91 | 6.82 | 6.32 |
| Weighted average rate paid on all interest-bearing liabilities | 4.46 | 4.83 | 3.82 |
| Net spread on average interest earning assets | 3.84 | 3.25 | 4.08 |
| Equity to assets ratio | 10.45 | 10.07 | 10.24 |

</TABLE>



The following table sets forth certain information regarding changes in interest income and interest expense of Brunswick for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume of assets or liabilities outstanding (changes in volume multiplied by old rate), (ii) changes in the interest rate earned or paid on those balances (changes in rate multiplied by old volume), and (iii) a combination of changes in rate and volume (change in rate multiplied by the change in volume).

<TABLE>
<CAPTION>

<S> <C>

| | Year Ended September 30, 1996 vs. 1995 Increase (Decrease) Due to | | | 1995 vs. 1994 Increase (Decrease) Due to | | | 1994 vs. 1993 Increase (Decrease) Due to | | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | Volume | Rate | Rate/ Volume | Volume | Rate | Rate/ Volume | Volume | Rate | Rate/ Volume |
| Interest earning assets: | | | | | | | | | |
| Loans | $1,359 | $(75) | $(6) | $643 | $1,043 | $46 | $1,074 | $(434) | $(34) |
| Mortgage-backed | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| securities................. | 242 | (29) | (8) | (6) | 18 | -- | 108 | (38) | (6) |
| Investment securities....... | (232) | 20 | (5) | (119) | 109 | (13) | (372) | (154) | 38 |
| Other interest.............. earning assets............. | (174) | (121) | 19 | 162 | 281 | 81 | 57 | 71 | 10 |
| Total interest earning assets .................... | 893 | 93 | 4 | 736 | 1,446 | 63 | 811 | (467) | (23) |
| Interest bearing liabilities: | | | | | | | | | |
| Savings deposits............ | 397 | 544 | 24 | 375 | 1,375 | 70 | 274 | (654) | (23) |
| Advances from the FHLB....................... | (62) | 39 | (11) | (96) | (6) | 2 | 72 | (30) | (8) |
| Short-term borrowings....... | -- | (1) | -- | -- | -- | 3 | -- | -- | -- |
| Total interest-bearing liabilities................ | 334 | 576 | 20 | 337 | 1,328 | 58 | 325 | (668) | (27) |

</TABLE>

Service Corporation Activities

Federally chartered thrift institutions may invest in service corporations as a vehicle to engage in securities, real estate development and other activities that may not be directly permissible. Brunswick is permitted to invest an amount equal to 3% of its assets in its service corporation. In addition, a federal thrift institution meeting its applicable minimum regulatory capital requirements may invest, but subject to restrictions on loans to one borrower, up to 50% of the institution's total capital in conforming loans to service corporations.

Brunswick formed a wholly owned service corporation, First Shelter Service Corporation ("First Service"), in 1971 primarily for the purpose of providing appraisal and construction inspection services to Brunswick. In the past, First Shelter had engaged in limited land development and joint venture activities, in addition to providing appraisal and construction inspection services. At present, First Shelter is inactive. As of September 30, 1996, the net book value of Brunswick's investment in its service corporation, which consisted of its investment in the stock and accumulated undistributed retained earnings of the service corporation, was approximately $304,000 or .12% of assets.



Regulation and Supervision

General. Brunswick is a member of the FHLB system ("FHLB System") and its deposit accounts are insured up to applicable limits by the SAIF of the FDIC. Brunswick is subject to extensive regulation by the OTS and the FDIC and must file reports with the OTS 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 depository institutions. The OTS conducts periodic examinations to determine Brunswick's compliance with various regulatory requirements.

In 1989, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") was enacted. This law was designed to reduce the number of problem savings and loan associations, to recapitalize the thrift insurance fund, and to reform and reorganize the regulatory structure applicable to savings associations that were regulated by the Federal Home Loan Bank Board ("FHLBB") prior to FIRREA. Under FIRREA, the Federal Savings and Loan Insurance Corporation ("FSLIC") was dissolved and the SAIF was created as the new insurance fund for savings institutions. The insurance fund for commercial banks was renamed the Bank Insurance Fund ("BIF"), the assets of which are not commingled with those of the SAIF. The OTS, which replaced the FHLBB and is the primary federal regulator for all thrift institutions, is a bureau of the Department of the Treasury.

In 1991, a comprehensive deposit insurance and banking reform plan, the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), became law. FDICIA, which was enacted to recapitalize the BIF, effects a number of regulatory reforms that impact both savings institutions and banks. FDICIA authorizes the regulators to take prompt corrective action to solve the problems of critically undercapitalized institutions. As a result, the banking regulators are required to take certain supervisory actions against undercapitalized

institutions, the severity of which increases as an institution's level of capitalization decreases. Pursuant to FDICIA, the federal banking agencies have established the levels at which an insured institution is considered to be "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." See "Capital Requirements" below for a discussion of the applicable levels. In addition, FDICIA requires each federal banking agency to establish standards relating to internal controls, information systems, and internal audit systems that are designed to assess the financial condition and management of the institution; loan documentation; credit underwriting; interest rate exposure; asset growth; and compensation, fees and benefits. FDICIA lowered the qualified thrift lender (QTL) investment percentage applicable to SAIF-insured institutions. FDICIA further requires annual on-site full examinations of depository institutions, with certain exceptions, and annual reports on institutions' financial and management controls.

The following material summarizes certain of the regulatory requirements applicable to Brunswick.

Federal Home Loan Bank System. The FHLB System, which consists of 12 regional FHLBs, provides a central credit facility primarily for member institutions. As a member of the FHLB of Atlanta, Brunswick is required to acquire and hold shares of capital stock in that FHLB in an amount at least equal to the greater of 1% of the aggregate principal amount of Brunswick's unpaid residential mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 5% of its aggregate outstanding advances (borrowings) from the FHLB of Atlanta. As of September 30, 1996, Brunswick was in compliance with this requirement, with an investment in FHLB of Atlanta stock of approximately $1.6 million.

The FHLB of Atlanta serves as a reserve or central bank for the member institutions within its assigned region. It is funded primarily from the sale of consolidated obligations of the FHLB System. It makes advances to members in accordance with policies and procedures established by the Federal Housing Finance Board and the Board of Directors of the FHLB of Atlanta. At September 30, 1996, Brunswick had $1.5 million in advances from the FHLB of Atlanta, at interest rates ranging from 7.90% to 7.91%. The advances will mature by January 27, 1997.



Liquidity. Brunswick is required to maintain an average daily balance of liquid assets (cash, balances maintained in or passed through to a Federal Reserve Bank, certain time deposits, certain bankers' acceptances, specified United States government, state or Federal agency obligations, shares of certain mutual funds, certain corporate debt securities, certain commercial paper, and certain mortgage-related securities) equal to a monthly average of not less than a specified percentage of its net withdrawable accounts plus borrowings payable on demand or in one year or less ("Short Term Borrowings"). This liquidity requirement may be changed from time to time by the Director of the OTS ("Director") to between 4% to 10%; it is currently 5%. OTS regulations also require each member savings institution to maintain an average daily balance of short-term liquid assets at a specified percentage (currently 1%) of the total of its net withdrawable accounts and short-term borrowings. Monetary penalties may be imposed for failure to meet those liquidity requirements. The daily average liquidity of Brunswick for September 1996 was 10.47% and exceeded the then-applicable 5% liquidity requirement. Its short-term daily average liquidity ratio for September 1996 was 4.14% and exceeded the then-applicable 1% short-term liquidity requirement.

In addition, Federal Reserve regulations generally require that reserves of 3% be maintained against aggregate transaction accounts of $49.3 million or less (subject to adjustment by the Federal Reserve), and that an initial reserve of 10% (subject to adjustment by the Federal Reserve between 8% and 14%) be maintained against that portion of total transaction accounts in excess of such amount. In addition, the Federal Reserve may require an initial reserve of between 0% and 9% to be maintained on nonpersonal time deposits with, or regarded as having, an original maturity of less than one and one-half (1.5) years. Money market deposit accounts are subject to the reserve requirement applicable to nonpersonal time deposits when not held by a natural person. The first $4.4 million of otherwise reservable balances (subject to adjustments by the Federal Reserve) are exempted from the reserve requirements.

The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements that may be imposed by the OTS. Because required reserves must be maintained in the form of either vault cash, a non-interest-bearing account at a Federal Reserve Bank, or a "pass-through account," as defined by the Federal Reserve, the effect of the reserve requirement is to reduce Brunswick's interest-earning assets.

FHLB System members also are authorized to borrow from the Federal Reserve discount window, but Federal Reserve regulations require institutions to exhaust all FHLB sources before borrowing from a Federal Reserve Bank.

Insurance of Deposit Accounts. Brunswick's deposit accounts are insured by the FDIC to the maximum amount permitted by law, currently $100,000 for each insured account, through the SAIF fund. With respect to assessments paid by associations, the FDIC historically imposed assessments on each association based on the institution's assessment risk classification. The rates ranged from $.23 to $.31 for each $100 of domestic deposits. The rate at which a SAIF member institution paid assessments was determined on the basis of capital and supervisory measures. For the fiscal year ended September 30, 1996, Brunswick's assessment rate was $.23 for each $100 of domestic deposits. On September 30, 1996, legislation was enacted which, among other things, imposed a special one-time assessment on SAIF member institutions, including Brunswick, in order to recapitalize the SAIF and allocate to SAIF and BIF-insured institutions an annual assessment to cover interest payments on Financing Corp. (FICO) bonds issued in the 1980's to assist the thrift industry. The special one-time assessment levied by the FDIC amounts to 65.7 basis points on SAIF assessable deposits held by an institution as of March 31, 1995. SAIF-insured institutions were required to recognize the special assessment, which is tax deductible, as of September 30, 1996. Accordingly, Brunswick took a charge of $2.36 million before taxes as a result of the FDIC special assessment. Beginning on January 1, 1997, SAIF members will pay an annual assessment of 6.4 basis points on SAIF-insured deposits to cover interest payments on the FICO bonds. The FDIC also has proposed a base assessment schedule for SAIF institutions which would range from 4 to 31 basis points, with an adjusted assessment schedule that would immediately reduce those rates by 4 basis points. Accordingly, well-capitalized thrifts, similar to BIF-insured members, would



effectively have an assessment rate of zero for deposit insurance, excepting the FICO assessment of 6.4 basis points discussed above. The new rate would apply to all SAIF-insured institutions beginning January 1, 1997.

The FDIC has the authority to suspend the deposit insurance of any thrift without tangible capital. However, if a thrift achieves positive capital by including qualifying supervisory goodwill, the FDIC cannot suspend deposit insurance unless the FDIC's Board of Directors determines that: (i) the thrift's capital has declined materially; (ii) the thrift is engaging in an unsafe or unsound practice or is in an unsafe or unsound condition; or (iii) the thrift has violated an applicable law, rule, regulation, or order, or any condition imposed by, or written agreement entered into with, a federal banking agency, or has failed to enter timely into an acceptable capital improvement plan. At September 30, 1995, Brunswick had tangible capital of 10.01% of total assets.

Loans to One Borrower and Certain Loan Limits. FIRREA provides that the same limits on loans to one borrower that apply to national banks apply to savings institutions. Generally, a savings association may lend to a single or related group of borrowers, on an unsecured basis, an amount equal to 15% of its unimpaired capital and surplus. An additional amount equal to 10% of unimpaired capital and surplus, may be loaned if secured by readily marketable collateral, which is defined to include securities and bullion, but generally does not include real estate. Notwithstanding such provisions, a savings association may make loans to one borrower (i) for any purpose, up to $500,000, or (ii) to develop domestic residential housing units, up to the lesser $30 million or 30% of the association's unimpaired capital and unimpaired surplus, if certain conditions are satisfied. In addition, a savings association's loans to one borrower to finance a sale of real property acquired in satisfaction of debts previously contracted in good faith may not exceed the 15% limit.

Under the regulations described above, as of September 30, 1996, Brunswick could lend to a single borrower and its related entities on an unsecured basis an amount not to exceed $3.9 million based upon its unimpaired capital and surplus. Also as of that date, it could lend an additional $2.6 million if secured by readily marketable collateral. As of September 30, 1996, the amount outstanding to the largest single borrower of Brunswick was $3.3 million.

FIRREA also imposes limits on a federal savings association's aggregate "nonresidential real property loans." FIRREA generally limits the aggregate amount of "loans on the security of liens upon nonresidential real property" to 400% of the association's capital as determined under the capital standards of FIRREA. FIRREA also permits the Director to allow an association to exceed the aggregate limitation if the Director determines that exceeding the limitation would pose no significant risks to the safe and sound operation of the association, and would be consistent with prudent operating practices.

Qualified Thrift Lender Test. The QTL test generally requires that a savings association's qualified thrift investments equal or exceed 65% of the

association's "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) on a monthly average basis in nine of every twelve months.

"Qualified thrift investments" include all investments related to domestic residential real estate or mobile homes, the book value of property used by the savings association in conducting its business and stock issued by any FHLB. "Investments related to domestic residential real estate" include: home mortgages; homeimprovement loans; other loans on the security of residential real estate; obligations of the FHLB System; investments in deposits of other insured institutions; securities issued or guaranteed by the FHLMC, Federal National Mortgage Association, or Government National Mortgage Association, or issued by the FSLIC Financing Corporation; mortgage servicing rights; and other mortgage-related securities. Investments related to domestic residential real estate also include investment in a corporation, partnership, or trust in proportion to the amount of gross revenues derived by that entity from activities related to domestic housing. In addition to investments related to domestic residential real estate and property used in conducting the association's business, qualified thrift investments also include specified liquid assets and 50% of the residential mortgage



loans originated by the association and sold within 90 days of origination, but those liquid assets and mortgage loans may not exceed 20% of the association's tangible assets.

Any savings institution that fails to become or remain a QTL must either convert to a commercial bank charter or be subject to restrictions specified in the OTS regulations. A savings institution that converts to a bank must pay all SAIF insurance assessments until the date of its conversion to BIF membership. Any such institution that does not become a bank is prohibited from: (i) engaging in any new activity not permissible for a national bank; (ii) paying dividends not permissible under national bank regulations; (iii) obtaining advances from any FHLB; and (iv) establishing any new branch office in a location not permissible for a national bank in the association's home state. In addition, beginning three years after the association failed the QTL test, the association would be prohibited from engaging in any activity not permissible for a national bank and would have to repay any outstanding advances from an FHLB as promptly as possible. A savings institution may requalify as a QTL if it thereafter complies with the QTL test. As of September 30, 1996, Brunswick was in compliance with the QTL test as amended by FDICIA.

Enforcement Powers. Pursuant to FIRREA, the OTS was granted enhanced, extensive enforcement authority over all savings associations. 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. Since the enactment of FIRREA, the OTS has significantly increased the use of written agreements to correct compliance deficiencies with respect to applicable laws and regulations and to ensure safe and sound practices; violations of such written agreements are grounds for initiation of cease and desist proceedings. FIRREA significantly increased the amount of and grounds for civil money penalties assessable against savings associations and "institution-affiliated parties." FDICIA granted the FDIC back-up enforcement authority to recommend enforcement to an appropriate federal banking agency (i.e., the OTS) and to bring such enforcement action against a savings association or an institution-affiliated party if such federal banking agency fails to follow the FDIC's recommendation. In addition, FIRREA requires, except under certain circumstances, public disclosure of final enforcement actions by the OTS. FIRREA also expanded the group of persons subject to administrative enforcement proceedings to include any "institution-affiliated party," including (i) controlling shareholders, (ii) certain persons who participate in the affairs of an institution, and (iii) attorneys, appraisers, and accountants who knowingly or recklessly participate in wrongful action that had or is likely to have an adverse effect on an insured depository institution. The FDIC Act, as amended by FIRREA, provides that an institution-affiliated party may be subject to removal or suspension whenever such person has violated any law, regulation, or order or has engaged in an unsafe or unsound practice that causes the institution to suffer financial loss.

FIRREA substantially increased the civil money penalties that may be assessed for violations of law to as much as $1 million per day. Sentences now range from up to 30 years for most financial institutions-related crimes involving theft, fraud, and embezzlement to as much as life imprisonment in the case of "financial kingpins" who derive more than $5 million from their crimes within a certain period. Federal financial institutions agencies also have the authority to prevent the dissipation of assets wrongfully obtained by institution-affiliated parties and amends federal bankruptcy laws to prevent

such persons from using bankruptcy to avoid payment of civil and criminal money penalties. It also is a crime to knowingly conceal an asset or property from the FDIC or the Resolution Trust Corporation ("RTC") or to obstruct the examination of a financial institution.

FIRREA also expanded the grounds for appointment for a conservator or receiver for a savings association. Grounds for such appointment include: insolvency; substantial dissipation of assets or earnings; existence of an unsafe or unsound condition to transact business; likelihood that the association will be unable to pay its obligations in the normal course of business; and insufficient capital or the likely incurring of losses that will deplete substantially all capital with no reasonable prospect for replenishment. FIDIC added additional grounds for the appointment of a conservator or receiver of a savings association.



As a result of FIRREA and FDICIA, federal regulators have greater flexibility to impose enforcement action on an institution that fails to comply with its regulatory requirements, particularly with respect to the capital requirements. Possible enforcement action ranges from the imposition of a capital plan to the termination of deposit insurance. While the OTS has primary responsibility over savings associations, the FDIC is empowered to recommend enforcement action to the Director. If the Director does not take action, the FDIC has authority to compel such action under certain circumstances.

Capital Requirements. FIRREA and the implementing regulations of the OTS and the FDIC changed the capital requirements applicable to savings associations, including Brunswick, and the consequences of failing to comply with those requirements. The capital standards include (i) a core capital requirement, (ii) a tangible capital requirement, and (iii) a risk-based capital requirement. As described in more detail below, if an association fails to meet any of the three capital standards, it must submit a capital restoration plan to be approved by the OTS. Such failure may also result in the imposition of various restrictions on the association.

The core capital standard requires a savings association to maintain "core capital" of not less than 3% of adjusted total assets. "Core capital" includes common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries, certain nonwithdrawable accounts, pledged deposits of mutual savings associations, and certain goodwill resulting from prior regulatory accounting practices.

While the items mentioned above are included in core capital, intangible assets must be deducted in computing core capital because they are excluded from assets under FIRREA's capital rules. There are exceptions to that rule of deduction, however. Purchased credit card relationships and mortgage servicing rights may be included in core capital, in an amount not in excess of 50% of core capital computed before deducting any disallowed intangible assets or mortgage servicing rights. Purchased mortgage servicing rights, provided that such rights must be valued at the lower of 90% of fair market value to the extent determinable, or current amortized book value, and that any amount written off must be deducted from core capital. Qualifying supervisory goodwill held by an eligible savings association must be deducted from assets in determining core capital. Finally, investments in subsidiaries engaged in activities not permissible for a national bank generally must be deducted from assets in determining core capital.

The tangible capital requirement requires a savings association to maintain tangible capital in an amount not less than 1.5% of adjusted total assets. "Tangible capital" is defined as core capital minus intangible assets. FIRREA authorizes the inclusion of up to 90% of purchased mortgage servicing rights in calculating tangible capital, but OTS regulations prohibit the inclusion of supervisory goodwill in calculating tangible capital.

The risk-based capital requirement requires a savings association to maintain risk-based capital of not less than 8% of risk-weighted assets. Risk-based capital includes core capital and supplementary capital, provided that the amount of supplementary capital counting toward the requirement may not exceed core capital.

In calculating the risk-based capital requirement for a savings association, risk-weighted assets equals total assets plus consolidated off-balance sheet items, where each asset or item is multiplied by the appropriate risk weight as described below. Before an off-balance sheet item is assigned a risk weight, it must be converted to an on-balance sheet credit equivalent amount. That conversion generally is accomplished by multiplying the item by either 100%, 50%, 20%, or 0%, whichever is applicable under the OTS regulations. Each asset and each credit equivalent amount is assigned a risk weight as follows: (i) 0%, for cash and certain government securities; (ii) 20%, for securities of the United States government or its agencies not backed by the full faith and credit of the United States government and for high-quality

mortgage-related securities; (iii) 50%, for certain revenue bonds and qualifying residential mortgage loans; or (iv) 100%, for most other loans.



For purposes of determining the core and tangible capital components, FIRREA requires that investments in certain "nonincludable subsidiaries" be deducted from assets. Nonincludable subsidiaries are generally those engaged in activities not permissible for national banks. However, certain exemptions generally apply where the subsidiary: (i) is engaged in the activities solely as an agent for its customers; (ii) is engaged solely in mortgage-banking activities; (iii) (a) is an insured depository institution or a company whose sole investment is an insured depository institution and (b) was acquired by the association prior to May 1989; or (iv) is a federal savings association that existed as such on August 9, 1989, and was, or acquired its principal assets from, an association that was chartered before October 15, 1982, as a state savings or cooperative bank. At September 30, 1996, Brunswick had no investments in or advances to nonincludable subsidiaries.

OTS regulations provide that a savings association's total capital is equal to its core capital plus its supplementary capital (up to 100% of its core capital). However, in addition to assets otherwise required to be deducted in calculating core capital, reciprocal holdings of depository institution capital instruments must be deducted from assets in determining total capital. In addition, that portion of land and nonresidential construction loans in excess of 80% loan-to-value ratio, as well as all equity investments, must be deducted from assets in determining total capital. At September 30, 1996, Brunswick's investment in the portion of land and nonresidential construction loans in excess of 80% loan-to-value ratio and all equity investments was not significant.

Brunswick must maintain core capital at least equal to 3.0% of total adjusted assets and risk-based capital at least equal to 8.0% of risk-weighted assets. Additionally, Brunswick must maintain tangible capital at least equal to 1.5% of total adjusted assets.

The following table presents Brunswick's capital levels at September 30, 1996, relative to these requirements.

<TABLE>
<CAPTION>

| (Dollars in thousands) | Amount Required | Percent Required | Actual Amount | Actual Percent | Excess Amount |
|---|---|---|---|---|---|
| Core Capital..................... | $7,478 | 3.0% | $26,174 | 10.5% | $18,696 |
| Tangible Capital................. | 3,739 | 1.5 | 26,174 | 10.5 | 22,435 |
| Risk-Based Capital............... | 13,874 | 8.0 | 26,758 | 15.4 (1) | 12,884 |

</TABLE>

(1) Represents risk-based capital as a percentage of risk-weighted assets.

Although those capital ratios exceed the minimum capital requirements imposed by the implementing OTS regulations at September 30, 1996, future events, such as increased interest rates, asset write-downs, or a downturn in the economy in areas where Brunswick has most of its loans, could adversely affect future earnings and, consequently, the ability of Brunswick to meet its future minimum capital requirements.

Savings associations with "above normal" interest rate risk exposure are subject to a deduction from total capital for purposes of calculating their risk-based capital requirements. A savings association's interest rate risk is measured by the decline in the net portfolio value of its assets (i.e., the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts) that would result from a hypothetical 200-basis point increase or decrease in market interest rates (except when the 3-month Treasury bond equivalent yield falls below 4%, then the decrease will be equal to one-half of that Treasury rate) divided by the estimated economic value of the association's assets, as calculated in accordance with guidelines set forth by the OTS. A savings association whose measured interest rate risk exposure exceeds 2% must deduct an interest rate component in calculating its total capital under the risk-based capital rule. The interest rate risk component is an amount equal to one-half of the difference between the institution's measured interest rate risk and 2%, multiplied by the estimated economic value of the association's assets. That dollar amount is deducted from an association's total capital in calculating compliance with its risk-based capital requirement. Under the rule, there is a two quarter lag between the reporting date of an institution's financial

data and the effective date for the new capital requirement based on that data. The rule also provides that the Director of the OTS may waive or defer an association's interest rate risk component on a case-by-case basis.

The OTS also has adopted regulations to implement the system of prompt corrective action established by FDICIA. The rules permit the OTS to take certain supervisory actions when an insured association falls within one of five specifically enumerated capital categories. Under the rules, an institution will be deemed to be (i) "well-capitalized" if the association has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and the association is not subject to any enforcement agreement relating to capital; (ii) "adequately capitalized" if the association exceeds a riskbased capital ratio of 8%, a Tier 1 risk-based capital ratio of 4%, and a leverage ratio of 4% (3% if the association has a composite one rating); (iii) "under capitalized" if the association's risk-based capital ratio is less than 8%, Tier 1 capital ratio is less than 4%, or leverage ratio is less than 4% (3% if it has a composite one rating); (iv) "significantly under capitalized" if the association's risk-based capital is less than 6%, Tier 1 capital ratio is less than 3%, or leverage ratio is less than 3%; and (v) "critically under capitalized" if the association has a ratio of tangible equity to total assets that is 2% or below. The regulations provide a framework of supervisory actions based on the capital level of an insured association. Generally, an association may not declare any dividends, make any other capital distribution, or pay a management fee if, following the distribution or payment, the institution would be within any one of the three under capitalized categories. There is a limited exception to this prohibition for stock redemptions that do not result in any decrease in an association's capital and would improve the association's financial condition, provided the redemption has been approved by the OTS. Institutions that are classified as under capitalized also are subject to additional mandatory supervisory actions, including increased monitoring by the OTS, a requirement to submit a capital restoration plan, and restrictions on growth of the institution's assets as well as a limitation on its ability to make acquisitions and open branches. In addition to the foregoing, a significantly under capitalized institution may not pay bonuses or raises to its senior executive officers without prior OTS approval and also must comply with additional mandatory requirements regarding the operation of the association in the interim. Based upon the foregoing regulations and First Federal's capital ratios as of September 30, 1996, First Federal would be considered in the well-capitalized category.

The Director may grant an exemption from a capital directive imposing operational restrictions or corrective actions if: (i) the exemption would pose no significant risk to the affected deposit insurance fund; (ii) the association's management is competent; (iii) the association is in substantial compliance with all applicable statutes, regulations, orders, and supervisory agreements and directives; and (iv) the association's management has not engaged in any activities that have jeopardized the association's safety and soundness or contributed to impairing its capital. In addition, a savings association that does not meet applicable capital standards may not increase its assets without the Director's prior written approval, and in no event may increase its assets beyond the amount of net interest credited to its deposit liabilities.

In addition to the foregoing prompt corrective action provisions, FDICIA also sets forth requirements that the federal banking agencies, including the OTS, review their capital standards every two years to ensure that their standards require sufficient capital to facilitate prompt corrective action and to minimize loss to the SAIF and the BIF.

Appointment of Receiver or Conservator. FIRREA and FDICIA significantly expand the grounds upon which a receiver or conservator may be appointed for a savings association. That expansion enhanced the ability of regulatory authorities to engage in "early intervention" to take control of an association before it is insolvent. Included in the new grounds for appointment are (i) "having substantially insufficient capital," (ii) incurrence or likely incurrence of losses that will substantially deplete all of the association's capital and no reasonable prospect for replenishing that capital without federal assistance, and (iii) a violation of law or regulation that is likely to weaken the association's condition.



Limitation on Capital Distributions. The OTS has promulgated a rule governing capital distributions such as dividends, stock repurchases, and cash-out mergers by savings associations. The rule establishes three tiers of institutions. An institution that meets or exceeds its fully phased-in capital requirement after giving effect to a proposed distribution is considered a "Tier 1 Institution" under the rule and may make aggregate capital distributions during a calendar year, without prior OTS approval, of up to the greater of (i) all of its net income to date during the year plus an amount that would reduce its excess capital ratio to one-half of such excess capital ratio at the beginning of the calendar year or (ii) 75% of its net income over the most

recent four quarterly period. An institution that meets its current regulatory capital requirement, but not its fully phased-in requirement, after giving effect to a proposed distribution is a "Tier 2 Institution" and may make capital distributions without prior OTS approval of up to the following percentage of net income for the most recent four-quarter period: (i) 75% of such net income if the association meets its fully phased-in risk-based capital requirements before the distribution; or (ii) 50% of such net income if the association meets only its current risk-based capital standards before the distribution. A savings association that fails to meet its regulatory capital requirements (a "Tier 3 Institution") may not make capital distributions without the OTS's prior written approval. An institution meeting the Tier 1 capital criteria but that has been notified by the OTS that it is in need of more than normal supervision may be treated as a Tier 2 or a Tier 3 institution. As of September 30, 1996, Brunswick was a Tier 1 Institution and would be permitted to distribute 100% of net income and one-half of its excess capital in a given year. However, there can be no assurance that Brunswick will remain a Tier 1 Institution for purposes of the rule.

The OTS also may determine that any capital distribution would constitute an unsafe or unsound practice and prohibit the distribution, in particular if Brunswick's capital were decreasing due to substantial losses.

Transactions with Affiliates. FIRREA made Federal Reserve Act ("FRA") Sections 23A, 23B, and 22(h) applicable to savings associations. Those sections limit extensions of credit to affiliated institutions, executive officers, directors, and 10% stockholders. Generally, Sections 23A and 23B (i) limit the extent to which the insured association or its subsidiaries may engage in certain covered transactions with an affiliated institution to an amount equal to 10% of such institution's capital stock and surplus, and place an aggregate limit on all such transactions with all affiliated institutions of an amount equal to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms consistent with safe and sound banking practices. "Covered transactions" include the making of loans, the purchasing of assets, the issuance of a guarantee, and similar transactions. FIRREA also imposed three additional rules on savings associations: (i) a savings association may not make any extension of credit to an affiliate unless that affiliate is engaged only in activities permissible for bank holding companies; (ii) a savings association may not purchase or invest in securities insured by an affiliate, other than a subsidiary; and (iii) the Director may impose more stringent restrictions on savings associations than those set forth in Sections 23A, 23B, and 22(h) of the FRA.

Brokered Deposits. FIRREA also added a new Section 29 to the FDI Act generally prohibiting the acceptance or renewal of brokered deposits by any under-capitalized insured depository institution after December 7, 1989, except upon the specific application to and waiver of that prohibition by the FDIC. The statute defines "brokered deposits" to include not only (i) deposits solicited through the assistance of a third-party deposit broker, but also (ii) deposits obtained by a depository institution by offering a rate of interest that is at least 50 basis points (0.5%) higher than the prevailing rate offered by similar depository institutions in the same market area. As of September 30, 1996, Brunswick had no deposits that would be considered to be "brokered deposits" under the statute and the FDIC's regulations.

Corporate Debt Securities Below Investment Grade. FIRREA also generally prohibits savings associations and their subsidiaries from acquiring or retaining any corporate debt security that, at the time of acquisition, is not (or, in the case of previously acquired securities, was not) rated in one of the four highest rating categories by at least one nationally recognized statistical rating organization. At September 30, 1996, Brunswick had no corporate debt securities below investment grade.



Investment Portfolio Accounting. Savings associations are required to account for transactions in accordance with GAAP, which requires that investment securities held to maturity be accounted for at amortized cost; securities available-for-sale, at the lower of cost or market; and trading securities, at market.

Asset Classification. The OTS has a classification system for problem assets of insured institutions which covers all problem assets, including assets that previously had been treated as "scheduled items." Under that classification system, problem assets of insured institutions are classified as "substandard," "doubtful," or "loss," depending on the presence of certain characteristics as discussed below.

An asset is considered "substandard" if 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 of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When an insured institution classifies problem assets as either substandard or doubtful, it is required to establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but that, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets 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. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the institution's Principal Supervisory Agent, who can order the establishment of additional general or specific loss allowances.

Service Corporation Subsidiaries. The HOLA authorizes federally chartered savings associations to invest up to 3% of their assets in the stock of service corporation subsidiaries. In addition, federal thrift institutions meeting their applicable minimum regulatory capital requirements may invest up to 50% of regulatory capital in conforming loans to service corporations. The OTS's implementing regulations require that the activities of a service corporation be reasonably related to the activities of a federal association and generally provide that OTS approval must be obtained before a service corporation may commence any new activity. However, the regulations list a number of activities in which a service corporation may engage without prior OTS approval, including: (i) originating and servicing mortgage, consumer, educational, and commercial loans; (ii) providing escrow, liquidity and credit analysis, and other backroom services for other financial institutions; (iii) developing and managing real estate; and (iv) providing certain securities brokerage services.

Under Section 18(m) of the FDI Act, also added by FIRREA, all savings associations must provide the FDIC and the OTS with 30 days' notice prior to (i) establishing or acquiring a new subsidiary or (ii) commencing a new activity through an existing subsidiary, and, as part of the notice, must furnish such information regarding the new subsidiary or activity as either agency may require.

Assessments. FIRREA also amended the HOLA to allow the OTS to assess fees on savings associations to fund the operations of the OTS, to recover the costs of examining institutions under its jurisdiction, and to provide for the processing of various types of applications, notices, requests, and securities filings. Prior to the enactment of FIRREA, the FHLBB had obtained its funding primarily from FHLB contributions and FSLIC insurance premiums. The OTS has adopted regulations which implement these statutory provisions. The regulations provide for OTS assessments to be made either quarterly or semiannually based on the total consolidated assets of a savings association as shown on its most recent report to the agency. Troubled savings



associations are to be assessed at a rate 50% higher than similarly sized thrifts that are not experiencing problems.

Restrictions on Acquisition. Brunswick must obtain approval from the OTS before acquiring control of any other savings association. Such acquisitions are generally prohibited if they result in a savings and loan holding company controlling savings associations in more than one state. However, such interstate acquisitions are permitted based on specific state authorization or in a supervisory acquisition of a failing savings association. Brunswick may acquire up to 5%, in the aggregate, of the voting stock of any nonsubsidiary savings association or savings and loan holding company without being deemed to acquire "control" of the association or holding company. In addition, a savings and loan holding company may hold shares of a savings association or a savings and loan holding company for certain purposes, including a bona fide fiduciary, as an underwriter or in an account solely for trading purposes. Under certain conditions, a savings and loan holding company may acquire up to 15% of the shares of a savings association or savings and loan holding company in a qualified stock issuance; such acquisition is not deemed a controlling interest.

Federal statutes applicable to all depository institutions require a person or entity seeking to obtain control of Brunswick to obtain the prior approval of the OTS as the principal regulatory agency of federally chartered savings banks. FIRREA amended the Change in Bank Control Act (the "Control Act") to apply to savings associations. The Control Act provides that no person, acting directly, indirectly, or through or in concert with one or more other persons, may acquire "control" of a savings association without giving at least 60 days' prior written notice to the Director and having the Director not object or extend such 60-day period. Federal law also generally provides that no

company may acquire "control" of an insured savings association without the Director's prior approval, and that any company that acquires such control becomes a "savings and loan holding company" subject to registration, examination, and regulation under Section 10 of the HOLA and regulations adopted pursuant thereto.

FIRREA also authorizes the Federal Reserve to approve bank holding company acquisitions of savings associations and provides that the Federal Reserve may not impose "tandem restrictions" in connection with such approvals. Those provisions of FIRREA specifically reverse a long-standing policy of the Federal Reserve precluding acquisitions of healthy thrift institutions by bank holding companies.

Federal Income Taxation. Brunswick and its subsidiary are subject to taxation as corporations under applicable provisions of the Internal Revenue Code. Brunswick's federal income tax returns have been audited by the Internal Revenue Service through September 30, 1992. Brunswick and its subsidiary file a consolidated federal income tax return on the basis of a September 30 fiscal year using the accrual method of accounting. Although Brunswick is included in a consolidated tax return with its subsidiary, certain federal income tax rules are applicable to Brunswick only.

For example, savings institutions like Brunswick that meet certain definitional tests, primarily relating to their assets and the nature of their business, are permitted to deduct annual additions to a reserve for bad debts, within specified formula limits. In each tax year, the deductible addition may be computed using the more favorable of either: (i) a method based generally on the institution's average loan loss experience over the six-year period ending with the taxable year (the "Experience Method"), or (ii) a method based on a specified percentage of the institution's taxable income (the "Percentage Method").

Brunswick uses the Percentage Method for computing additions to its bad debt reserve for "qualifying real property loans" (generally those loans secured by interests in real property). Additions to the reserve for nonqualifying real property loans must be computed under the Experience Method.

Under the Percentage Method, the allowable deduction is computed as a percentage of Brunswick's taxable income before the deduction, as adjusted for certain items (such as the dividends-received deduction, withdrawals from excess bad debt reserves, as discussed below, and certain gains), and is generally equal to



8% of adjusted taxable income, less any amounts deducted in connection with nonqualifying real property loans. The allowable deduction for qualifying real property loans computed under the Percentage Method is also subject to various other limitations that historically have not affected Brunswick.

To the extent that Brunswick's reserve for losses on qualifying real property loans exceeds the amount that would have been allowed under the Experience Method, then amounts that are considered to have been withdrawn from that excess reserve to make distributions to stockholders will be included in Brunswick's taxable income. Dividend distributions in excess of Brunswick's current or accumulated earnings and profits as calculated for federal income tax purposes will be considered to result in withdrawals from its bad debt reserve. Distributions in redemption of stock or in partial or complete liquidation also are considered to result in withdrawals from the bad debt reserve regardless of the level of current or accumulated earnings and profits. In the case of Brunswick, no such distributions have taken place, nor does management anticipate that any such distributions will take place in the near future.

Certain other special rules apply to financial institutions such as Brunswick. For example, financial institutions are permitted to carry net operating losses ("NOLs") back for three years or forward for fifteen years. In addition, although taxpayers generally are not permitted to deduct interest expense allocable to the purchase or carrying of tax-exempt obligations, financial institutions are entitled to deduct 80% of their interest expense deemed allocable to tax-exempt obligations acquired before August 8, 1986 (100% for obligations acquired before 1983). A financial institution is not permitted to deduct any portion of its interest expense allocable to tax-exempt obligations acquired after August 7, 1986, other than designated tax-exempt obligations issued by small municipal issuers, which remain subject to the 80% limit.

Corporations are liable for an alternative minimum tax ("AMT") equal to 20% of alternative minimum taxable income (taxable income after making certain "adjustments" and adding certain "preferences") if and to the extent the AMT exceeds the regular income tax. The preference and adjustment items include (but are not limited to): (i) the excess of the allowable bad debt deduction over the

deduction that would have been allowable on the basis of actual experience, (ii) for taxable years beginning after 1989, 75% of the difference (positive or negative) between "Adjusted current earnings" and alternative minimum taxable income (as specifically determined for this purpose), (iii) interest on certain "private activity" bonds( issued for the benefit of nongovernmental persons) issued after August 7, 1986, and (iv) replacement of the regular NOL deduction with the alternative minimum tax NOL deduction (computed with the AMT adjustments and reduced by preference items) which may be utilized to offset only 90% of the alternative minimum taxable income. Brunswick was not liable for the AMT for its taxable year ended September 30, 1996.

State Income Taxation. Under Georgia law, financial institutions generally are subject to the same taxes, state and local, as other corporations in Georgia. The state corporation income tax rate to which Brunswick is subject is 6% of Georgia taxable net income, which is equal to federal taxable income with certain adjustments. In addition to the corporate income tax, financial institutions in Georgia are subject to a corporate net worth tax, intangible, tangible, real and personal property taxes, and a special occupation tax at a rate of .25% of gross receipts. The appropriate county or city is also permitted to levy a business license fee at a rate of .25% of gross receipts. The total amount of the license fee and occupation tax is allowed as a credit against the corporation income tax.



Effect of Governmental Policies

The earnings and business of Brunswick are and will be affected by the policies of various regulatory authorities of the United States, especially the Federal Reserve Board. The Federal Reserve Board, among other things, regulates the supply of credit and deals with general economic conditions within the United States. The instruments of monetary policy employed by the Federal Reserve Board for these purposes influence in various ways the overall level of investments, loans, other extensions of credit and deposits, and the interest rates paid on liabilities and received on assets.

Interest and Usury

Brunswick is subject to numerous state and federal statutes that affect the interest rates that may be charged on loans. These laws do not, under present market conditions, deter Brunswick from continuing the process of originating loans.

Competition

Brunswick encounters significant competition in its market from commercial banks, thrift institutions, other financial institutions and financial intermediaries. Brunswick not only competes with other banks performing banking services in its markets, but also competes with various other types of financial institutions for deposits, certain commercial, fiduciary and investment services and various types of loans and certain other financial services. Brunswick also competes for interest-bearing funds with a number of other financial intermediaries and investment alternatives, including "money-market" mutual funds and brokerage firms.

Brunswick competes not only with financial institutions based in the State of Georgia, but also with a number of out-of-state banks, bank holding companies and other financial institutions which have an established market presence in Georgia. Many of the financial institutions operating in Georgia are engaged in local, regional, national and international operations and have more assets and personnel than Brunswick. Most of the southeastern states, including Georgia, have enacted legislation that allows bank holding companies (and in certain cases, thrift institutions) in those states to acquire banks (and in certain cases, thrift institutions) and bank holding companies in other states located in the region, which has the effect of causing competition to intensify.

Employees

As of September 30, 1996, Brunswick and its subsidiary had 102 full-time employees and 35 part-time employees. The employees are not represented by a collective bargaining unit. Brunswick believes that its employee relations are excellent.



Item 2. Properties

Properties

The following table sets forth certain information concerning Brunswick's offices. All were full service offices at September 30, 1996. The total net book value of such offices at September 30, 1996 was approximately $1.4 million.

| Office Location | Year Facility Opened | Title to the Building (1) |
|---|---|---|
| Main Office<br>777 Gloucester Street<br>Brunswick, GA 31520 | 1974 | Leasehold. Lease terminates in 2003 and has one ten-year renewal option. |
| St. Simons Ocean Boulevard Office<br>621 Ocean Boulevard<br>St. Simons Island, GA 31522 | 1961 | Fee Simple. |
| St. Simons Plaza Office<br>1600 Frederica Road<br>St. Simons Island, GA 31522 | 1986 | Leasehold. Lease terminates in 2006 and has two ten-year renewal options. |
| Glynn Place Mall Office<br>167 Altama Connector<br>Brunswick, GA 31520 | 1986 | Fee Simple. |
| Altama Office<br>4401 Altama Avenue<br>Brunswick, GA 31520 | 1966 | Leasehold. Lease terminates in 1998 and has two ten-year renewal options. |

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(1) Brunswick owns the land on which all of its offices, except the St. Simons Plaza, is located.

Brunswick uses the services of an outside data processing firm for its data processing and recordkeeping functions.

Item 3. Legal Proceedings

In 1988, Brunswick entered into an agreement with The Citizens & Southern Corporation and certain related affiliates which provided for the acquisition of Brunswick by C&S and the exchange of Brunswick common stock for C&S common stock. The agreement was amended in 1990 to provide for receipt of C&S/Sovran Corporation stock by Brunswick stockholders as a result of the merger in 1990 of C&S with Sovran



Financial Corporation (which was acquired by NationsBank Corporation ("NationsBank") in late 1991). On September 27, 1991, Brunswick filed a suit in Glenn County Superior Court against C&S/Sovran and its affiliated entities asserting that they had breached the agreement entered into with Brunswick. In May, 1994, a jury found that C&S/Sovran breached the agreement in March, 1991 by not filing certain regulatory applications to pursue the acquisition of Brunswick. On December 16, 1994, the court issued an order which provided that Brunswick would be entitled to the remedy of specific performance of the agreement entered into with C&S/Sovran. The order also provided that a subsequent jury trial would be held to determine when the merger should have closed. The order also required the defendants to make an acquisition proposal to Brunswick stockholders to acquire Brunswick stock in exchange for NationsBank stock. On July 18, 1996, a Glynn County jury determined that the merger would have closed on June 19, 1991. On October 15, 1996, the Court issued an Order finding that the number of NationsBank shares required to be offered to Brunswick stockholders is 1,280,268 shares, increased by the number of NationsBank shares in an amount equal to the difference between dividends paid by the defendants since December 1991 less dividends paid on all Brunswick shares from June 19, 1991 to the date of the offer. The Order stated that the number of NationsBank shares to be offered is subject to reduction by the amount payable by First Federal pursuant to employment severance agreements as well as legal fees paid by Brunswick which exceed amounts set forth in the Court's Order. On November 12, 1996, Brunswick sent a share calculation letter to NationsBank addressing the method by which the Order will be implemented and advising NationsBank that, after Brunswick pays approximately $12.5 million for its contractual obligations for litigation attorneys' fees and $1.3 million to four senior executive officers pursuant to change of control agreements, Brunswick's stockholders will receive .80 shares of NationsBank stock for each share of Brunswick stock. The parties anticipate that the closing of the NationsBank transaction will occur in the second quarter of 1997.

Brunswick and its subsidiary are party to various legal proceedings in the normal course of their business; however, Brunswick management believes that the ultimate outcome in such proceedings in the aggregate would not have a material adverse effect on the financial position or results of operations of Brunswick and its subsidiary on a consolidated basis.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 1996.

PART II

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

The information contained under the section captioned "Capital Stock" in the Annual Report is incorporated herein by reference.

Item 6. Selected Financial Data

The information contained in the table captioned "Selected Financial Highlights" in the Annual Report is incorporated herein by reference.



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

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

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements contained in the Annual Report are incorporated herein by reference.

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

The registrant has not had any disagreements with its accountants on any matter of accounting principles or practices or financial statement disclosure.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information contained under the sections captioned "Directors" and "Executive Officers" under "Proposal One - Election of Directors" in the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on January 22, 1997, to be filed with the OTS pursuant to Regulation 14A within 120 days of the registrant's fiscal year end (the "Proxy Statement"), is incorporated herein by reference.

Item 11. Executive Compensation

The information contained in the sections captioned "Information About the Board of Directors and Its Committees", "Executive Compensation and Benefits" and "Information on Benefit Plans and Policies" under "Proposal One - Election of Directors" in the Proxy Statement, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information contained in the sections captioned "Directors" and "Management Stock Ownership" under "Proposal One - Election of Directors," and "Ownership of Equity Securities" in the Proxy Statement, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information contained in the section captioned "Certain Transactions" under "Proposal One Election of Directors" in the Proxy Statement, is incorporated herein by reference.



PART IV

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

The following are contained in the registrant's Annual Report to Stockholders.

(a) 1. Financial Statements

Report of Independent Public Accountants - First Federal Savings Bank of Brunswick, Georgia and Subsidiary

Consolidated Statements of Financial Condition as of September 30, 1996 and 1995

Consolidated Statements of Income for the Years Ended September 30, 1996, 1995, and 1994

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended September 30, 1996, 1995 and 1994

Consolidated Statements of Cash Flows for the Years Ended September 30, 1996, 1995 and 1994

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All schedules have been omitted as the required information is either inapplicable or included in the Notes to Consolidated Financial Statements.

3. Exhibits

3.1 Charter and By-laws of First Federal Savings Bank of Brunswick, Georgia (Incorporated by reference to Exhibit 3 to Brunswick's Form 10 filed with the FHLBB on June 28, 1984)

3.2 Assistant Secretary's Certificate dated November 18, 1991 setting forth Corporate Resolutions amending Bylaws of First Federal Savings Bank of Brunswick, Georgia (Incorporated by reference to Exhibit 3.2 to Brunswick's Annual Report on Form 10-K for the fiscal year ended September 30, 1993)

10.1 First Federal Savings Bank of Brunswick, Georgia 1984 Stock Option Plan, as amended (Incorporated by reference to Exhibit 10 to Brunswick's Annual Report on Form 10-K for the fiscal year ended December 31, 1986)

10.2 Form of Agreement entered into January 1, 1995 between First Federal Savings Bank of Brunswick, Georgia and each of Ben T. Slade, III, John J. Rogers and James H. Gash (incorporated by reference to Exhibit 10.2 to Brunswick's Annual Report on Form 10-K for the fiscal year ended September 30, 1994)



13.1 First Federal Savings Bank of Brunswick, Georgia 1996 Annual Report

21.1 Subsidiary of the Registrant

(b) Reports on Form 8-K

No Current Reports on Form 8-K were filed by Brunswick during the last fiscal quarter covered by this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Brunswick, State of Georgia, on December 26, 1996.

FIRST FEDERAL SAVINGS BANK
OF BRUNSWICK, GEORGIA

By: /s/ Ben T. Slade, III
--------------------------------
Ben T. Slade, III, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on December 26, 1996.

| Signature | Title |
|---|---|
| /s/ Ben T. Slade, III<br>Ben T. Slade III | Chairman of the Board and President |
| /s/ John J. Rogers<br>John J. Rogers | Senior Vice President - Mortgage Banking, Chief Financial Officer, and Director |
| /s/ Robert B. Sams<br>Robert B. Sams | Vice President and Controller |
| /s/ James H. Gash<br>James H. Gash | Senior Vice President - Commercial Banking and Director |
| /s/ James F. Barger<br>James F. Barger | Director |
| /s/ J. Dewey Benefield, Jr.<br>J. Dewey Benefield, Jr. | Director |
| William O. Faulkner | Director |
| /s/ Mack F. Mattingly<br>Mack F. Mattingly | Director |
| /s/ T. Gillis Morgan, III<br>T. Gillis Morgan, III | Director |
| /s/ D. Paul Owens<br>D. Paul Owens | Director |
| Jack Torbett | Director |
| /s/ L. Gerald Wright<br>L. Gerald Wright | Director |



First Federal Savings Bank of Brunswick, Georgia
Form 10-K
For Fiscal Year Ending September 30, 1996

EXHIBIT INDEX

| Exhibit No. | Exhibit | Page No. |
|---|---|---|
| 13.1 | First Federal Savings Bank of Brunswick, Georgia 1996 Annual Report | |

22.1            Subsidiary of the Registrant



Exhibit 13.1

First Federal Savings Bank of Brunswick, Georgia

Annual Report to Stockholders

For Fiscal Year Ended September 30, 1996

## A MESSAGE FROM THE PRESIDENT

Picture of The President Goes Here

Our net income for the fiscal year ended September 30, 1996 was $2,156,717 (earnings per share of $1.42) compared to $3,114,460 (earnings per share of $2.05) for the prior year. The primary reason for the decline was the one-time expense to the Bank of approximately $1,362,000 ($885,000 after tax) representing a special assessment on deposits of 65.7 basis points required to recapitalize the Savings and Loan Insurance Fund ("SAIF"). Now that the fund is recapitalized, our premiums for Federal Deposit Insurance will decline dramatically and this will have a beneficial effect on our future income. Another reason for the decline in net income is the $171,518 increase in legal fee expense because of the July 1996 trial in our litigation with NationsBank.

Return on average assets for the year ended September 30, 1996 was .86% compared with 1.28% for 1995. Exclusive of the one-time SAIF assessment and the net increase in legal fees, our return on average assets would have been 1.25%.

During July of 1996, we celebrated the 70th birthday of First Federal Savings Bank. This was a delightful occasion and gave us the opportunity to thank many long-time customers for their loyalty over the years. Several customers who have been with us for the full seventy years attended the birthday party.

As previously reported, the NationsBank litigation has now been settled pursuant to the Court Order of October 5, 1996. The result will be the acquisition of First Federal by NationsBank Corporation in a tax-free exchange of stock. Stockholders of First Federal will be offered .80 shares of NationsBank stock for each First Federal share. The full details of the proposed transaction will be described in the proxy materials that should be mailed in March of 1997. The projected closing should occur between March 31, 1997 and April 30, 1997.

We are, of course, pleased to have this lengthy litigation behind us and feel that the result will be rewarding for all stockholders of First Federal. At current prices for NationsBank stock, the transaction will be valued at approximately $115 million. When you consider that our original stock issue was approximately $2.7 million, this is quite a substantial increase in value over the twelve-year period that we've been a public company.

We've been assured by NationsBank that they are eager to conclude this transaction and bring their array of services to the people of Brunswick and Glynn County. All of us at First Federal will do our best to provide for a smooth transition and hope all of our stockholders and customers will be pleased with the resulting changes.

Yours very truly,

/s/ Ben T. Slade, III

Ben T. Slade, III
President

HIGHLIGHTS OF 1996

NET INTEREST INCOME
(graph appears below
and plot points appears
as follows:)

| Millions of Dollars | |
|---|---|
| 1992 | 7.74 |
| 1993 | 8.57 |
| 1994 | 9.26 |
| 1995 | 9.78 |
| 1996 | 9.84 |

DIVIDENDS PAID
(graph appears below
and plot points appears
as follows:)

| Thousands of Dollars | |
|---|---|
| 1992 | 868 |
| 1993 | 913 |
| 1994 | 1,123 |
| 1995 | 1,334 |
| 1996 | 1,395 |

Shifts in net interest income are a function of volume, movements in interest rates, and the positioning of the Bank with respect to interest rate risk management. The Bank works to maximize net interest income within the parameters of interest rate risk management so as to provide for stability in net interest income over varying movements in interest rates.

The $5,633,000 in cash dividends paid to shareholders over the past five years exceeds the net amount raised in 1984, in the Bank's only public offering, by $3,250,000.

SELECTED FINANCIAL HIGHLIGHTS

<TABLE>
<CAPTION>

| | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Gross Income | $22,736,355 | $21,309,238 | $19,020,263 | $19,217,317 | $21,171,010 |
| Total Interest Income | 20,191,565 | 19,202,040 | 16,957,142 | 16,636,594 | 18,487,263 |
| Total Interest Expense | 10,353,532 | 9,423,311 | 7,700,190 | 8,069,801 | 10,750,488 |
| Net Interest Income | 9,838,033 | 9,778,729 | 9,256,952 | 8,566,793 | 7,736,775 |
| Income Before Income Taxes | 3,348,967 | 4,815,060 | 4,224,524 | 4,109,802 | 3,536,157 |
| Net Income | 2,156,717 | 3,114,460 | 3,280,424 | 2,660,712 | 2,245,357 |
| Net Income Per Share1 | 1.42 | 2.05 | 2.17 | 1.77 | 1.50 |
| Cash Dividends Declared | .95 | .89 | .75 | .61 | .58 |
| Book Value Per Share 2 | 17.29 | 17.00 | 15.44 | 14.33 | 13.19 |
| Real Estate Loans 3 | 182,897,960 | 163,832,021 | 158,597,317 | 155,377,526 | 141,230,291 |
| Total Net Loans 3 | 209,868,046 | 186,664,013 | 179,017,162 | 173,200,538 | 158,257,837 |
| Mortgage-Backed Securities | 8,339,891 | 12,232,044 | 11,074,637 | 11,086,923 | 9,092,030 |
| Investment Securities | 8,024,132 | 16,488,815 | 15,976,701 | 20,247,531 | 22,164,392 |
| Total Assets | 249,117,444 | 253,287,453 | 231,514,862 | 228,145,524 | 220,644,738 |
| Total Deposits | 218,075,859 | 222,805,996 | 200,715,381 | 196,546,493 | 192,374,447 |
| Total Borrowings | 1,500,000 | 2,200,000 | 4,000,000 | 5,300,000 | 3,300,000 |
| Total Net Worth | 26,025,085 | 25,506,415 | 23,622,064 | 21,449,495 | 19,701,917 |
| Total Regulatory Capital | 26,758,000 | 26,101,000 | 24,114,000 | 22,318,000 | 20,445,000 |
| Total Full Service Offices | 5 | 5 | 5 | 5 | 5 |

</TABLE>
1 Calculated based on fully diluted shares outstanding.
2 Calculated assuming all options exercised.
3 Includes mortgage loans held for sale.



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

General Overview:

From the Bank's headquarters and two branch offices located in Brunswick, along with two branch offices on St. Simons Island, the Bank is primarily engaged in the business of attracting deposits from the general public and investing those funds in real estate, consumer, and commercial loans. Deposits averaged $218.4 million in the current year compared to average deposits of $209.3 million in the year ago period. The Bank's loan portfolio averaged $203.4 million in the current year, rising from an average of $187.7 million during the period one year ago.

The Bank recorded net income of $2,156,717 or $1.42 per share for the fiscal year ended September 30,1996 compared to net income of $3,114,460 ($2.05 per share) and $3,280,424 ($2.17 per share) for the years ended September 30,1995 and 1994. Fiscal year 1996 results included a charge of $1,362,018 representing a provision made for the payment of a special assessment imposed by Congress intended to re-capitalize the "thrift" portion of the Federal Deposit Insurance Fund. This charge reduced net income by approximately $885,000 or 5.58 per share.

Liquidity and Capital Resources:

The Bank is required to maintain minimum liquidity levels of cash and eligible securities equal to 5% of withdrawable savings accounts and short-term borrowings. Cash and eligible securities include cash and due from banks, interest-bearing deposits in other banks, federal funds sold, other short-term investments and certain investment securities. At September 30, 1996 and 1995, cash and eligible securities totalled $24.0 million and $46.0 million, respectively. It has been the Bank's policy to maintain liquidity in excess of the required 5% amount. A secondary source of liquidity to the Bank has resulted from the conversion of single family mortgage loans to Federal Home Loan Mortgage Corporation ("FreddieMac") participation certificates ("PC's"). During fiscal year 1996, $6.4 million in loans were exchanged with FreddieMac for PC's. While not eligible to be considered for regulatory liquidity, these certificates may be readily sold to raise additional cash and may also be used as collateral for both short and long-term borrowings. At September 30,1996, the Bank held approximately $3.9 million in PC's resulting from such exchanges with FreddieMac. Average daily liquidity was 10.47% and 19.90% for the months of September 1996 and 1995, respectively.

The Bank's one year interest rate gap was a positive $34.8 million at September 30,1996 compared to a positive $38.0 million at September 30,1995. The interest rate gap calculation involves measuring the difference between maturing or repricing interest earning assets and maturing or repricing interest bearing liabilities over a given time frame, e.g., one year. Measurement of the Bank's gap has historically categorized NOW and passbook deposit accounts as non-interest rate sensitive liabilities. At September 30, 1996, NOW and passbook accounts totalled, in aggregate, $55.9 million, and should interest rates remain at or rise from current levels, the rates paid by the Bank on these accounts could rise as well. The decrease in the Bank's positive one year gap resulted primarily from a decrease in short term liquid investments from $23.4 million at September 30,1995 to $14.1 million at September 30,1996. Funds held in short-term liquid investments at September 30,1995, consisting of federal funds sold, interest bearing deposits in other banks, and treasury and agency securities maturing within one year, were shifted into mortgage, consumer, and commercial loans throughout the current fiscal year as loan demand and interest rate risk considerations allowed. This action provided for an increase in the Bank's weighted yield on interest earning assets from 8.08% at September 30, 1995 to 8.30% at September 30, 1996, despite a decline in both the prime and federal funds rates of 50 basis points during the current fiscal year.

Total loan originations for the year ended September 30, 1996 increased to $91.9 million from $80.4 million one year ago, reflective of a healthy economy combined with accommodative levels of interest rates. Loans secured by real estate increased to $200.2 million at September 30,1996 from $179.7 million at September 30, 1995. Construction loans accounted for 40% of this increase, rising from $13.0 million one year ago to $21.2 million at September 30,1996.

Total deposits decreased to $218.1 million at September 30, 1996 from $222.8 million at September 30,1995, as certificate of deposit balances declined $6.3 million in the current year. During the first two quarters of fiscal year 1995, as the Federal Reserve board ("FRB") increased short term interest rates in order to cool economic activity, the rates offered on certificates of deposit increased to levels attractive to investors as certificate balances increased by $25.7 million. During the fourth quarter of fiscal year 1995, the FRB began lowering short-term interest rates in response to several months of acceptable economic and inflation indicators and continued this posture into the first two quarters of the current year. In response to this action, the rates offered on certificates declined significantly and some proceeds from maturing accounts were transferred to investments outside the Bank.

Advances from the Federal Home Loan Bank declined from $2.2 million at September 30,1995 to $1.5 million at September 30,1996. Twelve million dollars in new short-term advances were drawn and repaid during the current fiscal year and an additional $.7 million, drawn in prior years, was repaid as well.

At September 30,1996, the Bank had approximately $2.1 million in outstanding commitments to fund loans. Of this amount, approximately $1.2 million were commitments to fund loans on single family residential homes, approximately $.7 million were to fund loans on other real estate, and approximately $.2 million were to fund various consumer and non-real estate commercial loans. The cash needed to fund these loans will be derived from principal repayments on outstanding loans and through the fulfillment of commitments to sell loans in the secondary markets.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) requires that savings associations must now satisfy three separate capital standards. The Bank must maintain core capital at least equal to 3.0% of adjusted total assets and risk- based capital at least equal to 8.0% of risk-weighted assets. Additionally, the Bank must maintain tangible capital at least equal to 1.5% of total adjusted assets. At September 30,1996, the Bank's position with respect to these requirements was as follows:

| (Dollars in Thousands) | Amount Required | Percent Required | Actual Amount | Actual Percent | Excess Amount |
|---|---|---|---|---|---|
| Core Capital | $7,478 | 3.0% | $26,174 | 10.5% | $18,696 |
| Tangible Capital | 3,739 | 1.5 | 26,174 | 10.5 | 22,435 |
| Risk-Based Capital | 13,874 | 8.0 | 25,758 | 15.4(1) | 12,884 |

(1) Represents risk-based capital as a percentage of risk-weighted assets.

Impact of Inflation and Changing Prices:

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The principal element of the Bank's earnings is interest income which may be significantly affected by the level of inflation and by government monetary and fiscal policies adopted in response to inflationary or deflationary pressures.

During fiscal year 1994, in response to significantly higher levels of economic activity, the FRB increased the federal funds rate from 3.00% to 3.25%, and followed up with four additional increases to raise the rate to 4.75% at September 30, 1994. During the first two quarters of fiscal year 1995, the FRB continued its efforts to cool the economy and raised the federal funds rates to 6.00%. Early in the fourth quarter of fiscal year 1995, responding to several months of acceptable economic and inflationary indicators the FRB reduced the federal funds rate by 25 basis points to 5.75%. During December and January of the current year the funds rate was cumulatively lowered an additional 50 basis points to 5.25% and remained at this level through September 30,1996.

Any future measures designed to restrict the growth in the monetary supply could cause an increase in short-term interest rates. These rates have a greater effect on the Bank than the general level of inflation and changing prices and give added importance to the need to manage the interest rate gap.

Results of Operations:

Net income for the fiscal year ended September 30,1996 was $2,156,717 ($1.42 per share) compared to $3,114,460 ($2.05 per share) for the fiscal year ended September 30,1995, which followed net income of $3,280,424($2.17 per share) for the fiscal year ended September 30, 1994. Fiscal year 1996 included a one-time charge to the Bank of approximately $1,362,000 representing a special assessment on deposits of 65.7 basis points enacted by Congress on September 30,1996 as a measure to recapitalize the Savings Association Insurance Fund. This charge reduced net income by approximately $885,000 or approximately $.58 per share. Fiscal year 1994 net income included income of $525,000 ($.35 per share) resulting from the required adoption of the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes". The rules set forth in SFAS No. 109 changed the manner in which income tax expense is determined for financial statement purposes. Adoption of SFAS No. 109 during the first quarter of fiscal year 1994 resulted in a reduction in the Bank's deferred tax liability with a resulting benefit recorded through the income statement as a cumulative effect of a change in accounting principle.

The largest components of the Bank's total income and total expenses are interest income from loans and investments and interest expense on deposits and borrowings. The difference between these items is net interest income, and the difference between the combined yield on loans and investments and the cost of deposits and borrowings is referred to as the yield spread.

Total interest income for the years ended September 30, 1996, 1995 and 1994 was approximately $20,191,565, $19,202,040, and $16,957,142, respectively. Of the increase in interest income from fiscal year 1995 to 1996 of approximately $1.0 million, approximately $.1 million was due to an increase in rate and approximately $.9 million was due to an increase in volume.

The primary factor in the increase in interest income from fiscal year 1995 to 1996 was the increase in the Bank's earning assets. The fiscal year 1995 increase in the Bank's total assets of $21.8 million (resulting from certificates of deposit inflow) occurred primarily during the third and fourth quarters, and although total assets did decline during fiscal year 1996 by $4.2 million, interest earning assets averaged $242.7 million in the current year compared to $232.2 million during fiscal year 1995. Additionally, the weighted average yield on the Bank's interest earning assets increased from 8.27% during fiscal year 1995 to 8.31% during fiscal year 1996, despite a 50 basis point decline in both the prime and federal funds rates in the current year. This improvement in yield resulted from a shift in funds from both federal funds sold and securities available for sale accounts into higher yielding loan products. The Bank's loan to deposit ratio increased from 83.8% at September 30,1995 to 96.2% at September 30, 1996.

Interest on mortgage-backed securities increased to $1,021,788 in the current

year from $817,223 during fiscal year 1995 resulting from an increase in the average portfolio balance from $11.7 million during fiscal year 1995 to $15.1 million in the current year. During the first quarter of fiscal year 1996, short-term liquid funds were invested in mortgage-backed securities so as to lock-in yields in a then declining rate environment. During subsequent periods of fiscal year 1996, certain of these mortgage-backed securities were sold to provide funding for new loans.

Interest on investment securities declined from $1,002,301 in 1995 to $785,315 in the current year due primarily to lower average portfolio volume of approximately $3.6 million.

The primary factor in the increase in interest income from fiscal year 1994 to 1995 was the increase in the weighted average yield on interest earning assets from 7.62% during fiscal year 1994 to 8.27% in fiscal year 1995, reflective of the 300 basis point increase in the federal funds rate over a period of five quarters beginning in the second quarter of fiscal year 1994. Adjustable rate loans represented 63.4% of the total loan portfolio during fiscal year 1994 and 64.1% during fiscal year 1995. The primary indices to which these loans are tied, prime and one year treasury bills which averaged 6.69% and 4.61%, respectively, during fiscal year 1994, rose to averages of 8.71% and 6.62% for fiscal year 1995.

Total interest expense for the years ended September 30, 1996, 1995 and 1994 was $10,353,532, $9,423,311, and $7,700,190, respectively. Of the increase in interest expense from fiscal year 1995 to 1996 of approximately $.9 million, approximately $.4 million was due to an increase in volume



and approximately $.5 million was due to an increase in rate. The major component of the Bank's interest expense is interest on deposits. The cost of deposits increased from 4.40% for the fiscal year ended September 30, 1995 to 4.66% for the fiscal year ended September 30,1996, primarily resulting from an increase in the cost of certificates of deposit from 5.70% one year ago to 6.13% in the current period. Rates offered on certificates of deposit rose sharply during the second and third quarters of fiscal year 1995. This rise in rates not only affected the then maturing certificates of deposit, but also attracted funds from outside the Bank as certificate balances increased from $130.2 million at March 31, 1995 to $144.4 million at September 30, 1995. The timing of the rollover and acquisition along with the related maturity terms of these higher yielding certificates served to impact the current fiscal year to a greater extent than the year ended September 30,1995. Additionally, certificates of deposit as a percentage of total deposits increased from 62.1% during fiscal year 1995 to 64.0% for fiscal year 1996, serving to further increase the Bank's cost of deposits. The increase in interest expense from $7.7 million for the fiscal year 1994 to $9.4 million for fiscal year 1995 resulted primarily from the increase in the weighted rate paid on certificates of deposit from 4.77% in fiscal year 1994 to 5.70% in fiscal year 1995 as well as the significant increase in certificates of deposit balances from $118.7 million at September 30,1994 to $144.4 million at September 30,1995.

Net interest income for the fiscal years ended September 30,1996, 1995 and 1994 was $9.84 million, $9.78 million and $9.26 million, respectively. The increase from fiscal year 1995 to 1996 was the result of the Bank's growth of $10.5 million in average earning assets as the net yield on interest earning assets declined from 4.21% in fiscal year 1995 to 4.05% in fiscal year 1996. The growth in average interest earning assets was funded primarily by average deposit growth of $9.0 million and to a lesser extent, earnings from operations. Average advances outstanding from the Federal Home Loan Bank decreased $1.1 million during the current year as compared to fiscal year 1995.

The increase in the net yield from fiscal year 1994 to 1995, from 4.16% to 4.21%, was due primarily to the Bank's positive one year interest rate gap which generally benefits the net spread during periods of rising interest rates. From the second quarter of fiscal year 1994 to the fourth quarter of fiscal year 1995, the federal funds and prime rates increased by 300 basis points along with a generally commensurate increase across the entire yield curve.

Noninterest income increased to $2,544 790 for the year ended September 30,1996 from $2,107,198 for the year ended September 30,1995, which followed $2,146,954 for the year ended September 30, 1994. Service charges and other fees were $2,086,188 for the year ended September 30, 1996, compared to $1,894,101 and $1,750,739 for the years ended September 30,1995 and 1994, respectively. The increase in fiscal year 1996 over the two prior years resulted primarily from increases in various service charges on deposit accounts due to increases in fee structure, transaction activity, and volume of accounts.

Gains on the sale of loans increased to $211,688 for the year ended September 30,1996 from $121,398 for the year ended September 30,1995, Which followed $195,954 for fiscal year 1994. Gains on the sale of loans have, for the past three fiscal years, been generated primarily from the sale of thirty year fixed rate conforming residential first mortgage loans. Gains realized are a function of the Bank's pricing levels relative to local market competition. The general

trend and level of interest rates, and the volume of loans sold. The volume of loans sold during fiscal year 1996 increased to $26.8 million from $11.0 million and $16.7 million in fiscal years 1995 and 1994, respectively. During fiscal year 1996, the Bank continued its policy of selling current production of thirty year fixed rate residential mortgage loans in the secondary market, while retaining ten to fifteen year fixed rate and thirty year adjustable rate residential mortgage loans in its portfolio either in the form of loans or mortgage backed securities, subject to liquidity and interest rate risk parameters. A gradual decline in the general level of interest rates which began during the fourth quarter of fiscal year 1995 continued throughout the first 5 months of fiscal year 1996, and attracted residential mortgage customers to fixed rate fifteen and thirty year loans for new purchases as well as for the refinancing of existing residences. With this increase in thirty year fixed rate loan production came increased loan sale activity in order to manage the Bank's interest rate risk exposure. During the first three quarters of fiscal year 1995, the general trend of interest rates had been upward and the demand for residential mortgage loans had favored adjustable rate and to a lesser extent, shorter-term ten to fifteen year fixed rate products, while the volume of thirty year fixed rate originations had declined significantly. The general trend of long-term interest rates during the first two quarters of fiscal year 1994 had been toward lower levels, and had thus provided a more favorable environment for fixed rate loan originations and sales than was the case during the first three quarters of fiscal year 1995. Although the Bank's market area has witnessed increased competition for these loans, no significant changes in the Bank's pricing of these loans has occurred.

The sale of securities available for sale generated losses of $47,420 and $30,972, respectively, during fiscal years 1996 and 1995, compared to a gain of $87,905 during fiscal year 1994. Securities available for sale include Treasury and Agency securities with maturities of generally five years or less, as well as various types of mortgage-backed securities acquired through both securitization of the Bank's own portfolio of originations or through purchases in the open market. Subject to interest rate risk and asset quality considerations, securities are acquired for the purpose of attaining the highest possible yield on funds not required to fund loan demand or to satisfy short-term liquidity requirements. Gains and losses recorded on the sale of these securities are dependent upon the volume of securities sold as well as the market level of interest rates. During primarily the third and fourth quarters of fiscal year 1996, the Bank sold securities totalling $19.7 million in order to meet increasing loan demand. Securities sales totalled $4.0 and $14.2 million, respectively, during fiscal years 1995 and 1994.

Other income increased to $294,334 in the current year compared to $122,671 and $112,356, respectively, for the years ended September 30, 1995 and 1994. The fiscal year 1996 amount includes income of $149,306 resulting from the Bank's adoption of SFAS No. 122. "Accounting for Mortgage Servicing Rights". This statement requires that the value of mort-



gage servicing rights associated with mortgage loans originated and sold by the Bank be capitalized as an asset. All capitalized amounts are amortized against future servicing revenues, and are subject to subsequent measurement for impairment based on the then fair value estimates. SFAS No. 122 is more fully described in footnote 1 of these financial statements.

Noninterest expense increased to $8,793,856 for the year ended September 30,1996 from $6,875,867 for the year ended September 30,1995 which followed expense of $6,999,382 for the year ended September 30, 1994. Salaries and related benefits increased to $3,788,706 in fiscal year 1996 from $3,573,873 in the prior year, which followed an increase from $3,491,966 in 1994. These increases have resulted primarily from increased wages and payroll taxes related to general year-to-year raises of approximately four percent, and additionally from increases in the cost of employee medical insurance.

Federal deposit insurance premiums were $502,244, $463,010, and $452,181 for the years ended September 30, 1996,1995 and 1994, respectively. Variances in these amounts have resulted from changes in the volume of deposits subject to coverage, as the underlying rate charged by the FDIC over these periods has remained constant. The Bank was also assessed a one-time charge of $1,362,018 during fiscal year 1996 due to legislation enacted on September 30, 1996 to recapitalize the SAIF. This legislation is more fully discussed in footnote number 16 contained in this year's audited financial statements.

Net occupancy and equipment expense decreased to $997,586 in fiscal year 1996 from $1,031,636 and $997,091 in fiscal years 1995 and 1994, respectively. The decrease from 1995 to 1996 resulted primarily from lower depreciation costs related to furniture, fixtures and equipment, while the increase from fiscal year 1994 to 1995 resulted primarily from increases in equipment repair and maintenance charges as well as general branch site maintenance.

Data processing and outside service fees were $477,376 for the year ended

September 30, 1996 compared to $465,021 and $478,136 for the years ended September 30,1995 and 1994, respectively. The increase in expense from fiscal year 1995 to 1996 resulted primarily from increases in both transaction volume and customer files. The decrease in expense from fiscal year 1994 to 1995 was the result of a negotiated decrease in the Bank's contract with its outside data processor.

Legal expense increased to $465,021 for the year ended September 30,1996 from $293,503 and $510,370 for the years ended September 30,1995 and 1994, respectively. Legal expense increased during the current fiscal year due to increased litigation in connection with the Bank's lawsuit against NationsBank, which is more fully described in footnote number 17 contained in this year's audited financial statements. Legal expense decreased in fiscal year 1995 from 1994 due to very little activity occurring during fiscal year 1995 as we awaited the damages trial, following a liability lawsuit in 1994 in which the Bank prevailed.

Telephone and postage expense increased to $270,4)4 in the current year compared to $248,965 and $235,970 for fiscal years 1995 and 199, respectively, due primarily to increased postal rates.

Advertising expense rose to $111,094 for fiscal year 1996 from $78,020 and $86,782 for fiscal years 1995 and 1994, respectively, resulting from increased media exposure, including promotional requirements related to both the introduction of the Bank's new credit card service as well as the commemorative celebration of the Bank s seventieth anniversary of service to Glynn County.

Expense (income) from real estate owned, net was $45,182, $32,132, and ($26,611) for the years ended September 30, 1996 1995, and 1994, respectively. Expense from real estate owned encompasses the normal costs of ownership such as property taxes, maintenance and repairs, utilities, and insurance. Additionally, the above cited amounts include the results from both gains and losses recognized upon disposal and write-downs subsequent to foreclosure and are thus dependent upon various economic and market conditions. Expenses related to ownership amounted to approximately $8,000, $11,000 and $49,000 for the years ended September 30,1996, 1995, and 1994, respectively and are relatively proportional to the level of real estate owned.

Other expense was $774,225, $689,707, and $793,497 for the years ended September 30,1996,1995, and 1994, respectively. The increase in expenses from fiscal year 1995 to 1996 resulted primarily from the disposal of various obsolete fixed assets and from expenses incurred resulting from the commencement of the Bank's proprietary credit card program. The decrease in expenses from fiscal year 1994 to 1995 resulted primarily from reductions in write-downs of excess servicing fees and charges for equipment obsolescence along with lower premiums paid on business insurance.

The ratio of noninterest expense to total income was 38.7%, 32.3%, and 36.6% for the years ended September 30, 1996, 1995, and 1994, respectively. The increase from fiscal year 1995 to 1996 was due primarily to an increase in legal expense in the current fiscal year, as well as the one-time special assessment to recapitalize the SAIF. The decrease from fiscal year 1994 to 1995 resulted from a decrease in legal expense for fiscal year 1995.

The provision for loan losses was $240,000, $195,000 and $180,000 for the years ended September 30,1996,1995, and 1994, respectively. Non-accrual loans decreased to $261,193 at September 30,1996 from $788,116 at September 30,1995. Potential problem loans increased to $2,904,673 at September 30,1996 from $210,416 one year ago. Included in the current year amount are 12 loans totalling $2.7 million, in aggregate, secured by commercial real estate, and are generally delinquent sixty days. The Bank is well collateralized on these loans and believes them to be fully collectible. Management believes the allowance for loan losses to be adequate at September 30, 1996, based upon conditions reasonably known to management; however, the allowance may be increased based upon future economic changes or conditions.

The provision for income taxes decreased to $1,192,250 for the year ended September 30,1996 from $1,700,600 for fiscal year 1995, which followed $1,469,100 for fiscal year 1994. The decrease in provision for the current fiscal year was due primarily to a decrease in taxable income due to increased litigation expenses and the one-time SAlF assessment in 1996.



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
SEPTEMBER 30, 1996 AND 1995

(Note 17)

<TABLE>
<CAPTION>

| ASSETS | 1996 | 1995 |
|---|---|---|
| <S> | <C> | <C> |

| | | |
|---|---|---|
| CASH AND DUE FROM BANKS | $ 4,788,450 | $ 7,077,786 |
| INTEREST-BEARING DEPOSITS WITH OTHER BANKS | 10,504,682 | 11,551,711 |
| FEDERAL FUNDS SOLD | 545,000 | 10,675,000 |
| SECURITIES AVAILABLE FOR SALE (Note 3) | 16,364,023 | 28,720,859 |
| LOANS, net (Note 4) | 209,868,046 | 186,664,013 |
| REAL ESTATE OWNED, net | 954,904 | 2,208,679 |
| PREMISES AND EQUIPMENT, net (Note 6) | 1,994,142 | 2,258,326 |
| FEDERAL HOME LOAN BANK STOCK, at cost | 1,598,700 | 1,598,700 |
| ACCRUED INTEREST: | | |
| Loans | 1,583,448 | 1,388,875 |
| Investments | 172,297 | 400,131 |
| OTHER ASSETS | 743,752 | 743,373 |
| | $249,117,444 | $253,287,453 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| DEPOSITS (Note 7): | | |
| Checking accounts | $13,561,385 | $10,860,048 |
| NOW accounts | 35,293,128 | 34,702,626 |
| Savings accounts | 20,598,108 | 20,000,808 |
| Money market deposit accounts | 10,571,845 | 12,843,024 |
| Certificates of deposit | 138,051,393 | 144,399,490 |
| Total deposits | 218,075,859 | 222,805,996 |
| ADVANCES FROM THE FHLB (Note 8) | 1,500,000 | 2,200,000 |
| ADVANCE PAYMENTS BY BORROWERS FOR TAXES AND INSURANCE | 1,251,325 | 1,475,065 |
| ACCRUED EXPENSES AND OTHER LIABILITIES | 2,192,353 | 796,255 |
| DEFERRED INCOME TAXES (Note 14) | 72,822 | 503,722 |
| Total liabilities | 223,092,359 | 227,781,038 |
| COMMITMENTS AND CONTINGENCIES (Notes 13, 15 and 17) | | |
| STOCKHOLDERS' EQUITY (Note 10): | | |
| Common stock, $1 par value; 4,000,000 shares authorized, 1,499,939 shares issued and outstanding | 1,499,939 | 1,499,939 |
| Additional paid-in capital | 1,550,208 | 1,550,208 |
| Retained earnings | 23,137,905 | 22,376,131 |
| Net unrealized (depreciation) appreciation on securities available for sale, net of tax of $87,752 and $43,145 in 1996 and 1995 (Note 1) | (162,967) | 80,137 |
| Total stockholders' equity | 26,025,085 | 25,506,415 |
| | $249,117,444 | $253,287,453 |

</TABLE>

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



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
ENDED SEPTEMBER 30, 1996, 1995, AND 1994

| | FOR THE YEARS | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| INTEREST INCOME: | | | |
| Interest on loans | $17,573,029 | $16,295,326 | $14,563,642 |
| Interest on securities available for sale | 1,807,103 | 1,819,524 | 1,830,475 |
| Interest on federal funds sold and interest-bearing deposits with banks | 695,088 | 972,291 | 472,833 |
| Dividends on FHLB stock | 116,345 | 114,899 | 90,192 |
| Total interest income | 20,191,565 | 19,202,040 | 16,957,142 |
| INTEREST EXPENSE: | | | |
| Interest on deposits (Note 11) | 10,175,709 | 9,210,751 | 7,391,055 |
| Interest on advances from the FHLB and other | 177,823 | 212,560 | 309,135 |
| Total interest expense | 10,353,532 | 9,423,311 | 7,700,190 |
| NET INTEREST INCOME | 9,838,033 | 9,778,729 | 9,256,952 |
| PROVISION FOR LOAN LOSSES | 240,000 | 195,000 | 180,000 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 9,598,033 | 9,583,729 | 9,076,952 |
| NONINTEREST INCOME: | | | |
| Service charges and other fees | 2,056,188 | 1,894,101 | 1,750,739 |
| Gain on sale of loans, net | | | |

| | | | |
|---|---|---|---|
| (Note 1) | 211,688 | 121,398 | 195,954 |
| (Loss) gain on sale of securities available for sale | (47,420) | (30,972) | 87,905 |
| Other | 294,334 | 122,671 | 112,356 |
| Total noninterest income | 2,544,790 | 2,107,198 | 2,146,954 |
| NONINTEREST EXPENSE: | | | |
| Salaries and related benefits | 3,788,706 | 3,573,873 | 3,491,966 |
| SAIF assessment (Note 16) | 1,362,018 | 0 | 0 |
| Federal deposit insurance premiums | 502,244 | 463,010 | 452,181 |
| Net occupancy and equipment expense | 997,586 | 1,031,636 | 977,091 |
| Data processing and outside service fees | 477,376 | 465,021 | 478,136 |
| Legal | 465,021 | 293,503 | 510,370 |
| Telephone and postage | 270,404 | 248,965 | 235,970 |
| Advertising | 111,094 | 78,020 | 86,782 |
| Expense (income) from real estate owned, net | 45,182 | 32,132 | (26,611) |
| Other | 774,225 | 689,707 | 793,497 |
| Total noninterest expense | 8,793,856 | 6,875,867 | 6,999,382 |
| INCOME BEFORE INCOME TAXES | 3,348,967 | 4,815,060 | 4,224,524 |
| INCOME TAX EXPENSE (Note 14) | 1,192,250 | 1,700,600 | 1,469,100 |
| INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE | 2,156,717 | 3,114,460 | 2,755,424 |
| CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (Note 1) | 0 | 0 | 525,000 |
| NET INCOME | $ 2,156,717 | $3,114,460 | $3,280,424 |
| EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (Note 1) | $1.42 | $2.05 | $1.82 |
| CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE | 0 | 0 | 0 |
| EARNINGS PER SHARE | $1.42 | $2.05 | $2 17 |

The accompanying note are an integral part of these consolidated statements.



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995, AND 1994

(Note 10)

<TABLE>
<CAPTION>

| <S> | Common Stock <C> | Additional Paid-In Capital <C> | Retained Earnings <C> | Net Unrealized Appreciation (Depreciation) on Securities Available for Sale <C> | Total <C> |
|---|---|---|---|---|---|
| BALANCE, September 30,1993 | $1,496,939 | $1,514,208 | $18,438,348 | $ 0 | $21,449,495 |
| Net income | 0 | 0 | 3,280,424 | 0 | 3,280,424 |
| Dividends declared ($.75 per share) | 0 | 0 | (1,122,855) | 0 | (1,122,855) |
| Stock options exercised | 1,000 | 14,000 | 0 | 0 | 15,000 |
| BALANCE, September 30, 1994 | 1,497,939 | 1,528,208 | 20,595,917 | 0 | 23,622,064 |
| Net income | 0 | 0 | 3,114,460 | 0 | 3,114,460 |
| Dividends declared ($.89 per share) | 0 | 0 | (1,334,246) | 0 | (1,334,246) |
| Stock options exercised | 2,000 | 22,000 | 0 | 0 | 24,000 |
| Change in net unrealized appreciation on securities available for sale, net of taxes of $43,145 (Note 1) | 0 | 0 | 0 | 80,137 | 80,137 |
| BALANCE, September 30, 1995 | 1,499,939 | 1,550,208 | 22,376,131 | 80,137 | 25,506,415 |
| Net income | 0 | 0 | 2,156,717 | 0 | 2,156,717 |
| Dividends declared ($.93 per share) | 0 | 0 | (1,394,943) | 0 | (1,394,943) |
| Change in net unrealized depreciation on securities available for sale, net of taxes of $87,752 (Note 1) | 0 | 0 | 0 | (243,104) | (243,104) |
| BALANCE, September 30,1996 | $1,499,939 | $1,550,208 | $23,137,905 | $(162,967) | $26,025,085 |

</TABLE>

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

FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995, AND 1994

(Note 1)

<TABLE>
<CAPTION>

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Interest received on loans | $ 17,038,817 | $ 15,648,553 | $ 14,055,687 |
| Interest and dividends received on securities available for sale | 2,846,370 | 2,836,623 | 2,490,370 |
| Loan fees collected | 799,968 | 583,199 | 955,427 |
| Service charges on deposit accounts | 1,486,568 | 1,182,844 | 958,074 |
| Other fees collected | 1,009,549 | 875,841 | 962,965 |
| Interest paid on deposits | (10,234,098) | (9,164,898) | (7,381,855) |
| Payments for salaries and related benefits | (3,954,050) | (3,823,418) | (4,002,239) |
| Payments for general and administrative expenses | (3,231,601) | (2,876,778) | (3,094,923) |
| Income taxes paid, net | (1,435,153) | (1,498,000) | (1,683,872) |
| Interest paid on borrowings | (195,823) | (212,560) | (309,135) |
| Net cash provided by operating activities | 4,130,547 | 3,551,406 | 2,950,499 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Proceeds from sales of loans | 26,834,936 | 11,003,152 | 16,722,929 |
| Purchases of securities available for sale | (9,778,004) | (9,188,300) | (5,522,533) |
| Principal collected on loans and mortgage-backed securities | 71,720,864 | 75,623,568 | 75,923,574 |
| Loans funded | (124,581,499) | (94,936,408) | (114,608,300) |
| Purchase of premises and equipment | (101,892) | (119,960) | (340,842) |
| Proceeds from sales and maturities of securities available for sale | 24,865,055 | 7,507,264 | 25,268,555 |
| Other, net | 448,708 | 459,706 | (745,836) |
| Cash flows used in investing activities | (10,591,832) | (9,650,978) | (3,302,453) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Net increase (decrease) in: | | | |
| Checking accounts | 2,701,337 | 860,806 | 1,454,147 |
| NOW accounts | 590,502 | (1,454,841) | 3,674,259 |
| Savings and money market deposit accounts | (1,673,879) | (3,046,542) | (1,307,960) |
| Proceeds from issuance of certificates of deposit | 240,267,682 | 223,502,234 | 179,412,768 |
| Payments for maturing certificates of deposit | (246,615,779) | (197,771,042) | (179,064,326) |
| Payments of maturing FHLB advances | (12,700,000) | 6,000,000 | (2,000,000) |
| Proceeds from FHLB advances | 12,000,000 | (7,800,000) | 700,000 |
| Proceeds from other borrowed money | 12,000,000 | 11,000,000 | 0 |
| Payments of other borrowed money | (12,000,000) | (11,000,000) | 0 |
| Dividends paid | (1,394,943) | (1,334,246) | (1,122,855) |
| Net cash (used in)provided by financing activities | (6,825,080) | 18,956,369 | 1,746,033 |
| Net (decrease) increase in cash and cash equivalents | (13,286,365) | 12,856,797 | 1,394,079 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 29,304,497 | 16,447,700 | 15,053,621 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 16,018,132 | $ 29,304,497 | $ 16,447,700 |
| NET INCOME | $ 2,156,717 | $ 3,114,460 | $ 3,280,424 |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Depreciation | 366,076 | 403,029 | 359,986 |
| Provision for loan losses | 240,000 | 195,000 | 180,000 |
| (Benefit) provision for deferred income taxes | (418,846) | (602,470) | 163,181 |
| Loan and excess servicing fees deferred, net | (64,521) | (111,767) | 33,335 |
| (Increase) decrease in interest receivable | 33,261 | (251,358) | 85,746 |
| Increase (decrease) in interest payable | (58,389) | 45,853 | 9,200 |
| Increase (decrease) in accrued expenses and other liabilities | 1,412,221 | (478,414) | (314,961) |
| Other, net | 464,028 | 1,237,073 | (846,412) |
| Total adjustments | 1,973,830 | 436,946 | (329,925) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 4,130,547 | $ 3,551,406 | $ 2,950,499 |

| | | | |
|---|---|---|---|
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES: | | | |
| Loans exchanged for mortgage-backed securities | $ 6,445,235 | $ 1,016,520 | $ 16,777,670 |

</TABLE>

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



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996, 1995, AND 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

First Federal Savings Bank of Brunswick, Georgia (the "Bank"), is a savings bank primarily engaged in the business of obtaining deposits and providing mortgage and other loans to the general public. The more significant accounting and reporting policies not described elsewhere in these notes to financial statements are discussed below.

Principles of Consolidation and
Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Bank and its wholly owned subsidiary, First Shelter Service Corporation ("First Shelter"). All significant intercompany balances and transactions have been eliminated in consolidation. As of September 30, 1996 and 1995, the investment in First Shelter amounted to $304,398 and $303,954, respectively.

Certain 1995 and 1994 amounts have been reclassified to conform with the 1996 presentation.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the accompanying financial statements and disclosures. Actual results could differ from those estimates.

Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits with banks, and federal funds sold, all of which have an original maturity of less than 90 days from the date of purchase.

Securities Available for Sale

The Bank adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" as of October 1,1994. In accordance with SFAS No. 115, securities are classified as either held-to-maturity, trading, or available-for-sale. Held-to-maturity securities are carried at amortized cost. Trading securities are carried at fair value, with unrealized gains and losses included in earnings. Available-for-sale securities are carried at fair value, with unrealized gains and losses excluded from earnings and reported in stockholders' equity. The Bank classifies all of its securities as available-for-sale which were reported at their fair value of $16,364,023 on September 30, 1996. The net unrealized depreciation on securities available for sale of $250,719 was recorded net of taxes as a separate component of stockholders' equity.

Premiums and discounts are recognized in interest income using the interest method over the period of maturity.

Loans

During 1996, the Bank adopted SFAS No. 118, "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures," which amended SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." These statements require that impaired loans, as defined, be measured based on the discounted present value of expected future cash flows, the observable market price of the loan, or the fair value of the collateral if the loan is collateral-dependent. There was no effect on current period earnings as a result of the adoption of SFAS No. 118. Additionally, as permitted by these statements, in-substance foreclosures of $0 and $845,036 were reclassified to loans, net, from real

estate owned at September 30, 1996 and 1995, respectively.

Allowance for Loan Losses

The allowance for loan losses is based on management's estimate of the allowance required to reflect the risks in the loan portfolio based on circumstances and conditions known or anticipated at each reporting date. A provision for loan losses is charged to operations based on management's periodic evaluation of these risks. Provisions not specifically identified are based on the Bank's experience and other factors. It is the opinion of management that the allowance for loan losses is adequate at September 30, 1996 based on conditions reasonably known to management; however, the allowance may be increased based on future economic changes or conditions.

Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less costs to sell. Costs related to holding real estate and charges to write down real estate for subsequent declines in net realizable value are charged to operations. Real estate owned by the Bank at September 30, 1996 and 1995 is recorded net of a valuation allowance of $41,000 and $25,000, respectively.

Gains on sales of real estate acquired through foreclosure are recognized using cash down payment guidelines established by authoritative accounting pronouncements.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided principally using the straight-line method over the estimated useful lives of the assets of 20 to 30 years for buildings, 10 years for leasehold improvements, and 3 to 10 years for furniture, fixtures, and equipment.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank System, is required to maintain an investment in capital stock of the Federal Home Loan Bank ("FHLB") in an amount equal to the greater of 1% of its outstanding permanent residential mortgage loans or 5% of its outstanding advances. No ready market exists for the FHLB stock, and it has no quoted value. For disclosure purposes, such stock is assumed to have a market value equal to cost.

Interest Income

Income on loans and investments is recognized when the interest is earned in order to yield a constant rate of return on funds outstanding.

Uncollected Interest

Loans 90 days or more delinquent are placed on nonaccrual status. Non-accrual and restructured loans totalled approximately $1,040,899 and $1,932,000 at September 30,1996 and 1995, respectively. Interest on these loans, if ultimately collected, is credited to income in the period of recovery. During 1996, 1995, and 1994, additional gross interest income totaling approximately $31,000, $62,000 and $113,000, respectively, would have been recorded on nonaccrual and restructured loans if all such loans at September 30,1996, 1995, and 1994 had been accruing interest at the original contractual rate. Interest payments recorded in 1996,1995, and 1994 as income, excluding reversals of previously accrued interest, for all such nonperforming loans at September 30,1996, 1995, and 1994 were approximately $100,000,



$104,000, and $44,000, respectively. The Bank does not have significant commitments to lend additional funds to any of these borrowers.

Loan Fees

Loan fees and direct costs of originating successful loans are being deferred and amortized, net, as an adjustment to interest yield over the life of the related loan.

Loan Sales and Loan Servicing

Additional funds for lending are provided by selling participating interests in loans or whole loans. Under most sales agreements, the Bank continues to provide loan servicing, which includes collecting payments and remitting its portion thereof to the buyer, net of servicing fees. On October 1, 1996, the Bank adopted SFAS No. 122, "Accounting for Mortgage Servicing Rights" which, among

other provisions, requires that the value of mortgage servicing rights associated with mortgage loans originated by an entity, which it intends to sell, be capitalized as assets. The cost of these mortgage servicing rights is amortized in proportion to, and over the period of, the estimated net servicing revenues. In connection with the October 1, 1995 adoption of SFAS No. 122, the Bank has capitalized mortgage servicing rights of $149,306 in 1996. Amortization of mortgage servicing rights was $8,815 in 1996. No valuation allowance was recorded during 1996. Accordingly, adoption of SFAS No. 122 increased net income after taxes by $97,049, or $.06 per share. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant risk characteristics of the Bank's loans are the interest rate and loan type. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed their fair value.

When participating interests in loans sold have an average contractual interest rate, adjusted for normal servicing fees, that differs from the agreed yield to the purchaser, gains or losses are recognized equal to the present value of such differential over the estimated remaining life of such loans. The resulting "excess servicing receivable," included in other assets, is amortized over the estimated useful life using the level yield method.

Quoted market prices are not available for the excess servicing receivables. Thus, the excess servicing receivables and the amortization thereon are periodically evaluated in relation to estimated future servicing revenues, taking into consideration changes in interest rates, current prepayment rates, and expected future cash flows. The Bank evaluates the carrying value of the excess servicing receivables by estimating the future servicing income of the excess servicing receivables based on management's best estimate of remaining loan lives and discounted at the original discount rate.

Income Taxes

Effective October 1,1993,the Bank adopted SFAS No.109, "Accounting for Income Taxes" which requires the asset and liability method of accounting for deferred income taxes. The Bank previously accounted for deferred taxes under the deferral method required by Accounting Principles Board Opinion No. 11. This change resulted in the Bank recording a cumulative effect of a change in accounting principle in the consolidated statement of income for the year ended September 30,1994 of $525,000.

Earnings per Share

Earnings per share are calculated based on the weighted average common shares and common stock equivalents outstanding during the year of 1,523,693, 1,516,868, and 1,514,017 in 1996,1995, and 1994, respectively.

2. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Bank in determining estimates of fair value disclosures for financial instruments:

Cash and Due From Banks, Interest-Bearing Deposits With Banks, and Federal Funds Sold

The carrying amount for these cash equivalents approximates their fair value.

Securities Available for Sale

Fair values of securities available for sale are based on quoted market prices, where available. In the event that quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The estimated fair value of securities available for sale was $16,364,023 and $28,720,859 at September 30,1996 and 1995, respectively.

Loans, Net

The fair values of conforming residential mortgage loans are based on quoted market prices or quoted market prices of similar loans sold, adjusted for differences in loan characteristics. The fair values of other loans are estimated using discounted future cash flow analyses using interest rates or secondary market yield requirements currently being offered for loans with similar terms and credit quality. The carrying amount of accrued interest approximates its fair value. The estimated fair value of loans, net, were approximately $208,825,000 and $186,862,000 at September 30, 1996 and 1995, respectively.

Off-Balance Sheet Instruments

The fair values of commitments to sell mortgage loans and commitments to extend credit approximate their carrying amounts. Commitments or commercial letters of credit are not significant, and their related fair value would be nominal.

Deposits

The fair values of checking, NOW, savings, and money market deposit accounts are equal to the reported carrying amount, which is the amount payable on demand as of the reporting date. Fair values for certificates of deposit are estimated using a discounted future cash flow method, which applies rates currently offered for deposits of similar remaining maturities. The estimated fair value of certificates of deposit were approximately $138,824,000 and $145,154,000 at September 30,1996 and 1995, respectively.

Borrowings

The fair value of the Bank's borrowings is determined by estimates using discounted future cash flow analyses based on the Bank's current incremental borrowing rates for similar types of instruments. The estimated fair value of advances from the FHLB were approximately $1,509,000 and $2,200,000 at September 30,1996 and 1995, respectively.

The techniques used to estimate fair values are significantly affected by the assumptions used, including the discount rate and estimated future cash flows. Therefore, the fair value estimates for these financial instruments cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of a particular financial instrument of the Bank. The aggregate fair value amounts presented herein do not represent the aggregate underlying value of the Bank and may not be indicative of amounts that might ultimately be realized upon disposition of those assets and liabilities individually or in aggregate.



3. SECURITIES AVAILABLE FOR SALE

Securities available for sale at September 30, 1996 and 1995 consist solely of U.S. Treasury notes, agency bonds, mortgage-backed securities, and tax-free municipal securities.

The amortized cost and estimated fair value of securities available for sale were as follows at September 30, 1996 and 1995:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| 1996: | | | | |
| Investment securities | $ 8,032,109 | $ 33,366 | $ 41,343 | $ 8,024,132 |
| Mortgage-backed securities | 8,582,633 | 3,612 | 246,354 | 8,339,891 |
| | $16,614,742 | $ 36,978 | $ 287,697 | $16,364,023 |
| 1995: | | | | |
| Investment securities | $16,353,511 | $ 156,286 | $ 20,982 | $16,488,815 |
| Mortgage-backed securities | 12,244,066 | 77,895 | 89,917 | 12,232,044 |
| | $28,597,577 | $ 234,181 | $ 110,899 | $28,720,859 |

Gross realized gains and losses on sale of investments in securities were as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Gross realized gains: | | | |
| Investment securities | $ 34,042 | $ 0 | $ 0 |
| Mortgage-backed securities | 17,660 | 0 | 139,528 |
| | $ 51,702 | $ 0 | $139,528 |
| Gross realized losses: | | | |
| Investment securities | $ 11,231 | $28,471 | $ 0 |
| Mortgage-backed securities | 87,891 | 2,501 | 51,623 |
| | $ 99,122 | $30,972 | $ 51,623 |

The amortized cost and estimated market values of securities available for sale at September 30,1996, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

| | Amortized Cost | Estimated Market Value |
|---|---|---|
| Due in 1 year or less | $ 3,078,251 | $ 3,085,253 |
| Due after 1 year through 5 years | 5,078,965 | 5,071,150 |
| Due after 5 years through 10 years | 2,160,170 | 2,112,830 |
| Due after 10 years and thereafter | 6,297,356 | 6,094,790 |
| | $16,614,742 | $16,364,023 |

At September 30,1996 and 1995,certain of the Banks'assets(primarily investment securities and mortgage-backed securities) with amortized cost of approximately $14,356,136 and $16,277,639, respectively, were pledged to secure certain certificates of deposit, public deposits, a letter of credit, advances from the FHLB, and treasury tax and loan balances with the Federal Reserve Bank of Atlanta.



Loans at September 30,1996 and 1995 are summarized as follows:

| | 1996 | 1995 |
|---|---|---|
| Real estate loans: | | |
| Conventional mortgage | $160,887,037 | $150,372,532 |
| Construction | 21,564,508 | 12,951,880 |
| Partially guaranteed by Federal Housing Administration or Veterans Administration | 446,415 | 507,609 |
| Consumer loans | 28,438,919 | 24,157,352 |
| Commercial loans | 7,441,666 | 4,512,256 |
| | 218,778,545 | 192,501,629 |
| Less: | | |
| Allowance for loan losses | (800,786) | (834,882) |
| Deferred loan fees and other, net | (830,384) | (789,790) |
| Undisbursed portions of loans in process | (7,279,329) | (4,212,944) |
| Net loans | $209,868,046 | $186,664,013 |

During fiscal years ended September 30,1996,1995, and 1994, loans foreclosed and transferred to real estate owned totaled $825,255, $1,569,144, and $317,430, respectively.

The Bank has made loans to directors and executive officers for the purchase of their primary residences and other short-term loans aggregating $1,603,716 and $1,838,969 at September 30,1996 and 1995, respectively. In the opinion of management, these loans are fully collectible. No loans due from directors or executive officers were charged off during the current fiscal year. The following sets forth information regarding the activity during fiscal year 1996 in loans due from directors and executive officers:

| | |
|---|---|
| Balance at September 30, 1995 | $1,838,969 |
| Repayments | (588,481) |
| New borrowings | 353,228 |
| Balance at September 30,1996 | $1,603,716 |

A reconciliation of the allowance for loan losses for the years ended September 30,1996,1995, and 1994 is as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Balance at beginning of year | $834,882 | $786,111 | $869,297 |
| Provision for loan losses | 240,000 | 195,000 | 180,000 |
| Amounts charged off | (299,318) | (189,497) | (30,605) |
| Recoveries | 25,222 | 43,268 | 37,419 |
| Balance at end of year | $800,786 | $834,882 | $786,111 |

5. LOAN SERVICING

The Bank was servicing mortgage loans (which are not included in the accompanying statements of financial condition) with unpaid principal balances totaling $133,264,664, $128,526,732, and $133,599,102 for the benefit of others at September 30, 1996,1995, and 1994, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing were $1,251,325 and $1,475,065 at September 30,1996 and 1995, respectively.



6. PREMISES AND EQUIPMENT

Premises and equipment at September 30,1996 and 1995 consisted of the following:

| | 1996 | 1995 |
|---|---|---|
| Cost | | |
| Land | $ 766,574 | $ 766,574 |
| Buildings | 1,152,599 | 1,152,599 |
| Furniture, fixtures, and equipment | 2,760,477 | 2,758,403 |
| Leasehold improvements | 584,523 | 561,917 |
| Total cost | 5,264,173 | 5,239,493 |
| Less accumulated depreciation and amortization | (3,270,031) | (2,981,167) |

| | | |
|---|---|---|
| | $ 1,994,147 | $ 2,258,326 |

7. DEPOSITS

Included in deposits at September 30,1996 and 1995 are certificates of deposit in denominations of $100,000 or more aggregating $31,999,281 and $34,389,564, respectively.

At September 30,1996, the scheduled maturities of CDs are as follows:

| | |
|---|---|
| 1997 | $100,408,617 |
| 1998 | 18,052,590 |
| 1999 | 12,724,537 |
| 2000 | 5,680,789 |
| 2001 and thereafter | 1,184,860 |
| | $138,051,393 |

8. ADVANCES FROM THE FHLB

Advances from the FHLB as of September 30,1996 and 1995 amounted to $1,500,000 and $2,200,000, respectively. The advances are due in their entirety in 1997.

The weighted average interest rate for outstanding FHLB advances was 7.9% and 6.82% at September 30,1996 and 1995, respectively.

9. RESTRICTIONS ON RETAINED EARNINGS

The Bank is subject to certain restrictions on the amount of dividends that it may declare prior to regulatory approval. At September 30,1996, approximately $6,819,000 of retained earnings were available for dividend declaration without prior regulatory approval.

10. REGULATORY MATTERS

The Bank is subject to various capital requirements administered by the federal banking agencies. 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 require 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). Management believes, as of September 30,1996, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 1996 and September 30, 1995, the most recent notification from the Office of Thrift Supervision categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain certain tangible capital, Tier I (core) capital, and total risk-based capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.



The Bank's actual amounts (in thousands) and ratios are also presented in the table.

| | Actual | | Minimum for Capital Adequacy Purposes | | To Be Well Capitalized for Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Ratio | Amount | Ratio | Amount | Ratio | Amount |
| Stockholder's equity, and ratio to total assets | 10.4% | 26,025 | | | | |
| Unrealized loss on securities available for sale | | 163 | | | | |
| Intangible assets | | (14) | | | | |
| Tangible capital, and ratio to adjusted total assets | 10.5 | 26,174 | 1.5 | $3,739 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Tier I (core) capital, and ratio to adjusted total assets | 10.5 | 26,174 | 3.0 | 7,478 | 5.0 | $12,464 |
| Tier I capital, and ratio to risk-weighted assets | 15.1 | 26,174 | | | 6.0 | 10,406 |
| Allowance for loan losses | | 801 | | | | |
| Assets required to be deducted | | (217) | | | | |
| Tier 2 capital | | 584 | | | | |
| Total risk-based capital and ratio to risk-weighted assets | 15.4% | $26,758 | 8.0% | $13,874 | 10.0% | $17,343 |
| Total Assets | | $249,117 | | | | |
| Adjusted total assets | | $249,266 | | | | |
| Risk-weighted assets | | $173,425 | | | | |

11. INTEREST ON DEPOSITS

Interest on deposits at September 30, 1996, 1995, and 1994 is comprised of the following:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Checking accounts | $ 155,806 | $ 144,307 | $ 123,974 |
| NOW accounts | 471,133 | 571,564 | 475,820 |
| Savings accounts | 502,580 | 510,523 | 575,075 |
| Money market deposit accounts | 472,478 | 546,611 | 514,054 |
| Certificates of deposit | 8,573,732 | 7,437,746 | 5,702,132 |
| | $10,175,709 | $9,210,751 | $7,391,055 |



12. EMPLOYEE BENEFIT PLANS

The bank has a stock option plan for key employees authorizing the granting of options for up to 199,800 shares of common stock. such stock is to be issued from the Bank's authorized but unissued shares. These options are exercisable in equal increments over three years and have a term of five years. No charges are reflected in income as a result of the granting or exercising of the stock options.

The following table presents further information on this plan:

| | 1996 | | 1995 | | 1994 | |
|---|---|---|---|---|---|---|
| | Number of Shares | Option Price Per Share | Number of Shares | Option Price Per Share | Number of Shares | Option Price Per Share |
| Option outstanding at end of prior year | 30,311 | $12-$15 | 30,311 | $12-$15 | 32,311 | $12-$15 |
| Granted | 0 | 0 | 0 | 0 | 0 | 0 |
| Exercised | 0 | 0 | 2,000 | 12 | 1,000 | 15 |
| Canceled or expired | 0 | 0 | 0 | 0 | 0 | 0 |
| Options out standing at end of year | 30,311 | $12-$15 | 30,311 | $12-$15 | 32,311 | $12-$15 |
| Shares exercisable at end of year | 30,311 | $12-$15 | 30,311 | $12-$15 | 32,311 | $12-$15 |

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation," which the Bank is required to adopt in fiscal year 1997. SFAS No. 123 will require the Bank to estimate the value of all stock-based compensation using a recognized pricing model. The Bank will have the option of recognizing this value as an expense or by disclosing its effects on net income. The Bank's management has not yet determined its method of adoption or the financial statement impact of the adoption of SFAS No. 123.

The Bank and its subsidiary have a noncontributory profit-sharing plan which covers substantially all of their employees. The annual contribution to the plan is established each year by the board of directors. Profit-sharing plan expense was $268,640, $298,156 and $271,210 for the years ended September 30, 1996, 1995, and 1994, respectively.

The Bank has also established a savings plan. Under the terms of the plan, eligible employees can make tax-deferred 401(k) contributions. The Bank matches the employee contribution 100% up to the first 2% contributed by an employee, 75% of the next 2%, and 50% of the third 2%. For the years ended September 30, 1996, 1995, and 1994, the Bank's 401(k) contributions were $101,413, $92,644, and $96,849, respectively.

13. OPERATING LEASE OBLIGATIONS

At September 30, 1996, the Bank leased office facilities under agreements with terms of more than one year. Amounts charged to retail expense for operating leases were $342,809, $346,226, and $344,885 for the years ended September 30 1996, 1995, and 1994, respectively.

At September 30, 1996 the Bank's minimum rental commitments under noncancelable operating leases for office space with initial or remaining terms of more than one year were as follows:

| | |
|---|---|
| Fiscal Year: | |
| 1997 | $ 344,904 |
| 1998 | 343,704 |
| 1999 | 314,544 |
| 2000 | 314,544 |
| 2001 | 314,544 |
| Thereafter | 687,212 |
| | $2,319,452 |



14. INCOME TAXES

Income tax expense for the three years ended September 30, 1996 is summarized as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Federal | | | |
| Current | $1,467,123 | $2,047,029 | $734,511 |
| Deferred | (359,411) | (512,099) | 612,106 |
| | 1,107,712 | 1,534,930 | 1,346,617 |
| State: | | | |
| Current | 143,973 | 256,041 | 46,408 |
| Deferred | (59,435) | (90,371) | 76,075 |
| | 84,538 | 165,670 | 122,483 |
| Total | $1,192,250 | $1,700,600 | $1,469,100 |

The differences between income taxes at the federal statutory rate and the provision at the effective tax rate for the tree years ended September 30, 1996 are as follows, net of the cumulative effect of a change in accounting for income taxes:

<TABLE>
<CAPTION>

| <S> | 1996 <C> | 1996 <C> | 1994 <C> |
|---|---|---|---|
| Statutory federal income tax | $1,138,649 | $1,637,120 | $1,436,338 |
| Increases (reductions) in taxes resulting from: | | | |
| State income tax, net of federal benefit | 53,773 | 168,987 | 109,829 |
| Tax-free interest income | (27,285) | (71,470) | (81,600) |
| Other, net | 27,113 | 34,037 | 4,533 |
| | $1,192,250 | $1,700,600 | $1,469,100 |

</TABLE>

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that gave rise to significant portions of the deferred tax liability at September 30, 1996 and 1995 relate to the following:

| | 1996 | 1995 |
|---|---|---|
| Effect of loans mark-to-market deduction | $360,969 | $253,949 |
| Deferred loan fees | 195,578 | 178,460 |
| Dividend received deduction | 182,153 | 182,153 |
| Sale of loan participations | 58,214 | 81,624 |
| Depreciation | 55,827 | 101,608 |
| SAIF assessment | (517,567) | 0 |
| Effect of bad debt deduction | (119,775) | (215,141) |
| Other, net | (142,577) | (79,931) |
| | $ 72,822 | $503,722 |

Under the Internal Revenue Code (the "Code"), the Bank was allowed a special bad debt deduction related to additions to tax bad debt reserves established for the purpose of absorbing losses. The provisions of the Code permitted the Bank to deduct from taxable income an allowance for bad debt equal to the greater of 8% of taxable income before such deduction or actual charge-offs. Retained earnings at September 30, 1996 include approximately $2,477,000 for which no federal income tax has been provided. These amounts represent allocations of income to bad debt reserves and are subject to federal income tax in future years, at the then current corporate rate, if the Bank no longer qualifies as a Bank for federal income tax purposes and in certain other circumstances.

On August 2, 1996, Congress passed the Small Business Job Protection Act that will, among other things, repeal the tax bad debt reserve method for thrifts effective for taxable years beginning after December 31,1995. As a result, the Bank must recapture into taxable income the amount of its post-1987 tax bad debt reserves over a six-year period beginning in fiscal year 1997. The Bank is expected to recapture approximately $187,000 of its tax bad debt reserves into taxable income over six years as a result of this new law. The recapture will not have any effect on the Bank's financial statements because the related tax expense has already been accrued. Effective for the fiscal year ending September 30, 1997, the Bank will be required to utilize the six-year average experience method of loan charge-offs in determining its annual tax bad debt deduction.

As discussed in Note 1, the Bank adopted SFAS No. 109 in the first fiscal quarter of 1994.

15.FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include



commitments to extend credit, standby letters of credit, and loans sold with recourse. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of financial condition. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The Bank, however, does not hold or issue futures, forward, swap, or option contracts.

The Bank's exposure to credit loss in the event of nonperformance by the counterpart to the financial instrument for commitments to extend credit and standby letters of credit and to reimburse the investor for losses on loans sold with recourse is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit, exclusive of the undisbursed portion of loans in process, which amounted to $667,000 at fixed interest rates and $1,433,000 at variable interest rates at September 30, 1996, represent legally binding agreements to lend to customers with various expiration dates, but in no event later than 30 days after September 30, 1996. As some commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements.

Standby letters of credit are conditional commitments issued by the Bank guaranteeing the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank had approximately $1,798,000 in irrevocable standby letters of credit outstanding at September 30, 1996.

The Bank generally sells participating interests in loans without recourse. However, because of market conditions in certain prior years, the Bank sold certain participating interests in loans with recourse in the event of default by borrowers on the related residential mortgage loans. The credit risk involved in selling loans with recourse is essentially the same as that involved in extending loan facilities to customers. As of September 30, 1996, the balance of loans sold with recourse that remains uncollected totals approximately $4,000,000.

The majority of the Bank's business activity is with customers located within its southeast Georgia market area. The Bank's only significant concentration of credit at September 30, 1996 occurs in real estate loans (including certain commercial real estate loans) which totaled $200,177,192 or 92% of total loans. Of total real estate loans, 14% were for construction, land acquisition, and development, 67% were for permanent mortgage loans for one-to-four-family dwellings, and 19% were other loans secured by real estate, primarily commercial properties. It is the Bank's policy to review each prospective credit in order to determine an adequate level of security or collateral prior to making the loan. The type of collateral will vary and ranges from liquid assets to real estate.

16.LEGISLATION

The Bank's savings deposits are insured by the Savings Association Insurance Fund ("SAIF"), which is administered by the FDIC. The assessment rate currently ranges from .23% of deposits for well-capitalized institutions to .31% of deposits for undercapitalized institutions. The FDIC also administers the Bank Insurance Fund ("BIF"), which has the same designated reserve ratio as the SAIF. On August 8, 1995, the FDIC adopted an amendment to the BIF risk-based assessment schedule which lowered the deposits insurance assessment rate for most commercial banks and other depository institutions with deposits insured by the BIF to a range of .31% of insured deposits for undercapitalized BIF-insured institutions to .04% of deposits for well-capitalized institutions, which constitutes over 90% of BIF-insured institutions. The FDIC amendment became effective for the quarter ended September 30, 1995. The amendment created a substantial disparity in the deposit insurance premiums paid by BIF and SAIF

members.

Legislation was enacted on September 30, 1996 to recapitalize the SAIF in order to eliminate the premium disparity. The Treasury Department, the FDIC, and Congress provided for a one-time assessment of .657% of insured deposits on all SAIF-insured deposits held at March 31, 1995. Under this legislation, the BIF and SAIF will be merged into one fund as soon as practicable after they both reach their designated reserve ratios, but no later than January 1, 1998, provided that there are no longer any thrift chartered institutions. The special assessment as described above resulted in a one-time charge to the Bank of approximately $1,362,000, which is included in accrued expenses and other liabilities on the consolidated statement of financial condition as of September 30, 1996, and SAIF assessment in noninterest expense on the consolidated statement of income for the year ended September 30, 1996.

17.LITIGATION

In 1988, the Bank entered into an agreement with The Citizens and Southern Corporation ("C&S") and certain related affiliates which provided for the acquisition of the Bank by C&S and the exchange of bank common stock for C&S common stock. The agreement was amended in 1990 to provide for receipt of C&S/ Sovran Financial Corporation ("Sovran") common stock by Bank stockholders as a result of the merger in 1990 of C&S with Sovran (which was acquired by NationsBank Corporation ("NationsBank") in late 1991). On September 27, 1991, the Bank filed a complaint against C&S/Sovran for breach of their merger agreement. C&S/Sovran answered denying liability. The trial court divided the case into two trial, one on liability and a second on damages. In May 1994, in the liability trial, a jury determined C&S/Sovran breached the merger agreement. On December 19, 1994, the trial court ordered C&S/Sovran to specifically perform the agreement with the Bank. On December 4, 1995, the Supreme Court affirmed the trial court decision. The case then was remanded to the trial court for determination of the closing date which would be utilized to determine the terms of the specific performance remedy. A second jury trial was held on July 8, 1996. On July 18, 1996, the second jury determined that the merger agreement would have closed on June 19, 1991, had defendants filed and pursued the regulatory approvals on March 8, 1991. On October 15, 1996 the trial court entered judgment thereon. The Bank and NationsBank have, consistent with the court's order, finalized the terms for consummation of the merger such that, after the Bank pays its contractual obligations for attorneys' fees and senior management agreements of approximately $13.8 million, the Bank's stockholders will receive .80 shares of NationsBank stock for each share of the Bank's stock. The parties anticipate a closing on or before April 30, 1997. Other assets at September 30, 1996 and 1995 include approximately $182,000 of capitalized fees related to the costs of the merger.

The Bank is party to various legal and administrative proceedings and claims. While any litigation contains an element of uncertainty, management believes that the outcome of such proceedings or claims pending or known to be threatened will not have a material adverse effect on the Bank's consolidated financial position.



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of First Federal Savings Bank of Brunswick, Georgia:

We have audited the accompanying consolidated statements of financial condition of FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA (a federal capital stock savings bank), AND SUBSIDIARY as of September 30, 1996 and 1995 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1996. These financial statements are the responsibility of the Banks's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respect, the financial position of First Federal Savings Bank of Brunswick, Georgia, and subsidiary as of September 30, 1996 and 1995 and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles.

Atlanta, Georgia
December 16, 1996

ARTHUR ANDERSEN LLP

Capital Stock:

At the present, there is no established market in which shares of the Bank's capital stock are regularly traded, nor are there any uniformly quoted

prices for such shares. Buyers and sellers are matched as possible by a national firm as an accommodation. On October 21, 1985, the Bank declared a stock split in the form of a 100% stock dividend to stockholders of record as of October 31, 1985. On June 16, 1986, the Bank declared an additional stock split in the form of a 100% stock dividend to stockholders of record as of June 30, 1986. During fiscal year 1996, the Board of Directors approved the payment of cash dividends on its common stock totalling approximately $1,395,000.

The Bank may not declare or pay a cash dividend on any of its stock if the effect thereof would cause the Bank's net worth to be reduced below (i) the amount required for the liquidation account or (ii) the regulatory net worth requirements. Additionally, the Bank may make aggregate capital distribution during a calendar year, without prior approval of the Office of Thrift Supervision, of up to all of its net income to date during the year plus an amount that would reduce its excess capital ratio to one-half of such excess capital ratio at the beginning of the calendar year. Further, for a period of three years after July 21, 1984, the date of the Bank's conversion to stock form, the Bank was not permitted (except with the prior approval of the FSLIC) to declare or pay a cash dividend on any of its stock in an amount in excess of one-half of the greater of (i) the Bank's net income for the fiscal year in which the dividend is declared or (ii) the average of the Bank's net income for the current fiscal year and no more that two of the immediately preceding fiscal years.

As of September 30, 1996, the Bank had 552 stockholders.

Business of the Bank

First Federal Savings Bank of Brunswick is a federally chartered capital stock saving bank headquartered in Brunswick, Georgia. The Bank began its operations in 1926 as a Georgia-chartered mutual building and loan association. In 1935, it converted to a federal mutual savings and loan association, and in 1983, First Federal became a federal mutual saving bank. It completed its conversion to a federal capital stock savings bank in July 1984. First Federal is a member of the Federal Home Loan Bank system, and its deposits are insured by the Federal Deposit Insurance Corporation, through its savings association conduit, the Savings Association Insurance Fund.

The Bank is primarily engaged in the business of obtaining funds in the form of deposits and investing such funds in mortgage loans on residential and commercial real estate, various types of consumer and commercial loans, mortgage-backed securities, and other types of securities. First Federal, like most other federal thrift institutions, has traditionally concentrated its lending activities on the origination of conventional first mortgage loans secured by residential property and, to a lesser extent, construction loans and loans secured by commercial property. Since 1982, the Bank has been seeking (i) to reduce the amount of low interest rate loans in its loan portfolio, (ii) to increase the origination of loans with shorter terms, such as construction loans, consumer loans and commercial loans, and (iii) to originate long-term, fixed-rate loans for sale in the secondary market and to retain variable-rate loans.



BOARD OF DIRECTORS

| | | |
|---|---|---|
| James F. Barger<br>Partner, Tiller,<br>Stewart & Co.<br>LLC CPA | J. Dewey Benefield, Jr.<br>Director, Sea Island<br>Company | William O. Faulkner, Jr.<br>Retired, Citizens &<br>Southern National<br>Bank |
| James H. Gash<br>Senior Vice Pres.<br>Commercial Banking<br>First Federal<br>Savings Bank | (FIRST FEDERAL SAVINGS<br>BANK logo appears here) | Mack F. Mattingly<br>Former U.S. Senator |
| T. Gillis Morgan, III<br>President<br>Tidewater<br>Companies, Inc. | D. Paul Owens<br>Retired<br>Coastal Chevrolet | John J. Rogers<br>Senior Vice President<br>Mortgage Banking<br>First Federal Savings<br>Bank |
| Ben T. Slade, III<br>President<br>First Federal<br>Savings Bank | Jack Torbett<br>Manufacturers<br>Representative | L. Gerald Wright<br>Investor |



OFFICERS & CORPORATE INFORMATION

Chairman and President
BEN T SLADE, III

Senior Vice Presidents
JAMES H. GASH
Commercial Banking

JOHN J. ROGERS
Mortgage Banking

Group Vice Presidents
JERRY E. BUTLER
Commercial Banking

ROBERT B. SAMS
Controller

ROBERT E. STRANGE
Mortgage Banking

Vice Presidents
NANCY BARNA
Human Resources

DONALD L. BLALOCK
Commercial Banking

JAMES L. DAVIS
Consumer Lending

SALLY B. MILES
Operations

WANDA T. MILLER
Branch Coordination

GREGORY T. STRICKLAND
Manager
Glynn Place Mall Office

JO USHER
Mortgage Loan Servicing

BETTY WHITWORTH
Credit Control

Assistant Vice Presidents
CHESTER ANDERSON
Manager
Altama Avenue Office

STEPHEN PARKER
Manager
Ocean Boulevard Office

LINDSAY VINYARD
Marketing

Banking Officers
HELEN BEECHER
Mortgage Lending

BERT CASON
Consumer Lending

GERRY EARP
Corporate Secretary
Stockholder Relations

ALICE EDENFIELD
Account Processing

ANGIE FERRA
Training

DONNA GIBBS
Assistant manager
Altama Avenue Office

JANE S. GREENE
Loan Servicing

GAIL T. JACKSON
Assistant Manager
Plaza Office

LYNETTE MAASSEN
Assistant Manager

Glynn Place Mall Office

KATHY D. MILLS
Assistant Controller

MARY SLAUGHTER
Account Servicing

DAWN SMITH
Internal Auditor

TARA T. STEPHENS
Construction Lending

Main Office
777 Gloucester Street
Brunswick, Georgia 31520
Telephone: (912) 265-1410

Annual Meeting
The annual meeting of First Federal Savings Bank will be held Wednesday, January 22, 1997 at 5 p.m. in the lobby of the Main Office, 777 Gloucester Street, Brunswick, Georgia

Stock Transfer Agent and Registrar
Wachovia Bank of North Carolina, N.A.
Corporate Trust Department
P.O. Box 3001
Winston-Salem,
North Carolina 27102-3001

Common Stock Listing
First Federal's common stock is traded in the National Market System under the NASDAQ symbol FFBG and is listed as "FFdBrun" in newspapers. For further information, contact Mrs. Gerry Earp.

Independent Public Accountants
Arthur Andersen LLP
133 Peachtree Street, N.E.
Atlanta, Georgia 30303

Legal Counsel
Smith, Mackinnon, Harris, Greeley, Bowdoin & Edwards, P.A.
Suite 800
255 South Orange Avenue
Orlando, Florida, 32801

Form 10-K
A copy of the Form 10-K, including financial statement schedules as filed with the Office of Thrift Supervision, will be furnished without charge to stockholders as of the record date upon written request to:
Mrs. Gerry Earp, First Federal Savings Bank, P.O. Box 1877, Brunswick, Georgia 31521



Exhibit 21.1

First Federal Savings Bank of Brunswick, Georgia

Subsidiary of Registrant

First Shelter Service Corporation

OFFICE OF THRIFT SUPERVISION
Washington, D.C. 20552

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

| | |
|---|---|
| For the Fiscal Year Ended September 30, 1996 | Office of Thrift Supervision Docket Number: 3175 |

FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Chartered by the Office of Thrift Supervision under the laws of the United States (State or other jurisdiction of incorporation or organization) | 58-0175025 (I.R.S. Employer Identification No.) |
| 777 Gloucester Street, Brunswick, Georgia (Address of principal executive offices) | 31520 (Zip Code) |

Registrant's telephone number, including area code: (912) 265-1410

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 $1.00 per share
(Title of Class)

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

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant is $83,031,444, based on the price at which shares of Common Stock were sold on December 24, 1996.

As of December 24, 1996 there were issued and outstanding 1,499,939 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the 1996 Annual Report to Stockholders for year ended September 30, 1996 are incorporated into Part II, Items 5 - 9 of this Annual Report on Form 10-K.

2. Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on January 22, 1997, to be filed with the Office of Thrift Supervision pursuant to Regulation 14A within 120 days of the registrant's fiscal year end are incorporated into Part III, Items 10 - 13 of this Annual Report on Form 10-K.

# PART I

## Item 1. Business

### General

First Federal Savings Bank of Brunswick, Georgia ("Brunswick") began its operations in 1926 as a Georgia-chartered building and loan association. Brunswick converted to a federal savings and loan association in 1935, conducting its business under the name of Brunswick Federal Savings and Loan Association, and changed its name to First Federal Savings and Loan Association of Brunswick in 1959. Brunswick converted to a federal mutual savings bank on December 5, 1983, and became a federal capital stock savings bank on July 21,

1984. Brunswick is subject to supervision and regulation by the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC"), and its deposits are insured through the Savings Association Insurance Fund ("SAIF") of the FDIC. Brunswick's operations are conducted from its headquarters, two branch offices in Brunswick, and two branch offices on St. Simons Island, Georgia.

Brunswick primarily engages in the business of attracting deposits from the general public and investing those funds in real estate, commercial and consumer loans.

Lending Activities

General. As a federally chartered thrift institution, Brunswick may invest in real estate loans throughout the United States. Brunswick has, however, limited its lending area primarily to Southeast Georgia. Historically, Brunswick's lending activities have concentrated on the origination of conventional permanent loans on single-family dwellings and, to a lesser degree, on construction loans for residential dwellings. Brunswick's loans are predominantly conventional loans, i.e., loans that are not insured by the Federal Housing Administration ("FHA") or guaranteed by the Veterans Administration ("VA").

In recent years Brunswick has sought to increase the amount of construction, commercial, and consumer loans in its portfolio. The shorter term and the normally higher interest rates available on these loans are consistent with Brunswick's efforts to shorten the term of its loan portfolio and to improve the spread between the average yield on its assets and its cost of funds. In addition, in an effort to increase the interest-sensitivity of Brunswick's loan portfolio, Brunswick offers a variety of adjustable-rate loan products. By originating adjustable-rate loans, management believes that Brunswick is better able to match increases in the rates paid on its liabilities with increased rates received on its assets.

First Mortgage Loans. On September 30, 1996, Brunswick held in its loan portfolio approximately $150.3 million of first mortgage loans (including $19.9 million in construction loans) secured by one-to four-family residential units, which represented 71.6% of its total net loan portfolio. As of that date, Brunswick also held $42.3 million, or 20.2% of its total net loan portfolio of first mortgage loans secured by commercial real estate, multi-family residential property and land. For purposes of this discussion, the term "net" when used with respect to Brunswick's total loan portfolio, means (i) net of loans in process, deferred loan fees and other, and the allowance for possible loan losses and (ii) inclusive of mortgage loans held for sale.

Reflecting prior federal regulations, approximately $67 million or 37.7% of Brunswick's total mortgage loans due subsequent to one year after September 30, 1996 provided for fixed rates of interest and for repayment of principal over a fixed period. Regulatory changes in recent years have provided substantial flexibility to federally chartered institutions such as Brunswick in structuring the terms of mortgage loans to adjust more easily to changes in interest rates. These regulations permit, among other things, mortgage loans



to be written for shorter maturities and at adjustable interest rates, as compared to longer term, fixed rate mortgage instruments. Approximately $110 million or 62.3% of Brunswick's total mortgage loans due subsequent to one year after September 30, 1996 were adjustable rate loans, compared to 67.4% and 63.2% due subsequent to one year after September 30, 1995 and 1994, respectively. The adjustable-rate loans that are currently being made have terms of 30 years or 15 years and interest rate adjustment periods of one or three years. However, the extent of this interest-sensitivity is limited by annual and lifetime "caps" on interest rate adjustments. The terms of such loans also increase the likelihood of delinquencies in periods of high interest rates, particularly if such loans are offered with initial discounted interest rates. Generally, Brunswick offers adjustable-rate mortgage loans with annual adjustment caps of 2.0% and lifetime adjustment caps of 6.0%.

Permanent residential mortgage loans originated by Brunswick have generally been 30-year fixed and adjustable rate loans amortized on a monthly basis with principal and interest due monthly. Based upon historical experience, these loans generally have average lives of approximately 12 years. Most of the residential loans originated by Brunswick are conventional loans. Brunswick's permanent loans on commercial real estate have been 15 to 25 year loans with principal and interest due monthly. The loans generally have a three or five year adjustable rate or balloon feature.

Construction Loans. As of September 30, 1996, construction loans totalled $21.6 million, or 10.3% of Brunswick's net total loan portfolio. This amount is

composed of $19.9 million of construction loans secured by one- to four-family residential units. In past years, Brunswick has solicited construction loans for a variety of structures, including residences, nursing homes, strip shopping centers, medical buildings, warehouses, condominiums and motels. Generally, the loans are made for six to 12 months at interest rates tied to the prime rate and adjusted monthly. Because of certain lending restrictions based on the amount of the institution's regulatory capital, Brunswick sometimes sells participations in the construction loans that it originates. Brunswick also makes combined construction and permanent loans.

Commercial Loans. A federally chartered savings institution is permitted to invest up to 10% of its assets in commercial loans not secured by real estate. Brunswick makes commercial loans for purposes such as working capital, inventory accumulations, equipment acquisition and similar purposes. These loans are either made at a fixed rate of interest or at an interest rate tied to a regional bank's prime rate, with rate adjustments at monthly, annual or less frequent intervals. At September 30, 1996, commercial loans totalled approximately $7.4 million, or 3.5% of Brunswick's total net loan portfolio.

Consumer Loans. A federally chartered savings institution is permitted to make secured and unsecured consumer loans up to 35% of the institution's assets. Certain consumer loans may be made without being included in the 35% limitation. At September 30, 1996, Brunswick's consumer loans included $1.5 million of loans secured by deposit accounts at Brunswick, $9.6 million of consumer loans (including unsecured loans, boat loans, automobile loans, equipment loans and educational loans) and $17.3 million of home equity loans secured in part by a mortgage on the borrower's home. At September 30, 1996, all consumer loans comprised 13.6% of Brunswick's total net loan portfolio. Home equity consumer loans generally have adjustable rates of interest tied to a regional bank's prime rate, with monthly rate adjustments. Other consumer loans are generally made for a term of three to five years and have fixed rates of interest. Brunswick also offers lines of credit secured by home equity. This type of loan, which is made at an interest rate at a margin above the prime rate that adjusts monthly, is intended to combine both high quality and high yield.



The composition of Brunswick's loan portfolio at the end of the fiscal years during the three-year period ended September 30, 1996 is set forth below. At September 30, 1996, Brunswick's total net loan portfolio represented 84.2% of its total assets.
<TABLE>
<CAPTION>

<S> <C>

| | At September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| Conventional real estate loans: | | | |
| Interim construction loans ............... | $ 21,564,508 | $ 12,951,880 | $ 11,016,556 |
| Loans on existing property ............... | 129,083,083 | 140,932,677 | 136,781,662 |
| Loans refinanced ......................... | 31,803,954 | 9,439,855 | 10,234,595 |
| Insured or guaranteed real estate loans............................ | 446,415 | 507,609 | 564,504 |
| Commercial loans........................... | 7,441,666 | 4,512,256 | 5,046,800 |
| Consumer loans | | | |
| Education loans........................... | 48,490 | 74,523 | 106,314 |
| Savings account loans..................... | 1,525,713 | 1,379,482 | 1,262,012 |
| Home improvement loans.................... | 17,279,232 | 15,836,687 | 14,018,318 |
| Others.................................... | 9,585,484 | 6,866,660 | 5,183,438 |
| Total loans receivable.................. | $218,778,545 | $192,501,629 | $184,214,199 |
| Less: | | | |
| Undisbursed loans in process............... | $ 7,279,329 | $ 4,212,944 | $3,458,863 |
| Deferred loan fees and other............... | 830,384 | 763,316 | 925,589 |
| Allowance for possible loan losses ............................ | 800,786 | 861,356 | 812,585 |
| Total net loan portfolio........... | $209,868,046 | $186,664,013 | $179,017,162 |
| Type of Security: | | | |
| Residential real estate | | | |
| Single-family............................ | $ 150,261,872 | $ 136,233,631 | $124,195,721 |
| 2-to-4 family............................ | 3,323,157 | 5,074,844 | 5,754,995 |

| | | | |
|---|---|---|---|
| Other dwelling units...................... | 4,255,430 | 2,324,341 | 2,971,440 |
| Commercial or industrial real estate ............................ | 42,336,733 | 36,035,892 | 39,693,479 |
| Savings accounts.......................... | 1,525,713 | 1,379,482 | 1,262,012 |
| Other..................................... | 17,075,640 | 11,534,439 | 10,336,552 |
| Total loans receivable.................. | $218,778,545 | $192,501,629 | $184,214,199 |
| Less: | | | |
| Undisbursed loans in process............... | 7,279,329 | 4,212,944 | 3,458,863 |
| Deferred loan fees and other............... | 830,384 | 763,316 | 964,957 |
| Allowance for possible loan losses.............................. | 800,786 | 861,356 | 812,585 |
| Total net loan portfolio ........... | $209,868,046 | $186,664,013 | $179,017,162 |

</TABLE>

FIRREA makes applicable to savings associations the current national bank limits on loans to one borrower. Generally, national banks may lend to a single or related group of borrowers, on an unsecured basis, an amount equal to 15% of its unimpaired capital and surplus. An additional amount, equal to 10% of unimpaired capital and surplus, may be loaned if such loan is secured by readily marketable collateral, which is defined to include certain securities and bullion, but generally does not include real estate. Under such provisions, as of September 30, 1996, Brunswick could lend to a single borrower and its related entities



on an unsecured basis an amount not to exceed $3.9 million. Also, as of such date, it could lend an additional $2.6 million secured by readily marketable collateral. As of September 30, 1996, the amount outstanding to the largest single borrower of Brunswick was approximately $3.3 million.

Loan Originations. Loan originations were approximately $91.9 million for the year ended September 30, 1996. Loan originations come from a number of sources. Most real estate loans are attributable to walk-in customers at Brunswick's offices, real estate brokers and referrals by a mortgage broker. In addition, Brunswick has solicited applications for consumer loans through newspaper advertisements.

Each loan is underwritten by qualified personnel in Brunswick's main office, and independent appraisers are engaged to appraise property intended to secure real estate loans. The underwriting procedures of Brunswick are intended to assess a borrower's ability to repay the loan and the value of any collateral property. Loan applications must be reviewed and approved by authorized officers or directors in accordance with Brunswick's loan policy. After a loan application is approved, Brunswick customarily gives the applicant a commitment to make the loan at any time within 30 days thereafter on terms determined on the basis of market conditions as of the date of the commitment. Commitments for longer periods are issued at rates to be set at the time of closing, and, generally, a 1% commitment fee is charged.

Federal regulations require boards of directors of federally chartered savings institutions to establish their own loan-to-value ratios for loans made on the security of real estate, subject to certain conditions. The regulations provide that an institution must require appropriate credit enhancement in the form of mortgage insurance or readily marketable collateral for all owner-occupied family or home equity loans which at the time of origination are in excess of 90% of the appraised value of the collateral property. Brunswick makes permanent residential mortgage loans with up to a 95% loan-to-value ratio. Brunswick usually lends up to 75% of the appraised value for construction loans on commercial real estate and 80% of the appraised value for permanent loans on commercial real estate.

Although Brunswick continues to originate long-term fixed-rate loans, most of the loans are originated with documentation and underwriting guidelines which will allow their sale in the secondary market to the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC"). All other long-term loans originated by Brunswick are adjustable-rate loans.

Brunswick includes due-on-sale provisions in its permanent real estate loans. Due-on-sale clauses give Brunswick the right to declare a loan immediately due and payable in the event that the borrower sells the property securing the mortgage. This provides Brunswick with a means of increasing the interest rate on existing low interest fixed-rate loans. It is Brunswick's

policy to waive the due-on-sale clause, subject to the approval of the borrower, and to increase the interest rate to the market rate of interest at the time of the sale if the loan is saleable or to charge an adjustable rate of interest if it is not saleable. The effect of this policy, however, is essentially the same as enforcing the due-on-sale clause.

Brunswick requires title insurance to insure the priority of its property lien on its mortgage loans. It also requires fire and casualty insurance to be maintained on all security property in amounts at least equal to the principal balance on the loans.



The following table sets forth certain information at September 30, 1996, regarding the dollar amount of loans maturing in Brunswick's portfolio based on their contractual terms to maturity. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less.

Principal Repayments Contractually Due
in the Year(s) Ending September 30,

<TABLE>
<CAPTION>

| | 1997 | 1998 | 1999 | 2000 2001 | 2002 2006 | 2007 2011 | 2012 and there-after | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | (Dollars in Thousands) | | | | |
| Real estate mortgage....... | $14,038 | $ 6,855 | $2,231 | $7,603 | $20,928 | $44,617 | $65,061 | $161,333 |
| Real estate construction... | 21,565 | 0 | 0 | 0 | 0 | 0 | 0 | 21,565 |
| Consumer................... | 4,888 | 3,675 | 3,526 | 7,118 | 8,580 | 605 | 47 | 28,439 |
| Commercial................. | 1,801 | 618 | 844 | 1,055 | 3,124 | 0 | 0 | 7,442 |
| Total.................... | $42,292 | $11,148 | $6,601 | $15,776 | $32,632 | $45,222 | $65,108 | $218,779 |

</TABLE>

The following table sets forth the dollar amount of all loans due more than one year after September 30, 1996, which have pre-determined interest rates and have floating or adjustable interest rates.

<TABLE>
<CAPTION>

| | Predetermined Rates | Floating or Adjustable Rates |
|---|---|---|
| | (Dollars in Thousands) | |
| Real estate mortgage................ | $51,781 | $ 95,514 |
| Real estate construction............ | -- | -- |
| Consumer............................ | 13,971 | 9,580 |
| Commercial.......................... | 825 | 4,816 |
| Total......................... | $66,577 | $109,910 |

</TABLE>

In comparison, at September 30, 1995, Brunswick had total loans due more than one year after such date with predetermined interest rates and floating or adjustable interest rates of approximately $56.5 million and $104.1 million, respectively.

Loan Purchases and Sales. Most of the loans in Brunswick's portfolio have been originated by Brunswick. However, prior to 1986, Brunswick purchased construction or adjustable-rate mortgage loans during periods when it was unable to originate a sufficient amount of such loans to meet its intended investment goals. After fiscal year 1985, Brunswick deemphasized such activities because management believed that there was a lack of such loans that met Brunswick's underwriting standards.

Brunswick is active in the sale of participations and whole loans in the secondary market to thrift institutions, commercial banks, FNMA and FHLMC. Participations in construction loans are sold particularly to ensure compliance with regulatory limitations on investment in loans to a single borrower. Brunswick also sells loans to provide additional funds for lending or to reduce Brunswick's investment in long-term, fixed-rate mortgage loans. Brunswick also

has exchanged participating interests in pools of mortgage loans. From time to time, Brunswick converts additional amounts of its fixed-rate, long-term mortgage loans into mortgage-backed securities through similar transactions. The purpose of these transactions is to convert the loans into marketable securities which can be easily sold for cash or used as collateral for borrowings. Brunswick did not sell any loans with recourse against Brunswick in fiscal years 1996, 1995, and 1994. At September 30,



1996, Brunswick was servicing approximately $133.3 million in loans for others, on which it receives an average of 27% per annum in servicing fees.

The Bank sells loans on a cash gain or loss basis, a method which does not necessitate the creation of an excess servicing balance upon sale. The Bank has continued this policy during fiscal year 1996, and generally all gains (losses) recorded during fiscal year 1996 reflect such treatment.

Set forth below is a table showing Brunswick's loan origination, purchase, and sales for the periods indicated.

<TABLE>
<CAPTION>

| | Year Ended September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> <C> | | | |
| Loans Originated: | | | |
| Conventional real estate loans: | | | |
| Construction loans............. | $18,367,505 | $11,274,329 | $14,069,125 |
| Loans on existing property ..................... | 30,886,985 | 49,630,201 | 51,947,624 |
| Loans refinanced ............. | 33,423,992 | 10,392,350 | 22,627,910 |
| Other Loans (1) ................ | 9,246,959 | 9,128,733 | 7,263,905 |
| Total Loans Originated................... | $91,925,441 | $80,425,613 | $95,908,564 |
| Loans Sold: | | | |
| Participation loans............ | $ 950,000 | $ -0- | $ -0- |
| Whole Loans (2) ................ | 32,330,171 | 12,019,672 | 33,500,598 |
| Total loans sold.............. | $33,280,171 | $12,019,672 | $33,500,598 |

</TABLE>

- -------------------

(1) Includes consumer loans on a net change basis. Total consumer loan originations, including multiple rollovers of short term credits, for the fiscal years 1996, 1995, and 1994 were $25,263,332, $22,500,501, and $20,400,473, respectively.

(2) Fiscal year 1996 amount includes $6,445,235 in loans exchanged with the Federal Home Loan Mortgage Corporation for mortgage-backed securities.

Income from Lending Activities. Brunswick's primary source of income is from the interest earned on the loans that it has in its loan portfolio. Interest rates charged on loans originated by Brunswick are primarily determined by the level of prevailing interest rates, the availability of lendable funds, the demand for such loans and competitive conditions.

In addition to interest earned on loans, Brunswick receives fees in connection with loan originations, long-term commitments to lend funds and the servicing of loans sold by Brunswick. Brunswick also receives other income relating to existing loans in its portfolio, including loan prepayment penalties, late charges and fees collected in connection with loan modifications. Income realized from these sources varies significantly from period to period with the volume and types of loans made in response to competitive factors.

At September 30, 1996, Brunswick had $690,856 in deferred mortgage loan fees. Pursuant to Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 91, loan fees and costs are deferred and amortized net as an adjustment of yield over the life of the related loan.

Nonperforming Assets. Brunswick's collection procedures on delinquent loans provide that the borrower will be contacted by mail and payment will be requested when a loan payment is 15 days past due and again after 30 days. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower by telephone. If the loan continues in a delinquent status for 90 days, Brunswick generally will initiate foreclosure proceedings. Any property acquired by Brunswick as a result of foreclosure or by deed in lieu of foreclosure is then sold to recover all or part of Brunswick's investment.

The table below sets forth the amounts and categories of Brunswick's non-performing assets, as computed by Brunswick.
<TABLE>
<CAPTION>

| | At September 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| <S> <C> | | | |
| Non-accrual loans (1)............... | $261,193 | $ 788,116 | $1,080,021 |
| Restructured Loans (2) ............ | 779,706 | 1,143,462 | 776,959 |
| Real estate owned (3)............... | 954,904 | 2,208,679 | 1,743,374 |
| Total non-performing assets............................. | 1,995,803 | 4,140,257 | 3,600,354 |
| Potential problem loans (4).......................... | 2,904,673 | 210,416 | 1,422,471 |
| Total non-performing assets and potential problem loans...................... | $4,900,476 | $4,350,673 | $5,022,825 |
| Non-performing assets and potential problem loans as a percentage of assets.......................... | 1.97% | 1.72% | 2.17% |

</TABLE>

- --------------------

(1) Generally refers to (i) certain loans (based primarily on the age of the loans) that are contractually delinquent for 60 to 90 days, or (ii) certain mortgage loans on which taxes on the security property are delinquent for two or more years.

(2) Refers to certain loans wherein concessions have been granted to the borrower(s) for economic reasons related to the borrower's financial difficulties, as defined by FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring."

(3) Refers to real estate acquired by Brunswick through foreclosure or voluntary deed.

(4) Potential problem loans are those loans that management has identified as having certain characteristics that could impair the ability of the borrower to comply with the present loan repayment terms and that may result in such loans being placed on non-accrual status or becoming a troubled debt restructuring, or real estate owned in the future. These loans are generally 60 days past due and are monitored by management to facilitate further attention if necessary.

Also, at September 30, 1996, Brunswick had 10 properties that were real estate owned, which were composed of five residential and five commercial properties. The five residential properties consist of one



apartment building having a value of $47,109, one developed tract of residential lots valued at $45,932, and one individual residential lot valued at $4,979. Residential properties also include two single family units valued at $27,953 in aggregate, net of amounts owned by investors. Of the five commercial properties, three represent improved properties having a value in aggregate of $303,708. The remaining commercial properties consist of two developed parcels of land having values of $212,034 and $313,189, respectively. The properties are recorded at the lower of cost or fair value at the date of acquisition and are carried at the lower of acquisition value or net realizable value subsequent to the date of acquisition. If the amount is less than cost, the difference is charged to operations.

Loans on which accrual of interest has been discontinued amounted to

approximately $1.0 million at September 30, 1996. If interest on these loans had been accrued in accordance with the original contractual terms, such income for the year ended September 30, 1996 would have approximated $32,000. Interest payments on these loans of approximately $100,000 were received and recorded as interest income in the year ended September 30, 1996.

Provision and Allowance for Probable Loan Losses. The following table sets forth an analysis of loan losses for the periods indicated:

| | Year Ended September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| Balance at beginning of period | $834,882 | $786,111 | $869,297 |
| Provision for possible loan losses | 240,000 | 195,000 | 180,000 |
| Amounts charged off | (299,318) | (189,497) | (300,605) |
| Recoveries | 25,222 | 43,768 | 37,419 |
| Balance at end of period | $800,786 | $834,882 | $786,111 |

Management establishes an allowance for probable loan losses based upon management's evaluation of the pertinent factors underlying the types and quality of loans, current and anticipated economic conditions, collection experience, detailed analysis of individual loans to which full collectibility may not be assured, and determination of the existence and realizable value of the collateral and guarantees securing such loans. At September 30, 1996, Brunswick had $800,786 in general and $-0- in specific reserves for potential losses. Brunswick's total reserves at September 30, 1996 were allocated at approximately 43%, 25% and 32% to its three primary loan types, i.e., first mortgages, commercial loans, and consumer loans, respectively. Management believes that the allowance for probable loan losses was adequate at September 30, 1996. Although management believes that it uses the best information available to make determinations with respect to loan loss reserves, subsequent adjustments to reserves may be necessary if future economic conditions differ substantially from the assumptions used in making the initial determinations.

SFAS No. 114 and 118. On October 1, 1994, Brunswick adopted Statements of Financial Accounting Standards No. 114 and 118 ("SFAS 114 and 118"). These Statements address the accounting by creditors for impairment of certain loans. The Statements generally require Brunswick to identify loans for which Brunswick probably will not receive full payment of principal and interest, as impaired loans. The Statements require that impaired loans be valued at the present value of expected future cash flows, discounted at the loan's effective interest rate, or at the observable market price of the loan, or the fair value of the underlying collateral if the loan is collateral dependent. Brunswick has implemented the Statements by modifying its periodic review of the adequacy of the allowance for loan losses to also identify in value impaired loans in accordance with guidance in the Statements. The adoption of the Statements did not have any material effect on the results of operations for the year ended September 30, 1996.



For impairment recognized in accordance with SFAS 114 and 118, the entire change in the present value of expected cash flows, or the entire change in estimated fair value of collateral for collateral dependent loans, is reported as a provision for credit losses in the same manner in which impairment was initially recognized or as a reduction in the amount of the provision that otherwise would be reported. Brunswick maintains an allowance for the possible loss of accrued but uncollected interest on impaired loans when management believes that the collection of the interest is doubtful. If the ultimate collectibility of principal, either in whole or in part, is in doubt, any payment received on a loan for which the accrual of interest has been discontinued is applied to reduce principal to the extent necessary to eliminate such doubt. If the ultimate collectibility of principal is not in doubt, interest is credited to income in the period of recovery.

The following summarizes the September 30, 1996 amounts that were reclassified as a result of Brunswick adopting SFAS 114 and 118, the amounts of impaired loans at September 30, 1996, and the average net investment in impaired loans and interest income recognized and received on impaired loans during the years ended September 30, 1996 and 1995:

<TABLE>

<CAPTION>

| <S> | <C> September 30, 1996 |
|---|---|
| Insubstance foreclosures reclassified to loans receivable | $ 0 |
| Allowance for loss on insubstance foreclosures reclassified to allowances for losses | 0 |
| Loans identified as impaired: | |
| Gross loans with no related allowance for losses | 779,706 |
| Gross loans with related allowance for losses recorded | 0 |
| Less: Allowances on these loans | 0 |
| Net investment in impaired loans | 779,706 |

</TABLE>
<TABLE>
<CAPTION>

| <S> | <C> Year Ended September 30 1996 | 1995 |
|---|---|---|
| Average investment in impaired loans | $ 951.646 | $ 831,869 |
| Interest income recognized on impaired loans | 78,466 | 113,610 |
| Interest income received on impaired loans | 78,466 | 85,169 |

</TABLE>

Other Investment Activities

Brunswick invests in short-term and long-term government securities primarily for the purpose of meeting the federal regulation requiring savings institutions to maintain a ratio of cash and short-term securities to net withdrawable deposit accounts and short-term borrowings of 5%. At September 30, 1996, Brunswick maintained a liquidity ratio of 8.4%. See "Regulation and Supervision -- Liquidity." It has been Brunswick's policy to maintain liquidity above the required amounts.



Investment Securities and Mortgage-Backed Securities

Brunswick's investment securities at September 30, 1996, 1995, and 1994 consisted of U.S. Government treasury and agency and tax-free municipal obligations. The carrying values and estimated market values of investment securities on the dates indicated were as follows:

| | Amortized Cost | Estimated Market Value |
|---|---|---|
| September 30, 1996 | $ 8,032,109 | $ 8,024,132 |
| September 30, 1995 | $ 16,353,511 | $ 16,488,815 |
| September 30, 1994 | $ 15,976,701 | $ 15,815,769 |

At September 30, 1996, Brunswick had unrealized gains and losses in its investment securities portfolio of $33,366 and $41,343, respectively, as compared to unrealized gains and losses at September 30, 1995 of $156,286 and $20,982, respectively. At September 30, 1996, Brunswick had unrealized gains and losses of $3,612 and $246,354, respectively, as compared to unrealized gains and losses of $77,895 and $89,917, respectively, at September 30, 1995 on mortgage-backed securities.

The amortized cost and estimated market values of debt securities held as investments at September 30, 1996, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

<TABLE>
<CAPTION>

| <S> | <C> Amortized Cost | Estimated Market Value |
|---|---|---|
| Due in one year or less | $3,004,145 | $3,010,320 |
| Due after one year through five years | 4,027,964 | 4,040,681 |
| Due after five years through ten years | 1,000,000 | 973,131 |

| | | |
|---|---|---|
| Due after ten years | -- | -- |
| | $8,032,109 | $8,024,132 |
| Mortgage-backed securities | 8,582,633 | 8,339,891 |
| | $16,614,742 | $16,364,023 |

</TABLE>

Sources of Funds

General. Savings accounts and other types of deposits have traditionally been the primary source of funds for Brunswick's lending activities and for other general business purposes. In addition, Brunswick derives funds from loan repayments and Federal Home Loan Bank ("FHLB") advances, as well as other borrowings. Loan repayments are a relatively stable source of funds while deposit inflows and outflows vary widely and are influenced by prevailing interest rates and market conditions. Borrowings may be used to compensate for 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. Brunswick offers a variety of savings programs and related services. Deposits are obtained primarily from the communities in which Brunswick's offices are located. Brunswick does not advertise outside of these areas and does not solicit deposits from brokers. It offers premiums on certain accounts in order to attract funds.

Savings deposits in Brunswick as of September 30, 1996, were represented by the various types of savings programs set forth below.

<TABLE>
<CAPTION>

| Category | Interest Rate (1) | Minimum Term | Minimum Balance | Total Amount | Percentage of Savings |
|---|---|---|---|---|---|
| <S> <C> | | | | | |
| Now Account-Non Interest | None | None | $ -- | $ 10,099,015 | 4.63% |
| Now Account | 2.25% | None | 50 | 21,309,582 | 9.77 |
| Passbook Statement Account | 2.50% | None | 50 | 20,104,167 | 9.22 |
| Wall Street Checking | 2.25%(3) | None | 2,500 | 4,161,181 | 1.91 |
| Money Market Deposit Account | 2.25%(4) | None | 2,500 | 10,570,806 | 4.85 |
| Commercial Check-Interest | 2.25% | None | 50 | 5,525,179 | 2.53 |
| Commercial Checking | None | None | 50 | 7,729,774 | 3.55 |
| Gold Edge | 2.50% | 90 days | 50 | 524,762 | .24 |
| | | | | $ 80,024,466 | 36.70% |
| Certificates of Deposit: | | | | | |
| Fixed-Term - Fixed-Rate | 5.50% | 48 months | 500 | 7,415,705 | 3.40 |
| Fixed-Term - Fixed-Rate | 5.30% | 12 months | 500 | 46,392,962 | 21.27 |
| Fixed-Term - Fixed-Rate | 5.30% | 18 months | 500 | 3,297,778 | 1.51 |
| 6-Month Money Market | 5.00% | 182 days | 1,000 | 12,758,797 | 5.85 |
| 3-Month Money Market | 4.25% | 91 days | 1,000 | 2,142,585 | .98 |
| Fixed-Term - Fixed-Rate | 5.50% | 36 months | 500 | 5,756,833 | 2.64 |
| Negotiated Jumbo | 5.30%(2) | 1-12 mos. | 100,000 | 27,261,881 | 12.50 |
| Fixed-Term - Fixed-Rate | 5.30% | 24 months | 500 | 15,676,559 | 7.19 |
| Fixed-Term - Fixed-Rate | * % | 30 months | NONE | 163,335 | .08 |
| Fixed-Term - Fixed-Rate | 5.50% | 60 months | 500 | 17,184,958 | 7.88 |
| | | | | 138,051,393 | 63.30 |
| | | | | $218,075,859 | 100.00% |

* Plan no longer offered

</TABLE>

(1) Rates offered as of September 30, 1996.
(2) Rate on 12-month term.
(3) Rate tiers up to 3.00%.
(4) Rate tiers up to 3.50%.



The following table sets forth the time deposits in Brunswick classified

by rates being paid as of the dates indicated.

| | At September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| 1.75% - 3.75% | $ 325,001 | $ 658,691 | $ 25,931,085 |
| 3.76% - 5.75% | 72,406,637 | 31,124,375 | 62,478,823 |
| 5.76% - 7.75% | 64,594,186 | 111,556,545 | 27,855,210 |
| 7.76% - 9.75% | 334,156 | 608,452 | 1,795,672 |
| 9.76% - 11.75% | 391,413 | 451,427 | 529,075 |
| 11.76% - 13.75% | -0- | -0- | 78,433 |
| | $138,051,393 | $144,399,490 | $118,668,298 |

The following table sets forth the amount and maturities of time deposits in Brunswick at September 30, 1996.

| Rate | Less than One Year | 1-2 Years | Amount Due 2-3 Years | 3 Years and Thereafter | Total |
|---|---|---|---|---|---|
| 2 - 4% | $ -0- | $ 135,344 | $ 221,393 | $ -0- | $ 356,737 |
| 4 - 6% | 1,086,629 | 77,439,888 | 12,390,921 | 7,532,768 | 98,450,206 |
| 6 - 8% | 5,329,589 | 17,702,328 | 8,656,900 | 6,895,066 | 38,583,883 |
| 8 - 10% | -0- | 52,307 | 567,885 | -0- | 620,192 |
| 10 - 12% | -0- | -0- | 40,375 | -0- | 40,375 |
| - | | | | | |
| | $6,416,218 | $95,329,867 | $21,877,474 | $14,427,834 | $138,051,398 |

As part of its strategy to maintain its interest rate sensitivity within desired tolerances, Brunswick periodically seeks to lengthen the term of its liabilities so as to match such liabilities with assets of similar terms. Brunswick seeks to attract such deposits through advertising campaigns and by offering competitive rates, gifts and incentives to employees.



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

| | Year Ended September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| Deposits......................... | $1,268,795,400 | $1,144,975,849 | $1,063,073,724 |
| Withdrawals ..................... | 1,282,953,549 | 1,131,564,224 | 1,065,862,680 |
| Net cash increase (decrease) before interested credited........... | (14,158,149) | 13,411,625 | (2,788,956) |
| Interest credited................ | $9,428,012 | $ 8,678,990 | 6,957,844 |
| Net increase (decrease) in deposits...................... | $ (4,730,137 | $ 22,090,615 | $ 4,168,888 |

The following table sets forth time deposits of $100,000 or more (jumbo deposits) by remaining time to maturity, as of September 30, 1996.

| | |
|---|---|
| 0 - 3 months.......................... | $ 7,198,719 |
| 4 - 6 months.......................... | 5,316,189 |
| 7 - 12 months.......................... | 8,844,676 |
| Greater than 12 months.......................... | 10,639,697 |

$31,999,281
==========

Borrowings. Brunswick periodically obtains funds through borrowings from the FHLB of Atlanta. At September 30, 1996, Brunswick had $1,500,000 in advances at interest rates ranging from 7.90% to 7.91% compared to advances of $2,200,000 and $4,000,000 at September 30, 1995 and 1994, respectively. FHLB borrowings have been made on the security of Brunswick's FHLB stock, mortgage-backed securities, investment securities and cash. Brunswick had no other short-term borrowings during fiscal years 1996, 1995, and 1994.

A savings institution is required to be a "qualified thrift lender" in order to have full access to FHLB advances. Generally, an institution must have at least 65% of its portfolio assets invested in housing and housing related investments in order to qualify. As of September 30, 1996, Brunswick satisfied the qualified thrift lender test. For information regarding the "qualified thrift lender" requirements, see "Regulation and Supervision" below.

Interest Rate Comparison and Profitability

Brunswick's earnings are affected by its "spread", that is, the difference between the rate of return on its loan and investment portfolios and its cost of money (consisting principally of interest paid on savings deposits and on borrowings). The return on its loan portfolio changes primarily as a result of the rates and volumes of new and existing loans, and the return on its investment portfolio depends on the interest rates paid on such securities and the amount of funds invested. The cost of money is primarily dependent on short-term interest rates, which are subject to volatile movements. Expanded investment authority and the ability to make adjustable rate mortgage loans has provided Brunswick with better means to match the maturities of its assets and liabilities.

Brunswick has implemented a number of measures in recent years in an effort to make the yields on its loan and investment portfolios more responsive to changes in its cost of money. These steps include an emphasis on consumer, construction and other short-term or variable rate loans, and efforts to reduce the amount of long-term, fixed-rate real estate loans with low interest rates in Brunswick's portfolio. Moreover,



substantially all long-term, fixed-rate loans currently being originated are being sold in the secondary market. In addition, Brunswick is trying to solicit deposits with longer terms, to increase core deposits and to match assets with liabilities to the extent possible.

The following tables set forth for the periods and at the dates indicated the weighted average yields earned on Brunswick's assets and the weighted average interest rates paid on Brunswick's liabilities (e.g., deposits and borrowings), together with the net spread on interest-earning assets for the periods indicated (loan portfolio data includes mortgage-backed securities and non-accrual loans) and selected performance ratios.

<TABLE>
<CAPTION>

| | Year Ended September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> <C> | | | |
| Weighted average yield on loan portfolio.................... | 8.64% | 8.68% | 8.10% |
| Weighted average yield on mortgage-backed securities........................... | 6.74 | 6.99 | 6.84 |
| Weighted average yield on investment securi- ties ............................ | 6.56 | 6.43 | 5.81 |
| Weighted average yield on other investments................ | 5.65 | 6.36 | 4.24 |
| Weighted average yield on all interest-earning assets ............................ | 8.31 | 8.27 | 7.62 |
| Weighted average rate paid on savings deposits............................ | 4.66 | 4.40 | 3.71 |
| Weighted average rate paid on FHLB advances................ | 6.96 | 5.87 | 5.99 |
| Weighted average rate paid on short-term borrowings....... | 2.25 | 2.50 | -- |
| Weighted average rate | | | |

| | | | |
|---|---|---|---|
| paid on all interest-bearing liabilities......................... | 4.69 | 4.42 | 3.77 |
| Net yield on average interest earning assets............. | 4.05 | 4.21 | 4.16 |
| Return on assets...................... | .86 | 1.28 | 1.42 |
| Return on equity...................... | 8.31 | 12.82 | 13.89 |
| Equity to assets...................... | 10.31 | 10.01 | 9.80 |



<CAPTION>

| | At September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> <C> | | | |
| Weighted average yield on loan portfolio........................ | 8.62% | 8.59% | 8.34% |
| Weighted average yield on mortgage-backed securities.............................. | 6.44 | 6.99 | 6.88 |
| Weighted average yield on investment securities.............................. | 6.48 | 6.41 | 6.08 |
| Weighted average yield on other investments..................... | 5.47 | 5.74 | 4.77 |
| Weighted average yield on all interest-earning assets.................................. | 8.30 | 8.08 | 7.90 |
| Weighted average rate paid on savings deposits................................ | 4.43 | 4.81 | 3.77 |
| Weighted average rate paid on FHLB advances.................... | 7.91 | 6.82 | 6.32 |
| Weighted average rate paid on all interest-bearing liabilities............................. | 4.46 | 4.83 | 3.82 |
| Net spread on average interest earning assets.................................. | 3.84 | 3.25 | 4.08 |
| Equity to assets ratio.................... | 10.45 | 10.07 | 10.24 |

</TABLE>



The following table sets forth certain information regarding changes in interest income and interest expense of Brunswick for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume of assets or liabilities outstanding (changes in volume multiplied by old rate), (ii) changes in the interest rate earned or paid on those balances (changes in rate multiplied by old volume), and (iii) a combination of changes in rate and volume (change in rate multiplied by the change in volume).

<TABLE>
<CAPTION>

| | Year Ended September 30, 1996 vs. 1995 Increase (Decrease) Due to | | | 1995 vs. 1994 Increase (Decrease) Due to | | | 1994 vs. 1993 Increase (Decrease) Due to | | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | Volume | Rate | Rate/ Volume | Volume | Rate | Rate/ Volume | Volume | Rate | Rate/ Volume |
| <S> <C> | | | | | | | | | |
| Interest earning assets: | | | | | | | | | |
| Loans ...................... | $1,359 | $(75) | $(6) | $643 | $1,043 | $46 | $1,074 | $(434) | $(34) |
| Mortgage-backed | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| securities................. | 242 | (29) | (8) | (6) | 18 | -- | 108 | (38) | (6) |
| Investment securities....... | (232) | 20 | (5) | (119) | 109 | (13) | (372) | (154) | 38 |
| Other interest earning assets............. | (174) | (121) | 19 | 162 | 281 | 81 | 57 | 71 | 10 |
| Total interest earning assets .................... | 893 | 93 | 4 | 736 | 1,446 | 63 | 811 | (467) | (23) |
| Interest bearing liabilities: | | | | | | | | | |
| Savings deposits........... | 397 | 544 | 24 | 375 | 1,375 | 70 | 274 | (654) | (23) |
| Advances from the FHLB...................... | (62) | 39 | (11) | (96) | (6) | 2 | 72 | (30) | (8) |
| Short-term borrowings....... | -- | (1) | -- | -- | -- | 3 | -- | -- | -- |
| Total interest-bearing liabilities................ | 334 | 576 | 20 | 337 | 1,328 | 58 | 325 | (668) | (27) |

</TABLE>

Service Corporation Activities

Federally chartered thrift institutions may invest in service corporations as a vehicle to engage in securities, real estate development and other activities that may not be directly permissible. Brunswick is permitted to invest an amount equal to 3% of its assets in its service corporation. In addition, a federal thrift institution meeting its applicable minimum regulatory capital requirements may invest, but subject to restrictions on loans to one borrower, up to 50% of the institution's total capital in conforming loans to service corporations.

Brunswick formed a wholly owned service corporation, First Shelter Service Corporation ("First Service"), in 1971 primarily for the purpose of providing appraisal and construction inspection services to Brunswick. In the past, First Shelter had engaged in limited land development and joint venture activities, in addition to providing appraisal and construction inspection services. At present, First Shelter is inactive. As of September 30, 1996, the net book value of Brunswick's investment in its service corporation, which consisted of its investment in the stock and accumulated undistributed retained earnings of the service corporation, was approximately $304,000 or .12% of assets.



Regulation and Supervision

General. Brunswick is a member of the FHLB system ("FHLB System") and its deposit accounts are insured up to applicable limits by the SAIF of the FDIC. Brunswick is subject to extensive regulation by the OTS and the FDIC and must file reports with the OTS 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 depository institutions. The OTS conducts periodic examinations to determine Brunswick's compliance with various regulatory requirements.

In 1989, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") was enacted. This law was designed to reduce the number of problem savings and loan associations, to recapitalize the thrift insurance fund, and to reform and reorganize the regulatory structure applicable to savings associations that were regulated by the Federal Home Loan Bank Board ("FHLBB") prior to FIRREA. Under FIRREA, the Federal Savings and Loan Insurance Corporation ("FSLIC") was dissolved and the SAIF was created as the new insurance fund for savings institutions. The insurance fund for commercial banks was renamed the Bank Insurance Fund ("BIF"), the assets of which are not commingled with those of the SAIF. The OTS, which replaced the FHLBB and is the primary federal regulator for all thrift institutions, is a bureau of the Department of the Treasury.

In 1991, a comprehensive deposit insurance and banking reform plan, the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), became law. FDICIA, which was enacted to recapitalize the BIF, effects a number of regulatory reforms that impact both savings institutions and banks. FDICIA authorizes the regulators to take prompt corrective action to solve the problems of critically undercapitalized institutions. As a result, the banking regulators are required to take certain supervisory actions against undercapitalized

institutions, the severity of which increases as an institution's level of capitalization decreases. Pursuant to FDICIA, the federal banking agencies have established the levels at which an insured institution is considered to be "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." See "Capital Requirements" below for a discussion of the applicable levels. In addition, FDICIA requires each federal banking agency to establish standards relating to internal controls, information systems, and internal audit systems that are designed to assess the financial condition and management of the institution; loan documentation; credit underwriting; interest rate exposure; asset growth; and compensation, fees and benefits. FDICIA lowered the qualified thrift lender (QTL) investment percentage applicable to SAIF-insured institutions. FDICIA further requires annual on-site full examinations of depository institutions, with certain exceptions, and annual reports on institutions' financial and management controls.

The following material summarizes certain of the regulatory requirements applicable to Brunswick.

Federal Home Loan Bank System. The FHLB System, which consists of 12 regional FHLBs, provides a central credit facility primarily for member institutions. As a member of the FHLB of Atlanta, Brunswick is required to acquire and hold shares of capital stock in that FHLB in an amount at least equal to the greater of 1% of the aggregate principal amount of Brunswick's unpaid residential mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 5% of its aggregate outstanding advances (borrowings) from the FHLB of Atlanta. As of September 30, 1996, Brunswick was in compliance with this requirement, with an investment in FHLB of Atlanta stock of approximately $1.6 million.

The FHLB of Atlanta serves as a reserve or central bank for the member institutions within its assigned region. It is funded primarily from the sale of consolidated obligations of the FHLB System. It makes advances to members in accordance with policies and procedures established by the Federal Housing Finance Board and the Board of Directors of the FHLB of Atlanta. At September 30, 1996, Brunswick had $1.5 million in advances from the FHLB of Atlanta, at interest rates ranging from 7.90% to 7.91%. The advances will mature by January 27, 1997.



Liquidity. Brunswick is required to maintain an average daily balance of liquid assets (cash, balances maintained in or passed through to a Federal Reserve Bank, certain time deposits, certain bankers' acceptances, specified United States government, state or Federal agency obligations, shares of certain mutual funds, certain corporate debt securities, certain commercial paper, and certain mortgage-related securities) equal to a monthly average of not less than a specified percentage of its net withdrawable accounts plus borrowings payable on demand or in one year or less ("Short Term Borrowings"). This liquidity requirement may be changed from time to time by the Director of the OTS ("Director") to between 4% to 10%; it is currently 5%. OTS regulations also require each member savings institution to maintain an average daily balance of short-term liquid assets at a specified percentage (currently 1%) of the total of its net withdrawable accounts and short-term borrowings. Monetary penalties may be imposed for failure to meet those liquidity requirements. The daily average liquidity of Brunswick for September 1996 was 10.47% and exceeded the then-applicable 5% liquidity requirement. Its short-term daily average liquidity ratio for September 1996 was 4.14% and exceeded the then-applicable 1% short-term liquidity requirement.

In addition, Federal Reserve regulations generally require that reserves of 3% be maintained against aggregate transaction accounts of $49.3 million or less (subject to adjustment by the Federal Reserve), and that an initial reserve of 10% (subject to adjustment by the Federal Reserve between 8% and 14%) be maintained against that portion of total transaction accounts in excess of such amount. In addition, the Federal Reserve may require an initial reserve of between 0% and 9% to be maintained on nonpersonal time deposits with, or regarded as having, an original maturity of less than one and one-half (1.5) years. Money market deposit accounts are subject to the reserve requirement applicable to nonpersonal time deposits when not held by a natural person. The first $4.4 million of otherwise reservable balances (subject to adjustments by the Federal Reserve) are exempted from the reserve requirements.

The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements that may be imposed by the OTS. Because required reserves must be maintained in the form of either vault cash, a non-interest-bearing account at a Federal Reserve Bank, or a "pass-through account," as defined by the Federal Reserve, the effect of the reserve requirement is to reduce Brunswick's interest-earning assets.

FHLB System members also are authorized to borrow from the Federal Reserve discount window, but Federal Reserve regulations require institutions to exhaust all FHLB sources before borrowing from a Federal Reserve Bank.

Insurance of Deposit Accounts. Brunswick's deposit accounts are insured by the FDIC to the maximum amount permitted by law, currently $100,000 for each insured account, through the SAIF fund. With respect to assessments paid by associations, the FDIC historically imposed assessments on each association based on the institution's assessment risk classification. The rates ranged from $.23 to $.31 for each $100 of domestic deposits. The rate at which a SAIF member institution paid assessments was determined on the basis of capital and supervisory measures. For the fiscal year ended September 30, 1996, Brunswick's assessment rate was $.23 for each $100 of domestic deposits. On September 30, 1996, legislation was enacted which, among other things, imposed a special one-time assessment on SAIF member institutions, including Brunswick, in order to recapitalize the SAIF and allocate to SAIF and BIF-insured institutions an annual assessment to cover interest payments on Financing Corp. (FICO) bonds issued in the 1980's to assist the thrift industry. The special one-time assessment levied by the FDIC amounts to 65.7 basis points on SAIF assessable deposits held by an institution as of March 31, 1995. SAIF-insured institutions were required to recognize the special assessment, which is tax deductible, as of September 30, 1996. Accordingly, Brunswick took a charge of $2.36 million before taxes as a result of the FDIC special assessment. Beginning on January 1, 1997, SAIF members will pay an annual assessment of 6.4 basis points on SAIF-insured deposits to cover interest payments on the FICO bonds. The FDIC also has proposed a base assessment schedule for SAIF institutions which would range from 4 to 31 basis points, with an adjusted assessment schedule that would immediately reduce those rates by 4 basis points. Accordingly, well-capitalized thrifts, similar to BIF-insured members, would



effectively have an assessment rate of zero for deposit insurance, excepting the FICO assessment of 6.4 basis points discussed above. The new rate would apply to all SAIF-insured institutions beginning January 1, 1997.

The FDIC has the authority to suspend the deposit insurance of any thrift without tangible capital. However, if a thrift achieves positive capital by including qualifying supervisory goodwill, the FDIC cannot suspend deposit insurance unless the FDIC's Board of Directors determines that: (i) the thrift's capital has declined materially; (ii) the thrift is engaging in an unsafe or unsound practice or is in an unsafe or unsound condition; or (iii) the thrift has violated an applicable law, rule, regulation, or order, or any condition imposed by, or written agreement entered into with, a federal banking agency, or has failed to enter timely into an acceptable capital improvement plan. At September 30, 1995, Brunswick had tangible capital of 10.01% of total assets.

Loans to One Borrower and Certain Loan Limits. FIRREA provides that the same limits on loans to one borrower that apply to national banks apply to savings institutions. Generally, a savings association may lend to a single or related group of borrowers, on an unsecured basis, an amount equal to 15% of its unimpaired capital and surplus. An additional amount equal to 10% of unimpaired capital and surplus, may be loaned if secured by readily marketable collateral, which is defined to include securities and bullion, but generally does not include real estate. Notwithstanding such provisions, a savings association may make loans to one borrower (i) for any purpose, up to $500,000, or (ii) to develop domestic residential housing units, up to the lesser $30 million or 30% of the association's unimpaired capital and unimpaired surplus, if certain conditions are satisfied. In addition, a savings association's loans to one borrower to finance a sale of real property acquired in satisfaction of debts previously contracted in good faith may not exceed the 15% limit.

Under the regulations described above, as of September 30, 1996, Brunswick could lend to a single borrower and its related entities on an unsecured basis an amount not to exceed $3.9 million based upon its unimpaired capital and surplus. Also as of that date, it could lend an additional $2.6 million if secured by readily marketable collateral. As of September 30, 1996, the amount outstanding to the largest single borrower of Brunswick was $3.3 million.

FIRREA also imposes limits on a federal savings association's aggregate "nonresidential real property loans." FIRREA generally limits the aggregate amount of "loans on the security of liens upon nonresidential real property" to 400% of the association's capital as determined under the capital standards of FIRREA. FIRREA also permits the Director to allow an association to exceed the aggregate limitation if the Director determines that exceeding the limitation would pose no significant risks to the safe and sound operation of the association, and would be consistent with prudent operating practices.

Qualified Thrift Lender Test. The QTL test generally requires that a savings association's qualified thrift investments equal or exceed 65% of the

association's "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) on a monthly average basis in nine of every twelve months.

"Qualified thrift investments" include all investments related to domestic residential real estate or mobile homes, the book value of property used by the savings association in conducting its business and stock issued by any FHLB. "Investments related to domestic residential real estate" include: home mortgages; homeimprovement loans; other loans on the security of residential real estate; obligations of the FHLB System; investments in deposits of other insured institutions; securities issued or guaranteed by the FHLMC, Federal National Mortgage Association, or Government National Mortgage Association, or issued by the FSLIC Financing Corporation; mortgage servicing rights; and other mortgage-related securities. Investments related to domestic residential real estate also include investment in a corporation, partnership, or trust in proportion to the amount of gross revenues derived by that entity from activities related to domestic housing. In addition to investments related to domestic residential real estate and property used in conducting the association's business, qualified thrift investments also include specified liquid assets and 50% of the residential mortgage



loans originated by the association and sold within 90 days of origination, but those liquid assets and mortgage loans may not exceed 20% of the association's tangible assets.

Any savings institution that fails to become or remain a QTL must either convert to a commercial bank charter or be subject to restrictions specified in the OTS regulations. A savings institution that converts to a bank must pay all SAIF insurance assessments until the date of its conversion to BIF membership. Any such institution that does not become a bank is prohibited from: (i) engaging in any new activity not permissible for a national bank; (ii) paying dividends not permissible under national bank regulations; (iii) obtaining advances from any FHLB; and (iv) establishing any new branch office in a location not permissible for a national bank in the association's home state. In addition, beginning three years after the association failed the QTL test, the association would be prohibited from engaging in any activity not permissible for a national bank and would have to repay any outstanding advances from an FHLB as promptly as possible. A savings institution may requalify as a QTL if it thereafter complies with the QTL test. As of September 30, 1996, Brunswick was in compliance with the QTL test as amended by FDICIA.

Enforcement Powers. Pursuant to FIRREA, the OTS was granted enhanced, extensive enforcement authority over all savings associations. 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. Since the enactment of FIRREA, the OTS has significantly increased the use of written agreements to correct compliance deficiencies with respect to applicable laws and regulations and to ensure safe and sound practices; violations of such written agreements are grounds for initiation of cease and desist proceedings. FIRREA significantly increased the amount of and grounds for civil money penalties assessable against savings associations and "institution-affiliated parties." FDICIA granted the FDIC back-up enforcement authority to recommend enforcement to an appropriate federal banking agency (i.e., the OTS) and to bring such enforcement action against a savings association or an institution-affiliated party if such federal banking agency fails to follow the FDIC's recommendation. In addition, FIRREA requires, except under certain circumstances, public disclosure of final enforcement actions by the OTS. FIRREA also expanded the group of persons subject to administrative enforcement proceedings to include any "institution-affiliated party," including (i) controlling shareholders, (ii) certain persons who participate in the affairs of an institution, and (iii) attorneys, appraisers, and accountants who knowingly or recklessly participate in wrongful action that had or is likely to have an adverse effect on an insured depository institution. The FDIC Act, as amended by FIRREA, provides that an institution-affiliated party may be subject to removal or suspension whenever such person has violated any law, regulation, or order or has engaged in an unsafe or unsound practice that causes the institution to suffer financial loss.

FIRREA substantially increased the civil money penalties that may be assessed for violations of law to as much as $1 million per day. Sentences now range from up to 30 years for most financial institutions-related crimes involving theft, fraud, and embezzlement to as much as life imprisonment in the case of "financial kingpins" who derive more than $5 million from their crimes within a certain period. Federal financial institutions agencies also have the authority to prevent the dissipation of assets wrongfully obtained by institution-affiliated parties and amends federal bankruptcy laws to prevent

such persons from using bankruptcy to avoid payment of civil and criminal money penalties. It also is a crime to knowingly conceal an asset or property from the FDIC or the Resolution Trust Corporation ("RTC") or to obstruct the examination of a financial institution.

FIRREA also expanded the grounds for appointment for a conservator or receiver for a savings association. Grounds for such appointment include: insolvency; substantial dissipation of assets or earnings; existence of an unsafe or unsound condition to transact business; likelihood that the association will be unable to pay its obligations in the normal course of business; and insufficient capital or the likely incurring of losses that will deplete substantially all capital with no reasonable prospect for replenishment. FIDIC added additional grounds for the appointment of a conservator or receiver of a savings association.



As a result of FIRREA and FDICIA, federal regulators have greater flexibility to impose enforcement action on an institution that fails to comply with its regulatory requirements, particularly with respect to the capital requirements. Possible enforcement action ranges from the imposition of a capital plan to the termination of deposit insurance. While the OTS has primary responsibility over savings associations, the FDIC is empowered to recommend enforcement action to the Director. If the Director does not take action, the FDIC has authority to compel such action under certain circumstances.

Capital Requirements. FIRREA and the implementing regulations of the OTS and the FDIC changed the capital requirements applicable to savings associations, including Brunswick, and the consequences of failing to comply with those requirements. The capital standards include (i) a core capital requirement, (ii) a tangible capital requirement, and (iii) a risk-based capital requirement. As described in more detail below, if an association fails to meet any of the three capital standards, it must submit a capital restoration plan to be approved by the OTS. Such failure may also result in the imposition of various restrictions on the association.

The core capital standard requires a savings association to maintain "core capital" of not less than 3% of adjusted total assets. "Core capital" includes common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries, certain nonwithdrawable accounts, pledged deposits of mutual savings associations, and certain goodwill resulting from prior regulatory accounting practices.

While the items mentioned above are included in core capital, intangible assets must be deducted in computing core capital because they are excluded from assets under FIRREA's capital rules. There are exceptions to that rule of deduction, however. Purchased credit card relationships and mortgage servicing rights may be included in core capital, in an amount not in excess of 50% of core capital computed before deducting any disallowed intangible assets or mortgage servicing rights. Purchased mortgage servicing rights, provided that such rights must be valued at the lower of 90% of fair market value to the extent determinable, or current amortized book value, and that any amount written off must be deducted from core capital. Qualifying supervisory goodwill held by an eligible savings association must be deducted from assets in determining core capital. Finally, investments in subsidiaries engaged in activities not permissible for a national bank generally must be deducted from assets in determining core capital.

The tangible capital requirement requires a savings association to maintain tangible capital in an amount not less than 1.5% of adjusted total assets. "Tangible capital" is defined as core capital minus intangible assets. FIRREA authorizes the inclusion of up to 90% of purchased mortgage servicing rights in calculating tangible capital, but OTS regulations prohibit the inclusion of supervisory goodwill in calculating tangible capital.

The risk-based capital requirement requires a savings association to maintain risk-based capital of not less than 8% of risk-weighted assets. Risk-based capital includes core capital and supplementary capital, provided that the amount of supplementary capital counting toward the requirement may not exceed core capital.

In calculating the risk-based capital requirement for a savings association, risk-weighted assets equals total assets plus consolidated off-balance sheet items, where each asset or item is multiplied by the appropriate risk weight as described below. Before an off-balance sheet item is assigned a risk weight, it must be converted to an on-balance sheet credit equivalent amount. That conversion generally is accomplished by multiplying the item by either 100%, 50%, 20%, or 0%, whichever is applicable under the OTS regulations. Each asset and each credit equivalent amount is assigned a risk weight as follows: (i) 0%, for cash and certain government securities; (ii) 20%, for securities of the United States government or its agencies not backed by the full faith and credit of the United States government and for high-quality

mortgage-related securities; (iii) 50%, for certain revenue bonds and qualifying residential mortgage loans; or (iv) 100%, for most other loans.



For purposes of determining the core and tangible capital components, FIRREA requires that investments in certain "nonincludable subsidiaries" be deducted from assets. Nonincludable subsidiaries are generally those engaged in activities not permissible for national banks. However, certain exemptions generally apply where the subsidiary: (i) is engaged in the activities solely as an agent for its customers; (ii) is engaged solely in mortgage-banking activities; (iii) (a) is an insured depository institution or a company whose sole investment is an insured depository institution and (b) was acquired by the association prior to May 1989; or (iv) is a federal savings association that existed as such on August 9, 1989, and was, or acquired its principal assets from, an association that was chartered before October 15, 1982, as a state savings or cooperative bank. At September 30, 1996, Brunswick had no investments in or advances to nonincludable subsidiaries.

OTS regulations provide that a savings association's total capital is equal to its core capital plus its supplementary capital (up to 100% of its core capital). However, in addition to assets otherwise required to be deducted in calculating core capital, reciprocal holdings of depository institution capital instruments must be deducted from assets in determining total capital. In addition, that portion of land and nonresidential construction loans in excess of 80% loan-to-value ratio, as well as all equity investments, must be deducted from assets in determining total capital. At September 30, 1996, Brunswick's investment in the portion of land and nonresidential construction loans in excess of 80% loan-to-value ratio and all equity investments was not significant.

Brunswick must maintain core capital at least equal to 3.0% of total adjusted assets and risk-based capital at least equal to 8.0% of risk-weighted assets. Additionally, Brunswick must maintain tangible capital at least equal to 1.5% of total adjusted assets.

The following table presents Brunswick's capital levels at September 30, 1996, relative to these requirements.

<TABLE>
<CAPTION>

| (Dollars in thousands) | Amount Required | Percent Required | Actual Amount | Actual Percent | Excess Amount |
|---|---|---|---|---|---|
| <S> <C> | | | | | |
| Core Capital..................... | $7,478 | 3.0% | $26,174 | 10.5% | $18,696 |
| Tangible Capital................. | 3,739 | 1.5 | 26,174 | 10.5 | 22,435 |
| Risk-Based Capital............... | 13,874 | 8.0 | 26,758 | 15.4 (1) | 12,884 |

</TABLE>

(1) Represents risk-based capital as a percentage of risk-weighted assets.

Although those capital ratios exceed the minimum capital requirements imposed by the implementing OTS regulations at September 30, 1996, future events, such as increased interest rates, asset write-downs, or a downturn in the economy in areas where Brunswick has most of its loans, could adversely affect future earnings and, consequently, the ability of Brunswick to meet its future minimum capital requirements.

Savings associations with "above normal" interest rate risk exposure are subject to a deduction from total capital for purposes of calculating their risk-based capital requirements. A savings association's interest rate risk is measured by the decline in the net portfolio value of its assets (i.e., the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts) that would result from a hypothetical 200-basis point increase or decrease in market interest rates (except when the 3-month Treasury bond equivalent yield falls below 4%, then the decrease will be equal to one-half of that Treasury rate) divided by the estimated economic value of the association's assets, as calculated in accordance with guidelines set forth by the OTS. A savings association whose measured interest rate risk exposure exceeds 2% must deduct an interest rate component in calculating its total capital under the risk-based capital rule. The interest rate risk component is an amount equal to one-half of the difference between the institution's measured interest rate risk and 2%, multiplied by the estimated economic value of the association's assets. That dollar amount is deducted from an association's total capital in calculating compliance with its risk-based capital requirement. Under the rule, there is a two quarter lag between the reporting date of an institution's financial

data and the effective date for the new capital requirement based on that data. The rule also provides that the Director of the OTS may waive or defer an association's interest rate risk component on a case-by-case basis.

The OTS also has adopted regulations to implement the system of prompt corrective action established by FDICIA. The rules permit the OTS to take certain supervisory actions when an insured association falls within one of five specifically enumerated capital categories. Under the rules, an institution will be deemed to be (i) "well-capitalized" if the association has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and the association is not subject to any enforcement agreement relating to capital; (ii) "adequately capitalized" if the association exceeds a riskbased capital ratio of 8%, a Tier 1 risk-based capital ratio of 4%, and a leverage ratio of 4% (3% if the association has a composite one rating); (iii) "under capitalized" if the association's risk-based capital ratio is less than 8%, Tier 1 capital ratio is less than 4%, or leverage ratio is less than 4% (3% if it has a composite one rating); (iv) "significantly under capitalized" if the association's risk-based capital is less than 6%, Tier 1 capital ratio is less than 3%, or leverage ratio is less than 3%; and (v) "critically under capitalized" if the association has a ratio of tangible equity to total assets that is 2% or below. The regulations provide a framework of supervisory actions based on the capital level of an insured association. Generally, an association may not declare any dividends, make any other capital distribution, or pay a management fee if, following the distribution or payment, the institution would be within any one of the three under capitalized categories. There is a limited exception to this prohibition for stock redemptions that do not result in any decrease in an association's capital and would improve the association's financial condition, provided the redemption has been approved by the OTS. Institutions that are classified as under capitalized also are subject to additional mandatory supervisory actions, including increased monitoring by the OTS, a requirement to submit a capital restoration plan, and restrictions on growth of the institution's assets as well as a limitation on its ability to make acquisitions and open branches. In addition to the foregoing, a significantly under capitalized institution may not pay bonuses or raises to its senior executive officers without prior OTS approval and also must comply with additional mandatory requirements regarding the operation of the association in the interim. Based upon the foregoing regulations and First Federal's capital ratios as of September 30, 1996, First Federal would be considered in the well-capitalized category.

The Director may grant an exemption from a capital directive imposing operational restrictions or corrective actions if: (i) the exemption would pose no significant risk to the affected deposit insurance fund; (ii) the association's management is competent; (iii) the association is in substantial compliance with all applicable statutes, regulations, orders, and supervisory agreements and directives; and (iv) the association's management has not engaged in any activities that have jeopardized the association's safety and soundness or contributed to impairing its capital. In addition, a savings association that does not meet applicable capital standards may not increase its assets without the Director's prior written approval, and in no event may increase its assets beyond the amount of net interest credited to its deposit liabilities.

In addition to the foregoing prompt corrective action provisions, FDICIA also sets forth requirements that the federal banking agencies, including the OTS, review their capital standards every two years to ensure that their standards require sufficient capital to facilitate prompt corrective action and to minimize loss to the SAIF and the BIF.

Appointment of Receiver or Conservator. FIRREA and FDICIA significantly expand the grounds upon which a receiver or conservator may be appointed for a savings association. That expansion enhanced the ability of regulatory authorities to engage in "early intervention" to take control of an association before it is insolvent. Included in the new grounds for appointment are (i) "having substantially insufficient capital," (ii) incurrence or likely incurrence of losses that will substantially deplete all of the association's capital and no reasonable prospect for replenishing that capital without federal assistance, and (iii) a violation of law or regulation that is likely to weaken the association's condition.



Limitation on Capital Distributions. The OTS has promulgated a rule governing capital distributions such as dividends, stock repurchases, and cash-out mergers by savings associations. The rule establishes three tiers of institutions. An institution that meets or exceeds its fully phased-in capital requirement after giving effect to a proposed distribution is considered a "Tier 1 Institution" under the rule and may make aggregate capital distributions during a calendar year, without prior OTS approval, of up to the greater of (i) all of its net income to date during the year plus an amount that would reduce its excess capital ratio to one-half of such excess capital ratio at the beginning of the calendar year or (ii) 75% of its net income over the most

recent four quarterly period. An institution that meets its current regulatory capital requirement, but not its fully phased-in requirement, after giving effect to a proposed distribution is a "Tier 2 Institution" and may make capital distributions without prior OTS approval of up to the following percentage of net income for the most recent four-quarter period: (i) 75% of such net income if the association meets its fully phased-in risk-based capital requirements before the distribution; or (ii) 50% of such net income if the association meets only its current risk-based capital standards before the distribution. A savings association that fails to meet its regulatory capital requirements (a "Tier 3 Institution") may not make capital distributions without the OTS's prior written approval. An institution meeting the Tier 1 capital criteria but that has been notified by the OTS that it is in need of more than normal supervision may be treated as a Tier 2 or a Tier 3 institution. As of September 30, 1996, Brunswick was a Tier 1 Institution and would be permitted to distribute 100% of net income and one-half of its excess capital in a given year. However, there can be no assurance that Brunswick will remain a Tier 1 Institution for purposes of the rule.

The OTS also may determine that any capital distribution would constitute an unsafe or unsound practice and prohibit the distribution, in particular if Brunswick's capital were decreasing due to substantial losses.

Transactions with Affiliates. FIRREA made Federal Reserve Act ("FRA") Sections 23A, 23B, and 22(h) applicable to savings associations. Those sections limit extensions of credit to affiliated institutions, executive officers, directors, and 10% stockholders. Generally, Sections 23A and 23B (i) limit the extent to which the insured association or its subsidiaries may engage in certain covered transactions with an affiliated institution to an amount equal to 10% of such institution's capital stock and surplus, and place an aggregate limit on all such transactions with all affiliated institutions of an amount equal to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms consistent with safe and sound banking practices. "Covered transactions" include the making of loans, the purchasing of assets, the issuance of a guarantee, and similar transactions. FIRREA also imposed three additional rules on savings associations: (i) a savings association may not make any extension of credit to an affiliate unless that affiliate is engaged only in activities permissible for bank holding companies; (ii) a savings association may not purchase or invest in securities insured by an affiliate, other than a subsidiary; and (iii) the Director may impose more stringent restrictions on savings associations than those set forth in Sections 23A, 23B, and 22(h) of the FRA.

Brokered Deposits. FIRREA also added a new Section 29 to the FDI Act generally prohibiting the acceptance or renewal of brokered deposits by any under-capitalized insured depository institution after December 7, 1989, except upon the specific application to and waiver of that prohibition by the FDIC. The statute defines "brokered deposits" to include not only (i) deposits solicited through the assistance of a third-party deposit broker, but also (ii) deposits obtained by a depository institution by offering a rate of interest that is at least 50 basis points (0.5%) higher than the prevailing rate offered by similar depository institutions in the same market area. As of September 30, 1996, Brunswick had no deposits that would be considered to be "brokered deposits" under the statute and the FDIC's regulations.

Corporate Debt Securities Below Investment Grade. FIRREA also generally prohibits savings associations and their subsidiaries from acquiring or retaining any corporate debt security that, at the time of acquisition, is not (or, in the case of previously acquired securities, was not) rated in one of the four highest rating categories by at least one nationally recognized statistical rating organization. At September 30, 1996, Brunswick had no corporate debt securities below investment grade.



Investment Portfolio Accounting. Savings associations are required to account for transactions in accordance with GAAP, which requires that investment securities held to maturity be accounted for at amortized cost; securities available-for-sale, at the lower of cost or market; and trading securities, at market.

Asset Classification. The OTS has a classification system for problem assets of insured institutions which covers all problem assets, including assets that previously had been treated as "scheduled items." Under that classification system, problem assets of insured institutions are classified as "substandard," "doubtful," or "loss," depending on the presence of certain characteristics as discussed below.

An asset is considered "substandard" if 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 of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When an insured institution classifies problem assets as either substandard or doubtful, it is required to establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but that, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets 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. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the institution's Principal Supervisory Agent, who can order the establishment of additional general or specific loss allowances.

Service Corporation Subsidiaries. The HOLA authorizes federally chartered savings associations to invest up to 3% of their assets in the stock of service corporation subsidiaries. In addition, federal thrift institutions meeting their applicable minimum regulatory capital requirements may invest up to 50% of regulatory capital in conforming loans to service corporations. The OTS's implementing regulations require that the activities of a service corporation be reasonably related to the activities of a federal association and generally provide that OTS approval must be obtained before a service corporation may commence any new activity. However, the regulations list a number of activities in which a service corporation may engage without prior OTS approval, including: (i) originating and servicing mortgage, consumer, educational, and commercial loans; (ii) providing escrow, liquidity and credit analysis, and other backroom services for other financial institutions; (iii) developing and managing real estate; and (iv) providing certain securities brokerage services.

Under Section 18(m) of the FDI Act, also added by FIRREA, all savings associations must provide the FDIC and the OTS with 30 days' notice prior to (i) establishing or acquiring a new subsidiary or (ii) commencing a new activity through an existing subsidiary, and, as part of the notice, must furnish such information regarding the new subsidiary or activity as either agency may require.

Assessments. FIRREA also amended the HOLA to allow the OTS to assess fees on savings associations to fund the operations of the OTS, to recover the costs of examining institutions under its jurisdiction, and to provide for the processing of various types of applications, notices, requests, and securities filings. Prior to the enactment of FIRREA, the FHLBB had obtained its funding primarily from FHLB contributions and FSLIC insurance premiums. The OTS has adopted regulations which implement these statutory provisions. The regulations provide for OTS assessments to be made either quarterly or semiannually based on the total consolidated assets of a savings association as shown on its most recent report to the agency. Troubled savings



associations are to be assessed at a rate 50% higher than similarly sized thrifts that are not experiencing problems.

Restrictions on Acquisition. Brunswick must obtain approval from the OTS before acquiring control of any other savings association. Such acquisitions are generally prohibited if they result in a savings and loan holding company controlling savings associations in more than one state. However, such interstate acquisitions are permitted based on specific state authorization or in a supervisory acquisition of a failing savings association. Brunswick may acquire up to 5%, in the aggregate, of the voting stock of any nonsubsidiary savings association or savings and loan holding company without being deemed to acquire "control" of the association or holding company. In addition, a savings and loan holding company may hold shares of a savings association or a savings and loan holding company for certain purposes, including a bona fide fiduciary, as an underwriter or in an account solely for trading purposes. Under certain conditions, a savings and loan holding company may acquire up to 15% of the shares of a savings association or savings and loan holding company in a qualified stock issuance; such acquisition is not deemed a controlling interest.

Federal statutes applicable to all depository institutions require a person or entity seeking to obtain control of Brunswick to obtain the prior approval of the OTS as the principal regulatory agency of federally chartered savings banks. FIRREA amended the Change in Bank Control Act (the "Control Act") to apply to savings associations. The Control Act provides that no person, acting directly, indirectly, or through or in concert with one or more other persons, may acquire "control" of a savings association without giving at least 60 days' prior written notice to the Director and having the Director not object or extend such 60-day period. Federal law also generally provides that no

company may acquire "control" of an insured savings association without the Director's prior approval, and that any company that acquires such control becomes a "savings and loan holding company" subject to registration, examination, and regulation under Section 10 of the HOLA and regulations adopted pursuant thereto.

FIRREA also authorizes the Federal Reserve to approve bank holding company acquisitions of savings associations and provides that the Federal Reserve may not impose "tandem restrictions" in connection with such approvals. Those provisions of FIRREA specifically reverse a long-standing policy of the Federal Reserve precluding acquisitions of healthy thrift institutions by bank holding companies.

Federal Income Taxation. Brunswick and its subsidiary are subject to taxation as corporations under applicable provisions of the Internal Revenue Code. Brunswick's federal income tax returns have been audited by the Internal Revenue Service through September 30, 1992. Brunswick and its subsidiary file a consolidated federal income tax return on the basis of a September 30 fiscal year using the accrual method of accounting. Although Brunswick is included in a consolidated tax return with its subsidiary, certain federal income tax rules are applicable to Brunswick only.

For example, savings institutions like Brunswick that meet certain definitional tests, primarily relating to their assets and the nature of their business, are permitted to deduct annual additions to a reserve for bad debts, within specified formula limits. In each tax year, the deductible addition may be computed using the more favorable of either: (i) a method based generally on the institution's average loan loss experience over the six-year period ending with the taxable year (the "Experience Method"), or (ii) a method based on a specified percentage of the institution's taxable income (the "Percentage Method").

Brunswick uses the Percentage Method for computing additions to its bad debt reserve for "qualifying real property loans" (generally those loans secured by interests in real property). Additions to the reserve for nonqualifying real property loans must be computed under the Experience Method.

Under the Percentage Method, the allowable deduction is computed as a percentage of Brunswick's taxable income before the deduction, as adjusted for certain items (such as the dividends-received deduction, withdrawals from excess bad debt reserves, as discussed below, and certain gains), and is generally equal to



8% of adjusted taxable income, less any amounts deducted in connection with nonqualifying real property loans. The allowable deduction for qualifying real property loans computed under the Percentage Method is also subject to various other limitations that historically have not affected Brunswick.

To the extent that Brunswick's reserve for losses on qualifying real property loans exceeds the amount that would have been allowed under the Experience Method, then amounts that are considered to have been withdrawn from that excess reserve to make distributions to stockholders will be included in Brunswick's taxable income. Dividend distributions in excess of Brunswick's current or accumulated earnings and profits as calculated for federal income tax purposes will be considered to result in withdrawals from its bad debt reserve. Distributions in redemption of stock or in partial or complete liquidation also are considered to result in withdrawals from the bad debt reserve regardless of the level of current or accumulated earnings and profits. In the case of Brunswick, no such distributions have taken place, nor does management anticipate that any such distributions will take place in the near future.

Certain other special rules apply to financial institutions such as Brunswick. For example, financial institutions are permitted to carry net operating losses ("NOLs") back for three years or forward for fifteen years. In addition, although taxpayers generally are not permitted to deduct interest expense allocable to the purchase or carrying of tax-exempt obligations, financial institutions are entitled to deduct 80% of their interest expense deemed allocable to tax-exempt obligations acquired before August 8, 1986 (100% for obligations acquired before 1983). A financial institution is not permitted to deduct any portion of its interest expense allocable to tax-exempt obligations acquired after August 7, 1986, other than designated tax-exempt obligations issued by small municipal issuers, which remain subject to the 80% limit.

Corporations are liable for an alternative minimum tax ("AMT") equal to 20% of alternative minimum taxable income (taxable income after making certain "adjustments" and adding certain "preferences") if and to the extent the AMT exceeds the regular income tax. The preference and adjustment items include (but are not limited to): (i) the excess of the allowable bad debt deduction over the

deduction that would have been allowable on the basis of actual experience, (ii) for taxable years beginning after 1989, 75% of the difference (positive or negative) between "Adjusted current earnings" and alternative minimum taxable income (as specifically determined for this purpose), (iii) interest on certain "private activity" bonds( issued for the benefit of nongovernmental persons) issued after August 7, 1986, and (iv) replacement of the regular NOL deduction with the alternative minimum tax NOL deduction (computed with the AMT adjustments and reduced by preference items) which may be utilized to offset only 90% of the alternative minimum taxable income. Brunswick was not liable for the AMT for its taxable year ended September 30, 1996.

State Income Taxation. Under Georgia law, financial institutions generally are subject to the same taxes, state and local, as other corporations in Georgia. The state corporation income tax rate to which Brunswick is subject is 6% of Georgia taxable net income, which is equal to federal taxable income with certain adjustments. In addition to the corporate income tax, financial institutions in Georgia are subject to a corporate net worth tax, intangible, tangible, real and personal property taxes, and a special occupation tax at a rate of .25% of gross receipts. The appropriate county or city is also permitted to levy a business license fee at a rate of .25% of gross receipts. The total amount of the license fee and occupation tax is allowed as a credit against the corporation income tax.



## Effect of Governmental Policies

The earnings and business of Brunswick are and will be affected by the policies of various regulatory authorities of the United States, especially the Federal Reserve Board. The Federal Reserve Board, among other things, regulates the supply of credit and deals with general economic conditions within the United States. The instruments of monetary policy employed by the Federal Reserve Board for these purposes influence in various ways the overall level of investments, loans, other extensions of credit and deposits, and the interest rates paid on liabilities and received on assets.

## Interest and Usury

Brunswick is subject to numerous state and federal statutes that affect the interest rates that may be charged on loans. These laws do not, under present market conditions, deter Brunswick from continuing the process of originating loans.

## Competition

Brunswick encounters significant competition in its market from commercial banks, thrift institutions, other financial institutions and financial intermediaries. Brunswick not only competes with other banks performing banking services in its markets, but also competes with various other types of financial institutions for deposits, certain commercial, fiduciary and investment services and various types of loans and certain other financial services. Brunswick also competes for interest-bearing funds with a number of other financial intermediaries and investment alternatives, including "money-market" mutual funds and brokerage firms.

Brunswick competes not only with financial institutions based in the State of Georgia, but also with a number of out-of-state banks, bank holding companies and other financial institutions which have an established market presence in Georgia. Many of the financial institutions operating in Georgia are engaged in local, regional, national and international operations and have more assets and personnel than Brunswick. Most of the southeastern states, including Georgia, have enacted legislation that allows bank holding companies (and in certain cases, thrift institutions) in those states to acquire banks (and in certain cases, thrift institutions) and bank holding companies in other states located in the region, which has the effect of causing competition to intensify.

## Employees

As of September 30, 1996, Brunswick and its subsidiary had 102 full-time employees and 35 part-time employees. The employees are not represented by a collective bargaining unit. Brunswick believes that its employee relations are excellent.



## Item 2. Properties

## Properties

The following table sets forth certain information concerning Brunswick's offices. All were full service offices at September 30, 1996. The total net book value of such offices at September 30, 1996 was approximately $1.4 million.

| Office Location | Year Facility Opened | Title to the Building (1) |
|---|---|---|
| Main Office<br>777 Gloucester Street<br>Brunswick, GA 31520 | 1974 | Leasehold. Lease terminates in 2003 and has one ten-year renewal option. |
| St. Simons Ocean Boulevard Office<br>621 Ocean Boulevard<br>St. Simons Island, GA 31522 | 1961 | Fee Simple. |
| St. Simons Plaza Office<br>1600 Frederica Road<br>St. Simons Island, GA 31522 | 1986 | Leasehold. Lease terminates in 2006 and has two ten-year renewal options. |
| Glynn Place Mall Office<br>167 Altama Connector<br>Brunswick, GA 31520 | 1986 | Fee Simple. |
| Altama Office<br>4401 Altama Avenue<br>Brunswick, GA 31520 | 1966 | Leasehold. Lease terminates in 1998 and has two ten-year renewal options. |

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(1) Brunswick owns the land on which all of its offices, except the St. Simons Plaza, is located.

Brunswick uses the services of an outside data processing firm for its data processing and recordkeeping functions.

Item 3. Legal Proceedings

In 1988, Brunswick entered into an agreement with The Citizens & Southern Corporation and certain related affiliates which provided for the acquisition of Brunswick by C&S and the exchange of Brunswick common stock for C&S common stock. The agreement was amended in 1990 to provide for receipt of C&S/Sovran Corporation stock by Brunswick stockholders as a result of the merger in 1990 of C&S with Sovran



Financial Corporation (which was acquired by NationsBank Corporation ("NationsBank") in late 1991). On September 27, 1991, Brunswick filed a suit in Glenn County Superior Court against C&S/Sovran and its affiliated entities asserting that they had breached the agreement entered into with Brunswick. In May, 1994, a jury found that C&S/Sovran breached the agreement in March, 1991 by not filing certain regulatory applications to pursue the acquisition of Brunswick. On December 16, 1994, the court issued an order which provided that Brunswick would be entitled to the remedy of specific performance of the agreement entered into with C&S/Sovran. The order also provided that a subsequent jury trial would be held to determine when the merger should have closed. The order also required the defendants to make an acquisition proposal to Brunswick stockholders to acquire Brunswick stock in exchange for NationsBank stock. On July 18, 1996, a Glynn County jury determined that the merger would have closed on June 19, 1991. On October 15, 1996, the Court issued an Order finding that the number of NationsBank shares required to be offered to Brunswick stockholders is 1,280,268 shares, increased by the number of NationsBank shares in an amount equal to the difference between dividends paid by the defendants since December 1991 less dividends paid on all Brunswick shares from June 19, 1991 to the date of the offer. The Order stated that the number of NationsBank shares to be offered is subject to reduction by the amount payable by First Federal pursuant to employment severance agreements as well as legal fees paid by Brunswick which exceed amounts set forth in the Court's Order. On November 12, 1996, Brunswick sent a share calculation letter to NationsBank addressing the method by which the Order will be implemented and advising NationsBank that, after Brunswick pays approximately $12.5 million for its contractual obligations for litigation attorneys' fees and $1.3 million to four senior executive officers pursuant to change of control agreements, Brunswick's stockholders will receive .80 shares of NationsBank stock for each share of Brunswick stock. The parties anticipate that the closing of the NationsBank transaction will occur in the second quarter of 1997.

Brunswick and its subsidiary are party to various legal proceedings in the normal course of their business; however, Brunswick management believes that the ultimate outcome in such proceedings in the aggregate would not have a material adverse effect on the financial position or results of operations of Brunswick and its subsidiary on a consolidated basis.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 1996.

PART II

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

The information contained under the section captioned "Capital Stock" in the Annual Report is incorporated herein by reference.

Item 6. Selected Financial Data

The information contained in the table captioned "Selected Financial Highlights" in the Annual Report is incorporated herein by reference.



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

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

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements contained in the Annual Report are incorporated herein by reference.

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

The registrant has not had any disagreements with its accountants on any matter of accounting principles or practices or financial statement disclosure.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information contained under the sections captioned "Directors" and "Executive Officers" under "Proposal One - Election of Directors" in the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on January 22, 1997, to be filed with the OTS pursuant to Regulation 14A within 120 days of the registrant's fiscal year end (the "Proxy Statement"), is incorporated herein by reference.

Item 11. Executive Compensation

The information contained in the sections captioned "Information About the Board of Directors and Its Committees", "Executive Compensation and Benefits" and "Information on Benefit Plans and Policies" under "Proposal One - Election of Directors" in the Proxy Statement, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information contained in the sections captioned "Directors" and "Management Stock Ownership" under "Proposal One - Election of Directors," and "Ownership of Equity Securities" in the Proxy Statement, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information contained in the section captioned "Certain Transactions" under "Proposal One Election of Directors" in the Proxy Statement, is incorporated herein by reference.



PART IV

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

The following are contained in the registrant's Annual Report to Stockholders.

(a) 1. Financial Statements

Report of Independent Public Accountants - First Federal Savings Bank of Brunswick, Georgia and Subsidiary

Consolidated Statements of Financial Condition as of September 30, 1996 and 1995

Consolidated Statements of Income for the Years Ended September 30, 1996, 1995, and 1994

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended September 30, 1996, 1995 and 1994

Consolidated Statements of Cash Flows for the Years Ended September 30, 1996, 1995 and 1994

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All schedules have been omitted as the required information is either inapplicable or included in the Notes to Consolidated Financial Statements.

3. Exhibits

3.1 Charter and By-laws of First Federal Savings Bank of Brunswick, Georgia (Incorporated by reference to Exhibit 3 to Brunswick's Form 10 filed with the FHLBB on June 28, 1984)

3.2 Assistant Secretary's Certificate dated November 18, 1991 setting forth Corporate Resolutions amending Bylaws of First Federal Savings Bank of Brunswick, Georgia (Incorporated by reference to Exhibit 3.2 to Brunswick's Annual Report on Form 10-K for the fiscal year ended September 30, 1993)

10.1 First Federal Savings Bank of Brunswick, Georgia 1984 Stock Option Plan, as amended (Incorporated by reference to Exhibit 10 to Brunswick's Annual Report on Form 10-K for the fiscal year ended December 31, 1986)

10.2 Form of Agreement entered into January 1, 1995 between First Federal Savings Bank of Brunswick, Georgia and each of Ben T. Slade, III, John J. Rogers and James H. Gash (incorporated by reference to Exhibit 10.2 to Brunswick's Annual Report on Form 10-K for the fiscal year ended September 30, 1994)



13.1 First Federal Savings Bank of Brunswick, Georgia 1996 Annual Report

21.1 Subsidiary of the Registrant

(b) Reports on Form 8-K

No Current Reports on Form 8-K were filed by Brunswick during the last fiscal quarter covered by this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Brunswick, State of Georgia, on December 26, 1996.

FIRST FEDERAL SAVINGS BANK
OF BRUNSWICK, GEORGIA

By: /s/ Ben T. Slade, III
--------------------------------
Ben T. Slade, III, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on December 26, 1996.

| Signature | Title |
|---|---|
| /s/ Ben T. Slade, III<br>Ben T. Slade III | Chairman of the Board and President |
| /s/ John J. Rogers<br>John J. Rogers | Senior Vice President - Mortgage Banking, Chief Financial Officer, and Director |
| /s/ Robert B. Sams<br>Robert B. Sams | Vice President and Controller |
| /s/ James H. Gash<br>James H. Gash | Senior Vice President - Commercial Banking and Director |
| /s/ James F. Barger<br>James F. Barger | Director |
| /s/ J. Dewey Benefield, Jr.<br>J. Dewey Benefield, Jr. | Director |
| William O. Faulkner | Director |
| /s/ Mack F. Mattingly<br>Mack F. Mattingly | Director |
| /s/ T. Gillis Morgan, III<br>T. Gillis Morgan, III | Director |
| /s/ D. Paul Owens<br>D. Paul Owens | Director |
| Jack Torbett | Director |
| /s/ L. Gerald Wright<br>L. Gerald Wright | Director |



First Federal Savings Bank of Brunswick, Georgia
Form 10-K
For Fiscal Year Ending September 30, 1996

EXHIBIT INDEX

| Exhibit No. | Exhibit | Page No. |
|---|---|---|
| 13.1 | First Federal Savings Bank of Brunswick, Georgia 1996 Annual Report | |

22.1 Subsidiary of the Registrant



Exhibit 13.1

# First Federal Savings Bank of Brunswick, Georgia

## Annual Report to Stockholders

## For Fiscal Year Ended September 30, 1996

## A MESSAGE FROM THE PRESIDENT

Picture of The President Goes Here

Our net income for the fiscal year ended September 30, 1996 was $2,156,717 (earnings per share of $1.42) compared to $3,114,460 (earnings per share of $2.05) for the prior year. The primary reason for the decline was the one-time expense to the Bank of approximately $1,362,000 ($885,000 after tax) representing a special assessment on deposits of 65.7 basis points required to recapitalize the Savings and Loan Insurance Fund ("SAIF"). Now that the fund is recapitalized, our premiums for Federal Deposit Insurance will decline dramatically and this will have a beneficial effect on our future income. Another reason for the decline in net income is the $171,518 increase in legal fee expense because of the July 1996 trial in our litigation with NationsBank.

Return on average assets for the year ended September 30, 1996 was .86% compared with 1.28% for 1995. Exclusive of the one-time SAIF assessment and the net increase in legal fees, our return on average assets would have been 1.25%.

During July of 1996, we celebrated the 70th birthday of First Federal Savings Bank. This was a delightful occasion and gave us the opportunity to thank many long-time customers for their loyalty over the years. Several customers who have been with us for the full seventy years attended the birthday party.

As previously reported, the NationsBank litigation has now been settled pursuant to the Court Order of October 5, 1996. The result will be the acquisition of First Federal by NationsBank Corporation in a tax-free exchange of stock. Stockholders of First Federal will be offered .80 shares of NationsBank stock for each First Federal share. The full details of the proposed transaction will be described in the proxy materials that should be mailed in March of 1997. The projected closing should occur between March 31, 1997 and April 30, 1997.

We are, of course, pleased to have this lengthy litigation behind us and feel that the result will be rewarding for all stockholders of First Federal. At current prices for NationsBank stock, the transaction will be valued at approximately $115 million. When you consider that our original stock issue was approximately $2.7 million, this is quite a substantial increase in value over the twelve-year period that we've been a public company.

We've been assured by NationsBank that they are eager to conclude this transaction and bring their array of services to the people of Brunswick and Glynn County. All of us at First Federal will do our best to provide for a smooth transition and hope all of our stockholders and customers will be pleased with the resulting changes.

Yours very truly,

/s/ Ben T. Slade, III

Ben T. Slade, III
President

HIGHLIGHTS OF 1996

NET INTEREST INCOME
(graph appears below
and plot points appears
as follows:)

| Millions of Dollars | |
|---|---|
| 1992 | 7.74 |
| 1993 | 8.57 |
| 1994 | 9.26 |
| 1995 | 9.78 |
| 1996 | 9.84 |

DIVIDENDS PAID
(graph appears below
and plot points appears
as follows:)

| Thousands of Dollars | |
|---|---|
| 1992 | 868 |
| 1993 | 913 |
| 1994 | 1,123 |
| 1995 | 1,334 |
| 1996 | 1,395 |

Shifts in net interest income are a function of volume, movements in interest rates, and the positioning of the Bank with respect to interest rate risk management. The Bank works to maximize net interest income within the parameters of interest rate risk management so as to provide for stability in net interest income over varying movements in interest rates.

The $5,633,000 in cash dividends paid to shareholders over the past five years exceeds the net amount raised in 1984, in the Bank's only public offering, by $3,250,000.

SELECTED FINANCIAL HIGHLIGHTS

<TABLE>
<CAPTION>

| | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Gross Income | $22,736,355 | $21,309,238 | $19,020,263 | $19,217,317 | $21,171,010 |
| Total Interest Income | 20,191,565 | 19,202,040 | 16,957,142 | 16,636,594 | 18,487,263 |
| Total Interest Expense | 10,353,532 | 9,423,311 | 7,700,190 | 8,069,801 | 10,750,488 |
| Net Interest Income | 9,838,033 | 9,778,729 | 9,256,952 | 8,566,793 | 7,736,775 |
| Income Before Income Taxes | 3,348,967 | 4,815,060 | 4,224,524 | 4,109,802 | 3,536,157 |
| Net Income | 2,156,717 | 3,114,460 | 3,280,424 | 2,660,712 | 2,245,357 |
| Net Income Per Share1 | 1.42 | 2.05 | 2.17 | 1.77 | 1.50 |
| Cash Dividends Declared | .95 | .89 | .75 | .61 | .58 |
| Book Value Per Share 2 | 17.29 | 17.00 | 15.44 | 14.33 | 13.19 |
| Real Estate Loans 3 | 182,897,960 | 163,832,021 | 158,597,317 | 155,377,526 | 141,230,291 |
| Total Net Loans 3 | 209,868,046 | 186,664,013 | 179,017,162 | 173,200,538 | 158,257,837 |
| Mortgage-Backed Securities | 8,339,891 | 12,232,044 | 11,074,637 | 11,086,923 | 9,092,030 |
| Investment Securities | 8,024,132 | 16,488,815 | 15,976,701 | 20,247,531 | 22,164,392 |
| Total Assets | 249,117,444 | 253,287,453 | 231,514,862 | 228,145,524 | 220,644,738 |
| Total Deposits | 218,075,859 | 222,805,996 | 200,715,381 | 196,546,493 | 192,374,447 |
| Total Borrowings | 1,500,000 | 2,200,000 | 4,000,000 | 5,300,000 | 3,300,000 |
| Total Net Worth | 26,025,085 | 25,506,415 | 23,622,064 | 21,449,495 | 19,701,917 |
| Total Regulatory Capital | 26,758,000 | 26,101,000 | 24,114,000 | 22,318,000 | 20,445,000 |
| Total Full Service Offices | 5 | 5 | 5 | 5 | 5 |

</TABLE>

1 Calculated based on fully diluted shares outstanding.
2 Calculated assuming all options exercised.
3 Includes mortgage loans held for sale.



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

General Overview:

From the Bank's headquarters and two branch offices located in Brunswick, along with two branch offices on St. Simons Island, the Bank is primarily engaged in the business of attracting deposits from the general public and investing those funds in real estate, consumer, and commercial loans. Deposits averaged $218.4 million in the current year compared to average deposits of $209.3 million in the year ago period. The Bank's loan portfolio averaged $203.4 million in the current year, rising from an average of $187.7 million during the period one year ago.

The Bank recorded net income of $2,156,717 or $1.42 per share for the fiscal year ended September 30,1996 compared to net income of $3,114,460 ($2.05 per share) and $3,280,424 ($2.17 per share) for the years ended September 30,1995 and 1994. Fiscal year 1996 results included a charge of $1,362,018 representing a provision made for the payment of a special assessment imposed by Congress intended to re-capitalize the "thrift" portion of the Federal Deposit Insurance Fund. This charge reduced net income by approximately $885,000 or 5.58 per share.

Liquidity and Capital Resources:

The Bank is required to maintain minimum liquidity levels of cash and eligible securities equal to 5% of withdrawable savings accounts and short-term borrowings. Cash and eligible securities include cash and due from banks, interest-bearing deposits in other banks, federal funds sold, other short-term investments and certain investment securities. At September 30, 1996 and 1995, cash and eligible securities totalled $24.0 million and $46.0 million, respectively. It has been the Bank's policy to maintain liquidity in excess of the required 5% amount. A secondary source of liquidity to the Bank has resulted from the conversion of single family mortgage loans to Federal Home Loan Mortgage Corporation ("FreddieMac") participation certificates ("PC's"). During fiscal year 1996, $6.4 million in loans were exchanged with FreddieMac for PC's. While not eligible to be considered for regulatory liquidity, these certificates may be readily sold to raise additional cash and may also be used as collateral for both short and long-term borrowings. At September 30,1996, the Bank held approximately $3.9 million in PC's resulting from such exchanges with FreddieMac. Average daily liquidity was 10.47% and 19.90% for the months of September 1996 and 1995, respectively.

The Bank's one year interest rate gap was a positive $34.8 million at September 30,1996 compared to a positive $38.0 million at September 30,1995. The interest rate gap calculation involves measuring the difference between maturing or repricing interest earning assets and maturing or repricing interest bearing liabilities over a given time frame, e.g., one year. Measurement of the Bank's gap has historically categorized NOW and passbook deposit accounts as non-interest rate sensitive liabilities. At September 30, 1996, NOW and passbook accounts totalled, in aggregate, $55.9 million, and should interest rates remain at or rise from current levels, the rates paid by the Bank on these accounts could rise as well. The decrease in the Bank's positive one year gap resulted primarily from a decrease in short term liquid investments from $23.4 million at September 30,1995 to $14.1 million at September 30,1996. Funds held in short-term liquid investments at September 30,1995, consisting of federal funds sold, interest bearing deposits in other banks, and treasury and agency securities maturing within one year, were shifted into mortgage, consumer, and commercial loans throughout the current fiscal year as loan demand and interest rate risk considerations allowed. This action provided for an increase in the Bank's weighted yield on interest earning assets from 8.08% at September 30, 1995 to 8.30% at September 30, 1996, despite a decline in both the prime and federal funds rates of 50 basis points during the current fiscal year.

Total loan originations for the year ended September 30, 1996 increased to $91.9 million from $80.4 million one year ago, reflective of a healthy economy combined with accommodative levels of interest rates. Loans secured by real estate increased to $200.2 million at September 30,1996 from $179.7 million at September 30, 1995. Construction loans accounted for 40% of this increase, rising from $13.0 million one year ago to $21.2 million at September 30,1996.

Total deposits decreased to $218.1 million at September 30, 1996 from $222.8 million at September 30,1995, as certificate of deposit balances declined $6.3 million in the current year. During the first two quarters of fiscal year 1995, as the Federal Reserve board ("FRB") increased short term interest rates in order to cool economic activity, the rates offered on certificates of deposit increased to levels attractive to investors as certificate balances increased by $25.7 million. During the fourth quarter of fiscal year 1995, the FRB began lowering short-term interest rates in response to several months of acceptable economic and inflation indicators and continued this posture into the first two quarters of the current year. In response to this action, the rates offered on certificates declined significantly and some proceeds from maturing accounts were transferred to investments outside the Bank.

Advances from the Federal Home Loan Bank declined from $2.2 million at September 30,1995 to $1.5 million at September 30,1996. Twelve million dollars in new short-term advances were drawn and repaid during the current fiscal year and an additional $.7 million, drawn in prior years, was repaid as well.

At September 30,1996, the Bank had approximately $2.1 million in outstanding commitments to fund loans. Of this amount, approximately $1.2 million were commitments to fund loans on single family residential homes, approximately $.7 million were to fund loans on other real estate, and approximately $.2 million were to fund various consumer and non-real estate commercial loans. The cash needed to fund these loans will be derived from principal repayments on outstanding loans and through the fulfillment of commitments to sell loans in the secondary markets.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) requires that savings associations must now satisfy three separate capital standards. The Bank must maintain core capital at least equal to 3.0% of adjusted total assets and risk- based capital at least equal to 8.0% of risk-weighted assets. Additionally, the Bank must maintain tangible capital at least equal to 1.5% of total adjusted assets. At September 30,1996, the Bank's position with respect to these requirements was as follows:

| (Dollars in Thousands) | Amount Required | Percent Required | Actual Amount | Actual Percent | Excess Amount |
|---|---|---|---|---|---|
| Core Capital | $7,478 | 3.0% | $26,174 | 10.5% | $18,696 |
| Tangible Capital | 3,739 | 1.5 | 26,174 | 10.5 | 22,435 |
| Risk-Based Capital | 13,874 | 8.0 | 25,758 | 15.4(1) | 12,884 |

(1) Represents risk-based capital as a percentage of risk-weighted assets.

Impact of Inflation and Changing Prices:

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The principal element of the Bank's earnings is interest income which may be significantly affected by the level of inflation and by government monetary and fiscal policies adopted in response to inflationary or deflationary pressures.

During fiscal year 1994, in response to significantly higher levels of economic activity, the FRB increased the federal funds rate from 3.00% to 3.25%, and followed up with four additional increases to raise the rate to 4.75% at September 30, 1994. During the first two quarters of fiscal year 1995, the FRB continued its efforts to cool the economy and raised the federal funds rates to 6.00%. Early in the fourth quarter of fiscal year 1995, responding to several months of acceptable economic and inflationary indicators the FRB reduced the federal funds rate by 25 basis points to 5.75%. During December and January of the current year the funds rate was cumulatively lowered an additional 50 basis points to 5.25% and remained at this level through September 30,1996.

Any future measures designed to restrict the growth in the monetary supply could cause an increase in short-term interest rates. These rates have a greater effect on the Bank than the general level of inflation and changing prices and give added importance to the need to manage the interest rate gap.

Results of Operations:

Net income for the fiscal year ended September 30,1996 was $2,156,717 ($1.42 per share) compared to $3,114,460 ($2.05 per share) for the fiscal year ended September 30,1995, which followed net income of $3,280,424($2.17 per share) for the fiscal year ended September 30, 1994. Fiscal year 1996 included a one-time charge to the Bank of approximately $1,362,000 representing a special assessment on deposits of 65.7 basis points enacted by Congress on September 30,1996 as a measure to recapitalize the Savings Association Insurance Fund. This charge reduced net income by approximately $885,000 or approximately $.58 per share. Fiscal year 1994 net income included income of $525,000 ($.35 per share) resulting from the required adoption of the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes". The rules set forth in SFAS No. 109 changed the manner in which income tax expense is determined for financial statement purposes. Adoption of SFAS No. 109 during the first quarter of fiscal year 1994 resulted in a reduction in the Bank's deferred tax liability with a resulting benefit recorded through the income statement as a cumulative effect of a change in accounting principle.

The largest components of the Bank's total income and total expenses are interest income from loans and investments and interest expense on deposits and borrowings. The difference between these items is net interest income, and the difference between the combined yield on loans and investments and the cost of deposits and borrowings is referred to as the yield spread.

Total interest income for the years ended September 30, 1996, 1995 and 1994 was approximately $20,191,565, $19,202,040, and $16,957,142, respectively. Of the increase in interest income from fiscal year 1995 to 1996 of approximately $1.0 million, approximately $.1 million was due to an increase in rate and approximately $.9 million was due to an increase in volume.

The primary factor in the increase in interest income from fiscal year 1995 to 1996 was the increase in the Bank's earning assets. The fiscal year 1995 increase in the Bank's total assets of $21.8 million (resulting from certificates of deposit inflow) occurred primarily during the third and fourth quarters, and although total assets did decline during fiscal year 1996 by $4.2 million, interest earning assets averaged $242.7 million in the current year compared to $232.2 million during fiscal year 1995. Additionally, the weighted average yield on the Bank's interest earning assets increased from 8.27% during fiscal year 1995 to 8.31% during fiscal year 1996, despite a 50 basis point decline in both the prime and federal funds rates in the current year. This improvement in yield resulted from a shift in funds from both federal funds sold and securities available for sale accounts into higher yielding loan products. The Bank's loan to deposit ratio increased from 83.8% at September 30,1995 to 96.2% at September 30, 1996.

Interest on mortgage-backed securities increased to $1,021,788 in the current

year from $817,223 during fiscal year 1995 resulting from an increase in the average portfolio balance from $11.7 million during fiscal year 1995 to $15.1 million in the current year. During the first quarter of fiscal year 1996, short-term liquid funds were invested in mortgage-backed securities so as to lock-in yields in a then declining rate environment. During subsequent periods of fiscal year 1996, certain of these mortgage-backed securities were sold to provide funding for new loans.

Interest on investment securities declined from $1,002,301 in 1995 to $785,315 in the current year due primarily to lower average portfolio volume of approximately $3.6 million.

The primary factor in the increase in interest income from fiscal year 1994 to 1995 was the increase in the weighted average yield on interest earning assets from 7.62% during fiscal year 1994 to 8.27% in fiscal year 1995, reflective of the 300 basis point increase in the federal funds rate over a period of five quarters beginning in the second quarter of fiscal year 1994. Adjustable rate loans represented 63.4% of the total loan portfolio during fiscal year 1994 and 64.1% during fiscal year 1995. The primary indices to which these loans are tied, prime and one year treasury bills which averaged 6.69% and 4.61%, respectively, during fiscal year 1994, rose to averages of 8.71% and 6.62% for fiscal year 1995.

Total interest expense for the years ended September 30, 1996, 1995 and 1994 was $10,353,532, $9,423,311, and $7,700,190, respectively. Of the increase in interest expense from fiscal year 1995 to 1996 of approximately $.9 million, approximately $.4 million was due to an increase in volume



and approximately $.5 million was due to an increase in rate. The major component of the Bank's interest expense is interest on deposits. The cost of deposits increased from 4.40% for the fiscal year ended September 30, 1995 to 4.66% for the fiscal year ended September 30,1996, primarily resulting from an increase in the cost of certificates of deposit from 5.70% one year ago to 6.13% in the current period. Rates offered on certificates of deposit rose sharply during the second and third quarters of fiscal year 1995. This rise in rates not only affected the then maturing certificates of deposit, but also attracted funds from outside the Bank as certificate balances increased from $130.2 million at March 31, 1995 to $144.4 million at September 30, 1995. The timing of the rollover and acquisition along with the related maturity terms of these higher yielding certificates served to impact the current fiscal year to a greater extent than the year ended September 30,1995. Additionally, certificates of deposit as a percentage of total deposits increased from 62.1% during fiscal year 1995 to 64.0% for fiscal year 1996, serving to further increase the Bank's cost of deposits. The increase in interest expense from $7.7 million for the fiscal year 1994 to $9.4 million for fiscal year 1995 resulted primarily from the increase in the weighted rate paid on certificates of deposit from 4.77% in fiscal year 1994 to 5.70% in fiscal year 1995 as well as the significant increase in certificates of deposit balances from $118.7 million at September 30,1994 to $144.4 million at September 30,1995.

Net interest income for the fiscal years ended September 30,1996, 1995 and 1994 was $9.84 million, $9.78 million and $9.26 million, respectively. The increase from fiscal year 1995 to 1996 was the result of the Bank's growth of $10.5 million in average earning assets as the net yield on interest earning assets declined from 4.21% in fiscal year 1995 to 4.05% in fiscal year 1996. The growth in average interest earning assets was funded primarily by average deposit growth of $9.0 million and to a lesser extent, earnings from operations. Average advances outstanding from the Federal Home Loan Bank decreased $1.1 million during the current year as compared to fiscal year 1995.

The increase in the net yield from fiscal year 1994 to 1995, from 4.16% to 4.21%, was due primarily to the Bank's positive one year interest rate gap which generally benefits the net spread during periods of rising interest rates. From the second quarter of fiscal year 1994 to the fourth quarter of fiscal year 1995, the federal funds and prime rates increased by 300 basis points along with a generally commensurate increase across the entire yield curve.

Noninterest income increased to $2,544 790 for the year ended September 30,1996 from $2,107,198 for the year ended September 30,1995, which followed $2,146,954 for the year ended September 30, 1994. Service charges and other fees were $2,086,188 for the year ended September 30, 1996, compared to $1,894,101 and $1,750,739 for the years ended September 30,1995 and 1994, respectively. The increase in fiscal year 1996 over the two prior years resulted primarily from increases in various service charges on deposit accounts due to increases in fee structure, transaction activity, and volume of accounts.

Gains on the sale of loans increased to $211,688 for the year ended September 30,1996 from $121,398 for the year ended September 30,1995, Which followed $195,954 for fiscal year 1994. Gains on the sale of loans have, for the past three fiscal years, been generated primarily from the sale of thirty year fixed rate conforming residential first mortgage loans. Gains realized are a function of the Bank's pricing levels relative to local market competition. The general

trend and level of interest rates, and the volume of loans sold. The volume of loans sold during fiscal year 1996 increased to $26.8 million from $11.0 million and $16.7 million in fiscal years 1995 and 1994, respectively. During fiscal year 1996, the Bank continued its policy of selling current production of thirty year fixed rate residential mortgage loans in the secondary market, while retaining ten to fifteen year fixed rate and thirty year adjustable rate residential mortgage loans in its portfolio either in the form of loans or mortgage backed securities, subject to liquidity and interest rate risk parameters. A gradual decline in the general level of interest rates which began during the fourth quarter of fiscal year 1995 continued throughout the first 5 months of fiscal year 1996, and attracted residential mortgage customers to fixed rate fifteen and thirty year loans for new purchases as well as for the refinancing of existing residences. With this increase in thirty year fixed rate loan production came increased loan sale activity in order to manage the Bank's interest rate risk exposure. During the first three quarters of fiscal year 1995, the general trend of interest rates had been upward and the demand for residential mortgage loans had favored adjustable rate and to a lesser extent, shorter-term ten to fifteen year fixed rate products, while the volume of thirty year fixed rate originations had declined significantly. The general trend of long-term interest rates during the first two quarters of fiscal year 1994 had been toward lower levels, and had thus provided a more favorable environment for fixed rate loan originations and sales than was the case during the first three quarters of fiscal year 1995. Although the Bank's market area has witnessed increased competition for these loans, no significant changes in the Bank's pricing of these loans has occurred.

The sale of securities available for sale generated losses of $47,420 and $30,972, respectively, during fiscal years 1996 and 1995, compared to a gain of $87,905 during fiscal year 1994. Securities available for sale include Treasury and Agency securities with maturities of generally five years or less, as well as various types of mortgage-backed securities acquired through both securitization of the Bank's own portfolio of originations or through purchases in the open market. Subject to interest rate risk and asset quality considerations, securities are acquired for the purpose of attaining the highest possible yield on funds not required to fund loan demand or to satisfy short-term liquidity requirements. Gains and losses recorded on the sale of these securities are dependent upon the volume of securities sold as well as the market level of interest rates. During primarily the third and fourth quarters of fiscal year 1996, the Bank sold securities totalling $19.7 million in order to meet increasing loan demand. Securities sales totalled $4.0 and $14.2 million, respectively, during fiscal years 1995 and 1994.

Other income increased to $294,334 in the current year compared to $122,671 and $112,356, respectively, for the years ended September 30, 1995 and 1994. The fiscal year 1996 amount includes income of $149,306 resulting from the Bank's adoption of SFAS No. 122. "Accounting for Mortgage Servicing Rights". This statement requires that the value of mort-



gage servicing rights associated with mortgage loans originated and sold by the Bank be capitalized as an asset. All capitalized amounts are amortized against future servicing revenues, and are subject to subsequent measurement for impairment based on the then fair value estimates. SFAS No. 122 is more fully described in footnote 1 of these financial statements.

Noninterest expense increased to $8,793,856 for the year ended September 30,1996 from $6,875,867 for the year ended September 30,1995 which followed expense of $6,999,382 for the year ended September 30, 1994. Salaries and related benefits increased to $3,788,706 in fiscal year 1996 from $3,573,873 in the prior year, which followed an increase from $3,491,966 in 1994. These increases have resulted primarily from increased wages and payroll taxes related to general year-to-year raises of approximately four percent, and additionally from increases in the cost of employee medical insurance.

Federal deposit insurance premiums were $502,244, $463,010, and $452,181 for the years ended September 30, 1996,1995 and 1994, respectively. Variances in these amounts have resulted from changes in the volume of deposits subject to coverage, as the underlying rate charged by the FDIC over these periods has remained constant. The Bank was also assessed a one-time charge of $1,362,018 during fiscal year 1996 due to legislation enacted on September 30, 1996 to recapitalize the SAIF. This legislation is more fully discussed in footnote number 16 contained in this year's audited financial statements.

Net occupancy and equipment expense decreased to $997,586 in fiscal year 1996 from $1,031,636 and $997,091 in fiscal years 1995 and 1994, respectively. The decrease from 1995 to 1996 resulted primarily from lower depreciation costs related to furniture, fixtures and equipment, while the increase from fiscal year 1994 to 1995 resulted primarily from increases in equipment repair and maintenance charges as well as general branch site maintenance.

Data processing and outside service fees were $477,376 for the year ended

September 30, 1996 compared to $465,021 and $478,136 for the years ended September 30,1995 and 1994, respectively. The increase in expense from fiscal year 1995 to 1996 resulted primarily from increases in both transaction volume and customer files. The decrease in expense from fiscal year 1994 to 1995 was the result of a negotiated decrease in the Bank's contract with its outside data processor.

Legal expense increased to $465,021 for the year ended September 30,1996 from $293,503 and $510,370 for the years ended September 30,1995 and 1994, respectively. Legal expense increased during the current fiscal year due to increased litigation in connection with the Bank's lawsuit against NationsBank, which is more fully described in footnote number 17 contained in this year's audited financial statements. Legal expense decreased in fiscal year 1995 from 1994 due to very little activity occurring during fiscal year 1995 as we awaited the damages trial, following a liability lawsuit in 1994 in which the Bank prevailed.

Telephone and postage expense increased to $270,4)4 in the current year compared to $248,965 and $235,970 for fiscal years 1995 and 199, respectively, due primarily to increased postal rates.

Advertising expense rose to $111,094 for fiscal year 1996 from $78,020 and $86,782 for fiscal years 1995 and 1994, respectively, resulting from increased media exposure, including promotional requirements related to both the introduction of the Bank's new credit card service as well as the commemorative celebration of the Bank s seventieth anniversary of service to Glynn County.

Expense (income) from real estate owned, net was $45,182, $32,132, and ($26,611) for the years ended September 30, 1996 1995, and 1994, respectively. Expense from real estate owned encompasses the normal costs of ownership such as property taxes, maintenance and repairs, utilities, and insurance. Additionally, the above cited amounts include the results from both gains and losses recognized upon disposal and write-downs subsequent to foreclosure and are thus dependent upon various economic and market conditions. Expenses related to ownership amounted to approximately $8,000, $11,000 and $49,000 for the years ended September 30,1996, 1995, and 1994, respectively and are relatively proportional to the level of real estate owned.

Other expense was $774,225, $689,707, and $793,497 for the years ended September 30,1996,1995, and 1994, respectively. The increase in expenses from fiscal year 1995 to 1996 resulted primarily from the disposal of various obsolete fixed assets and from expenses incurred resulting from the commencement of the Bank's proprietary credit card program. The decrease in expenses from fiscal year 1994 to 1995 resulted primarily from reductions in write-downs of excess servicing fees and charges for equipment obsolescence along with lower premiums paid on business insurance.

The ratio of noninterest expense to total income was 38.7%, 32.3%, and 36.6% for the years ended September 30, 1996, 1995, and 1994, respectively. The increase from fiscal year 1995 to 1996 was due primarily to an increase in legal expense in the current fiscal year, as well as the one-time special assessment to recapitalize the SAIF. The decrease from fiscal year 1994 to 1995 resulted from a decrease in legal expense for fiscal year 1995.

The provision for loan losses was $240,000, $195,000 and $180,000 for the years ended September 30,1996,1995, and 1994, respectively. Non-accrual loans decreased to $261,193 at September 30,1996 from $788,116 at September 30,1995. Potential problem loans increased to $2,904,673 at September 30,1996 from $210,416 one year ago. Included in the current year amount are 12 loans totalling $2.7 million, in aggregate, secured by commercial real estate, and are generally delinquent sixty days. The Bank is well collateralized on these loans and believes them to be fully collectible. Management believes the allowance for loan losses to be adequate at September 30, 1996, based upon conditions reasonably known to management; however, the allowance may be increased based upon future economic changes or conditions.

The provision for income taxes decreased to $1,192,250 for the year ended September 30,1996 from $1,700,600 for fiscal year 1995, which followed $1,469,100 for fiscal year 1994. The decrease in provision for the current fiscal year was due primarily to a decrease in taxable income due to increased litigation expenses and the one-time SAlF assessment in 1996.



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
SEPTEMBER 30, 1996 AND 1995

(Note 17)

<TABLE>
<CAPTION>

| ASSETS | 1996 | 1995 |
|---|---|---|
| <S> | <C> | <C> |

| | | |
|---|---|---|
| CASH AND DUE FROM BANKS | $ 4,788,450 | $ 7,077,786 |
| INTEREST-BEARING DEPOSITS WITH OTHER BANKS | 10,504,682 | 11,551,711 |
| FEDERAL FUNDS SOLD | 545,000 | 10,675,000 |
| SECURITIES AVAILABLE FOR SALE (Note 3) | 16,364,023 | 28,720,859 |
| LOANS, net (Note 4) | 209,868,046 | 186,664,013 |
| REAL ESTATE OWNED, net | 954,904 | 2,208,679 |
| PREMISES AND EQUIPMENT, net (Note 6) | 1,994,142 | 2,258,326 |
| FEDERAL HOME LOAN BANK STOCK, at cost | 1,598,700 | 1,598,700 |
| ACCRUED INTEREST: | | |
| Loans | 1,583,448 | 1,388,875 |
| Investments | 172,297 | 400,131 |
| OTHER ASSETS | 743,752 | 743,373 |
| | $249,117,444 | $253,287,453 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| DEPOSITS (Note 7): | | |
| Checking accounts | $13,561,385 | $10,860,048 |
| NOW accounts | 35,293,128 | 34,702,626 |
| Savings accounts | 20,598,108 | 20,000,808 |
| Money market deposit accounts | 10,571,845 | 12,843,024 |
| Certificates of deposit | 138,051,393 | 144,399,490 |
| Total deposits | 218,075,859 | 222,805,996 |
| ADVANCES FROM THE FHLB (Note 8) | 1,500,000 | 2,200,000 |
| ADVANCE PAYMENTS BY BORROWERS FOR TAXES AND INSURANCE | 1,251,325 | 1,475,065 |
| ACCRUED EXPENSES AND OTHER LIABILITIES | 2,192,353 | 796,255 |
| DEFERRED INCOME TAXES (Note 14) | 72,822 | 503,722 |
| Total liabilities | 223,092,359 | 227,781,038 |
| COMMITMENTS AND CONTINGENCIES (Notes 13, 15 and 17) | | |
| STOCKHOLDERS' EQUITY (Note 10): | | |
| Common stock, $1 par value; 4,000,000 shares authorized, 1,499,939 shares issued and outstanding | 1,499,939 | 1,499,939 |
| Additional paid-in capital | 1,550,208 | 1,550,208 |
| Retained earnings | 23,137,905 | 22,376,131 |
| Net unrealized (depreciation) appreciation on securities available for sale, net of tax of $87,752 and $43,145 in 1996 and 1995 (Note 1) | (162,967) | 80,137 |
| Total stockholders' equity | 26,025,085 | 25,506,415 |
| | $249,117,444 | $253,287,453 |

</TABLE>

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



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
ENDED SEPTEMBER 30, 1996, 1995, AND 1994

| | FOR THE YEARS 1996 | 1995 | 1994 |
|---|---|---|---|
| INTEREST INCOME: | | | |
| Interest on loans | $17,573,029 | $16,295,326 | $14,563,642 |
| Interest on securities available for sale | 1,807,103 | 1,819,524 | 1,830,475 |
| Interest on federal funds sold and interest-bearing deposits with banks | 695,088 | 972,291 | 472,833 |
| Dividends on FHLB stock | 116,345 | 114,899 | 90,192 |
| Total interest income | 20,191,565 | 19,202,040 | 16,957,142 |
| INTEREST EXPENSE: | | | |
| Interest on deposits (Note 11) | 10,175,709 | 9,210,751 | 7,391,055 |
| Interest on advances from the FHLB and other | 177,823 | 212,560 | 309,135 |
| Total interest expense | 10,353,532 | 9,423,311 | 7,700,190 |
| NET INTEREST INCOME | 9,838,033 | 9,778,729 | 9,256,952 |
| PROVISION FOR LOAN LOSSES | 240,000 | 195,000 | 180,000 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 9,598,033 | 9,583,729 | 9,076,952 |
| NONINTEREST INCOME: | | | |
| Service charges and other fees | 2,056,188 | 1,894,101 | 1,750,739 |
| Gain on sale of loans, net | | | |

| | | | |
|---|---|---|---|
| (Note 1) | 211,688 | 121,398 | 195,954 |
| (Loss) gain on sale of securities available for sale | (47,420) | (30,972) | 87,905 |
| Other | 294,334 | 122,671 | 112,356 |
| Total noninterest income | 2,544,790 | 2,107,198 | 2,146,954 |
| NONINTEREST EXPENSE: | | | |
| Salaries and related benefits | 3,788,706 | 3,573,873 | 3,491,966 |
| SAIF assessment (Note 16) | 1,362,018 | 0 | 0 |
| Federal deposit insurance premiums | 502,244 | 463,010 | 452,181 |
| Net occupancy and equipment expense | 997,586 | 1,031,636 | 977,091 |
| Data processing and outside service fees | 477,376 | 465,021 | 478,136 |
| Legal | 465,021 | 293,503 | 510,370 |
| Telephone and postage | 270,404 | 248,965 | 235,970 |
| Advertising | 111,094 | 78,020 | 86,782 |
| Expense (income) from real estate owned, net | 45,182 | 32,132 | (26,611) |
| Other | 774,225 | 689,707 | 793,497 |
| Total noninterest expense | 8,793,856 | 6,875,867 | 6,999,382 |
| INCOME BEFORE INCOME TAXES | 3,348,967 | 4,815,060 | 4,224,524 |
| INCOME TAX EXPENSE (Note 14) | 1,192,250 | 1,700,600 | 1,469,100 |
| INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE | 2,156,717 | 3,114,460 | 2,755,424 |
| CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (Note 1) | 0 | 0 | 525,000 |
| NET INCOME | $ 2,156,717 | $3,114,460 | $3,280,424 |
| EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (Note 1) | $1.42 | $2.05 | $1.82 |
| CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE | 0 | 0 | 0 |
| EARNINGS PER SHARE | $1.42 | $2.05 | $2 17 |

The accompanying note are an integral part of these consolidated statements.



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995, AND 1994

(Note 10)

<TABLE>
<CAPTION>

| <S> | Common Stock <C> | Additional Paid-In Capital <C> | Retained Earnings <C> | Net Unrealized Appreciation (Depreciation) on Securities Available for Sale <C> | Total <C> |
|---|---|---|---|---|---|
| BALANCE, September 30,1993 | $1,496,939 | $1,514,208 | $18,438,348 | $ 0 | $21,449,495 |
| Net income | 0 | 0 | 3,280,424 | 0 | 3,280,424 |
| Dividends declared ($.75 per share) | 0 | 0 | (1,122,855) | 0 | (1,122,855) |
| Stock options exercised | 1,000 | 14,000 | 0 | 0 | 15,000 |
| BALANCE, September 30, 1994 | 1,497,939 | 1,528,208 | 20,595,917 | 0 | 23,622,064 |
| Net income | 0 | 0 | 3,114,460 | 0 | 3,114,460 |
| Dividends declared ($.89 per share) | 0 | 0 | (1,334,246) | 0 | (1,334,246) |
| Stock options exercised | 2,000 | 22,000 | 0 | 0 | 24,000 |
| Change in net unrealized appreciation on securities available for sale, net of taxes of $43,145 (Note 1) | 0 | 0 | 0 | 80,137 | 80,137 |
| BALANCE, September 30, 1995 | 1,499,939 | 1,550,208 | 22,376,131 | 80,137 | 25,506,415 |
| Net income | 0 | 0 | 2,156,717 | 0 | 2,156,717 |
| Dividends declared ($.93 per share) | 0 | 0 | (1,394,943) | 0 | (1,394,943) |
| Change in net unrealized depreciation on securities available for sale, net of taxes of $87,752 (Note 1) | 0 | 0 | 0 | (243,104) | (243,104) |
| BALANCE, September 30,1996 | $1,499,939 | $1,550,208 | $23,137,905 | $(162,967) | $26,025,085 |

</TABLE>

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

FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995, AND 1994

(Note 1)

<TABLE>
<CAPTION>

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Interest received on loans | $ 17,038,817 | $ 15,648,553 | $ 14,055,687 |
| Interest and dividends received on securities available for sale | 2,846,370 | 2,836,623 | 2,490,370 |
| Loan fees collected | 799,968 | 583,199 | 955,427 |
| Service charges on deposit accounts | 1,486,568 | 1,182,844 | 958,074 |
| Other fees collected | 1,009,549 | 875,841 | 962,965 |
| Interest paid on deposits | (10,234,098) | (9,164,898) | (7,381,855) |
| Payments for salaries and related benefits | (3,954,050) | (3,823,418) | (4,002,239) |
| Payments for general and administrative expenses | (3,231,601) | (2,876,778) | (3,094,923) |
| Income taxes paid, net | (1,435,153) | (1,498,000) | (1,683,872) |
| Interest paid on borrowings | (195,823) | (212,560) | (309,135) |
| Net cash provided by operating activities | 4,130,547 | 3,551,406 | 2,950,499 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Proceeds from sales of loans | 26,834,936 | 11,003,152 | 16,722,929 |
| Purchases of securities available for sale | (9,778,004) | (9,188,300) | (5,522,533) |
| Principal collected on loans and mortgage-backed securities | 71,720,864 | 75,623,568 | 75,923,574 |
| Loans funded | (124,581,499) | (94,936,408) | (114,608,300) |
| Purchase of premises and equipment | (101,892) | (119,960) | (340,842) |
| Proceeds from sales and maturities of securities available for sale | 24,865,055 | 7,507,264 | 25,268,555 |
| Other, net | 448,708 | 459,706 | (745,836) |
| Cash flows used in investing activities | (10,591,832) | (9,650,978) | (3,302,453) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Net increase (decrease) in: | | | |
| Checking accounts | 2,701,337 | 860,806 | 1,454,147 |
| NOW accounts | 590,502 | (1,454,841) | 3,674,259 |
| Savings and money market deposit accounts | (1,673,879) | (3,046,542) | (1,307,960) |
| Proceeds from issuance of certificates of deposit | 240,267,682 | 223,502,234 | 179,412,768 |
| Payments for maturing certificates of deposit | (246,615,779) | (197,771,042) | (179,064,326) |
| Payments of maturing FHLB advances | (12,700,000) | 6,000,000 | (2,000,000) |
| Proceeds from FHLB advances | 12,000,000 | (7,800,000) | 700,000 |
| Proceeds from other borrowed money | 12,000,000 | 11,000,000 | 0 |
| Payments of other borrowed money | (12,000,000) | (11,000,000) | 0 |
| Dividends paid | (1,394,943) | (1,334,246) | (1,122,855) |
| Net cash (used in)provided by financing activities | (6,825,080) | 18,956,369 | 1,746,033 |
| Net (decrease) increase in cash and cash equivalents | (13,286,365) | 12,856,797 | 1,394,079 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 29,304,497 | 16,447,700 | 15,053,621 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 16,018,132 | $ 29,304,497 | $ 16,447,700 |
| NET INCOME | $ 2,156,717 | $ 3,114,460 | $ 3,280,424 |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Depreciation | 366,076 | 403,029 | 359,986 |
| Provision for loan losses | 240,000 | 195,000 | 180,000 |
| (Benefit) provision for deferred income taxes | (418,846) | (602,470) | 163,181 |
| Loan and excess servicing fees deferred, net | (64,521) | (111,767) | 33,335 |
| (Increase) decrease in interest receivable | 33,261 | (251,358) | 85,746 |
| Increase (decrease) in interest payable | (58,389) | 45,853 | 9,200 |
| Increase (decrease) in accrued expenses and other liabilities | 1,412,221 | (478,414) | (314,961) |
| Other, net | 464,028 | 1,237,073 | (846,412) |
| Total adjustments | 1,973,830 | 436,946 | (329,925) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 4,130,547 | $ 3,551,406 | $ 2,950,499 |

| | | | |
|---|---|---|---|
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES: | | | |
| Loans exchanged for mortgage-backed securities | $ 6,445,235 | $ 1,016,520 | $ 16,777,670 |

</TABLE>

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



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996, 1995, AND 1994

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

First Federal Savings Bank of Brunswick, Georgia (the "Bank"), is a savings bank primarily engaged in the business of obtaining deposits and providing mortgage and other loans to the general public. The more significant accounting and reporting policies not described elsewhere in these notes to financial statements are discussed below.

### Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Bank and its wholly owned subsidiary, First Shelter Service Corporation ("First Shelter"). All significant intercompany balances and transactions have been eliminated in consolidation. As of September 30, 1996 and 1995, the investment in First Shelter amounted to $304,398 and $303,954, respectively.

Certain 1995 and 1994 amounts have been reclassified to conform with the 1996 presentation.

### Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the accompanying financial statements and disclosures. Actual results could differ from those estimates.

### Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits with banks, and federal funds sold, all of which have an original maturity of less than 90 days from the date of purchase.

### Securities Available for Sale

The Bank adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" as of October 1,1994. In accordance with SFAS No. 115, securities are classified as either held-to-maturity, trading, or available-for-sale. Held-to-maturity securities are carried at amortized cost. Trading securities are carried at fair value, with unrealized gains and losses included in earnings. Available-for-sale securities are carried at fair value, with unrealized gains and losses excluded from earnings and reported in stockholders' equity. The Bank classifies all of its securities as available-for-sale which were reported at their fair value of $16,364,023 on September 30, 1996. The net unrealized depreciation on securities available for sale of $250,719 was recorded net of taxes as a separate component of stockholders' equity.

Premiums and discounts are recognized in interest income using the interest method over the period of maturity.

### Loans

During 1996, the Bank adopted SFAS No. 118, "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures," which amended SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." These statements require that impaired loans, as defined, be measured based on the discounted present value of expected future cash flows, the observable market price of the loan, or the fair value of the collateral if the loan is collateral-dependent. There was no effect on current period earnings as a result of the adoption of SFAS No. 118. Additionally, as permitted by these statements, in-substance foreclosures of $0 and $845,036 were reclassified to loans, net, from real

estate owned at September 30, 1996 and 1995, respectively.

Allowance for Loan Losses

The allowance for loan losses is based on management's estimate of the allowance required to reflect the risks in the loan portfolio based on circumstances and conditions known or anticipated at each reporting date. A provision for loan losses is charged to operations based on management's periodic evaluation of these risks. Provisions not specifically identified are based on the Bank's experience and other factors. It is the opinion of management that the allowance for loan losses is adequate at September 30, 1996 based on conditions reasonably known to management; however, the allowance may be increased based on future economic changes or conditions.

Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less costs to sell. Costs related to holding real estate and charges to write down real estate for subsequent declines in net realizable value are charged to operations. Real estate owned by the Bank at September 30, 1996 and 1995 is recorded net of a valuation allowance of $41,000 and $25,000, respectively.

Gains on sales of real estate acquired through foreclosure are recognized using cash down payment guidelines established by authoritative accounting pronouncements.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided principally using the straight-line method over the estimated useful lives of the assets of 20 to 30 years for buildings, 10 years for leasehold improvements, and 3 to 10 years for furniture, fixtures, and equipment.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank System, is required to maintain an investment in capital stock of the Federal Home Loan Bank ("FHLB") in an amount equal to the greater of 1% of its outstanding permanent residential mortgage loans or 5% of its outstanding advances. No ready market exists for the FHLB stock, and it has no quoted value. For disclosure purposes, such stock is assumed to have a market value equal to cost.

Interest Income

Income on loans and investments is recognized when the interest is earned in order to yield a constant rate of return on funds outstanding.

Uncollected Interest

Loans 90 days or more delinquent are placed on nonaccrual status. Non-accrual and restructured loans totalled approximately $1,040,899 and $1,932,000 at September 30,1996 and 1995, respectively. Interest on these loans, if ultimately collected, is credited to income in the period of recovery. During 1996, 1995, and 1994, additional gross interest income totaling approximately $31,000, $62,000 and $113,000, respectively, would have been recorded on nonaccrual and restructured loans if all such loans at September 30,1996, 1995, and 1994 had been accruing interest at the original contractual rate. Interest payments recorded in 1996,1995, and 1994 as income, excluding reversals of previously accrued interest, for all such nonperforming loans at September 30,1996, 1995, and 1994 were approximately $100,000,



$104,000, and $44,000, respectively. The Bank does not have significant commitments to lend additional funds to any of these borrowers.

Loan Fees

Loan fees and direct costs of originating successful loans are being deferred and amortized, net, as an adjustment to interest yield over the life of the related loan.

Loan Sales and Loan Servicing

Additional funds for lending are provided by selling participating interests in loans or whole loans. Under most sales agreements, the Bank continues to provide loan servicing, which includes collecting payments and remitting its portion thereof to the buyer, net of servicing fees. On October 1, 1996, the Bank adopted SFAS No. 122, "Accounting for Mortgage Servicing Rights" which, among

other provisions, requires that the value of mortgage servicing rights associated with mortgage loans originated by an entity, which it intends to sell, be capitalized as assets. The cost of these mortgage servicing rights is amortized in proportion to, and over the period of, the estimated net servicing revenues. In connection with the October 1, 1995 adoption of SFAS No. 122, the Bank has capitalized mortgage servicing rights of $149,306 in 1996. Amortization of mortgage servicing rights was $8,815 in 1996. No valuation allowance was recorded during 1996. Accordingly, adoption of SFAS No. 122 increased net income after taxes by $97,049, or $.06 per share. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant risk characteristics of the Bank's loans are the interest rate and loan type. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed their fair value.

When participating interests in loans sold have an average contractual interest rate, adjusted for normal servicing fees, that differs from the agreed yield to the purchaser, gains or losses are recognized equal to the present value of such differential over the estimated remaining life of such loans. The resulting "excess servicing receivable," included in other assets, is amortized over the estimated useful life using the level yield method.

Quoted market prices are not available for the excess servicing receivables. Thus, the excess servicing receivables and the amortization thereon are periodically evaluated in relation to estimated future servicing revenues, taking into consideration changes in interest rates, current prepayment rates, and expected future cash flows. The Bank evaluates the carrying value of the excess servicing receivables by estimating the future servicing income of the excess servicing receivables based on management's best estimate of remaining loan lives and discounted at the original discount rate.

### Income Taxes

Effective October 1,1993,the Bank adopted SFAS No.109, "Accounting for Income Taxes" which requires the asset and liability method of accounting for deferred income taxes. The Bank previously accounted for deferred taxes under the deferral method required by Accounting Principles Board Opinion No. 11. This change resulted in the Bank recording a cumulative effect of a change in accounting principle in the consolidated statement of income for the year ended September 30,1994 of $525,000.

### Earnings per Share

Earnings per share are calculated based on the weighted average common shares and common stock equivalents outstanding during the year of 1,523,693, 1,516,868, and 1,514,017 in 1996,1995, and 1994, respectively.

## 2. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Bank in determining estimates of fair value disclosures for financial instruments:

### Cash and Due From Banks, Interest-Bearing Deposits With Banks, and Federal Funds Sold

The carrying amount for these cash equivalents approximates their fair value.

### Securities Available for Sale

Fair values of securities available for sale are based on quoted market prices, where available. In the event that quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The estimated fair value of securities available for sale was $16,364,023 and $28,720,859 at September 30,1996 and 1995, respectively.

### Loans, Net

The fair values of conforming residential mortgage loans are based on quoted market prices or quoted market prices of similar loans sold, adjusted for differences in loan characteristics. The fair values of other loans are estimated using discounted future cash flow analyses using interest rates or secondary market yield requirements currently being offered for loans with similar terms and credit quality. The carrying amount of accrued interest approximates its fair value. The estimated fair value of loans, net, were approximately $208,825,000 and $186,862,000 at September 30, 1996 and 1995, respectively.

### Off-Balance Sheet Instruments

The fair values of commitments to sell mortgage loans and commitments to extend credit approximate their carrying amounts. Commitments or commercial letters of credit are not significant, and their related fair value would be nominal.

Deposits

The fair values of checking, NOW, savings, and money market deposit accounts are equal to the reported carrying amount, which is the amount payable on demand as of the reporting date. Fair values for certificates of deposit are estimated using a discounted future cash flow method, which applies rates currently offered for deposits of similar remaining maturities. The estimated fair value of certificates of deposit were approximately $138,824,000 and $145,154,000 at September 30,1996 and 1995, respectively.

Borrowings

The fair value of the Bank's borrowings is determined by estimates using discounted future cash flow analyses based on the Bank's current incremental borrowing rates for similar types of instruments. The estimated fair value of advances from the FHLB were approximately $1,509,000 and $2,200,000 at September 30,1996 and 1995, respectively.

The techniques used to estimate fair values are significantly affected by the assumptions used, including the discount rate and estimated future cash flows. Therefore, the fair value estimates for these financial instruments cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of a particular financial instrument of the Bank. The aggregate fair value amounts presented herein do not represent the aggregate underlying value of the Bank and may not be indicative of amounts that might ultimately be realized upon disposition of those assets and liabilities individually or in aggregate.



3. SECURITIES AVAILABLE FOR SALE

Securities available for sale at September 30, 1996 and 1995 consist solely of U.S. Treasury notes, agency bonds, mortgage-backed securities, and tax-free municipal securities.

The amortized cost and estimated fair value of securities available for sale were as follows at September 30, 1996 and 1995:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| 1996: | | | | |
| Investment securities | $ 8,032,109 | $ 33,366 | $ 41,343 | $ 8,024,132 |
| Mortgage-backed securities | 8,582,633 | 3,612 | 246,354 | 8,339,891 |
| | $16,614,742 | $ 36,978 | $ 287,697 | $16,364,023 |
| 1995: | | | | |
| Investment securities | $16,353,511 | $ 156,286 | $ 20,982 | $16,488,815 |
| Mortgage-backed securities | 12,244,066 | 77,895 | 89,917 | 12,232,044 |
| | $28,597,577 | $ 234,181 | $ 110,899 | $28,720,859 |

Gross realized gains and losses on sale of investments in securities were as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Gross realized gains: | | | |
| Investment securities | $ 34,042 | $ 0 | $ 0 |
| Mortgage-backed securities | 17,660 | 0 | 139,528 |
| | $ 51,702 | $ 0 | $139,528 |
| Gross realized losses: | | | |
| Investment securities | $ 11,231 | $28,471 | $ 0 |
| Mortgage-backed securities | 87,891 | 2,501 | 51,623 |
| | $ 99,122 | $30,972 | $ 51,623 |

The amortized cost and estimated market values of securities available for sale at September 30,1996, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

| | Amortized Cost | Estimated Market Value |
|---|---|---|
| Due in 1 year or less | $ 3,078,251 | $ 3,085,253 |
| Due after 1 year through 5 years | 5,078,965 | 5,071,150 |
| Due after 5 years through 10 years | 2,160,170 | 2,112,830 |
| Due after 10 years and thereafter | 6,297,356 | 6,094,790 |
| | $16,614,742 | $16,364,023 |

At September 30,1996 and 1995,certain of the Banks'assets(primarily investment securities and mortgage-backed securities) with amortized cost of approximately $14,356,136 and $16,277,639, respectively, were pledged to secure certain certificates of deposit, public deposits, a letter of credit, advances from the FHLB, and treasury tax and loan balances with the Federal Reserve Bank of Atlanta.



Loans at September 30,1996 and 1995 are summarized as follows:

| | 1996 | 1995 |
|---|---|---|
| Real estate loans: | | |
| Conventional mortgage | $160,887,037 | $150,372,532 |
| Construction | 21,564,508 | 12,951,880 |
| Partially guaranteed by Federal Housing Administration or Veterans Administration | 446,415 | 507,609 |
| Consumer loans | 28,438,919 | 24,157,352 |
| Commercial loans | 7,441,666 | 4,512,256 |
| | 218,778,545 | 192,501,629 |
| Less: | | |
| Allowance for loan losses | (800,786) | (834,882) |
| Deferred loan fees and other, net | (830,384) | (789,790) |
| Undisbursed portions of loans in process | (7,279,329) | (4,212,944) |
| Net loans | $209,868,046 | $186,664,013 |

During fiscal years ended September 30,1996,1995, and 1994, loans foreclosed and transferred to real estate owned totaled $825,255, $1,569,144, and $317,430, respectively.

The Bank has made loans to directors and executive officers for the purchase of their primary residences and other short-term loans aggregating $1,603,716 and $1,838,969 at September 30,1996 and 1995, respectively. In the opinion of management, these loans are fully collectible. No loans due from directors or executive officers were charged off during the current fiscal year. The following sets forth information regarding the activity during fiscal year 1996 in loans due from directors and executive officers:

| | |
|---|---|
| Balance at September 30, 1995 | $1,838,969 |
| Repayments | (588,481) |
| New borrowings | 353,228 |
| Balance at September 30,1996 | $1,603,716 |

A reconciliation of the allowance for loan losses for the years ended September 30,1996,1995, and 1994 is as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Balance at beginning of year | $834,882 | $786,111 | $869,297 |
| Provision for loan losses | 240,000 | 195,000 | 180,000 |
| Amounts charged off | (299,318) | (189,497) | (30,605) |
| Recoveries | 25,222 | 43,268 | 37,419 |
| Balance at end of year | $800,786 | $834,882 | $786,111 |

5. LOAN SERVICING

The Bank was servicing mortgage loans (which are not included in the accompanying statements of financial condition) with unpaid principal balances totaling $133,264,664, $128,526,732, and $133,599,102 for the benefit of others at September 30, 1996,1995, and 1994, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing were $1,251,325 and $1,475,065 at September 30,1996 and 1995, respectively.



6. PREMISES AND EQUIPMENT

Premises and equipment at September 30,1996 and 1995 consisted of the following:

| | 1996 | 1995 |
|---|---|---|
| Cost | | |
| Land | $ 766,574 | $ 766,574 |
| Buildings | 1,152,599 | 1,152,599 |
| Furniture, fixtures, and equipment | 2,760,477 | 2,758,403 |
| Leasehold improvements | 584,523 | 561,917 |
| Total cost | 5,264,173 | 5,239,493 |
| Less accumulated depreciation and amortization | (3,270,031) | (2,981,167) |

| | | |
|---|---|---|
| | $ 1,994,147 | $ 2,258,326 |

7. DEPOSITS

Included in deposits at September 30,1996 and 1995 are certificates of deposit in denominations of $100,000 or more aggregating $31,999,281 and $34,389,564, respectively.

At September 30,1996, the scheduled maturities of CDs are as follows:

| | |
|---|---|
| 1997 | $100,408,617 |
| 1998 | 18,052,590 |
| 1999 | 12,724,537 |
| 2000 | 5,680,789 |
| 2001 and thereafter | 1,184,860 |
| | $138,051,393 |

8. ADVANCES FROM THE FHLB

Advances from the FHLB as of September 30,1996 and 1995 amounted to $1,500,000 and $2,200,000, respectively. The advances are due in their entirety in 1997.

The weighted average interest rate for outstanding FHLB advances was 7.9% and 6.82% at September 30,1996 and 1995, respectively.

9. RESTRICTIONS ON RETAINED EARNINGS

The Bank is subject to certain restrictions on the amount of dividends that it may declare prior to regulatory approval. At September 30,1996, approximately $6,819,000 of retained earnings were available for dividend declaration without prior regulatory approval.

10. REGULATORY MATTERS

The Bank is subject to various capital requirements administered by the federal banking agencies. 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 require 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). Management believes, as of September 30,1996, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 1996 and September 30, 1995, the most recent notification from the Office of Thrift Supervision categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain certain tangible capital, Tier I (core) capital, and total risk-based capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.



The Bank's actual amounts (in thousands) and ratios are also presented in the table.

| | Actual | | Minimum for Capital Adequacy Purposes | | To Be Well Capitalized for Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Ratio | Amount | Ratio | Amount | Ratio | Amount |
| Stockholder's equity, and ratio to total assets | 10.4% | 26,025 | | | | |
| Unrealized loss on securities available for sale | | 163 | | | | |
| Intangible assets | | (14) | | | | |
| Tangible capital, and ratio to adjusted total assets | 10.5 | 26,174 | 1.5 | $3,739 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Tier I(core) capital, and ratio to adjusted total assets | 10.5 | 26,174 | 3.0 | 7,478 | 5.0 | $12,464 |
| Tier I capital, and ratio to risk-weighted assets | 15.1 | 26,174 | | | 6.0 | 10,406 |
| Allowance for loan losses | | 801 | | | | |
| Assets required to be deducted | | (217) | | | | |
| Tier 2 capital | | 584 | | | | |
| Total risk-based capital and ratio to risk-weighted assets | 15.4% | $26,758 | 8.0% | $13,874 | 10.0% | $17,343 |
| Total Assets | | $249,117 | | | | |
| Adjusted total assets | | $249,266 | | | | |
| Risk-weighted assets | | $173,425 | | | | |

11. INTEREST ON DEPOSITS

Interest on deposits at September 30, 1996, 1995, and 1994 is comprised of the following:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Checking accounts | $ 155,806 | $ 144,307 | $ 123,974 |
| NOW accounts | 471,133 | 571,564 | 475,820 |
| Savings accounts | 502,580 | 510,523 | 575,075 |
| Money market deposit accounts | 472,478 | 546,611 | 514,054 |
| Certificates of deposit | 8,573,732 | 7,437,746 | 5,702,132 |
| | $10,175,709 | $9,210,751 | $7,391,055 |



12. EMPLOYEE BENEFIT PLANS

The bank has a stock option plan for key employees authorizing the granting of options for up to 199,800 shares of common stock. such stock is to be issued from the Bank's authorized but unissued shares. These options are exercisable in equal increments over three years and have a term of five years. No charges are reflected in income as a result of the granting or exercising of the stock options.

The following table presents further information on this plan:

| | 1996 | | 1995 | | 1994 | |
|---|---|---|---|---|---|---|
| | Number of Shares | Option Price Per Share | Number of Shares | Option Price Per Share | Number of Shares | Option Price Per Share |
| Option outstanding at end of prior year | 30,311 | $12-$15 | 30,311 | $12-$15 | 32,311 | $12-$15 |
| Granted | 0 | 0 | 0 | 0 | 0 | 0 |
| Exercised | 0 | 0 | 2,000 | 12 | 1,000 | 15 |
| Canceled or expired | 0 | 0 | 0 | 0 | 0 | 0 |
| Options out standing at end of year | 30,311 | $12-$15 | 30,311 | $12-$15 | 32,311 | $12-$15 |
| Shares exercisable at end of year | 30,311 | $12-$15 | 30,311 | $12-$15 | 32,311 | $12-$15 |

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation," which the Bank is required to adopt in fiscal year 1997. SFAS No. 123 will require the Bank to estimate the value of all stock-based compensation using a recognized pricing model. The Bank will have the option of recognizing this value as an expense or by disclosing its effects on net income. The Bank's management has not yet determined its method of adoption or the financial statement impact of the adoption of SFAS No. 123.

The Bank and its subsidiary have a noncontributory profit-sharing plan which covers substantially all of their employees. The annual contribution to the plan is established each year by the board of directors. Profit-sharing plan expense was $268,640, $298,156 and $271,210 for the years ended September 30, 1996, 1995, and 1994, respectively.

The Bank has also established a savings plan. Under the terms of the plan, eligible employees can make tax-deferred 401(k) contributions. The Bank matches the employee contribution 100% up to the first 2% contributed by an employee, 75% of the next 2%, and 50% of the third 2%. For the years ended September 30, 1996, 1995, and 1994, the Bank's 401(k) contributions were $101,413, $92,644, and $96,849, respectively.

13. OPERATING LEASE OBLIGATIONS

At September 30, 1996, the Bank leased office facilities under agreements with terms of more than one year. Amounts charged to retail expense for operating leases were $342,809, $346,226, and $344,885 for the years ended September 30 1996, 1995, and 1994, respectively.

At September 30, 1996 the Bank's minimum rental commitments under noncancelable operating leases for office space with initial or remaining terms of more than one year were as follows:

| | |
|---|---|
| Fiscal Year: | |
| 1997 | $ 344,904 |
| 1998 | 343,704 |
| 1999 | 314,544 |
| 2000 | 314,544 |
| 2001 | 314,544 |
| Thereafter | 687,212 |
| | $2,319,452 |



14. INCOME TAXES

Income tax expense for the three years ended September 30, 1996 is summarized as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Federal | | | |
| Current | $1,467,123 | $2,047,029 | $734,511 |
| Deferred | (359,411) | (512,099) | 612,106 |
| | 1,107,712 | 1,534,930 | 1,346,617 |
| State: | | | |
| Current | 143,973 | 256,041 | 46,408 |
| Deferred | (59,435) | (90,371) | 76,075 |
| | 84,538 | 165,670 | 122,483 |
| Total | $1,192,250 | $1,700,600 | $1,469,100 |

The differences between income taxes at the federal statutory rate and the provision at the effective tax rate for the tree years ended September 30, 1996 are as follows, net of the cumulative effect of a change in accounting for income taxes:

<TABLE>
<CAPTION>

| <S> | 1996 <C> | 1996 <C> | 1994 <C> |
|---|---|---|---|
| Statutory federal income tax | $1,138,649 | $1,637,120 | $1,436,338 |
| Increases (reductions) in taxes resulting from: | | | |
| State income tax, net of federal benefit | 53,773 | 168,987 | 109,829 |
| Tax-free interest income | (27,285) | (71,470) | (81,600) |
| Other, net | 27,113 | 34,037 | 4,533 |
| | $1,192,250 | $1,700,600 | $1,469,100 |

</TABLE>

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that gave rise to significant portions of the deferred tax liability at September 30, 1996 and 1995 relate to the following:

| | 1996 | 1995 |
|---|---|---|
| Effect of loans mark-to-market deduction | $360,969 | $253,949 |
| Deferred loan fees | 195,578 | 178,460 |
| Dividend received deduction | 182,153 | 182,153 |
| Sale of loan participations | 58,214 | 81,624 |
| Depreciation | 55,827 | 101,608 |
| SAIF assessment | (517,567) | 0 |
| Effect of bad debt deduction | (119,775) | (215,141) |
| Other, net | (142,577) | (79,931) |
| | $ 72,822 | $503,722 |

Under the Internal Revenue Code (the "Code"), the Bank was allowed a special bad debt deduction related to additions to tax bad debt reserves established for the purpose of absorbing losses. The provisions of the Code permitted the Bank to deduct from taxable income an allowance for bad debt equal to the greater of 8% of taxable income before such deduction or actual charge-offs. Retained earnings at September 30, 1996 include approximately $2,477,000 for which no federal income tax has been provided. These amounts represent allocations of income to bad debt reserves and are subject to federal income tax in future years, at the then current corporate rate, if the Bank no longer qualifies as a Bank for federal income tax purposes and in certain other circumstances.

On August 2, 1996, Congress passed the Small Business Job Protection Act that will, among other things, repeal the tax bad debt reserve method for thrifts effective for taxable years beginning after December 31,1995. As a result, the Bank must recapture into taxable income the amount of its post-1987 tax bad debt reserves over a six-year period beginning in fiscal year 1997. The Bank is expected to recapture approximately $187,000 of its tax bad debt reserves into taxable income over six years as a result of this new law. The recapture will not have any effect on the Bank's financial statements because the related tax expense has already been accrued. Effective for the fiscal year ending September 30, 1997, the Bank will be required to utilize the six-year average experience method of loan charge-offs in determining its annual tax bad debt deduction.

As discussed in Note 1, the Bank adopted SFAS No. 109 in the first fiscal quarter of 1994.

15.FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include



commitments to extend credit, standby letters of credit, and loans sold with recourse. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of financial condition. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The Bank, however, does not hold or issue futures, forward, swap, or option contracts.

The Bank's exposure to credit loss in the event of nonperformance by the counterpart to the financial instrument for commitments to extend credit and standby letters of credit and to reimburse the investor for losses on loans sold with recourse is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit, exclusive of the undisbursed portion of loans in process, which amounted to $667,000 at fixed interest rates and $1,433,000 at variable interest rates at September 30, 1996, represent legally binding agreements to lend to customers with various expiration dates, but in no event later than 30 days after September 30, 1996. As some commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements.

Standby letters of credit are conditional commitments issued by the Bank guaranteeing the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank had approximately $1,798,000 in irrevocable standby letters of credit outstanding at September 30, 1996.

The Bank generally sells participating interests in loans without recourse. However, because of market conditions in certain prior years, the Bank sold certain participating interests in loans with recourse in the event of default by borrowers on the related residential mortgage loans. The credit risk involved in selling loans with recourse is essentially the same as that involved in extending loan facilities to customers. As of September 30, 1996, the balance of loans sold with recourse that remains uncollected totals approximately $4,000,000.

The majority of the Bank's business activity is with customers located within its southeast Georgia market area. The Bank's only significant concentration of credit at September 30, 1996 occurs in real estate loans (including certain commercial real estate loans) which totaled $200,177,192 or 92% of total loans. Of total real estate loans, 14% were for construction, land acquisition, and development, 67% were for permanent mortgage loans for one-to-four-family dwellings, and 19% were other loans secured by real estate, primarily commercial properties. It is the Bank's policy to review each prospective credit in order to determine an adequate level of security or collateral prior to making the loan. The type of collateral will vary and ranges from liquid assets to real estate.

16.LEGISLATION

The Bank's savings deposits are insured by the Savings Association Insurance Fund ("SAIF"), which is administered by the FDIC. The assessment rate currently ranges from .23% of deposits for well-capitalized institutions to .31% of deposits for undercapitalized institutions. The FDIC also administers the Bank Insurance Fund ("BIF"), which has the same designated reserve ratio as the SAIF. On August 8, 1995, the FDIC adopted an amendment to the BIF risk-based assessment schedule which lowered the deposits insurance assessment rate for most commercial banks and other depository institutions with deposits insured by the BIF to a range of .31% of insured deposits for undercapitalized BIF-insured institutions to .04% of deposits for well-capitalized institutions, which constitutes over 90% of BIF-insured institutions. The FDIC amendment became effective for the quarter ended September 30, 1995. The amendment created a substantial disparity in the deposit insurance premiums paid by BIF and SAIF

members.

Legislation was enacted on September 30, 1996 to recapitalize the SAIF in order to eliminate the premium disparity. The Treasury Department, the FDIC, and Congress provided for a one-time assessment of .657% of insured deposits on all SAIF-insured deposits held at March 31, 1995. Under this legislation, the BIF and SAIF will be merged into one fund as soon as practicable after they both reach their designated reserve ratios, but no later than January 1, 1998, provided that there are no longer any thrift chartered institutions. The special assessment as described above resulted in a one-time charge to the Bank of approximately $1,362,000, which is included in accrued expenses and other liabilities on the consolidated statement of financial condition as of September 30, 1996, and SAIF assessment in noninterest expense on the consolidated statement of income for the year ended September 30, 1996.

17.LITIGATION

In 1988, the Bank entered into an agreement with The Citizens and Southern Corporation ("C&S") and certain related affiliates which provided for the acquisition of the Bank by C&S and the exchange of bank common stock for C&S common stock. The agreement was amended in 1990 to provide for receipt of C&S/ Sovran Financial Corporation ("Sovran") common stock by Bank stockholders as a result of the merger in 1990 of C&S with Sovran (which was acquired by NationsBank Corporation ("NationsBank") in late 1991). On September 27, 1991, the Bank filed a complaint against C&S/Sovran for breach of their merger agreement. C&S/Sovran answered denying liability. The trial court divided the case into two trial, one on liability and a second on damages. In May 1994, in the liability trial, a jury determined C&S/Sovran breached the merger agreement. On December 19, 1994, the trial court ordered C&S/Sovran to specifically perform the agreement with the Bank. On December 4, 1995, the Supreme Court affirmed the trial court decision. The case then was remanded to the trial court for determination of the closing date which would be utilized to determine the terms of the specific performance remedy. A second jury trial was held on July 8, 1996. On July 18, 1996, the second jury determined that the merger agreement would have closed on June 19, 1991, had defendants filed and pursued the regulatory approvals on March 8, 1991. On October 15, 1996 the trial court entered judgment thereon. The Bank and NationsBank have, consistent with the court's order, finalized the terms for consummation of the merger such that, after the Bank pays its contractual obligations for attorneys' fees and senior management agreements of approximately $13.8 million, the Bank's stockholders will receive .80 shares of NationsBank stock for each share of the Bank's stock. The parties anticipate a closing on or before April 30, 1997. Other assets at September 30, 1996 and 1995 include approximately $182,000 of capitalized fees related to the costs of the merger.

The Bank is party to various legal and administrative proceedings and claims. While any litigation contains an element of uncertainty, management believes that the outcome of such proceedings or claims pending or known to be threatened will not have a material adverse effect on the Bank's consolidated financial position.



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of First Federal Savings Bank of Brunswick, Georgia:

We have audited the accompanying consolidated statements of financial condition of FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA (a federal capital stock savings bank), AND SUBSIDIARY as of September 30, 1996 and 1995 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1996. These financial statements are the responsibility of the Banks's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respect, the financial position of First Federal Savings Bank of Brunswick, Georgia, and subsidiary as of September 30, 1996 and 1995 and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles.

Atlanta, Georgia
December 16, 1996

ARTHUR ANDERSEN LLP

Capital Stock:

At the present, there is no established market in which shares of the Bank's capital stock are regularly traded, nor are there any uniformly quoted

prices for such shares. Buyers and sellers are matched as possible by a national firm as an accommodation. On October 21, 1985, the Bank declared a stock split in the form of a 100% stock dividend to stockholders of record as of October 31, 1985. On June 16, 1986, the Bank declared an additional stock split in the form of a 100% stock dividend to stockholders of record as of June 30, 1986. During fiscal year 1996, the Board of Directors approved the payment of cash dividends on its common stock totalling approximately $1,395,000.

The Bank may not declare or pay a cash dividend on any of its stock if the effect thereof would cause the Bank's net worth to be reduced below (i) the amount required for the liquidation account or (ii) the regulatory net worth requirements. Additionally, the Bank may make aggregate capital distribution during a calendar year, without prior approval of the Office of Thrift Supervision, of up to all of its net income to date during the year plus an amount that would reduce its excess capital ratio to one-half of such excess capital ratio at the beginning of the calendar year. Further, for a period of three years after July 21, 1984, the date of the Bank's conversion to stock form, the Bank was not permitted (except with the prior approval of the FSLIC) to declare or pay a cash dividend on any of its stock in an amount in excess of one-half of the greater of (i) the Bank's net income for the fiscal year in which the dividend is declared or (ii) the average of the Bank's net income for the current fiscal year and no more that two of the immediately preceding fiscal years.

As of September 30, 1996, the Bank had 552 stockholders.

Business of the Bank

First Federal Savings Bank of Brunswick is a federally chartered capital stock saving bank headquartered in Brunswick, Georgia. The Bank began its operations in 1926 as a Georgia-chartered mutual building and loan association. In 1935, it converted to a federal mutual savings and loan association, and in 1983, First Federal became a federal mutual saving bank. It completed its conversion to a federal capital stock savings bank in July 1984. First Federal is a member of the Federal Home Loan Bank system, and its deposits are insured by the Federal Deposit Insurance Corporation, through its savings association conduit, the Savings Association Insurance Fund.

The Bank is primarily engaged in the business of obtaining funds in the form of deposits and investing such funds in mortgage loans on residential and commercial real estate, various types of consumer and commercial loans, mortgage-backed securities, and other types of securities. First Federal, like most other federal thrift institutions, has traditionally concentrated its lending activities on the origination of conventional first mortgage loans secured by residential property and, to a lesser extent, construction loans and loans secured by commercial property. Since 1982, the Bank has been seeking (i) to reduce the amount of low interest rate loans in its loan portfolio, (ii) to increase the origination of loans with shorter terms, such as construction loans, consumer loans and commercial loans, and (iii) to originate long-term, fixed-rate loans for sale in the secondary market and to retain variable-rate loans.



BOARD OF DIRECTORS

| | | |
|---|---|---|
| James F. Barger<br>Partner, Tiller,<br>Stewart & Co.<br>LLC CPA | J. Dewey Benefield, Jr.<br>Director, Sea Island<br>Company | William O. Faulkner, Jr.<br>Retired, Citizens &<br>Southern National<br>Bank |
| James H. Gash<br>Senior Vice Pres.<br>Commercial Banking<br>First Federal<br>Savings Bank | (FIRST FEDERAL SAVINGS<br>BANK logo appears here) | Mack F. Mattingly<br>Former U.S. Senator |
| T. Gillis Morgan, III<br>President<br>Tidewater<br>Companies, Inc. | D. Paul Owens<br>Retired<br>Coastal Chevrolet | John J. Rogers<br>Senior Vice President<br>Mortgage Banking<br>First Federal Savings<br>Bank |
| Ben T. Slade, III<br>President<br>First Federal<br>Savings Bank | Jack Torbett<br>Manufacturers<br>Representative | L. Gerald Wright<br>Investor |



OFFICERS & CORPORATE INFORMATION

Chairman and President
BEN T SLADE, III

Senior Vice Presidents
JAMES H. GASH
Commercial Banking

JOHN J. ROGERS
Mortgage Banking

Group Vice Presidents
JERRY E. BUTLER
Commercial Banking

ROBERT B. SAMS
Controller

ROBERT E. STRANGE
Mortgage Banking

Vice Presidents
NANCY BARNA
Human Resources

DONALD L. BLALOCK
Commercial Banking

JAMES L. DAVIS
Consumer Lending

SALLY B. MILES
Operations

WANDA T. MILLER
Branch Coordination

GREGORY T. STRICKLAND
Manager
Glynn Place Mall Office

JO USHER
Mortgage Loan Servicing

BETTY WHITWORTH
Credit Control

Assistant Vice Presidents
CHESTER ANDERSON
Manager
Altama Avenue Office

STEPHEN PARKER
Manager
Ocean Boulevard Office

LINDSAY VINYARD
Marketing

Banking Officers
HELEN BEECHER
Mortgage Lending

BERT CASON
Consumer Lending

GERRY EARP
Corporate Secretary
Stockholder Relations

ALICE EDENFIELD
Account Processing

ANGIE FERRA
Training

DONNA GIBBS
Assistant manager
Altama Avenue Office

JANE S. GREENE
Loan Servicing

GAIL T. JACKSON
Assistant Manager
Plaza Office

LYNETTE MAASSEN
Assistant Manager

Glynn Place Mall Office

KATHY D. MILLS
Assistant Controller

MARY SLAUGHTER
Account Servicing

DAWN SMITH
Internal Auditor

TARA T. STEPHENS
Construction Lending

Main Office
777 Gloucester Street
Brunswick, Georgia  31520
Telephone: (912) 265-1410

Annual Meeting
The annual meeting of First Federal Savings Bank will be held Wednesday, January 22, 1997 at 5 p.m. in the lobby of the Main Office, 777 Gloucester Street, Brunswick, Georgia

Stock Transfer Agent and Registrar
Wachovia Bank of North Carolina, N.A.
Corporate Trust Department
P.O. Box 3001
Winston-Salem,
North Carolina 27102-3001

Common Stock Listing
First Federal's common stock is traded in the National Market System under the NASDAQ symbol FFBG and is listed as "FFdBrun" in newspapers.  For further information, contact Mrs. Gerry Earp.

Independent Public Accountants
Arthur Andersen LLP
133 Peachtree Street, N.E.
Atlanta, Georgia 30303

Legal Counsel
Smith, Mackinnon, Harris, Greeley, Bowdoin & Edwards, P.A.
Suite 800
255 South Orange Avenue
Orlando, Florida, 32801

Form 10-K
A copy of the Form 10-K, including financial statement schedules as filed with the Office of Thrift Supervision, will be furnished without charge to stockholders as of the record date upon written request to:
Mrs.  Gerry Earp, First Federal Savings Bank, P.O. Box 1877, Brunswick, Georgia 31521



Exhibit 21.1

First Federal Savings Bank of Brunswick, Georgia

Subsidiary of Registrant

First Shelter Service Corporation

OFFICE OF THRIFT SUPERVISION
Washington, D.C. 20552

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

| | |
|---|---|
| For the Fiscal Year Ended September 30, 1996 | Office of Thrift Supervision Docket Number: 3175 |

FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Chartered by the Office of Thrift Supervision under the laws of the United States (State or other jurisdiction of incorporation or organization) | 58-0175025 (I.R.S. Employer Identification No.) |
| 777 Gloucester Street, Brunswick, Georgia (Address of principal executive offices) | 31520 (Zip Code) |

Registrant's telephone number, including area code: (912) 265-1410

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 $1.00 per share
(Title of Class)

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

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant is $83,031,444, based on the price at which shares of Common Stock were sold on December 24, 1996.

As of December 24, 1996 there were issued and outstanding 1,499,939 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the 1996 Annual Report to Stockholders for year ended September 30, 1996 are incorporated into Part II, Items 5 - 9 of this Annual Report on Form 10-K.

2. Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on January 22, 1997, to be filed with the Office of Thrift Supervision pursuant to Regulation 14A within 120 days of the registrant's fiscal year end are incorporated into Part III, Items 10 - 13 of this Annual Report on Form 10-K.

# PART I

## Item 1. Business

### General

First Federal Savings Bank of Brunswick, Georgia ("Brunswick") began its operations in 1926 as a Georgia-chartered building and loan association. Brunswick converted to a federal savings and loan association in 1935, conducting its business under the name of Brunswick Federal Savings and Loan Association, and changed its name to First Federal Savings and Loan Association of Brunswick in 1959. Brunswick converted to a federal mutual savings bank on December 5, 1983, and became a federal capital stock savings bank on July 21,

1984. Brunswick is subject to supervision and regulation by the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC"), and its deposits are insured through the Savings Association Insurance Fund ("SAIF") of the FDIC. Brunswick's operations are conducted from its headquarters, two branch offices in Brunswick, and two branch offices on St. Simons Island, Georgia.

Brunswick primarily engages in the business of attracting deposits from the general public and investing those funds in real estate, commercial and consumer loans.

Lending Activities

General. As a federally chartered thrift institution, Brunswick may invest in real estate loans throughout the United States. Brunswick has, however, limited its lending area primarily to Southeast Georgia. Historically, Brunswick's lending activities have concentrated on the origination of conventional permanent loans on single-family dwellings and, to a lesser degree, on construction loans for residential dwellings. Brunswick's loans are predominantly conventional loans, i.e., loans that are not insured by the Federal Housing Administration ("FHA") or guaranteed by the Veterans Administration ("VA").

In recent years Brunswick has sought to increase the amount of construction, commercial, and consumer loans in its portfolio. The shorter term and the normally higher interest rates available on these loans are consistent with Brunswick's efforts to shorten the term of its loan portfolio and to improve the spread between the average yield on its assets and its cost of funds. In addition, in an effort to increase the interest-sensitivity of Brunswick's loan portfolio, Brunswick offers a variety of adjustable-rate loan products. By originating adjustable-rate loans, management believes that Brunswick is better able to match increases in the rates paid on its liabilities with increased rates received on its assets.

First Mortgage Loans. On September 30, 1996, Brunswick held in its loan portfolio approximately $150.3 million of first mortgage loans (including $19.9 million in construction loans) secured by one-to four-family residential units, which represented 71.6% of its total net loan portfolio. As of that date, Brunswick also held $42.3 million, or 20.2% of its total net loan portfolio of first mortgage loans secured by commercial real estate, multi-family residential property and land. For purposes of this discussion, the term "net" when used with respect to Brunswick's total loan portfolio, means (i) net of loans in process, deferred loan fees and other, and the allowance for possible loan losses and (ii) inclusive of mortgage loans held for sale.

Reflecting prior federal regulations, approximately $67 million or 37.7% of Brunswick's total mortgage loans due subsequent to one year after September 30, 1996 provided for fixed rates of interest and for repayment of principal over a fixed period. Regulatory changes in recent years have provided substantial flexibility to federally chartered institutions such as Brunswick in structuring the terms of mortgage loans to adjust more easily to changes in interest rates. These regulations permit, among other things, mortgage loans



to be written for shorter maturities and at adjustable interest rates, as compared to longer term, fixed rate mortgage instruments. Approximately $110 million or 62.3% of Brunswick's total mortgage loans due subsequent to one year after September 30, 1996 were adjustable rate loans, compared to 67.4% and 63.2% due subsequent to one year after September 30, 1995 and 1994, respectively. The adjustable-rate loans that are currently being made have terms of 30 years or 15 years and interest rate adjustment periods of one or three years. However, the extent of this interest-sensitivity is limited by annual and lifetime "caps" on interest rate adjustments. The terms of such loans also increase the likelihood of delinquencies in periods of high interest rates, particularly if such loans are offered with initial discounted interest rates. Generally, Brunswick offers adjustable-rate mortgage loans with annual adjustment caps of 2.0% and lifetime adjustment caps of 6.0%.

Permanent residential mortgage loans originated by Brunswick have generally been 30-year fixed and adjustable rate loans amortized on a monthly basis with principal and interest due monthly. Based upon historical experience, these loans generally have average lives of approximately 12 years. Most of the residential loans originated by Brunswick are conventional loans. Brunswick's permanent loans on commercial real estate have been 15 to 25 year loans with principal and interest due monthly. The loans generally have a three or five year adjustable rate or balloon feature.

Construction Loans. As of September 30, 1996, construction loans totalled $21.6 million, or 10.3% of Brunswick's net total loan portfolio. This amount is

composed of $19.9 million of construction loans secured by one- to four-family residential units. In past years, Brunswick has solicited construction loans for a variety of structures, including residences, nursing homes, strip shopping centers, medical buildings, warehouses, condominiums and motels. Generally, the loans are made for six to 12 months at interest rates tied to the prime rate and adjusted monthly. Because of certain lending restrictions based on the amount of the institution's regulatory capital, Brunswick sometimes sells participations in the construction loans that it originates. Brunswick also makes combined construction and permanent loans.

Commercial Loans. A federally chartered savings institution is permitted to invest up to 10% of its assets in commercial loans not secured by real estate. Brunswick makes commercial loans for purposes such as working capital, inventory accumulations, equipment acquisition and similar purposes. These loans are either made at a fixed rate of interest or at an interest rate tied to a regional bank's prime rate, with rate adjustments at monthly, annual or less frequent intervals. At September 30, 1996, commercial loans totalled approximately $7.4 million, or 3.5% of Brunswick's total net loan portfolio.

Consumer Loans. A federally chartered savings institution is permitted to make secured and unsecured consumer loans up to 35% of the institution's assets. Certain consumer loans may be made without being included in the 35% limitation. At September 30, 1996, Brunswick's consumer loans included $1.5 million of loans secured by deposit accounts at Brunswick, $9.6 million of consumer loans (including unsecured loans, boat loans, automobile loans, equipment loans and educational loans) and $17.3 million of home equity loans secured in part by a mortgage on the borrower's home. At September 30, 1996, all consumer loans comprised 13.6% of Brunswick's total net loan portfolio. Home equity consumer loans generally have adjustable rates of interest tied to a regional bank's prime rate, with monthly rate adjustments. Other consumer loans are generally made for a term of three to five years and have fixed rates of interest. Brunswick also offers lines of credit secured by home equity. This type of loan, which is made at an interest rate at a margin above the prime rate that adjusts monthly, is intended to combine both high quality and high yield.



The composition of Brunswick's loan portfolio at the end of the fiscal years during the three-year period ended September 30, 1996 is set forth below. At September 30, 1996, Brunswick's total net loan portfolio represented 84.2% of its total assets.
<TABLE>
<CAPTION>

| | At September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> <C> | | | |
| Conventional real estate loans: | | | |
| Interim construction loans ............... | $ 21,564,508 | $ 12,951,880 | $ 11,016,556 |
| Loans on existing property ............... | 129,083,083 | 140,932,677 | 136,781,662 |
| Loans refinanced ......................... | 31,803,954 | 9,439,855 | 10,234,595 |
| Insured or guaranteed real estate loans............................ | 446,415 | 507,609 | 564,504 |
| Commercial loans........................... | 7,441,666 | 4,512,256 | 5,046,800 |
| Consumer loans | | | |
| Education loans........................... | 48,490 | 74,523 | 106,314 |
| Savings account loans..................... | 1,525,713 | 1,379,482 | 1,262,012 |
| Home improvement loans.................... | 17,279,232 | 15,836,687 | 14,018,318 |
| Others.................................... | 9,585,484 | 6,866,660 | 5,183,438 |
| Total loans receivable.................. | $218,778,545 | $192,501,629 | $184,214,199 |
| Less: | | | |
| Undisbursed loans in process............... | $ 7,279,329 | $ 4,212,944 | $3,458,863 |
| Deferred loan fees and other............... | 830,384 | 763,316 | 925,589 |
| Allowance for possible loan losses ............................ | 800,786 | 861,356 | 812,585 |
| Total net loan portfolio........... | $209,868,046 | $186,664,013 | $179,017,162 |
| Type of Security: | | | |
| Residential real estate | | | |
| Single-family............................. | $ 150,261,872 | $ 136,233,631 | $124,195,721 |
| 2-to-4 family............................. | 3,323,157 | 5,074,844 | 5,754,995 |

| | | | |
|---|---|---|---|
| Other dwelling units | 4,255,430 | 2,324,341 | 2,971,440 |
| Commercial or industrial real estate | 42,336,733 | 36,035,892 | 39,693,479 |
| Savings accounts | 1,525,713 | 1,379,482 | 1,262,012 |
| Other | 17,075,640 | 11,534,439 | 10,336,552 |
| Total loans receivable | $218,778,545 | $192,501,629 | $184,214,199 |
| Less: | | | |
| Undisbursed loans in process | 7,279,329 | 4,212,944 | 3,458,863 |
| Deferred loan fees and other | 830,384 | 763,316 | 964,957 |
| Allowance for possible loan losses | 800,786 | 861,356 | 812,585 |
| Total net loan portfolio | $209,868,046 | $186,664,013 | $179,017,162 |

</TABLE>

FIRREA makes applicable to savings associations the current national bank limits on loans to one borrower. Generally, national banks may lend to a single or related group of borrowers, on an unsecured basis, an amount equal to 15% of its unimpaired capital and surplus. An additional amount, equal to 10% of unimpaired capital and surplus, may be loaned if such loan is secured by readily marketable collateral, which is defined to include certain securities and bullion, but generally does not include real estate. Under such provisions, as of September 30, 1996, Brunswick could lend to a single borrower and its related entities



on an unsecured basis an amount not to exceed $3.9 million. Also, as of such date, it could lend an additional $2.6 million secured by readily marketable collateral. As of September 30, 1996, the amount outstanding to the largest single borrower of Brunswick was approximately $3.3 million.

Loan Originations. Loan originations were approximately $91.9 million for the year ended September 30, 1996. Loan originations come from a number of sources. Most real estate loans are attributable to walk-in customers at Brunswick's offices, real estate brokers and referrals by a mortgage broker. In addition, Brunswick has solicited applications for consumer loans through newspaper advertisements.

Each loan is underwritten by qualified personnel in Brunswick's main office, and independent appraisers are engaged to appraise property intended to secure real estate loans. The underwriting procedures of Brunswick are intended to assess a borrower's ability to repay the loan and the value of any collateral property. Loan applications must be reviewed and approved by authorized officers or directors in accordance with Brunswick's loan policy. After a loan application is approved, Brunswick customarily gives the applicant a commitment to make the loan at any time within 30 days thereafter on terms determined on the basis of market conditions as of the date of the commitment. Commitments for longer periods are issued at rates to be set at the time of closing, and, generally, a 1% commitment fee is charged.

Federal regulations require boards of directors of federally chartered savings institutions to establish their own loan-to-value ratios for loans made on the security of real estate, subject to certain conditions. The regulations provide that an institution must require appropriate credit enhancement in the form of mortgage insurance or readily marketable collateral for all owner-occupied family or home equity loans which at the time of origination are in excess of 90% of the appraised value of the collateral property. Brunswick makes permanent residential mortgage loans with up to a 95% loan-to-value ratio. Brunswick usually lends up to 75% of the appraised value for construction loans on commercial real estate and 80% of the appraised value for permanent loans on commercial real estate.

Although Brunswick continues to originate long-term fixed-rate loans, most of the loans are originated with documentation and underwriting guidelines which will allow their sale in the secondary market to the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC"). All other long-term loans originated by Brunswick are adjustable-rate loans.

Brunswick includes due-on-sale provisions in its permanent real estate loans. Due-on-sale clauses give Brunswick the right to declare a loan immediately due and payable in the event that the borrower sells the property securing the mortgage. This provides Brunswick with a means of increasing the interest rate on existing low interest fixed-rate loans. It is Brunswick's

policy to waive the due-on-sale clause, subject to the approval of the borrower, and to increase the interest rate to the market rate of interest at the time of the sale if the loan is saleable or to charge an adjustable rate of interest if it is not saleable. The effect of this policy, however, is essentially the same as enforcing the due-on-sale clause.

Brunswick requires title insurance to insure the priority of its property lien on its mortgage loans. It also requires fire and casualty insurance to be maintained on all security property in amounts at least equal to the principal balance on the loans.



The following table sets forth certain information at September 30, 1996, regarding the dollar amount of loans maturing in Brunswick's portfolio based on their contractual terms to maturity. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less.

Principal Repayments Contractually Due
in the Year(s) Ending September 30,

<TABLE>
<CAPTION>

| | 1997 | 1998 | 1999 | 2000 2001 | 2002 2006 | 2007 2011 | 2012 and there-after | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | (Dollars in Thousands) | | | | |
| <S> <C> | | | | | | | | |
| Real estate mortgage....... | $14,038 | $ 6,855 | $2,231 | $7,603 | $20,928 | $44,617 | $65,061 | $161,333 |
| Real estate construction... | 21,565 | 0 | 0 | 0 | 0 | 0 | 0 | 21,565 |
| Consumer.................. | 4,888 | 3,675 | 3,526 | 7,118 | 8,580 | 605 | 47 | 28,439 |
| Commercial................ | 1,801 | 618 | 844 | 1,055 | 3,124 | 0 | 0 | 7,442 |
| Total.................... | $42,292 | $11,148 | $6,601 | $15,776 | $32,632 | $45,222 | $65,108 | $218,779 |

</TABLE>

The following table sets forth the dollar amount of all loans due more than one year after September 30, 1996, which have pre-determined interest rates and have floating or adjustable interest rates.

<TABLE>
<CAPTION>

| | Predetermined Rates | Floating or Adjustable Rates |
|---|---|---|
| | (Dollars in Thousands) | |
| <S> <C> | | |
| Real estate mortgage................ | $51,781 | $ 95,514 |
| Real estate construction........... | -- | -- |
| Consumer........................... | 13,971 | 9,580 |
| Commercial......................... | 825 | 4,816 |
| Total......................... | $66,577 | $109,910 |

</TABLE>

In comparison, at September 30, 1995, Brunswick had total loans due more than one year after such date with predetermined interest rates and floating or adjustable interest rates of approximately $56.5 million and $104.1 million, respectively.

Loan Purchases and Sales. Most of the loans in Brunswick's portfolio have been originated by Brunswick. However, prior to 1986, Brunswick purchased construction or adjustable-rate mortgage loans during periods when it was unable to originate a sufficient amount of such loans to meet its intended investment goals. After fiscal year 1985, Brunswick deemphasized such activities because management believed that there was a lack of such loans that met Brunswick's underwriting standards.

Brunswick is active in the sale of participations and whole loans in the secondary market to thrift institutions, commercial banks, FNMA and FHLMC. Participations in construction loans are sold particularly to ensure compliance with regulatory limitations on investment in loans to a single borrower. Brunswick also sells loans to provide additional funds for lending or to reduce Brunswick's investment in long-term, fixed-rate mortgage loans. Brunswick also

has exchanged participating interests in pools of mortgage loans. From time to time, Brunswick converts additional amounts of its fixed-rate, long-term mortgage loans into mortgage-backed securities through similar transactions. The purpose of these transactions is to convert the loans into marketable securities which can be easily sold for cash or used as collateral for borrowings. Brunswick did not sell any loans with recourse against Brunswick in fiscal years 1996, 1995, and 1994. At September 30,



1996, Brunswick was servicing approximately $133.3 million in loans for others, on which it receives an average of 27% per annum in servicing fees.

The Bank sells loans on a cash gain or loss basis, a method which does not necessitate the creation of an excess servicing balance upon sale. The Bank has continued this policy during fiscal year 1996, and generally all gains (losses) recorded during fiscal year 1996 reflect such treatment.

Set forth below is a table showing Brunswick's loan origination, purchase, and sales for the periods indicated.

<TABLE>
<CAPTION>

| | Year Ended September 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Loans Originated: | | | |
| Conventional real estate loans: | | | |
| Construction loans............. | $18,367,505 | $11,274,329 | $14,069,125 |
| Loans on existing property ..................... | 30,886,985 | 49,630,201 | 51,947,624 |
| Loans refinanced ............. | 33,423,992 | 10,392,350 | 22,627,910 |
| Other Loans (1) ................ | 9,246,959 | 9,128,733 | 7,263,905 |
| Total Loans Originated................... | $91,925,441 | $80,425,613 | $95,908,564 |
| Loans Sold: | | | |
| Participation loans............. | $ 950,000 | $ -0- | $ -0- |
| Whole Loans (2) ................ | 32,330,171 | 12,019,672 | 33,500,598 |
| Total loans sold.............. | $33,280,171 | $12,019,672 | $33,500,598 |

</TABLE>

- -------------------

(1) Includes consumer loans on a net change basis. Total consumer loan originations, including multiple rollovers of short term credits, for the fiscal years 1996, 1995, and 1994 were $25,263,332, $22,500,501, and $20,400,473, respectively.

(2) Fiscal year 1996 amount includes $6,445,235 in loans exchanged with the Federal Home Loan Mortgage Corporation for mortgage-backed securities.

Income from Lending Activities. Brunswick's primary source of income is from the interest earned on the loans that it has in its loan portfolio. Interest rates charged on loans originated by Brunswick are primarily determined by the level of prevailing interest rates, the availability of lendable funds, the demand for such loans and competitive conditions.

In addition to interest earned on loans, Brunswick receives fees in connection with loan originations, long-term commitments to lend funds and the servicing of loans sold by Brunswick. Brunswick also receives other income relating to existing loans in its portfolio, including loan prepayment penalties, late charges and fees collected in connection with loan modifications. Income realized from these sources varies significantly from period to period with the volume and types of loans made in response to competitive factors.

At September 30, 1996, Brunswick had $690,856 in deferred mortgage loan fees. Pursuant to Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 91, loan fees and costs are deferred and amortized net as an adjustment of yield over the life of the related loan.

Nonperforming Assets. Brunswick's collection procedures on delinquent loans provide that the borrower will be contacted by mail and payment will be requested when a loan payment is 15 days past due and again after 30 days. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower by telephone. If the loan continues in a delinquent status for 90 days, Brunswick generally will initiate foreclosure proceedings. Any property acquired by Brunswick as a result of foreclosure or by deed in lieu of foreclosure is then sold to recover all or part of Brunswick's investment.

The table below sets forth the amounts and categories of Brunswick's non-performing assets, as computed by Brunswick.
<TABLE>
<CAPTION>

| | At September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> <C> | | | |
| Non-accrual loans (1)............... | $261,193 | $ 788,116 | $1,080,021 |
| Restructured Loans (2) ............ | 779,706 | 1,143,462 | 776,959 |
| Real estate owned (3)............... | 954,904 | 2,208,679 | 1,743,374 |
| Total non-performing assets............................ | 1,995,803 | 4,140,257 | 3,600,354 |
| Potential problem loans (4).......................... | 2,904,673 | 210,416 | 1,422,471 |
| Total non-performing assets and potential problem loans...................... | $4,900,476 | $4,350,673 | $5,022,825 |
| Non-performing assets and potential problem loans as a percentage of assets.......................... | 1.97% | 1.72% | 2.17% |

</TABLE>

- --------------------

(1) Generally refers to (i) certain loans (based primarily on the age of the loans) that are contractually delinquent for 60 to 90 days, or (ii) certain mortgage loans on which taxes on the security property are delinquent for two or more years.

(2) Refers to certain loans wherein concessions have been granted to the borrower(s) for economic reasons related to the borrower's financial difficulties, as defined by FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring."

(3) Refers to real estate acquired by Brunswick through foreclosure or voluntary deed.

(4) Potential problem loans are those loans that management has identified as having certain characteristics that could impair the ability of the borrower to comply with the present loan repayment terms and that may result in such loans being placed on non-accrual status or becoming a troubled debt restructuring, or real estate owned in the future. These loans are generally 60 days past due and are monitored by management to facilitate further attention if necessary.

Also, at September 30, 1996, Brunswick had 10 properties that were real estate owned, which were composed of five residential and five commercial properties. The five residential properties consist of one



apartment building having a value of $47,109, one developed tract of residential lots valued at $45,932, and one individual residential lot valued at $4,979. Residential properties also include two single family units valued at $27,953 in aggregate, net of amounts owned by investors. Of the five commercial properties, three represent improved properties having a value in aggregate of $303,708. The remaining commercial properties consist of two developed parcels of land having values of $212,034 and $313,189, respectively. The properties are recorded at the lower of cost or fair value at the date of acquisition and are carried at the lower of acquisition value or net realizable value subsequent to the date of acquisition. If the amount is less than cost, the difference is charged to operations.

Loans on which accrual of interest has been discontinued amounted to

approximately $1.0 million at September 30, 1996. If interest on these loans had been accrued in accordance with the original contractual terms, such income for the year ended September 30, 1996 would have approximated $32,000. Interest payments on these loans of approximately $100,000 were received and recorded as interest income in the year ended September 30, 1996.

Provision and Allowance for Probable Loan Losses. The following table sets forth an analysis of loan losses for the periods indicated:

<TABLE>
<CAPTION>

| | Year Ended September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> <C> | | | |
| Balance at beginning of period.......................... | $834,882 | $786,111 | $869,297 |
| Provision for possible loan losses....................... | 240,000 | 195,000 | 180,000 |
| Amounts charged off................ | (299,318) | (189,497) | (300,605) |
| Recoveries......................... | 25,222 | 43,768 | 37,419 |
| Balance at end of period............................. | $800,786 | $834,882 | $786,111 |

</TABLE>

Management establishes an allowance for probable loan losses based upon management's evaluation of the pertinent factors underlying the types and quality of loans, current and anticipated economic conditions, collection experience, detailed analysis of individual loans to which full collectibility may not be assured, and determination of the existence and realizable value of the collateral and guarantees securing such loans. At September 30, 1996, Brunswick had $800,786 in general and $-0- in specific reserves for potential losses. Brunswick's total reserves at September 30, 1996 were allocated at approximately 43%, 25% and 32% to its three primary loan types, i.e., first mortgages, commercial loans, and consumer loans, respectively. Management believes that the allowance for probable loan losses was adequate at September 30, 1996. Although management believes that it uses the best information available to make determinations with respect to loan loss reserves, subsequent adjustments to reserves may be necessary if future economic conditions differ substantially from the assumptions used in making the initial determinations.

SFAS No. 114 and 118. On October 1, 1994, Brunswick adopted Statements of Financial Accounting Standards No. 114 and 118 ("SFAS 114 and 118"). These Statements address the accounting by creditors for impairment of certain loans. The Statements generally require Brunswick to identify loans for which Brunswick probably will not receive full payment of principal and interest, as impaired loans. The Statements require that impaired loans be valued at the present value of expected future cash flows, discounted at the loan's effective interest rate, or at the observable market price of the loan, or the fair value of the underlying collateral if the loan is collateral dependent. Brunswick has implemented the Statements by modifying its periodic review of the adequacy of the allowance for loan losses to also identify in value impaired loans in accordance with guidance in the Statements. The adoption of the Statements did not have any material effect on the results of operations for the year ended September 30, 1996.



For impairment recognized in accordance with SFAS 114 and 118, the entire change in the present value of expected cash flows, or the entire change in estimated fair value of collateral for collateral dependent loans, is reported as a provision for credit losses in the same manner in which impairment was initially recognized or as a reduction in the amount of the provision that otherwise would be reported. Brunswick maintains an allowance for the possible loss of accrued but uncollected interest on impaired loans when management believes that the collection of the interest is doubtful. If the ultimate collectibility of principal, either in whole or in part, is in doubt, any payment received on a loan for which the accrual of interest has been discontinued is applied to reduce principal to the extent necessary to eliminate such doubt. If the ultimate collectibility of principal is not in doubt, interest is credited to income in the period of recovery.

The following summarizes the September 30, 1996 amounts that were reclassified as a result of Brunswick adopting SFAS 114 and 118, the amounts of impaired loans at September 30, 1996, and the average net investment in impaired loans and interest income recognized and received on impaired loans during the years ended September 30, 1996 and 1995:

<TABLE>

<CAPTION>

| | September 30, 1996 |
|---|---|
| <S> | <C> |
| Insubstance foreclosures reclassified to loans receivable | $ 0 |
| Allowance for loss on insubstance foreclosures reclassified to allowances for losses | 0 |
| Loans identified as impaired: | |
| Gross loans with no related allowance for losses | 779,706 |
| Gross loans with related allowance for losses recorded | 0 |
| Less: Allowances on these loans | 0 |
| Net investment in impaired loans | 779,706 |

</TABLE>
<TABLE>
<CAPTION>

| | Year Ended September 30 1996 | 1995 |
|---|---|---|
| <S> | <C> | |
| Average investment in impaired loans | $ 951.646 | $ 831,869 |
| Interest income recognized on impaired loans | 78,466 | 113,610 |
| Interest income received on impaired loans | 78,466 | 85,169 |

</TABLE>

Other Investment Activities

Brunswick invests in short-term and long-term government securities primarily for the purpose of meeting the federal regulation requiring savings institutions to maintain a ratio of cash and short-term securities to net withdrawable deposit accounts and short-term borrowings of 5%. At September 30, 1996, Brunswick maintained a liquidity ratio of 8.4%. See "Regulation and Supervision -- Liquidity." It has been Brunswick's policy to maintain liquidity above the required amounts.



Investment Securities and Mortgage-Backed Securities

Brunswick's investment securities at September 30, 1996, 1995, and 1994 consisted of U.S. Government treasury and agency and tax-free municipal obligations. The carrying values and estimated market values of investment securities on the dates indicated were as follows:

| | Amortized Cost | Estimated Market Value |
|---|---|---|
| September 30, 1996 | $ 8,032,109 | $ 8,024,132 |
| September 30, 1995 | $ 16,353,511 | $ 16,488,815 |
| September 30, 1994 | $ 15,976,701 | $ 15,815,769 |

At September 30, 1996, Brunswick had unrealized gains and losses in its investment securities portfolio of $33,366 and $41,343, respectively, as compared to unrealized gains and losses at September 30, 1995 of $156,286 and $20,982, respectively. At September 30, 1996, Brunswick had unrealized gains and losses of $3,612 and $246,354, respectively, as compared to unrealized gains and losses of $77,895 and $89,917, respectively, at September 30, 1995 on mortgage-backed securities.

The amortized cost and estimated market values of debt securities held as investments at September 30, 1996, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

<TABLE>
<CAPTION>

| | Amortized Cost | Estimated Market Value |
|---|---|---|
| <S> | <C> | |
| Due in one year or less | $3,004,145 | $3,010,320 |
| Due after one year through five years | 4,027,964 | 4,040,681 |
| Due after five years through ten years | 1,000,000 | 973,131 |

| | | |
|---|---|---|
| Due after ten years | -- | -- |
| | $8,032,109 | $8,024,132 |
| Mortgage-backed securities | 8,582,633 | 8,339,891 |
| | $16,614,742 | $16,364,023 |

</TABLE>

Sources of Funds

General. Savings accounts and other types of deposits have traditionally been the primary source of funds for Brunswick's lending activities and for other general business purposes. In addition, Brunswick derives funds from loan repayments and Federal Home Loan Bank ("FHLB") advances, as well as other borrowings. Loan repayments are a relatively stable source of funds while deposit inflows and outflows vary widely and are influenced by prevailing interest rates and market conditions. Borrowings may be used to compensate for 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. Brunswick offers a variety of savings programs and related services. Deposits are obtained primarily from the communities in which Brunswick's offices are located. Brunswick does not advertise outside of these areas and does not solicit deposits from brokers. It offers premiums on certain accounts in order to attract funds.

Savings deposits in Brunswick as of September 30, 1996, were represented by the various types of savings programs set forth below.
<TABLE>
<CAPTION>

| Category | Interest Rate (1) | Minimum Term | Minimum Balance | Total Amount | Percentage of Savings |
|---|---|---|---|---|---|
| <S> <C> | | | | | |
| Now Account-Non Interest | None | None | $ -- | $ 10,099,015 | 4.63% |
| Now Account | 2.25% | None | 50 | 21,309,582 | 9.77 |
| Passbook Statement Account | 2.50% | None | 50 | 20,104,167 | 9.22 |
| Wall Street Checking | 2.25%(3) | None | 2,500 | 4,161,181 | 1.91 |
| Money Market Deposit Account | 2.25%(4) | None | 2,500 | 10,570,806 | 4.85 |
| Commercial Check-Interest | 2.25% | None | 50 | 5,525,179 | 2.53 |
| Commercial Checking | None | None | 50 | 7,729,774 | 3.55 |
| Gold Edge | 2.50% | 90 days | 50 | 524,762 | .24 |
| | | | | $ 80,024,466 | 36.70% |
| Certificates of Deposit: | | | | | |
| Fixed-Term - Fixed-Rate | 5.50% | 48 months | 500 | 7,415,705 | 3.40 |
| Fixed-Term - Fixed-Rate | 5.30% | 12 months | 500 | 46,392,962 | 21.27 |
| Fixed-Term - Fixed-Rate | 5.30% | 18 months | 500 | 3,297,778 | 1.51 |
| 6-Month Money Market | 5.00% | 182 days | 1,000 | 12,758,797 | 5.85 |
| 3-Month Money Market | 4.25% | 91 days | 1,000 | 2,142,585 | .98 |
| Fixed-Term - Fixed-Rate | 5.50% | 36 months | 500 | 5,756,833 | 2.64 |
| Negotiated Jumbo | 5.30%(2) | 1-12 mos. | 100,000 | 27,261,881 | 12.50 |
| Fixed-Term - Fixed-Rate | 5.30% | 24 months | 500 | 15,676,559 | 7.19 |
| Fixed-Term - Fixed-Rate | * % | 30 months | NONE | 163,335 | .08 |
| Fixed-Term - Fixed-Rate | 5.50% | 60 months | 500 | 17,184,958 | 7.88 |
| | | | | 138,051,393 | 63.30 |
| | | | | $218,075,859 | 100.00% |

* Plan no longer offered

</TABLE>
(1) Rates offered as of September 30, 1996.
(2) Rate on 12-month term.
(3) Rate tiers up to 3.00%.
(4) Rate tiers up to 3.50%.



The following table sets forth the time deposits in Brunswick classified

by rates being paid as of the dates indicated.

<TABLE>
<CAPTION>

| <S> <C> | At September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| 1.75% - 3.75% | $ 325,001 | $ 658,691 | $ 25,931,085 |
| 3.76% - 5.75% | 72,406,637 | 31,124,375 | 62,478,823 |
| 5.76% - 7.75% | 64,594,186 | 111,556,545 | 27,855,210 |
| 7.76% - 9.75% | 334,156 | 608,452 | 1,795,672 |
| 9.76% - 11.75% | 391,413 | 451,427 | 529,075 |
| 11.76% - 13.75% | -0- | -0- | 78,433 |
| | $138,051,393 | $144,399,490 | $118,668,298 |

</TABLE>

The following table sets forth the amount and maturities of time deposits in Brunswick at September 30, 1996.

<TABLE>
<CAPTION>

| Rate | Less than One Year | 1-2 Years | Amount Due<br>2-3 Years | 3 Years and Thereafter | Total |
|---|---|---|---|---|---|
| <S> <C> | | | | | |
| 2 - 4% | $ -0- | $ 135,344 | $ 221,393 | $ -0- | $ 356,737 |
| 4 - 6% | 1,086,629 | 77,439,888 | 12,390,921 | 7,532,768 | 98,450,206 |
| 6 - 8% | 5,329,589 | 17,702,328 | 8,656,900 | 6,895,066 | 38,583,883 |
| 8 - 10% | -0- | 52,307 | 567,885 | -0- | 620,192 |
| 10 - 12% | -0- | -0- | 40,375 | -0- | 40,375 |
| - | | | | | |
| | $6,416,218 | $95,329,867 | $21,877,474 | $14,427,834 | $138,051,398 |

</TABLE>

As part of its strategy to maintain its interest rate sensitivity within desired tolerances, Brunswick periodically seeks to lengthen the term of its liabilities so as to match such liabilities with assets of similar terms. Brunswick seeks to attract such deposits through advertising campaigns and by offering competitive rates, gifts and incentives to employees.



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

<TABLE>
<CAPTION>

| <S> | Year Ended September 30,<br>1996<br><C> | 1995<br><C> | 1994 |
|---|---|---|---|
| Deposits......................... | $1,268,795,400 | $1,144,975,849 | $1,063,073,724 |
| Withdrawals ..................... | 1,282,953,549 | 1,131,564,224 | 1,065,862,680 |
| Net cash increase (decrease) before interested credited........... | (14,158,149) | 13,411,625 | (2,788,956) |
| Interest credited................ | $9,428,012 | $ 8,678,990 | 6,957,844 |
| Net increase (decrease) in deposits..................... | $ (4,730,137 | $ 22,090,615 | $ 4,168,888 |

</TABLE>

The following table sets forth time deposits of $100,000 or more (jumbo deposits) by remaining time to maturity, as of September 30, 1996.

| | |
|---|---|
| 0 - 3 months.......................... | $ 7,198,719 |
| 4 - 6 months.......................... | 5,316,189 |
| 7 - 12 months.......................... | 8,844,676 |
| Greater than 12 months.......................... | 10,639,697 |

$31,999,281
==========

Borrowings. Brunswick periodically obtains funds through borrowings from the FHLB of Atlanta. At September 30, 1996, Brunswick had $1,500,000 in advances at interest rates ranging from 7.90% to 7.91% compared to advances of $2,200,000 and $4,000,000 at September 30, 1995 and 1994, respectively. FHLB borrowings have been made on the security of Brunswick's FHLB stock, mortgage-backed securities, investment securities and cash. Brunswick had no other short-term borrowings during fiscal years 1996, 1995, and 1994.

A savings institution is required to be a "qualified thrift lender" in order to have full access to FHLB advances. Generally, an institution must have at least 65% of its portfolio assets invested in housing and housing related investments in order to qualify. As of September 30, 1996, Brunswick satisfied the qualified thrift lender test. For information regarding the "qualified thrift lender" requirements, see "Regulation and Supervision" below.

Interest Rate Comparison and Profitability

Brunswick's earnings are affected by its "spread", that is, the difference between the rate of return on its loan and investment portfolios and its cost of money (consisting principally of interest paid on savings deposits and on borrowings). The return on its loan portfolio changes primarily as a result of the rates and volumes of new and existing loans, and the return on its investment portfolio depends on the interest rates paid on such securities and the amount of funds invested. The cost of money is primarily dependent on short-term interest rates, which are subject to volatile movements. Expanded investment authority and the ability to make adjustable rate mortgage loans has provided Brunswick with better means to match the maturities of its assets and liabilities.

Brunswick has implemented a number of measures in recent years in an effort to make the yields on its loan and investment portfolios more responsive to changes in its cost of money. These steps include an emphasis on consumer, construction and other short-term or variable rate loans, and efforts to reduce the amount of long-term, fixed-rate real estate loans with low interest rates in Brunswick's portfolio. Moreover,



substantially all long-term, fixed-rate loans currently being originated are being sold in the secondary market. In addition, Brunswick is trying to solicit deposits with longer terms, to increase core deposits and to match assets with liabilities to the extent possible.

The following tables set forth for the periods and at the dates indicated the weighted average yields earned on Brunswick's assets and the weighted average interest rates paid on Brunswick's liabilities (e.g., deposits and borrowings), together with the net spread on interest-earning assets for the periods indicated (loan portfolio data includes mortgage-backed securities and non-accrual loans) and selected performance ratios.

<TABLE>
<CAPTION>

| | Year Ended September 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| <S> <C> | | | |
| Weighted average yield on loan portfolio.................... | 8.64% | 8.68% | 8.10% |
| Weighted average yield on mortgage-backed securities........................... | 6.74 | 6.99 | 6.84 |
| Weighted average yield on investment securi- ties ............................ | 6.56 | 6.43 | 5.81 |
| Weighted average yield on other investments................ | 5.65 | 6.36 | 4.24 |
| Weighted average yield on all interest-earning assets ............................ | 8.31 | 8.27 | 7.62 |
| Weighted average rate paid on savings deposits............................ | 4.66 | 4.40 | 3.71 |
| Weighted average rate paid on FHLB advances................ | 6.96 | 5.87 | 5.99 |
| Weighted average rate paid on short-term borrowings....... | 2.25 | 2.50 | -- |
| Weighted average rate | | | |

| | | | |
|---|---|---|---|
| paid on all interest-bearing liabilities......................... | 4.69 | 4.42 | 3.77 |
| Net yield on average interest earning assets............. | 4.05 | 4.21 | 4.16 |
| Return on assets...................... | .86 | 1.28 | 1.42 |
| Return on equity...................... | 8.31 | 12.82 | 13.89 |
| Equity to assets...................... | 10.31 | 10.01 | 9.80 |



<CAPTION>

| | At September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> <C> | | | |
| Weighted average yield on loan portfolio........................ | 8.62% | 8.59% | 8.34% |
| Weighted average yield on mortgage-backed securities.............................. | 6.44 | 6.99 | 6.88 |
| Weighted average yield on investment securities.............................. | 6.48 | 6.41 | 6.08 |
| Weighted average yield on other investments..................... | 5.47 | 5.74 | 4.77 |
| Weighted average yield on all interest-earning assets.................................. | 8.30 | 8.08 | 7.90 |
| Weighted average rate paid on savings deposits................................. | 4.43 | 4.81 | 3.77 |
| Weighted average rate paid on FHLB advances.................... | 7.91 | 6.82 | 6.32 |
| Weighted average rate paid on all interest-bearing liabilities............................. | 4.46 | 4.83 | 3.82 |
| Net spread on average interest earning assets.................................. | 3.84 | 3.25 | 4.08 |
| Equity to assets ratio.................... | 10.45 | 10.07 | 10.24 |

</TABLE>



The following table sets forth certain information regarding changes in interest income and interest expense of Brunswick for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume of assets or liabilities outstanding (changes in volume multiplied by old rate), (ii) changes in the interest rate earned or paid on those balances (changes in rate multiplied by old volume), and (iii) a combination of changes in rate and volume (change in rate multiplied by the change in volume).

<TABLE>
<CAPTION>

| | Year Ended September 30, 1996 vs. 1995 Increase (Decrease) Due to | | | 1995 vs. 1994 Increase (Decrease) Due to | | | 1994 vs. 1993 Increase (Decrease) Due to | | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | Volume | Rate | Rate/ Volume | Volume | Rate | Rate/ Volume | Volume | Rate | Rate/ Volume |
| <S> <C> | | | | | | | | | |
| Interest earning assets: | | | | | | | | | |
| Loans ...................... | $1,359 | $(75) | $(6) | $643 | $1,043 | $46 | $1,074 | $(434) | $(34) |
| Mortgage-backed | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| securities................. | 242 | (29) | (8) | (6) | 18 | -- | 108 | (38) | (6) |
| Investment securities....... | (232) | 20 | (5) | (119) | 109 | (13) | (372) | (154) | 38 |
| Other interest.............. earning assets............. | (174) | (121) | 19 | 162 | 281 | 81 | 57 | 71 | 10 |
| Total interest earning assets .................... | 893 | 93 | 4 | 736 | 1,446 | 63 | 811 | (467) | (23) |
| Interest bearing liabilities: | | | | | | | | | |
| Savings deposits............ | 397 | 544 | 24 | 375 | 1,375 | 70 | 274 | (654) | (23) |
| Advances from the FHLB....................... | (62) | 39 | (11) | (96) | (6) | 2 | 72 | (30) | (8) |
| Short-term borrowings....... | -- | (1) | -- | -- | -- | 3 | -- | -- | -- |
| Total interest-bearing liabilities................ | 334 | 576 | 20 | 337 | 1,328 | 58 | 325 | (668) | (27) |

</TABLE>

Service Corporation Activities

Federally chartered thrift institutions may invest in service corporations as a vehicle to engage in securities, real estate development and other activities that may not be directly permissible. Brunswick is permitted to invest an amount equal to 3% of its assets in its service corporation. In addition, a federal thrift institution meeting its applicable minimum regulatory capital requirements may invest, but subject to restrictions on loans to one borrower, up to 50% of the institution's total capital in conforming loans to service corporations.

Brunswick formed a wholly owned service corporation, First Shelter Service Corporation ("First Service"), in 1971 primarily for the purpose of providing appraisal and construction inspection services to Brunswick. In the past, First Shelter had engaged in limited land development and joint venture activities, in addition to providing appraisal and construction inspection services. At present, First Shelter is inactive. As of September 30, 1996, the net book value of Brunswick's investment in its service corporation, which consisted of its investment in the stock and accumulated undistributed retained earnings of the service corporation, was approximately $304,000 or .12% of assets.



Regulation and Supervision

General. Brunswick is a member of the FHLB system ("FHLB System") and its deposit accounts are insured up to applicable limits by the SAIF of the FDIC. Brunswick is subject to extensive regulation by the OTS and the FDIC and must file reports with the OTS 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 depository institutions. The OTS conducts periodic examinations to determine Brunswick's compliance with various regulatory requirements.

In 1989, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") was enacted. This law was designed to reduce the number of problem savings and loan associations, to recapitalize the thrift insurance fund, and to reform and reorganize the regulatory structure applicable to savings associations that were regulated by the Federal Home Loan Bank Board ("FHLBB") prior to FIRREA. Under FIRREA, the Federal Savings and Loan Insurance Corporation ("FSLIC") was dissolved and the SAIF was created as the new insurance fund for savings institutions. The insurance fund for commercial banks was renamed the Bank Insurance Fund ("BIF"), the assets of which are not commingled with those of the SAIF. The OTS, which replaced the FHLBB and is the primary federal regulator for all thrift institutions, is a bureau of the Department of the Treasury.

In 1991, a comprehensive deposit insurance and banking reform plan, the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), became law. FDICIA, which was enacted to recapitalize the BIF, effects a number of regulatory reforms that impact both savings institutions and banks. FDICIA authorizes the regulators to take prompt corrective action to solve the problems of critically undercapitalized institutions. As a result, the banking regulators are required to take certain supervisory actions against undercapitalized

institutions, the severity of which increases as an institution's level of capitalization decreases. Pursuant to FDICIA, the federal banking agencies have established the levels at which an insured institution is considered to be "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." See "Capital Requirements" below for a discussion of the applicable levels. In addition, FDICIA requires each federal banking agency to establish standards relating to internal controls, information systems, and internal audit systems that are designed to assess the financial condition and management of the institution; loan documentation; credit underwriting; interest rate exposure; asset growth; and compensation, fees and benefits. FDICIA lowered the qualified thrift lender (QTL) investment percentage applicable to SAIF-insured institutions. FDICIA further requires annual on-site full examinations of depository institutions, with certain exceptions, and annual reports on institutions' financial and management controls.

The following material summarizes certain of the regulatory requirements applicable to Brunswick.

Federal Home Loan Bank System. The FHLB System, which consists of 12 regional FHLBs, provides a central credit facility primarily for member institutions. As a member of the FHLB of Atlanta, Brunswick is required to acquire and hold shares of capital stock in that FHLB in an amount at least equal to the greater of 1% of the aggregate principal amount of Brunswick's unpaid residential mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 5% of its aggregate outstanding advances (borrowings) from the FHLB of Atlanta. As of September 30, 1996, Brunswick was in compliance with this requirement, with an investment in FHLB of Atlanta stock of approximately $1.6 million.

The FHLB of Atlanta serves as a reserve or central bank for the member institutions within its assigned region. It is funded primarily from the sale of consolidated obligations of the FHLB System. It makes advances to members in accordance with policies and procedures established by the Federal Housing Finance Board and the Board of Directors of the FHLB of Atlanta. At September 30, 1996, Brunswick had $1.5 million in advances from the FHLB of Atlanta, at interest rates ranging from 7.90% to 7.91%. The advances will mature by January 27, 1997.



Liquidity. Brunswick is required to maintain an average daily balance of liquid assets (cash, balances maintained in or passed through to a Federal Reserve Bank, certain time deposits, certain bankers' acceptances, specified United States government, state or Federal agency obligations, shares of certain mutual funds, certain corporate debt securities, certain commercial paper, and certain mortgage-related securities) equal to a monthly average of not less than a specified percentage of its net withdrawable accounts plus borrowings payable on demand or in one year or less ("Short Term Borrowings"). This liquidity requirement may be changed from time to time by the Director of the OTS ("Director") to between 4% to 10%; it is currently 5%. OTS regulations also require each member savings institution to maintain an average daily balance of short-term liquid assets at a specified percentage (currently 1%) of the total of its net withdrawable accounts and short-term borrowings. Monetary penalties may be imposed for failure to meet those liquidity requirements. The daily average liquidity of Brunswick for September 1996 was 10.47% and exceeded the then-applicable 5% liquidity requirement. Its short-term daily average liquidity ratio for September 1996 was 4.14% and exceeded the then-applicable 1% short-term liquidity requirement.

In addition, Federal Reserve regulations generally require that reserves of 3% be maintained against aggregate transaction accounts of $49.3 million or less (subject to adjustment by the Federal Reserve), and that an initial reserve of 10% (subject to adjustment by the Federal Reserve between 8% and 14%) be maintained against that portion of total transaction accounts in excess of such amount. In addition, the Federal Reserve may require an initial reserve of between 0% and 9% to be maintained on nonpersonal time deposits with, or regarded as having, an original maturity of less than one and one-half (1.5) years. Money market deposit accounts are subject to the reserve requirement applicable to nonpersonal time deposits when not held by a natural person. The first $4.4 million of otherwise reservable balances (subject to adjustments by the Federal Reserve) are exempted from the reserve requirements.

The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements that may be imposed by the OTS. Because required reserves must be maintained in the form of either vault cash, a non-interest-bearing account at a Federal Reserve Bank, or a "pass-through account," as defined by the Federal Reserve, the effect of the reserve requirement is to reduce Brunswick's interest-earning assets.

FHLB System members also are authorized to borrow from the Federal Reserve discount window, but Federal Reserve regulations require institutions to exhaust all FHLB sources before borrowing from a Federal Reserve Bank.

Insurance of Deposit Accounts. Brunswick's deposit accounts are insured by the FDIC to the maximum amount permitted by law, currently $100,000 for each insured account, through the SAIF fund. With respect to assessments paid by associations, the FDIC historically imposed assessments on each association based on the institution's assessment risk classification. The rates ranged from $.23 to $.31 for each $100 of domestic deposits. The rate at which a SAIF member institution paid assessments was determined on the basis of capital and supervisory measures. For the fiscal year ended September 30, 1996, Brunswick's assessment rate was $.23 for each $100 of domestic deposits. On September 30, 1996, legislation was enacted which, among other things, imposed a special one-time assessment on SAIF member institutions, including Brunswick, in order to recapitalize the SAIF and allocate to SAIF and BIF-insured institutions an annual assessment to cover interest payments on Financing Corp. (FICO) bonds issued in the 1980's to assist the thrift industry. The special one-time assessment levied by the FDIC amounts to 65.7 basis points on SAIF assessable deposits held by an institution as of March 31, 1995. SAIF-insured institutions were required to recognize the special assessment, which is tax deductible, as of September 30, 1996. Accordingly, Brunswick took a charge of $2.36 million before taxes as a result of the FDIC special assessment. Beginning on January 1, 1997, SAIF members will pay an annual assessment of 6.4 basis points on SAIF-insured deposits to cover interest payments on the FICO bonds. The FDIC also has proposed a base assessment schedule for SAIF institutions which would range from 4 to 31 basis points, with an adjusted assessment schedule that would immediately reduce those rates by 4 basis points. Accordingly, well-capitalized thrifts, similar to BIF-insured members, would



effectively have an assessment rate of zero for deposit insurance, excepting the FICO assessment of 6.4 basis points discussed above. The new rate would apply to all SAIF-insured institutions beginning January 1, 1997.

The FDIC has the authority to suspend the deposit insurance of any thrift without tangible capital. However, if a thrift achieves positive capital by including qualifying supervisory goodwill, the FDIC cannot suspend deposit insurance unless the FDIC's Board of Directors determines that: (i) the thrift's capital has declined materially; (ii) the thrift is engaging in an unsafe or unsound practice or is in an unsafe or unsound condition; or (iii) the thrift has violated an applicable law, rule, regulation, or order, or any condition imposed by, or written agreement entered into with, a federal banking agency, or has failed to enter timely into an acceptable capital improvement plan. At September 30, 1995, Brunswick had tangible capital of 10.01% of total assets.

Loans to One Borrower and Certain Loan Limits. FIRREA provides that the same limits on loans to one borrower that apply to national banks apply to savings institutions. Generally, a savings association may lend to a single or related group of borrowers, on an unsecured basis, an amount equal to 15% of its unimpaired capital and surplus. An additional amount equal to 10% of unimpaired capital and surplus, may be loaned if secured by readily marketable collateral, which is defined to include securities and bullion, but generally does not include real estate. Notwithstanding such provisions, a savings association may make loans to one borrower (i) for any purpose, up to $500,000, or (ii) to develop domestic residential housing units, up to the lesser $30 million or 30% of the association's unimpaired capital and unimpaired surplus, if certain conditions are satisfied. In addition, a savings association's loans to one borrower to finance a sale of real property acquired in satisfaction of debts previously contracted in good faith may not exceed the 15% limit.

Under the regulations described above, as of September 30, 1996, Brunswick could lend to a single borrower and its related entities on an unsecured basis an amount not to exceed $3.9 million based upon its unimpaired capital and surplus. Also as of that date, it could lend an additional $2.6 million if secured by readily marketable collateral. As of September 30, 1996, the amount outstanding to the largest single borrower of Brunswick was $3.3 million.

FIRREA also imposes limits on a federal savings association's aggregate "nonresidential real property loans." FIRREA generally limits the aggregate amount of "loans on the security of liens upon nonresidential real property" to 400% of the association's capital as determined under the capital standards of FIRREA. FIRREA also permits the Director to allow an association to exceed the aggregate limitation if the Director determines that exceeding the limitation would pose no significant risks to the safe and sound operation of the association, and would be consistent with prudent operating practices.

Qualified Thrift Lender Test. The QTL test generally requires that a savings association's qualified thrift investments equal or exceed 65% of the

association's "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) on a monthly average basis in nine of every twelve months.

"Qualified thrift investments" include all investments related to domestic residential real estate or mobile homes, the book value of property used by the savings association in conducting its business and stock issued by any FHLB. "Investments related to domestic residential real estate" include: home mortgages; homeimprovement loans; other loans on the security of residential real estate; obligations of the FHLB System; investments in deposits of other insured institutions; securities issued or guaranteed by the FHLMC, Federal National Mortgage Association, or Government National Mortgage Association, or issued by the FSLIC Financing Corporation; mortgage servicing rights; and other mortgage-related securities. Investments related to domestic residential real estate also include investment in a corporation, partnership, or trust in proportion to the amount of gross revenues derived by that entity from activities related to domestic housing. In addition to investments related to domestic residential real estate and property used in conducting the association's business, qualified thrift investments also include specified liquid assets and 50% of the residential mortgage



loans originated by the association and sold within 90 days of origination, but those liquid assets and mortgage loans may not exceed 20% of the association's tangible assets.

Any savings institution that fails to become or remain a QTL must either convert to a commercial bank charter or be subject to restrictions specified in the OTS regulations. A savings institution that converts to a bank must pay all SAIF insurance assessments until the date of its conversion to BIF membership. Any such institution that does not become a bank is prohibited from: (i) engaging in any new activity not permissible for a national bank; (ii) paying dividends not permissible under national bank regulations; (iii) obtaining advances from any FHLB; and (iv) establishing any new branch office in a location not permissible for a national bank in the association's home state. In addition, beginning three years after the association failed the QTL test, the association would be prohibited from engaging in any activity not permissible for a national bank and would have to repay any outstanding advances from an FHLB as promptly as possible. A savings institution may requalify as a QTL if it thereafter complies with the QTL test. As of September 30, 1996, Brunswick was in compliance with the QTL test as amended by FDICIA.

Enforcement Powers. Pursuant to FIRREA, the OTS was granted enhanced, extensive enforcement authority over all savings associations. 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. Since the enactment of FIRREA, the OTS has significantly increased the use of written agreements to correct compliance deficiencies with respect to applicable laws and regulations and to ensure safe and sound practices; violations of such written agreements are grounds for initiation of cease and desist proceedings. FIRREA significantly increased the amount of and grounds for civil money penalties assessable against savings associations and "institution-affiliated parties." FDICIA granted the FDIC back-up enforcement authority to recommend enforcement to an appropriate federal banking agency (i.e., the OTS) and to bring such enforcement action against a savings association or an institution-affiliated party if such federal banking agency fails to follow the FDIC's recommendation. In addition, FIRREA requires, except under certain circumstances, public disclosure of final enforcement actions by the OTS. FIRREA also expanded the group of persons subject to administrative enforcement proceedings to include any "institution-affiliated party," including (i) controlling shareholders, (ii) certain persons who participate in the affairs of an institution, and (iii) attorneys, appraisers, and accountants who knowingly or recklessly participate in wrongful action that had or is likely to have an adverse effect on an insured depository institution. The FDIC Act, as amended by FIRREA, provides that an institution-affiliated party may be subject to removal or suspension whenever such person has violated any law, regulation, or order or has engaged in an unsafe or unsound practice that causes the institution to suffer financial loss.

FIRREA substantially increased the civil money penalties that may be assessed for violations of law to as much as $1 million per day. Sentences now range from up to 30 years for most financial institutions-related crimes involving theft, fraud, and embezzlement to as much as life imprisonment in the case of "financial kingpins" who derive more than $5 million from their crimes within a certain period. Federal financial institutions agencies also have the authority to prevent the dissipation of assets wrongfully obtained by institution-affiliated parties and amends federal bankruptcy laws to prevent

such persons from using bankruptcy to avoid payment of civil and criminal money penalties. It also is a crime to knowingly conceal an asset or property from the FDIC or the Resolution Trust Corporation ("RTC") or to obstruct the examination of a financial institution.

FIRREA also expanded the grounds for appointment for a conservator or receiver for a savings association. Grounds for such appointment include: insolvency; substantial dissipation of assets or earnings; existence of an unsafe or unsound condition to transact business; likelihood that the association will be unable to pay its obligations in the normal course of business; and insufficient capital or the likely incurring of losses that will deplete substantially all capital with no reasonable prospect for replenishment. FIDIC added additional grounds for the appointment of a conservator or receiver of a savings association.



As a result of FIRREA and FDICIA, federal regulators have greater flexibility to impose enforcement action on an institution that fails to comply with its regulatory requirements, particularly with respect to the capital requirements. Possible enforcement action ranges from the imposition of a capital plan to the termination of deposit insurance. While the OTS has primary responsibility over savings associations, the FDIC is empowered to recommend enforcement action to the Director. If the Director does not take action, the FDIC has authority to compel such action under certain circumstances.

Capital Requirements. FIRREA and the implementing regulations of the OTS and the FDIC changed the capital requirements applicable to savings associations, including Brunswick, and the consequences of failing to comply with those requirements. The capital standards include (i) a core capital requirement, (ii) a tangible capital requirement, and (iii) a risk-based capital requirement. As described in more detail below, if an association fails to meet any of the three capital standards, it must submit a capital restoration plan to be approved by the OTS. Such failure may also result in the imposition of various restrictions on the association.

The core capital standard requires a savings association to maintain "core capital" of not less than 3% of adjusted total assets. "Core capital" includes common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries, certain nonwithdrawable accounts, pledged deposits of mutual savings associations, and certain goodwill resulting from prior regulatory accounting practices.

While the items mentioned above are included in core capital, intangible assets must be deducted in computing core capital because they are excluded from assets under FIRREA's capital rules. There are exceptions to that rule of deduction, however. Purchased credit card relationships and mortgage servicing rights may be included in core capital, in an amount not in excess of 50% of core capital computed before deducting any disallowed intangible assets or mortgage servicing rights. Purchased mortgage servicing rights, provided that such rights must be valued at the lower of 90% of fair market value to the extent determinable, or current amortized book value, and that any amount written off must be deducted from core capital. Qualifying supervisory goodwill held by an eligible savings association must be deducted from assets in determining core capital. Finally, investments in subsidiaries engaged in activities not permissible for a national bank generally must be deducted from assets in determining core capital.

The tangible capital requirement requires a savings association to maintain tangible capital in an amount not less than 1.5% of adjusted total assets. "Tangible capital" is defined as core capital minus intangible assets. FIRREA authorizes the inclusion of up to 90% of purchased mortgage servicing rights in calculating tangible capital, but OTS regulations prohibit the inclusion of supervisory goodwill in calculating tangible capital.

The risk-based capital requirement requires a savings association to maintain risk-based capital of not less than 8% of risk-weighted assets. Risk-based capital includes core capital and supplementary capital, provided that the amount of supplementary capital counting toward the requirement may not exceed core capital.

In calculating the risk-based capital requirement for a savings association, risk-weighted assets equals total assets plus consolidated off-balance sheet items, where each asset or item is multiplied by the appropriate risk weight as described below. Before an off-balance sheet item is assigned a risk weight, it must be converted to an on-balance sheet credit equivalent amount. That conversion generally is accomplished by multiplying the item by either 100%, 50%, 20%, or 0%, whichever is applicable under the OTS regulations. Each asset and each credit equivalent amount is assigned a risk weight as follows: (i) 0%, for cash and certain government securities; (ii) 20%, for securities of the United States government or its agencies not backed by the full faith and credit of the United States government and for high-quality

mortgage-related securities; (iii) 50%, for certain revenue bonds and qualifying residential mortgage loans; or (iv) 100%, for most other loans.



For purposes of determining the core and tangible capital components, FIRREA requires that investments in certain "nonincludable subsidiaries" be deducted from assets. Nonincludable subsidiaries are generally those engaged in activities not permissible for national banks. However, certain exemptions generally apply where the subsidiary: (i) is engaged in the activities solely as an agent for its customers; (ii) is engaged solely in mortgage-banking activities; (iii) (a) is an insured depository institution or a company whose sole investment is an insured depository institution and (b) was acquired by the association prior to May 1989; or (iv) is a federal savings association that existed as such on August 9, 1989, and was, or acquired its principal assets from, an association that was chartered before October 15, 1982, as a state savings or cooperative bank. At September 30, 1996, Brunswick had no investments in or advances to nonincludable subsidiaries.

OTS regulations provide that a savings association's total capital is equal to its core capital plus its supplementary capital (up to 100% of its core capital). However, in addition to assets otherwise required to be deducted in calculating core capital, reciprocal holdings of depository institution capital instruments must be deducted from assets in determining total capital. In addition, that portion of land and nonresidential construction loans in excess of 80% loan-to-value ratio, as well as all equity investments, must be deducted from assets in determining total capital. At September 30, 1996, Brunswick's investment in the portion of land and nonresidential construction loans in excess of 80% loan-to-value ratio and all equity investments was not significant.

Brunswick must maintain core capital at least equal to 3.0% of total adjusted assets and risk-based capital at least equal to 8.0% of risk-weighted assets. Additionally, Brunswick must maintain tangible capital at least equal to 1.5% of total adjusted assets.

The following table presents Brunswick's capital levels at September 30, 1996, relative to these requirements.

<TABLE>
<CAPTION>

| (Dollars in thousands) | Amount Required | Percent Required | Actual Amount | Actual Percent | Excess Amount |
|---|---|---|---|---|---|
| <S> <C> | | | | | |
| Core Capital..................... | $7,478 | 3.0% | $26,174 | 10.5% | $18,696 |
| Tangible Capital................. | 3,739 | 1.5 | 26,174 | 10.5 | 22,435 |
| Risk-Based Capital............... | 13,874 | 8.0 | 26,758 | 15.4 (1) | 12,884 |

</TABLE>

(1) Represents risk-based capital as a percentage of risk-weighted assets.

Although those capital ratios exceed the minimum capital requirements imposed by the implementing OTS regulations at September 30, 1996, future events, such as increased interest rates, asset write-downs, or a downturn in the economy in areas where Brunswick has most of its loans, could adversely affect future earnings and, consequently, the ability of Brunswick to meet its future minimum capital requirements.

Savings associations with "above normal" interest rate risk exposure are subject to a deduction from total capital for purposes of calculating their risk-based capital requirements. A savings association's interest rate risk is measured by the decline in the net portfolio value of its assets (i.e., the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts) that would result from a hypothetical 200-basis point increase or decrease in market interest rates (except when the 3-month Treasury bond equivalent yield falls below 4%, then the decrease will be equal to one-half of that Treasury rate) divided by the estimated economic value of the association's assets, as calculated in accordance with guidelines set forth by the OTS. A savings association whose measured interest rate risk exposure exceeds 2% must deduct an interest rate component in calculating its total capital under the risk-based capital rule. The interest rate risk component is an amount equal to one-half of the difference between the institution's measured interest rate risk and 2%, multiplied by the estimated economic value of the association's assets. That dollar amount is deducted from an association's total capital in calculating compliance with its risk-based capital requirement. Under the rule, there is a two quarter lag between the reporting date of an institution's financial

data and the effective date for the new capital requirement based on that data. The rule also provides that the Director of the OTS may waive or defer an association's interest rate risk component on a case-by-case basis.

The OTS also has adopted regulations to implement the system of prompt corrective action established by FDICIA. The rules permit the OTS to take certain supervisory actions when an insured association falls within one of five specifically enumerated capital categories. Under the rules, an institution will be deemed to be (i) "well-capitalized" if the association has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and the association is not subject to any enforcement agreement relating to capital; (ii) "adequately capitalized" if the association exceeds a riskbased capital ratio of 8%, a Tier 1 risk-based capital ratio of 4%, and a leverage ratio of 4% (3% if the association has a composite one rating); (iii) "under capitalized" if the association's risk-based capital ratio is less than 8%, Tier 1 capital ratio is less than 4%, or leverage ratio is less than 4% (3% if it has a composite one rating); (iv) "significantly under capitalized" if the association's risk-based capital is less than 6%, Tier 1 capital ratio is less than 3%, or leverage ratio is less than 3%; and (v) "critically under capitalized" if the association has a ratio of tangible equity to total assets that is 2% or below. The regulations provide a framework of supervisory actions based on the capital level of an insured association. Generally, an association may not declare any dividends, make any other capital distribution, or pay a management fee if, following the distribution or payment, the institution would be within any one of the three under capitalized categories. There is a limited exception to this prohibition for stock redemptions that do not result in any decrease in an association's capital and would improve the association's financial condition, provided the redemption has been approved by the OTS. Institutions that are classified as under capitalized also are subject to additional mandatory supervisory actions, including increased monitoring by the OTS, a requirement to submit a capital restoration plan, and restrictions on growth of the institution's assets as well as a limitation on its ability to make acquisitions and open branches. In addition to the foregoing, a significantly under capitalized institution may not pay bonuses or raises to its senior executive officers without prior OTS approval and also must comply with additional mandatory requirements regarding the operation of the association in the interim. Based upon the foregoing regulations and First Federal's capital ratios as of September 30, 1996, First Federal would be considered in the well-capitalized category.

The Director may grant an exemption from a capital directive imposing operational restrictions or corrective actions if: (i) the exemption would pose no significant risk to the affected deposit insurance fund; (ii) the association's management is competent; (iii) the association is in substantial compliance with all applicable statutes, regulations, orders, and supervisory agreements and directives; and (iv) the association's management has not engaged in any activities that have jeopardized the association's safety and soundness or contributed to impairing its capital. In addition, a savings association that does not meet applicable capital standards may not increase its assets without the Director's prior written approval, and in no event may increase its assets beyond the amount of net interest credited to its deposit liabilities.

In addition to the foregoing prompt corrective action provisions, FDICIA also sets forth requirements that the federal banking agencies, including the OTS, review their capital standards every two years to ensure that their standards require sufficient capital to facilitate prompt corrective action and to minimize loss to the SAIF and the BIF.

Appointment of Receiver or Conservator. FIRREA and FDICIA significantly expand the grounds upon which a receiver or conservator may be appointed for a savings association. That expansion enhanced the ability of regulatory authorities to engage in "early intervention" to take control of an association before it is insolvent. Included in the new grounds for appointment are (i) "having substantially insufficient capital," (ii) incurrence or likely incurrence of losses that will substantially deplete all of the association's capital and no reasonable prospect for replenishing that capital without federal assistance, and (iii) a violation of law or regulation that is likely to weaken the association's condition.



Limitation on Capital Distributions. The OTS has promulgated a rule governing capital distributions such as dividends, stock repurchases, and cash-out mergers by savings associations. The rule establishes three tiers of institutions. An institution that meets or exceeds its fully phased-in capital requirement after giving effect to a proposed distribution is considered a "Tier 1 Institution" under the rule and may make aggregate capital distributions during a calendar year, without prior OTS approval, of up to the greater of (i) all of its net income to date during the year plus an amount that would reduce its excess capital ratio to one-half of such excess capital ratio at the beginning of the calendar year or (ii) 75% of its net income over the most

recent four quarterly period. An institution that meets its current regulatory capital requirement, but not its fully phased-in requirement, after giving effect to a proposed distribution is a "Tier 2 Institution" and may make capital distributions without prior OTS approval of up to the following percentage of net income for the most recent four-quarter period: (i) 75% of such net income if the association meets its fully phased-in risk-based capital requirements before the distribution; or (ii) 50% of such net income if the association meets only its current risk-based capital standards before the distribution. A savings association that fails to meet its regulatory capital requirements (a "Tier 3 Institution") may not make capital distributions without the OTS's prior written approval. An institution meeting the Tier 1 capital criteria but that has been notified by the OTS that it is in need of more than normal supervision may be treated as a Tier 2 or a Tier 3 institution. As of September 30, 1996, Brunswick was a Tier 1 Institution and would be permitted to distribute 100% of net income and one-half of its excess capital in a given year. However, there can be no assurance that Brunswick will remain a Tier 1 Institution for purposes of the rule.

The OTS also may determine that any capital distribution would constitute an unsafe or unsound practice and prohibit the distribution, in particular if Brunswick's capital were decreasing due to substantial losses.

Transactions with Affiliates. FIRREA made Federal Reserve Act ("FRA") Sections 23A, 23B, and 22(h) applicable to savings associations. Those sections limit extensions of credit to affiliated institutions, executive officers, directors, and 10% stockholders. Generally, Sections 23A and 23B (i) limit the extent to which the insured association or its subsidiaries may engage in certain covered transactions with an affiliated institution to an amount equal to 10% of such institution's capital stock and surplus, and place an aggregate limit on all such transactions with all affiliated institutions of an amount equal to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms consistent with safe and sound banking practices. "Covered transactions" include the making of loans, the purchasing of assets, the issuance of a guarantee, and similar transactions. FIRREA also imposed three additional rules on savings associations: (i) a savings association may not make any extension of credit to an affiliate unless that affiliate is engaged only in activities permissible for bank holding companies; (ii) a savings association may not purchase or invest in securities insured by an affiliate, other than a subsidiary; and (iii) the Director may impose more stringent restrictions on savings associations than those set forth in Sections 23A, 23B, and 22(h) of the FRA.

Brokered Deposits. FIRREA also added a new Section 29 to the FDI Act generally prohibiting the acceptance or renewal of brokered deposits by any under-capitalized insured depository institution after December 7, 1989, except upon the specific application to and waiver of that prohibition by the FDIC. The statute defines "brokered deposits" to include not only (i) deposits solicited through the assistance of a third-party deposit broker, but also (ii) deposits obtained by a depository institution by offering a rate of interest that is at least 50 basis points (0.5%) higher than the prevailing rate offered by similar depository institutions in the same market area. As of September 30, 1996, Brunswick had no deposits that would be considered to be "brokered deposits" under the statute and the FDIC's regulations.

Corporate Debt Securities Below Investment Grade. FIRREA also generally prohibits savings associations and their subsidiaries from acquiring or retaining any corporate debt security that, at the time of acquisition, is not (or, in the case of previously acquired securities, was not) rated in one of the four highest rating categories by at least one nationally recognized statistical rating organization. At September 30, 1996, Brunswick had no corporate debt securities below investment grade.



Investment Portfolio Accounting. Savings associations are required to account for transactions in accordance with GAAP, which requires that investment securities held to maturity be accounted for at amortized cost; securities available-for-sale, at the lower of cost or market; and trading securities, at market.

Asset Classification. The OTS has a classification system for problem assets of insured institutions which covers all problem assets, including assets that previously had been treated as "scheduled items." Under that classification system, problem assets of insured institutions are classified as "substandard," "doubtful," or "loss," depending on the presence of certain characteristics as discussed below.

An asset is considered "substandard" if 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 of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When an insured institution classifies problem assets as either substandard or doubtful, it is required to establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but that, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets 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. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the institution's Principal Supervisory Agent, who can order the establishment of additional general or specific loss allowances.

Service Corporation Subsidiaries. The HOLA authorizes federally chartered savings associations to invest up to 3% of their assets in the stock of service corporation subsidiaries. In addition, federal thrift institutions meeting their applicable minimum regulatory capital requirements may invest up to 50% of regulatory capital in conforming loans to service corporations. The OTS's implementing regulations require that the activities of a service corporation be reasonably related to the activities of a federal association and generally provide that OTS approval must be obtained before a service corporation may commence any new activity. However, the regulations list a number of activities in which a service corporation may engage without prior OTS approval, including: (i) originating and servicing mortgage, consumer, educational, and commercial loans; (ii) providing escrow, liquidity and credit analysis, and other backroom services for other financial institutions; (iii) developing and managing real estate; and (iv) providing certain securities brokerage services.

Under Section 18(m) of the FDI Act, also added by FIRREA, all savings associations must provide the FDIC and the OTS with 30 days' notice prior to (i) establishing or acquiring a new subsidiary or (ii) commencing a new activity through an existing subsidiary, and, as part of the notice, must furnish such information regarding the new subsidiary or activity as either agency may require.

Assessments. FIRREA also amended the HOLA to allow the OTS to assess fees on savings associations to fund the operations of the OTS, to recover the costs of examining institutions under its jurisdiction, and to provide for the processing of various types of applications, notices, requests, and securities filings. Prior to the enactment of FIRREA, the FHLBB had obtained its funding primarily from FHLB contributions and FSLIC insurance premiums. The OTS has adopted regulations which implement these statutory provisions. The regulations provide for OTS assessments to be made either quarterly or semiannually based on the total consolidated assets of a savings association as shown on its most recent report to the agency. Troubled savings



associations are to be assessed at a rate 50% higher than similarly sized thrifts that are not experiencing problems.

Restrictions on Acquisition. Brunswick must obtain approval from the OTS before acquiring control of any other savings association. Such acquisitions are generally prohibited if they result in a savings and loan holding company controlling savings associations in more than one state. However, such interstate acquisitions are permitted based on specific state authorization or in a supervisory acquisition of a failing savings association. Brunswick may acquire up to 5%, in the aggregate, of the voting stock of any nonsubsidiary savings association or savings and loan holding company without being deemed to acquire "control" of the association or holding company. In addition, a savings and loan holding company may hold shares of a savings association or a savings and loan holding company for certain purposes, including a bona fide fiduciary, as an underwriter or in an account solely for trading purposes. Under certain conditions, a savings and loan holding company may acquire up to 15% of the shares of a savings association or savings and loan holding company in a qualified stock issuance; such acquisition is not deemed a controlling interest.

Federal statutes applicable to all depository institutions require a person or entity seeking to obtain control of Brunswick to obtain the prior approval of the OTS as the principal regulatory agency of federally chartered savings banks. FIRREA amended the Change in Bank Control Act (the "Control Act") to apply to savings associations. The Control Act provides that no person, acting directly, indirectly, or through or in concert with one or more other persons, may acquire "control" of a savings association without giving at least 60 days' prior written notice to the Director and having the Director not object or extend such 60-day period. Federal law also generally provides that no

company may acquire "control" of an insured savings association without the Director's prior approval, and that any company that acquires such control becomes a "savings and loan holding company" subject to registration, examination, and regulation under Section 10 of the HOLA and regulations adopted pursuant thereto.

FIRREA also authorizes the Federal Reserve to approve bank holding company acquisitions of savings associations and provides that the Federal Reserve may not impose "tandem restrictions" in connection with such approvals. Those provisions of FIRREA specifically reverse a long-standing policy of the Federal Reserve precluding acquisitions of healthy thrift institutions by bank holding companies.

Federal Income Taxation. Brunswick and its subsidiary are subject to taxation as corporations under applicable provisions of the Internal Revenue Code. Brunswick's federal income tax returns have been audited by the Internal Revenue Service through September 30, 1992. Brunswick and its subsidiary file a consolidated federal income tax return on the basis of a September 30 fiscal year using the accrual method of accounting. Although Brunswick is included in a consolidated tax return with its subsidiary, certain federal income tax rules are applicable to Brunswick only.

For example, savings institutions like Brunswick that meet certain definitional tests, primarily relating to their assets and the nature of their business, are permitted to deduct annual additions to a reserve for bad debts, within specified formula limits. In each tax year, the deductible addition may be computed using the more favorable of either: (i) a method based generally on the institution's average loan loss experience over the six-year period ending with the taxable year (the "Experience Method"), or (ii) a method based on a specified percentage of the institution's taxable income (the "Percentage Method").

Brunswick uses the Percentage Method for computing additions to its bad debt reserve for "qualifying real property loans" (generally those loans secured by interests in real property). Additions to the reserve for nonqualifying real property loans must be computed under the Experience Method.

Under the Percentage Method, the allowable deduction is computed as a percentage of Brunswick's taxable income before the deduction, as adjusted for certain items (such as the dividends-received deduction, withdrawals from excess bad debt reserves, as discussed below, and certain gains), and is generally equal to



8% of adjusted taxable income, less any amounts deducted in connection with nonqualifying real property loans. The allowable deduction for qualifying real property loans computed under the Percentage Method is also subject to various other limitations that historically have not affected Brunswick.

To the extent that Brunswick's reserve for losses on qualifying real property loans exceeds the amount that would have been allowed under the Experience Method, then amounts that are considered to have been withdrawn from that excess reserve to make distributions to stockholders will be included in Brunswick's taxable income. Dividend distributions in excess of Brunswick's current or accumulated earnings and profits as calculated for federal income tax purposes will be considered to result in withdrawals from its bad debt reserve. Distributions in redemption of stock or in partial or complete liquidation also are considered to result in withdrawals from the bad debt reserve regardless of the level of current or accumulated earnings and profits. In the case of Brunswick, no such distributions have taken place, nor does management anticipate that any such distributions will take place in the near future.

Certain other special rules apply to financial institutions such as Brunswick. For example, financial institutions are permitted to carry net operating losses ("NOLs") back for three years or forward for fifteen years. In addition, although taxpayers generally are not permitted to deduct interest expense allocable to the purchase or carrying of tax-exempt obligations, financial institutions are entitled to deduct 80% of their interest expense deemed allocable to tax-exempt obligations acquired before August 8, 1986 (100% for obligations acquired before 1983). A financial institution is not permitted to deduct any portion of its interest expense allocable to tax-exempt obligations acquired after August 7, 1986, other than designated tax-exempt obligations issued by small municipal issuers, which remain subject to the 80% limit.

Corporations are liable for an alternative minimum tax ("AMT") equal to 20% of alternative minimum taxable income (taxable income after making certain "adjustments" and adding certain "preferences") if and to the extent the AMT exceeds the regular income tax. The preference and adjustment items include (but are not limited to): (i) the excess of the allowable bad debt deduction over the

deduction that would have been allowable on the basis of actual experience, (ii) for taxable years beginning after 1989, 75% of the difference (positive or negative) between "Adjusted current earnings" and alternative minimum taxable income (as specifically determined for this purpose), (iii) interest on certain "private activity" bonds( issued for the benefit of nongovernmental persons) issued after August 7, 1986, and (iv) replacement of the regular NOL deduction with the alternative minimum tax NOL deduction (computed with the AMT adjustments and reduced by preference items) which may be utilized to offset only 90% of the alternative minimum taxable income. Brunswick was not liable for the AMT for its taxable year ended September 30, 1996.

State Income Taxation. Under Georgia law, financial institutions generally are subject to the same taxes, state and local, as other corporations in Georgia. The state corporation income tax rate to which Brunswick is subject is 6% of Georgia taxable net income, which is equal to federal taxable income with certain adjustments. In addition to the corporate income tax, financial institutions in Georgia are subject to a corporate net worth tax, intangible, tangible, real and personal property taxes, and a special occupation tax at a rate of .25% of gross receipts. The appropriate county or city is also permitted to levy a business license fee at a rate of .25% of gross receipts. The total amount of the license fee and occupation tax is allowed as a credit against the corporation income tax.



## Effect of Governmental Policies

The earnings and business of Brunswick are and will be affected by the policies of various regulatory authorities of the United States, especially the Federal Reserve Board. The Federal Reserve Board, among other things, regulates the supply of credit and deals with general economic conditions within the United States. The instruments of monetary policy employed by the Federal Reserve Board for these purposes influence in various ways the overall level of investments, loans, other extensions of credit and deposits, and the interest rates paid on liabilities and received on assets.

## Interest and Usury

Brunswick is subject to numerous state and federal statutes that affect the interest rates that may be charged on loans. These laws do not, under present market conditions, deter Brunswick from continuing the process of originating loans.

## Competition

Brunswick encounters significant competition in its market from commercial banks, thrift institutions, other financial institutions and financial intermediaries. Brunswick not only competes with other banks performing banking services in its markets, but also competes with various other types of financial institutions for deposits, certain commercial, fiduciary and investment services and various types of loans and certain other financial services. Brunswick also competes for interest-bearing funds with a number of other financial intermediaries and investment alternatives, including "money-market" mutual funds and brokerage firms.

Brunswick competes not only with financial institutions based in the State of Georgia, but also with a number of out-of-state banks, bank holding companies and other financial institutions which have an established market presence in Georgia. Many of the financial institutions operating in Georgia are engaged in local, regional, national and international operations and have more assets and personnel than Brunswick. Most of the southeastern states, including Georgia, have enacted legislation that allows bank holding companies (and in certain cases, thrift institutions) in those states to acquire banks (and in certain cases, thrift institutions) and bank holding companies in other states located in the region, which has the effect of causing competition to intensify.

## Employees

As of September 30, 1996, Brunswick and its subsidiary had 102 full-time employees and 35 part-time employees. The employees are not represented by a collective bargaining unit. Brunswick believes that its employee relations are excellent.



## Item 2. Properties

### Properties

The following table sets forth certain information concerning Brunswick's offices. All were full service offices at September 30, 1996. The total net book value of such offices at September 30, 1996 was approximately $1.4 million.

| Office Location | Year Facility Opened | Title to the Building (1) |
|---|---|---|
| Main Office<br>777 Gloucester Street<br>Brunswick, GA 31520 | 1974 | Leasehold. Lease terminates in 2003 and has one ten-year renewal option. |
| St. Simons Ocean Boulevard Office<br>621 Ocean Boulevard<br>St. Simons Island, GA 31522 | 1961 | Fee Simple. |
| St. Simons Plaza Office<br>1600 Frederica Road<br>St. Simons Island, GA 31522 | 1986 | Leasehold. Lease terminates in 2006 and has two ten-year renewal options. |
| Glynn Place Mall Office<br>167 Altama Connector<br>Brunswick, GA 31520 | 1986 | Fee Simple. |
| Altama Office<br>4401 Altama Avenue<br>Brunswick, GA 31520 | 1966 | Leasehold. Lease terminates in 1998 and has two ten-year renewal options. |

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(1) Brunswick owns the land on which all of its offices, except the St. Simons Plaza, is located.

Brunswick uses the services of an outside data processing firm for its data processing and recordkeeping functions.

Item 3. Legal Proceedings

In 1988, Brunswick entered into an agreement with The Citizens & Southern Corporation and certain related affiliates which provided for the acquisition of Brunswick by C&S and the exchange of Brunswick common stock for C&S common stock. The agreement was amended in 1990 to provide for receipt of C&S/Sovran Corporation stock by Brunswick stockholders as a result of the merger in 1990 of C&S with Sovran



Financial Corporation (which was acquired by NationsBank Corporation ("NationsBank") in late 1991). On September 27, 1991, Brunswick filed a suit in Glenn County Superior Court against C&S/Sovran and its affiliated entities asserting that they had breached the agreement entered into with Brunswick. In May, 1994, a jury found that C&S/Sovran breached the agreement in March, 1991 by not filing certain regulatory applications to pursue the acquisition of Brunswick. On December 16, 1994, the court issued an order which provided that Brunswick would be entitled to the remedy of specific performance of the agreement entered into with C&S/Sovran. The order also provided that a subsequent jury trial would be held to determine when the merger should have closed. The order also required the defendants to make an acquisition proposal to Brunswick stockholders to acquire Brunswick stock in exchange for NationsBank stock. On July 18, 1996, a Glynn County jury determined that the merger would have closed on June 19, 1991. On October 15, 1996, the Court issued an Order finding that the number of NationsBank shares required to be offered to Brunswick stockholders is 1,280,268 shares, increased by the number of NationsBank shares in an amount equal to the difference between dividends paid by the defendants since December 1991 less dividends paid on all Brunswick shares from June 19, 1991 to the date of the offer. The Order stated that the number of NationsBank shares to be offered is subject to reduction by the amount payable by First Federal pursuant to employment severance agreements as well as legal fees paid by Brunswick which exceed amounts set forth in the Court's Order. On November 12, 1996, Brunswick sent a share calculation letter to NationsBank addressing the method by which the Order will be implemented and advising NationsBank that, after Brunswick pays approximately $12.5 million for its contractual obligations for litigation attorneys' fees and $1.3 million to four senior executive officers pursuant to change of control agreements, Brunswick's stockholders will receive .80 shares of NationsBank stock for each share of Brunswick stock. The parties anticipate that the closing of the NationsBank transaction will occur in the second quarter of 1997.

Brunswick and its subsidiary are party to various legal proceedings in the normal course of their business; however, Brunswick management believes that the ultimate outcome in such proceedings in the aggregate would not have a material adverse effect on the financial position or results of operations of Brunswick and its subsidiary on a consolidated basis.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 1996.

PART II

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

The information contained under the section captioned "Capital Stock" in the Annual Report is incorporated herein by reference.

Item 6. Selected Financial Data

The information contained in the table captioned "Selected Financial Highlights" in the Annual Report is incorporated herein by reference.



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

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

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements contained in the Annual Report are incorporated herein by reference.

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

The registrant has not had any disagreements with its accountants on any matter of accounting principles or practices or financial statement disclosure.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information contained under the sections captioned "Directors" and "Executive Officers" under "Proposal One - Election of Directors" in the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on January 22, 1997, to be filed with the OTS pursuant to Regulation 14A within 120 days of the registrant's fiscal year end (the "Proxy Statement"), is incorporated herein by reference.

Item 11. Executive Compensation

The information contained in the sections captioned "Information About the Board of Directors and Its Committees", "Executive Compensation and Benefits" and "Information on Benefit Plans and Policies" under "Proposal One - Election of Directors" in the Proxy Statement, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information contained in the sections captioned "Directors" and "Management Stock Ownership" under "Proposal One - Election of Directors," and "Ownership of Equity Securities" in the Proxy Statement, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information contained in the section captioned "Certain Transactions" under "Proposal One Election of Directors" in the Proxy Statement, is incorporated herein by reference.



PART IV

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

The following are contained in the registrant's Annual Report to Stockholders.

(a) 1. Financial Statements

Report of Independent Public Accountants - First Federal Savings Bank of Brunswick, Georgia and Subsidiary

Consolidated Statements of Financial Condition as of September 30, 1996 and 1995

Consolidated Statements of Income for the Years Ended September 30, 1996, 1995, and 1994

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended September 30, 1996, 1995 and 1994

Consolidated Statements of Cash Flows for the Years Ended September 30, 1996, 1995 and 1994

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All schedules have been omitted as the required information is either inapplicable or included in the Notes to Consolidated Financial Statements.

3. Exhibits

3.1 Charter and By-laws of First Federal Savings Bank of Brunswick, Georgia (Incorporated by reference to Exhibit 3 to Brunswick's Form 10 filed with the FHLBB on June 28, 1984)

3.2 Assistant Secretary's Certificate dated November 18, 1991 setting forth Corporate Resolutions amending Bylaws of First Federal Savings Bank of Brunswick, Georgia (Incorporated by reference to Exhibit 3.2 to Brunswick's Annual Report on Form 10-K for the fiscal year ended September 30, 1993)

10.1 First Federal Savings Bank of Brunswick, Georgia 1984 Stock Option Plan, as amended (Incorporated by reference to Exhibit 10 to Brunswick's Annual Report on Form 10-K for the fiscal year ended December 31, 1986)

10.2 Form of Agreement entered into January 1, 1995 between First Federal Savings Bank of Brunswick, Georgia and each of Ben T. Slade, III, John J. Rogers and James H. Gash (incorporated by reference to Exhibit 10.2 to Brunswick's Annual Report on Form 10-K for the fiscal year ended September 30, 1994)



13.1 First Federal Savings Bank of Brunswick, Georgia 1996 Annual Report

21.1 Subsidiary of the Registrant

(b) Reports on Form 8-K

No Current Reports on Form 8-K were filed by Brunswick during the last fiscal quarter covered by this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Brunswick, State of Georgia, on December 26, 1996.

FIRST FEDERAL SAVINGS BANK
OF BRUNSWICK, GEORGIA

By: /s/ Ben T. Slade, III
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Ben T. Slade, III, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on December 26, 1996.

| Signature | Title |
|---|---|
| /s/ Ben T. Slade, III<br>Ben T. Slade III | Chairman of the Board and President |
| /s/ John J. Rogers<br>John J. Rogers | Senior Vice President - Mortgage Banking, Chief Financial Officer, and Director |
| /s/ Robert B. Sams<br>Robert B. Sams | Vice President and Controller |
| /s/ James H. Gash<br>James H. Gash | Senior Vice President - Commercial Banking and Director |
| /s/ James F. Barger<br>James F. Barger | Director |
| /s/ J. Dewey Benefield, Jr.<br>J. Dewey Benefield, Jr. | Director |
| William O. Faulkner | Director |
| /s/ Mack F. Mattingly<br>Mack F. Mattingly | Director |
| /s/ T. Gillis Morgan, III<br>T. Gillis Morgan, III | Director |
| /s/ D. Paul Owens<br>D. Paul Owens | Director |
| Jack Torbett | Director |
| /s/ L. Gerald Wright<br>L. Gerald Wright | Director |



First Federal Savings Bank of Brunswick, Georgia
Form 10-K
For Fiscal Year Ending September 30, 1996

EXHIBIT INDEX

| Exhibit No. | Exhibit | Page No. |
|---|---|---|
| 13.1 | First Federal Savings Bank of Brunswick, Georgia 1996 Annual Report | |

22.1 Subsidiary of the Registrant



Exhibit 13.1

First Federal Savings Bank of Brunswick, Georgia

Annual Report to Stockholders

For Fiscal Year Ended September 30, 1996

## A MESSAGE FROM THE PRESIDENT

Our net income for the fiscal year ended September 30, 1996 was $2,156,717 (earnings per share of $1.42) compared to $3,114,460 (earnings per share of $2.05) for the prior year. The primary reason for the decline was the one-time expense to the Bank of approximately $1,362,000 ($885,000 after tax) representing a special assessment on deposits of 65.7 basis points required to recapitalize the Savings and Loan Insurance Fund ("SAIF"). Now that the fund is recapitalized, our premiums for Federal Deposit Insurance will decline dramatically and this will have a beneficial effect on our future income. Another reason for the decline in net income is the $171,518 increase in legal fee expense because of the July 1996 trial in our litigation with NationsBank.

Picture of The President Goes Here

Return on average assets for the year ended September 30, 1996 was .86% compared with 1.28% for 1995. Exclusive of the one-time SAIF assessment and the net increase in legal fees, our return on average assets would have been 1.25%.

During July of 1996, we celebrated the 70th birthday of First Federal Savings Bank. This was a delightful occasion and gave us the opportunity to thank many long-time customers for their loyalty over the years. Several customers who have been with us for the full seventy years attended the birthday party.

As previously reported, the NationsBank litigation has now been settled pursuant to the Court Order of October 5, 1996. The result will be the acquisition of First Federal by NationsBank Corporation in a tax-free exchange of stock. Stockholders of First Federal will be offered .80 shares of NationsBank stock for each First Federal share. The full details of the proposed transaction will be described in the proxy materials that should be mailed in March of 1997. The projected closing should occur between March 31, 1997 and April 30, 1997.

We are, of course, pleased to have this lengthy litigation behind us and feel that the result will be rewarding for all stockholders of First Federal. At current prices for NationsBank stock, the transaction will be valued at approximately $115 million. When you consider that our original stock issue was approximately $2.7 million, this is quite a substantial increase in value over the twelve-year period that we've been a public company.

We've been assured by NationsBank that they are eager to conclude this transaction and bring their array of services to the people of Brunswick and Glynn County. All of us at First Federal will do our best to provide for a smooth transition and hope all of our stockholders and customers will be pleased with the resulting changes.

Yours very truly,

/s/ Ben T. Slade, III

Ben T. Slade, III
President

HIGHLIGHTS OF 1996

NET INTEREST INCOME
(graph appears below
and plot points appears
as follows:)

| Millions of Dollars | |
|---|---|
| 1992 | 7.74 |
| 1993 | 8.57 |
| 1994 | 9.26 |
| 1995 | 9.78 |
| 1996 | 9.84 |

DIVIDENDS PAID
(graph appears below
and plot points appears
as follows:)

| Thousands of Dollars | |
|---|---|
| 1992 | 868 |
| 1993 | 913 |
| 1994 | 1,123 |
| 1995 | 1,334 |
| 1996 | 1,395 |

Shifts in net interest income are a function of volume, movements in interest rates, and the positioning of the Bank with respect to interest rate risk management. The Bank works to maximize net interest income within the parameters of interest rate risk management so as to provide for stability in net interest income over varying movements in interest rates.

The $5,633,000 in cash dividends paid to shareholders over the past five years exceeds the net amount raised in 1984, in the Bank's only public offering, by $3,250,000.

SELECTED FINANCIAL HIGHLIGHTS

<TABLE>
<CAPTION>

| | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Gross Income | $22,736,355 | $21,309,238 | $19,020,263 | $19,217,317 | $21,171,010 |
| Total Interest Income | 20,191,565 | 19,202,040 | 16,957,142 | 16,636,594 | 18,487,263 |
| Total Interest Expense | 10,353,532 | 9,423,311 | 7,700,190 | 8,069,801 | 10,750,488 |
| Net Interest Income | 9,838,033 | 9,778,729 | 9,256,952 | 8,566,793 | 7,736,775 |
| Income Before Income Taxes | 3,348,967 | 4,815,060 | 4,224,524 | 4,109,802 | 3,536,157 |
| Net Income | 2,156,717 | 3,114,460 | 3,280,424 | 2,660,712 | 2,245,357 |
| Net Income Per Share1 | 1.42 | 2.05 | 2.17 | 1.77 | 1.50 |
| Cash Dividends Declared | .95 | .89 | .75 | .61 | .58 |
| Book Value Per Share 2 | 17.29 | 17.00 | 15.44 | 14.33 | 13.19 |
| Real Estate Loans 3 | 182,897,960 | 163,832,021 | 158,597,317 | 155,377,526 | 141,230,291 |
| Total Net Loans 3 | 209,868,046 | 186,664,013 | 179,017,162 | 173,200,538 | 158,257,837 |
| Mortgage-Backed Securities | 8,339,891 | 12,232,044 | 11,074,637 | 11,086,923 | 9,092,030 |
| Investment Securities | 8,024,132 | 16,488,815 | 15,976,701 | 20,247,531 | 22,164,392 |
| Total Assets | 249,117,444 | 253,287,453 | 231,514,862 | 228,145,524 | 220,644,738 |
| Total Deposits | 218,075,859 | 222,805,996 | 200,715,381 | 196,546,493 | 192,374,447 |
| Total Borrowings | 1,500,000 | 2,200,000 | 4,000,000 | 5,300,000 | 3,300,000 |
| Total Net Worth | 26,025,085 | 25,506,415 | 23,622,064 | 21,449,495 | 19,701,917 |
| Total Regulatory Capital | 26,758,000 | 26,101,000 | 24,114,000 | 22,318,000 | 20,445,000 |
| Total Full Service Offices | 5 | 5 | 5 | 5 | 5 |

</TABLE>
1 Calculated based on fully diluted shares outstanding.
2 Calculated assuming all options exercised.
3 Includes mortgage loans held for sale.



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

General Overview:

From the Bank's headquarters and two branch offices located in Brunswick, along with two branch offices on St. Simons Island, the Bank is primarily engaged in the business of attracting deposits from the general public and investing those funds in real estate, consumer, and commercial loans. Deposits averaged $218.4 million in the current year compared to average deposits of $209.3 million in the year ago period. The Bank's loan portfolio averaged $203.4 million in the current year, rising from an average of $187.7 million during the period one year ago.

The Bank recorded net income of $2,156,717 or $1.42 per share for the fiscal year ended September 30,1996 compared to net income of $3,114,460 ($2.05 per share) and $3,280,424 ($2.17 per share) for the years ended September 30,1995 and 1994. Fiscal year 1996 results included a charge of $1,362,018 representing a provision made for the payment of a special assessment imposed by Congress intended to re-capitalize the "thrift" portion of the Federal Deposit Insurance Fund. This charge reduced net income by approximately $885,000 or 5.58 per share.

Liquidity and Capital Resources:

The Bank is required to maintain minimum liquidity levels of cash and eligible securities equal to 5% of withdrawable savings accounts and short-term borrowings. Cash and eligible securities include cash and due from banks, interest-bearing deposits in other banks, federal funds sold, other short-term investments and certain investment securities. At September 30, 1996 and 1995, cash and eligible securities totalled $24.0 million and $46.0 million, respectively. It has been the Bank's policy to maintain liquidity in excess of the required 5% amount. A secondary source of liquidity to the Bank has resulted from the conversion of single family mortgage loans to Federal Home Loan Mortgage Corporation ("FreddieMac") participation certificates ("PC's"). During fiscal year 1996, $6.4 million in loans were exchanged with FreddieMac for PC's. While not eligible to be considered for regulatory liquidity, these certificates may be readily sold to raise additional cash and may also be used as collateral for both short and long-term borrowings. At September 30,1996, the Bank held approximately $3.9 million in PC's resulting from such exchanges with FreddieMac. Average daily liquidity was 10.47% and 19.90% for the months of September 1996 and 1995, respectively.

The Bank's one year interest rate gap was a positive $34.8 million at September 30,1996 compared to a positive $38.0 million at September 30,1995. The interest rate gap calculation involves measuring the difference between maturing or repricing interest earning assets and maturing or repricing interest bearing liabilities over a given time frame, e.g., one year. Measurement of the Bank's gap has historically categorized NOW and passbook deposit accounts as non-interest rate sensitive liabilities. At September 30, 1996, NOW and passbook accounts totalled, in aggregate, $55.9 million, and should interest rates remain at or rise from current levels, the rates paid by the Bank on these accounts could rise as well. The decrease in the Bank's positive one year gap resulted primarily from a decrease in short term liquid investments from $23.4 million at September 30,1995 to $14.1 million at September 30,1996. Funds held in short-term liquid investments at September 30,1995, consisting of federal funds sold, interest bearing deposits in other banks, and treasury and agency securities maturing within one year, were shifted into mortgage, consumer, and commercial loans throughout the current fiscal year as loan demand and interest rate risk considerations allowed. This action provided for an increase in the Bank's weighted yield on interest earning assets from 8.08% at September 30, 1995 to 8.30% at September 30, 1996, despite a decline in both the prime and federal funds rates of 50 basis points during the current fiscal year.

Total loan originations for the year ended September 30, 1996 increased to $91.9 million from $80.4 million one year ago, reflective of a healthy economy combined with accommodative levels of interest rates. Loans secured by real estate increased to $200.2 million at September 30,1996 from $179.7 million at September 30, 1995. Construction loans accounted for 40% of this increase, rising from $13.0 million one year ago to $21.2 million at September 30,1996.

Total deposits decreased to $218.1 million at September 30, 1996 from $222.8 million at September 30,1995, as certificate of deposit balances declined $6.3 million in the current year. During the first two quarters of fiscal year 1995, as the Federal Reserve board ("FRB") increased short term interest rates in order to cool economic activity, the rates offered on certificates of deposit increased to levels attractive to investors as certificate balances increased by $25.7 million. During the fourth quarter of fiscal year 1995, the FRB began lowering short-term interest rates in response to several months of acceptable economic and inflation indicators and continued this posture into the first two quarters of the current year. In response to this action, the rates offered on certificates declined significantly and some proceeds from maturing accounts were transferred to investments outside the Bank.

Advances from the Federal Home Loan Bank declined from $2.2 million at September 30,1995 to $1.5 million at September 30,1996. Twelve million dollars in new short-term advances were drawn and repaid during the current fiscal year and an additional $.7 million, drawn in prior years, was repaid as well.

At September 30,1996, the Bank had approximately $2.1 million in outstanding commitments to fund loans. Of this amount, approximately $1.2 million were commitments to fund loans on single family residential homes, approximately $.7 million were to fund loans on other real estate, and approximately $.2 million were to fund various consumer and non-real estate commercial loans. The cash needed to fund these loans will be derived from principal repayments on outstanding loans and through the fulfillment of commitments to sell loans in the secondary markets.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) requires that savings associations must now satisfy three separate capital standards. The Bank must maintain core capital at least equal to 3.0% of adjusted total assets and risk- based capital at least equal to 8.0% of risk-weighted assets. Additionally, the Bank must maintain tangible capital at least equal to 1.5% of total adjusted assets. At September 30,1996, the Bank's position with respect to these requirements was as follows:

| (Dollars in Thousands) | Amount Required | Percent Required | Actual Amount | Actual Percent | Excess Amount |
|---|---|---|---|---|---|
| Core Capital | $7,478 | 3.0% | $26,174 | 10.5% | $18,696 |
| Tangible Capital | 3,739 | 1.5 | 26,174 | 10.5 | 22,435 |
| Risk-Based Capital | 13,874 | 8.0 | 25,758 | 15.4(1) | 12,884 |

(1) Represents risk-based capital as a percentage of risk-weighted assets.

Impact of Inflation and Changing Prices:

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The principal element of the Bank's earnings is interest income which may be significantly affected by the level of inflation and by government monetary and fiscal policies adopted in response to inflationary or deflationary pressures.

During fiscal year 1994, in response to significantly higher levels of economic activity, the FRB increased the federal funds rate from 3.00% to 3.25%, and followed up with four additional increases to raise the rate to 4.75% at September 30, 1994. During the first two quarters of fiscal year 1995, the FRB continued its efforts to cool the economy and raised the federal funds rates to 6.00%. Early in the fourth quarter of fiscal year 1995, responding to several months of acceptable economic and inflationary indicators the FRB reduced the federal funds rate by 25 basis points to 5.75%. During December and January of the current year the funds rate was cumulatively lowered an additional 50 basis points to 5.25% and remained at this level through September 30,1996.

Any future measures designed to restrict the growth in the monetary supply could cause an increase in short-term interest rates. These rates have a greater effect on the Bank than the general level of inflation and changing prices and give added importance to the need to manage the interest rate gap.

Results of Operations:

Net income for the fiscal year ended September 30,1996 was $2,156,717 ($1.42 per share) compared to $3,114,460 ($2.05 per share) for the fiscal year ended September 30,1995, which followed net income of $3,280,424($2.17 per share) for the fiscal year ended September 30, 1994. Fiscal year 1996 included a one-time charge to the Bank of approximately $1,362,000 representing a special assessment on deposits of 65.7 basis points enacted by Congress on September 30,1996 as a measure to recapitalize the Savings Association Insurance Fund. This charge reduced net income by approximately $885,000 or approximately $.58 per share. Fiscal year 1994 net income included income of $525,000 ($.35 per share) resulting from the required adoption of the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes". The rules set forth in SFAS No. 109 changed the manner in which income tax expense is determined for financial statement purposes. Adoption of SFAS No. 109 during the first quarter of fiscal year 1994 resulted in a reduction in the Bank's deferred tax liability with a resulting benefit recorded through the income statement as a cumulative effect of a change in accounting principle.

The largest components of the Bank's total income and total expenses are interest income from loans and investments and interest expense on deposits and borrowings. The difference between these items is net interest income, and the difference between the combined yield on loans and investments and the cost of deposits and borrowings is referred to as the yield spread.

Total interest income for the years ended September 30, 1996, 1995 and 1994 was approximately $20,191,565, $19,202,040, and $16,957,142, respectively. Of the increase in interest income from fiscal year 1995 to 1996 of approximately $1.0 million, approximately $.1 million was due to an increase in rate and approximately $.9 million was due to an increase in volume.

The primary factor in the increase in interest income from fiscal year 1995 to 1996 was the increase in the Bank's earning assets. The fiscal year 1995 increase in the Bank's total assets of $21.8 million (resulting from certificates of deposit inflow) occurred primarily during the third and fourth quarters, and although total assets did decline during fiscal year 1996 by $4.2 million, interest earning assets averaged $242.7 million in the current year compared to $232.2 million during fiscal year 1995. Additionally, the weighted average yield on the Bank's interest earning assets increased from 8.27% during fiscal year 1995 to 8.31% during fiscal year 1996, despite a 50 basis point decline in both the prime and federal funds rates in the current year. This improvement in yield resulted from a shift in funds from both federal funds sold and securities available for sale accounts into higher yielding loan products. The Bank's loan to deposit ratio increased from 83.8% at September 30,1995 to 96.2% at September 30, 1996.

Interest on mortgage-backed securities increased to $1,021,788 in the current

year from $817,223 during fiscal year 1995 resulting from an increase in the average portfolio balance from $11.7 million during fiscal year 1995 to $15.1 million in the current year. During the first quarter of fiscal year 1996, short-term liquid funds were invested in mortgage-backed securities so as to lock-in yields in a then declining rate environment. During subsequent periods of fiscal year 1996, certain of these mortgage-backed securities were sold to provide funding for new loans.

Interest on investment securities declined from $1,002,301 in 1995 to $785,315 in the current year due primarily to lower average portfolio volume of approximately $3.6 million.

The primary factor in the increase in interest income from fiscal year 1994 to 1995 was the increase in the weighted average yield on interest earning assets from 7.62% during fiscal year 1994 to 8.27% in fiscal year 1995, reflective of the 300 basis point increase in the federal funds rate over a period of five quarters beginning in the second quarter of fiscal year 1994. Adjustable rate loans represented 63.4% of the total loan portfolio during fiscal year 1994 and 64.1% during fiscal year 1995. The primary indices to which these loans are tied, prime and one year treasury bills which averaged 6.69% and 4.61%, respectively, during fiscal year 1994, rose to averages of 8.71% and 6.62% for fiscal year 1995.

Total interest expense for the years ended September 30, 1996, 1995 and 1994 was $10,353,532, $9,423,311, and $7,700,190, respectively. Of the increase in interest expense from fiscal year 1995 to 1996 of approximately $.9 million, approximately $.4 million was due to an increase in volume



and approximately $.5 million was due to an increase in rate. The major component of the Bank's interest expense is interest on deposits. The cost of deposits increased from 4.40% for the fiscal year ended September 30, 1995 to 4.66% for the fiscal year ended September 30,1996, primarily resulting from an increase in the cost of certificates of deposit from 5.70% one year ago to 6.13% in the current period. Rates offered on certificates of deposit rose sharply during the second and third quarters of fiscal year 1995. This rise in rates not only affected the then maturing certificates of deposit, but also attracted funds from outside the Bank as certificate balances increased from $130.2 million at March 31, 1995 to $144.4 million at September 30, 1995.  The timing of the rollover and acquisition along with the related maturity terms of these higher yielding certificates served to impact the current fiscal year to a greater extent than the year ended September 30,1995. Additionally, certificates of deposit as a percentage of total deposits increased from 62.1% during fiscal year 1995 to 64.0% for fiscal year 1996, serving to further increase the Bank's cost of deposits. The increase in interest expense from $7.7 million for the fiscal year 1994 to $9.4 million for fiscal year 1995 resulted primarily from the increase in the weighted rate paid on certificates of deposit from 4.77% in fiscal year 1994 to 5.70% in fiscal year 1995 as well as the significant increase in certificates of deposit balances from $118.7 million at September 30,1994 to $144.4 million at September 30,1995.

Net interest income for the fiscal years ended September 30,1996, 1995 and 1994 was $9.84 million, $9.78 million and $9.26 million, respectively. The increase from fiscal year 1995 to 1996 was the result of the Bank's growth of $10.5 million in average earning assets as the net yield on interest earning assets declined from 4.21% in fiscal year 1995 to 4.05% in fiscal year 1996. The growth in average interest earning assets was funded primarily by average deposit growth of $9.0 million and to a lesser extent, earnings from operations. Average advances outstanding from the Federal Home Loan Bank decreased $1.1 million during the current year as compared to fiscal year 1995.

The increase in the net yield from fiscal year 1994 to 1995, from 4.16% to 4.21%, was due primarily to the Bank's positive one year interest rate gap which generally benefits the net spread during periods of rising interest rates. From the second quarter of fiscal year 1994 to the fourth quarter of fiscal year 1995, the federal funds and prime rates increased by 300 basis points along with a generally commensurate increase across the entire yield curve.

Noninterest income increased to $2,544 790 for the year ended September 30,1996 from $2,107,198 for the year ended September 30,1995, which followed $2,146,954 for the year ended September 30, 1994. Service charges and other fees were $2,086,188 for the year ended September 30, 1996, compared to $1,894,101 and $1,750,739 for the years ended September 30,1995 and 1994, respectively. The increase in fiscal year 1996 over the two prior years resulted primarily from increases in various service charges on deposit accounts due to increases in fee structure, transaction activity, and volume of accounts.

Gains on the sale of loans increased to $211,688 for the year ended September 30,1996 from $121,398 for the year ended September 30,1995, Which followed $195,954 for fiscal year 1994. Gains on the sale of loans have, for the past three fiscal years, been generated primarily from the sale of thirty year fixed rate conforming residential first mortgage loans. Gains realized are a function of the Bank's pricing levels relative to local market competition. The  general

trend and level of interest rates, and the volume of loans sold. The volume of loans sold during fiscal year 1996 increased to $26.8 million from $11.0 million and $16.7 million in fiscal years 1995 and 1994, respectively. During fiscal year 1996, the Bank continued its policy of selling current production of thirty year fixed rate residential mortgage loans in the secondary market, while retaining ten to fifteen year fixed rate and thirty year adjustable rate residential mortgage loans in its portfolio either in the form of loans or mortgage backed securities, subject to liquidity and interest rate risk parameters. A gradual decline in the general level of interest rates which began during the fourth quarter of fiscal year 1995 continued throughout the first 5 months of fiscal year 1996, and attracted residential mortgage customers to fixed rate fifteen and thirty year loans for new purchases as well as for the refinancing of existing residences. With this increase in thirty year fixed rate loan production came increased loan sale activity in order to manage the Bank's interest rate risk exposure. During the first three quarters of fiscal year 1995, the general trend of interest rates had been upward and the demand for residential mortgage loans had favored adjustable rate and to a lesser extent, shorter-term ten to fifteen year fixed rate products, while the volume of thirty year fixed rate originations had declined significantly. The general trend of long-term interest rates during the first two quarters of fiscal year 1994 had been toward lower levels, and had thus provided a more favorable environment for fixed rate loan originations and sales than was the case during the first three quarters of fiscal year 1995. Although the Bank's market area has witnessed increased competition for these loans, no significant changes in the Bank's pricing of these loans has occurred.

The sale of securities available for sale generated losses of $47,420 and $30,972, respectively, during fiscal years 1996 and 1995, compared to a gain of $87,905 during fiscal year 1994. Securities available for sale include Treasury and Agency securities with maturities of generally five years or less, as well as various types of mortgage-backed securities acquired through both securitization of the Bank's own portfolio of originations or through purchases in the open market. Subject to interest rate risk and asset quality considerations, securities are acquired for the purpose of attaining the highest possible yield on funds not required to fund loan demand or to satisfy short-term liquidity requirements. Gains and losses recorded on the sale of these securities are dependent upon the volume of securities sold as well as the market level of interest rates. During primarily the third and fourth quarters of fiscal year 1996, the Bank sold securities totalling $19.7 million in order to meet increasing loan demand. Securities sales totalled $4.0 and $14.2 million, respectively, during fiscal years 1995 and 1994.

Other income increased to $294,334 in the current year compared to $122,671 and $112,356, respectively, for the years ended September 30, 1995 and 1994. The fiscal year 1996 amount includes income of $149,306 resulting from the Bank's adoption of SFAS No. 122. "Accounting for Mortgage Servicing Rights". This statement requires that the value of mort-



gage servicing rights associated with mortgage loans originated and sold by the Bank be capitalized as an asset. All capitalized amounts are amortized against future servicing revenues, and are subject to subsequent measurement for impairment based on the then fair value estimates. SFAS No. 122 is more fully described in footnote 1 of these financial statements.

Noninterest expense increased to $8,793,856 for the year ended September 30,1996 from $6,875,867 for the year ended September 30,1995 which followed expense of $6,999,382 for the year ended September 30, 1994. Salaries and related benefits increased to $3,788,706 in fiscal year 1996 from $3,573,873 in the prior year, which followed an increase from $3,491,966 in 1994. These increases have resulted primarily from increased wages and payroll taxes related to general year-to-year raises of approximately four percent, and additionally from increases in the cost of employee medical insurance.

Federal deposit insurance premiums were $502,244, $463,010, and $452,181 for the years ended September 30, 1996,1995 and 1994, respectively. Variances in these amounts have resulted from changes in the volume of deposits subject to coverage, as the underlying rate charged by the FDIC over these periods has remained constant. The Bank was also assessed a one-time charge of $1,362,018 during fiscal year 1996 due to legislation enacted on September 30, 1996 to recapitalize the SAIF. This legislation is more fully discussed in footnote number 16 contained in this year's audited financial statements.

Net occupancy and equipment expense decreased to $997,586 in fiscal year 1996 from $1,031,636 and $997,091 in fiscal years 1995 and 1994, respectively. The decrease from 1995 to 1996 resulted primarily from lower depreciation costs related to furniture, fixtures and equipment, while the increase from fiscal year 1994 to 1995 resulted primarily from increases in equipment repair and maintenance charges as well as general branch site maintenance.

Data processing and outside service fees were $477,376 for the year ended

September 30, 1996 compared to $465,021 and $478,136 for the years ended September 30,1995 and 1994, respectively. The increase in expense from fiscal year 1995 to 1996 resulted primarily from increases in both transaction volume and customer files. The decrease in expense from fiscal year 1994 to 1995 was the result of a negotiated decrease in the Bank's contract with its outside data processor.

Legal expense increased to $465,021 for the year ended September 30,1996 from $293,503 and $510,370 for the years ended September 30,1995 and 1994, respectively. Legal expense increased during the current fiscal year due to increased litigation in connection with the Bank's lawsuit against NationsBank, which is more fully described in footnote number 17 contained in this year's audited financial statements. Legal expense decreased in fiscal year 1995 from 1994 due to very little activity occurring during fiscal year 1995 as we awaited the damages trial, following a liability lawsuit in 1994 in which the Bank prevailed.

Telephone and postage expense increased to $270,4)4 in the current year compared to $248,965 and $235,970 for fiscal years 1995 and 199, respectively, due primarily to increased postal rates.

Advertising expense rose to $111,094 for fiscal year 1996 from $78,020 and $86,782 for fiscal years 1995 and 1994, respectively, resulting from increased media exposure, including promotional requirements related to both the introduction of the Bank's new credit card service as well as the commemorative celebration of the Bank s seventieth anniversary of service to Glynn County.

Expense (income) from real estate owned, net was $45,182, $32,132, and ($26,611) for the years ended September 30, 1996 1995, and 1994, respectively. Expense from real estate owned encompasses the normal costs of ownership such as property taxes, maintenance and repairs, utilities, and insurance. Additionally, the above cited amounts include the results from both gains and losses recognized upon disposal and write-downs subsequent to foreclosure and are thus dependent upon various economic and market conditions. Expenses related to ownership amounted to approximately $8,000, $11,000 and $49,000 for the years ended September 30,1996, 1995, and 1994, respectively and are relatively proportional to the level of real estate owned.

Other expense was $774,225, $689,707, and $793,497 for the years ended September 30,1996,1995, and 1994, respectively. The increase in expenses from fiscal year 1995 to 1996 resulted primarily from the disposal of various obsolete fixed assets and from expenses incurred resulting from the commencement of the Bank's proprietary credit card program. The decrease in expenses from fiscal year 1994 to 1995 resulted primarily from reductions in write-downs of excess servicing fees and charges for equipment obsolescence along with lower premiums paid on business insurance.

The ratio of noninterest expense to total income was 38.7%, 32.3%, and 36.6% for the years ended September 30, 1996, 1995, and 1994, respectively. The increase from fiscal year 1995 to 1996 was due primarily to an increase in legal expense in the current fiscal year, as well as the one-time special assessment to recapitalize the SAIF. The decrease from fiscal year 1994 to 1995 resulted from a decrease in legal expense for fiscal year 1995.

The provision for loan losses was $240,000, $195,000 and $180,000 for the years ended September 30,1996,1995, and 1994, respectively. Non-accrual loans decreased to $261,193 at September 30,1996 from $788,116 at September 30,1995. Potential problem loans increased to $2,904,673 at September 30,1996 from $210,416 one year ago. Included in the current year amount are 12 loans totalling $2.7 million, in aggregate, secured by commercial real estate, and are generally delinquent sixty days. The Bank is well collateralized on these loans and believes them to be fully collectible. Management believes the allowance for loan losses to be adequate at September 30, 1996, based upon conditions reasonably known to management; however, the allowance may be increased based upon future economic changes or conditions.

The provision for income taxes decreased to $1,192,250 for the year ended September 30,1996 from $1,700,600 for fiscal year 1995, which followed $1,469,100 for fiscal year 1994. The decrease in provision for the current fiscal year was due primarily to a decrease in taxable income due to increased litigation expenses and the one-time SAlF assessment in 1996.



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
SEPTEMBER 30, 1996 AND 1995

(Note 17)

<TABLE>
<CAPTION>

| ASSETS | 1996 | 1995 |
|---|---|---|
| <S> | <C> | <C> |

| | | |
|---|---|---|
| CASH AND DUE FROM BANKS | $ 4,788,450 | $ 7,077,786 |
| INTEREST-BEARING DEPOSITS WITH OTHER BANKS | 10,504,682 | 11,551,711 |
| FEDERAL FUNDS SOLD | 545,000 | 10,675,000 |
| SECURITIES AVAILABLE FOR SALE (Note 3) | 16,364,023 | 28,720,859 |
| LOANS, net (Note 4) | 209,868,046 | 186,664,013 |
| REAL ESTATE OWNED, net | 954,904 | 2,208,679 |
| PREMISES AND EQUIPMENT, net (Note 6) | 1,994,142 | 2,258,326 |
| FEDERAL HOME LOAN BANK STOCK, at cost | 1,598,700 | 1,598,700 |
| ACCRUED INTEREST: | | |
| Loans | 1,583,448 | 1,388,875 |
| Investments | 172,297 | 400,131 |
| OTHER ASSETS | 743,752 | 743,373 |
| | $249,117,444 | $253,287,453 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| DEPOSITS (Note 7): | | |
| Checking accounts | $13,561,385 | $10,860,048 |
| NOW accounts | 35,293,128 | 34,702,626 |
| Savings accounts | 20,598,108 | 20,000,808 |
| Money market deposit accounts | 10,571,845 | 12,843,024 |
| Certificates of deposit | 138,051,393 | 144,399,490 |
| Total deposits | 218,075,859 | 222,805,996 |
| ADVANCES FROM THE FHLB (Note 8) | 1,500,000 | 2,200,000 |
| ADVANCE PAYMENTS BY BORROWERS FOR TAXES AND INSURANCE | 1,251,325 | 1,475,065 |
| ACCRUED EXPENSES AND OTHER LIABILITIES | 2,192,353 | 796,255 |
| DEFERRED INCOME TAXES (Note 14) | 72,822 | 503,722 |
| Total liabilities | 223,092,359 | 227,781,038 |
| COMMITMENTS AND CONTINGENCIES (Notes 13, 15 and 17) | | |
| STOCKHOLDERS' EQUITY (Note 10): | | |
| Common stock, $1 par value; 4,000,000 shares authorized, 1,499,939 shares issued and outstanding | 1,499,939 | 1,499,939 |
| Additional paid-in capital | 1,550,208 | 1,550,208 |
| Retained earnings | 23,137,905 | 22,376,131 |
| Net unrealized (depreciation) appreciation on securities available for sale, net of tax of $87,752 and $43,145 in 1996 and 1995 (Note 1) | (162,967) | 80,137 |
| Total stockholders' equity | 26,025,085 | 25,506,415 |
| | $249,117,444 | $253,287,453 |

</TABLE>

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



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
ENDED SEPTEMBER 30, 1996, 1995, AND 1994

| | FOR THE YEARS | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| INTEREST INCOME: | | | |
| Interest on loans | $17,573,029 | $16,295,326 | $14,563,642 |
| Interest on securities available for sale | 1,807,103 | 1,819,524 | 1,830,475 |
| Interest on federal funds sold and interest-bearing deposits with banks | 695,088 | 972,291 | 472,833 |
| Dividends on FHLB stock | 116,345 | 114,899 | 90,192 |
| Total interest income | 20,191,565 | 19,202,040 | 16,957,142 |
| INTEREST EXPENSE: | | | |
| Interest on deposits (Note 11) | 10,175,709 | 9,210,751 | 7,391,055 |
| Interest on advances from the FHLB and other | 177,823 | 212,560 | 309,135 |
| Total interest expense | 10,353,532 | 9,423,311 | 7,700,190 |
| NET INTEREST INCOME | 9,838,033 | 9,778,729 | 9,256,952 |
| PROVISION FOR LOAN LOSSES | 240,000 | 195,000 | 180,000 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 9,598,033 | 9,583,729 | 9,076,952 |
| NONINTEREST INCOME: | | | |
| Service charges and other fees | 2,056,188 | 1,894,101 | 1,750,739 |
| Gain on sale of loans, net | | | |

| | | | |
|---|---|---|---|
| (Note 1) | 211,688 | 121,398 | 195,954 |
| (Loss) gain on sale of securities available for sale | (47,420) | (30,972) | 87,905 |
| Other | 294,334 | 122,671 | 112,356 |
| Total noninterest income | 2,544,790 | 2,107,198 | 2,146,954 |
| NONINTEREST EXPENSE: | | | |
| Salaries and related benefits | 3,788,706 | 3,573,873 | 3,491,966 |
| SAIF assessment (Note 16) | 1,362,018 | 0 | 0 |
| Federal deposit insurance premiums | 502,244 | 463,010 | 452,181 |
| Net occupancy and equipment expense | 997,586 | 1,031,636 | 977,091 |
| Data processing and outside service fees | 477,376 | 465,021 | 478,136 |
| Legal | 465,021 | 293,503 | 510,370 |
| Telephone and postage | 270,404 | 248,965 | 235,970 |
| Advertising | 111,094 | 78,020 | 86,782 |
| Expense (income) from real estate owned, net | 45,182 | 32,132 | (26,611) |
| Other | 774,225 | 689,707 | 793,497 |
| Total noninterest expense | 8,793,856 | 6,875,867 | 6,999,382 |
| INCOME BEFORE INCOME TAXES | 3,348,967 | 4,815,060 | 4,224,524 |
| INCOME TAX EXPENSE (Note 14) | 1,192,250 | 1,700,600 | 1,469,100 |
| INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE | 2,156,717 | 3,114,460 | 2,755,424 |
| CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (Note 1) | 0 | 0 | 525,000 |
| NET INCOME | $ 2,156,717 | $3,114,460 | $3,280,424 |
| EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (Note 1) | $1.42 | $2.05 | $1.82 |
| CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE | 0 | 0 | 0 |
| EARNINGS PER SHARE | $1.42 | $2.05 | $2 17 |

The accompanying note are an integral part of these consolidated statements.



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995, AND 1994

(Note 10)

<TABLE>
<CAPTION>

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Net Unrealized Appreciation (Depreciation) on Securities Available for Sale | Total |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| BALANCE, September 30,1993 | $1,496,939 | $1,514,208 | $18,438,348 | $ 0 | $21,449,495 |
| Net income | 0 | 0 | 3,280,424 | 0 | 3,280,424 |
| Dividends declared ($.75 per share) | 0 | 0 | (1,122,855) | 0 | (1,122,855) |
| Stock options exercised | 1,000 | 14,000 | 0 | 0 | 15,000 |
| BALANCE, September 30, 1994 | 1,497,939 | 1,528,208 | 20,595,917 | 0 | 23,622,064 |
| Net income | 0 | 0 | 3,114,460 | 0 | 3,114,460 |
| Dividends declared ($.89 per share) | 0 | 0 | (1,334,246) | 0 | (1,334,246) |
| Stock options exercised | 2,000 | 22,000 | 0 | 0 | 24,000 |
| Change in net unrealized appreciation on securities available for sale, net of taxes of $43,145 (Note 1) | 0 | 0 | 0 | 80,137 | 80,137 |
| BALANCE, September 30, 1995 | 1,499,939 | 1,550,208 | 22,376,131 | 80,137 | 25,506,415 |
| Net income | 0 | 0 | 2,156,717 | 0 | 2,156,717 |
| Dividends declared ($.93 per share) | 0 | 0 | (1,394,943) | 0 | (1,394,943) |
| Change in net unrealized depreciation on securities available for sale, net of taxes of $87,752 (Note 1) | 0 | 0 | 0 | (243,104) | (243,104) |
| BALANCE, September 30,1996 | $1,499,939 | $1,550,208 | $23,137,905 | $(162,967) | $26,025,085 |

</TABLE>

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

FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995, AND 1994

(Note 1)

<TABLE>
<CAPTION>

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Interest received on loans | $ 17,038,817 | $ 15,648,553 | $ 14,055,687 |
| Interest and dividends received on securities available for sale | 2,846,370 | 2,836,623 | 2,490,370 |
| Loan fees collected | 799,968 | 583,199 | 955,427 |
| Service charges on deposit accounts | 1,486,568 | 1,182,844 | 958,074 |
| Other fees collected | 1,009,549 | 875,841 | 962,965 |
| Interest paid on deposits | (10,234,098) | (9,164,898) | (7,381,855) |
| Payments for salaries and related benefits | (3,954,050) | (3,823,418) | (4,002,239) |
| Payments for general and administrative expenses | (3,231,601) | (2,876,778) | (3,094,923) |
| Income taxes paid, net | (1,435,153) | (1,498,000) | (1,683,872) |
| Interest paid on borrowings | (195,823) | (212,560) | (309,135) |
| Net cash provided by operating activities | 4,130,547 | 3,551,406 | 2,950,499 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Proceeds from sales of loans | 26,834,936 | 11,003,152 | 16,722,929 |
| Purchases of securities available for sale | (9,778,004) | (9,188,300) | (5,522,533) |
| Principal collected on loans and mortgage-backed securities | 71,720,864 | 75,623,568 | 75,923,574 |
| Loans funded | (124,581,499) | (94,936,408) | (114,608,300) |
| Purchase of premises and equipment | (101,892) | (119,960) | (340,842) |
| Proceeds from sales and maturities of securities available for sale | 24,865,055 | 7,507,264 | 25,268,555 |
| Other, net | 448,708 | 459,706 | (745,836) |
| Cash flows used in investing activities | (10,591,832) | (9,650,978) | (3,302,453) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Net increase (decrease) in: | | | |
| Checking accounts | 2,701,337 | 860,806 | 1,454,147 |
| NOW accounts | 590,502 | (1,454,841) | 3,674,259 |
| Savings and money market deposit accounts | (1,673,879) | (3,046,542) | (1,307,960) |
| Proceeds from issuance of certificates of deposit | 240,267,682 | 223,502,234 | 179,412,768 |
| Payments for maturing certificates of deposit | (246,615,779) | (197,771,042) | (179,064,326) |
| Payments of maturing FHLB advances | (12,700,000) | 6,000,000 | (2,000,000) |
| Proceeds from FHLB advances | 12,000,000 | (7,800,000) | 700,000 |
| Proceeds from other borrowed money | 12,000,000 | 11,000,000 | 0 |
| Payments of other borrowed money | (12,000,000) | (11,000,000) | 0 |
| Dividends paid | (1,394,943) | (1,334,246) | (1,122,855) |
| Net cash (used in)provided by financing activities | (6,825,080) | 18,956,369 | 1,746,033 |
| Net (decrease) increase in cash and cash equivalents | (13,286,365) | 12,856,797 | 1,394,079 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 29,304,497 | 16,447,700 | 15,053,621 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 16,018,132 | $ 29,304,497 | $ 16,447,700 |
| NET INCOME | $ 2,156,717 | $ 3,114,460 | $ 3,280,424 |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Depreciation | 366,076 | 403,029 | 359,986 |
| Provision for loan losses | 240,000 | 195,000 | 180,000 |
| (Benefit) provision for deferred income taxes | (418,846) | (602,470) | 163,181 |
| Loan and excess servicing fees deferred, net | (64,521) | (111,767) | 33,335 |
| (Increase) decrease in interest receivable | 33,261 | (251,358) | 85,746 |
| Increase (decrease) in interest payable | (58,389) | 45,853 | 9,200 |
| Increase (decrease) in accrued expenses and other liabilities | 1,412,221 | (478,414) | (314,961) |
| Other, net | 464,028 | 1,237,073 | (846,412) |
| Total adjustments | 1,973,830 | 436,946 | (329,925) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 4,130,547 | $ 3,551,406 | $ 2,950,499 |

| | | | |
|---|---|---|---|
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES: | | | |
| Loans exchanged for mortgage-backed securities | $ 6,445,235 | $ 1,016,520 | $ 16,777,670 |

</TABLE>

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



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996, 1995, AND 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

First Federal Savings Bank of Brunswick, Georgia (the "Bank"), is a savings bank primarily engaged in the business of obtaining deposits and providing mortgage and other loans to the general public. The more significant accounting and reporting policies not described elsewhere in these notes to financial statements are discussed below.

Principles of Consolidation and
Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Bank and its wholly owned subsidiary, First Shelter Service Corporation ("First Shelter"). All significant intercompany balances and transactions have been eliminated in consolidation. As of September 30, 1996 and 1995, the investment in First Shelter amounted to $304,398 and $303,954, respectively.

Certain 1995 and 1994 amounts have been reclassified to conform with the 1996 presentation.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the accompanying financial statements and disclosures. Actual results could differ from those estimates.

Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits with banks, and federal funds sold, all of which have an original maturity of less than 90 days from the date of purchase.

Securities Available for Sale

The Bank adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" as of October 1,1994. In accordance with SFAS No. 115, securities are classified as either held-to-maturity, trading, or available-for-sale. Held-to-maturity securities are carried at amortized cost. Trading securities are carried at fair value, with unrealized gains and losses included in earnings. Available-for-sale securities are carried at fair value, with unrealized gains and losses excluded from earnings and reported in stockholders' equity. The Bank classifies all of its securities as available-for-sale which were reported at their fair value of $16,364,023 on September 30, 1996. The net unrealized depreciation on securities available for sale of $250,719 was recorded net of taxes as a separate component of stockholders' equity.

Premiums and discounts are recognized in interest income using the interest method over the period of maturity.

Loans

During 1996, the Bank adopted SFAS No. 118, "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures," which amended SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." These statements require that impaired loans, as defined, be measured based on the discounted present value of expected future cash flows, the observable market price of the loan, or the fair value of the collateral if the loan is collateral-dependent. There was no effect on current period earnings as a result of the adoption of SFAS No. 118. Additionally, as permitted by these statements, in-substance foreclosures of $0 and $845,036 were reclassified to loans, net, from real

estate owned at September 30, 1996 and 1995, respectively.

Allowance for Loan Losses

The allowance for loan losses is based on management's estimate of the allowance required to reflect the risks in the loan portfolio based on circumstances and conditions known or anticipated at each reporting date. A provision for loan losses is charged to operations based on management's periodic evaluation of these risks. Provisions not specifically identified are based on the Bank's experience and other factors. It is the opinion of management that the allowance for loan losses is adequate at September 30, 1996 based on conditions reasonably known to management; however, the allowance may be increased based on future economic changes or conditions.

Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less costs to sell. Costs related to holding real estate and charges to write down real estate for subsequent declines in net realizable value are charged to operations. Real estate owned by the Bank at September 30, 1996 and 1995 is recorded net of a valuation allowance of $41,000 and $25,000, respectively.

Gains on sales of real estate acquired through foreclosure are recognized using cash down payment guidelines established by authoritative accounting pronouncements.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided principally using the straight-line method over the estimated useful lives of the assets of 20 to 30 years for buildings, 10 years for leasehold improvements, and 3 to 10 years for furniture, fixtures, and equipment.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank System, is required to maintain an investment in capital stock of the Federal Home Loan Bank ("FHLB") in an amount equal to the greater of 1% of its outstanding permanent residential mortgage loans or 5% of its outstanding advances. No ready market exists for the FHLB stock, and it has no quoted value. For disclosure purposes, such stock is assumed to have a market value equal to cost.

Interest Income

Income on loans and investments is recognized when the interest is earned in order to yield a constant rate of return on funds outstanding.

Uncollected Interest

Loans 90 days or more delinquent are placed on nonaccrual status. Non-accrual and restructured loans totalled approximately $1,040,899 and $1,932,000 at September 30,1996 and 1995, respectively. Interest on these loans, if ultimately collected, is credited to income in the period of recovery. During 1996, 1995, and 1994, additional gross interest income totaling approximately $31,000, $62,000 and $113,000, respectively, would have been recorded on nonaccrual and restructured loans if all such loans at September 30,1996, 1995, and 1994 had been accruing interest at the original contractual rate. Interest payments recorded in 1996,1995, and 1994 as income, excluding reversals of previously accrued interest, for all such nonperforming loans at September 30,1996, 1995, and 1994 were approximately $100,000,



$104,000, and $44,000, respectively. The Bank does not have significant commitments to lend additional funds to any of these borrowers.

Loan Fees

Loan fees and direct costs of originating successful loans are being deferred and amortized, net, as an adjustment to interest yield over the life of the related loan.

Loan Sales and Loan Servicing

Additional funds for lending are provided by selling participating interests in loans or whole loans. Under most sales agreements, the Bank continues to provide loan servicing, which includes collecting payments and remitting its portion thereof to the buyer, net of servicing fees. On October 1, 1996, the Bank adopted SFAS No. 122, "Accounting for Mortgage Servicing Rights" which, among

other provisions, requires that the value of mortgage servicing rights associated with mortgage loans originated by an entity, which it intends to sell, be capitalized as assets. The cost of these mortgage servicing rights is amortized in proportion to, and over the period of, the estimated net servicing revenues. In connection with the October 1, 1995 adoption of SFAS No. 122, the Bank has capitalized mortgage servicing rights of $149,306 in 1996. Amortization of mortgage servicing rights was $8,815 in 1996. No valuation allowance was recorded during 1996. Accordingly, adoption of SFAS No. 122 increased net income after taxes by $97,049, or $.06 per share. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant risk characteristics of the Bank's loans are the interest rate and loan type. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed their fair value.

When participating interests in loans sold have an average contractual interest rate, adjusted for normal servicing fees, that differs from the agreed yield to the purchaser, gains or losses are recognized equal to the present value of such differential over the estimated remaining life of such loans. The resulting "excess servicing receivable," included in other assets, is amortized over the estimated useful life using the level yield method.

Quoted market prices are not available for the excess servicing receivables. Thus, the excess servicing receivables and the amortization thereon are periodically evaluated in relation to estimated future servicing revenues, taking into consideration changes in interest rates, current prepayment rates, and expected future cash flows. The Bank evaluates the carrying value of the excess servicing receivables by estimating the future servicing income of the excess servicing receivables based on management's best estimate of remaining loan lives and discounted at the original discount rate.

Income Taxes

Effective October 1,1993,the Bank adopted SFAS No.109, "Accounting for Income Taxes" which requires the asset and liability method of accounting for deferred income taxes. The Bank previously accounted for deferred taxes under the deferral method required by Accounting Principles Board Opinion No. 11. This change resulted in the Bank recording a cumulative effect of a change in accounting principle in the consolidated statement of income for the year ended September 30,1994 of $525,000.

Earnings per Share

Earnings per share are calculated based on the weighted average common shares and common stock equivalents outstanding during the year of 1,523,693, 1,516,868, and 1,514,017 in 1996,1995, and 1994, respectively.

2. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Bank in determining estimates of fair value disclosures for financial instruments:

Cash and Due From Banks, Interest-Bearing Deposits With
Banks, and Federal Funds Sold

The carrying amount for these cash equivalents approximates their fair value.

Securities Available for Sale

Fair values of securities available for sale are based on quoted market prices, where available. In the event that quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The estimated fair value of securities available for sale was $16,364,023 and $28,720,859 at September 30,1996 and 1995, respectively.

Loans, Net

The fair values of conforming residential mortgage loans are based on quoted market prices or quoted market prices of similar loans sold, adjusted for differences in loan characteristics. The fair values of other loans are estimated using discounted future cash flow analyses using interest rates or secondary market yield requirements currently being offered for loans with similar terms and credit quality. The carrying amount of accrued interest approximates its fair value. The estimated fair value of loans, net, were approximately $208,825,000 and $186,862,000 at September 30, 1996 and 1995, respectively.

Off-Balance Sheet Instruments

The fair values of commitments to sell mortgage loans and commitments to extend credit approximate their carrying amounts. Commitments or commercial letters of credit are not significant, and their related fair value would be nominal.

Deposits

The fair values of checking, NOW, savings, and money market deposit accounts are equal to the reported carrying amount, which is the amount payable on demand as of the reporting date. Fair values for certificates of deposit are estimated using a discounted future cash flow method, which applies rates currently offered for deposits of similar remaining maturities. The estimated fair value of certificates of deposit were approximately $138,824,000 and $145,154,000 at September 30,1996 and 1995, respectively.

Borrowings

The fair value of the Bank's borrowings is determined by estimates using discounted future cash flow analyses based on the Bank's current incremental borrowing rates for similar types of instruments. The estimated fair value of advances from the FHLB were approximately $1,509,000 and $2,200,000 at September 30,1996 and 1995, respectively.

The techniques used to estimate fair values are significantly affected by the assumptions used, including the discount rate and estimated future cash flows. Therefore, the fair value estimates for these financial instruments cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of a particular financial instrument of the Bank. The aggregate fair value amounts presented herein do not represent the aggregate underlying value of the Bank and may not be indicative of amounts that might ultimately be realized upon disposition of those assets and liabilities individually or in aggregate.



3. SECURITIES AVAILABLE FOR SALE

Securities available for sale at September 30, 1996 and 1995 consist solely of U.S. Treasury notes, agency bonds, mortgage-backed securities, and tax-free municipal securities.

The amortized cost and estimated fair value of securities available for sale were as follows at September 30, 1996 and 1995:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| 1996: | | | | |
| Investment securities | $ 8,032,109 | $ 33,366 | $ 41,343 | $ 8,024,132 |
| Mortgage-backed securities | 8,582,633 | 3,612 | 246,354 | 8,339,891 |
| | $16,614,742 | $ 36,978 | $ 287,697 | $16,364,023 |
| 1995: | | | | |
| Investment securities | $16,353,511 | $ 156,286 | $ 20,982 | $16,488,815 |
| Mortgage-backed securities | 12,244,066 | 77,895 | 89,917 | 12,232,044 |
| | $28,597,577 | $ 234,181 | $ 110,899 | $28,720,859 |

Gross realized gains and losses on sale of investments in securities were as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Gross realized gains: | | | |
| Investment securities | $ 34,042 | $ 0 | $ 0 |
| Mortgage-backed securities | 17,660 | 0 | 139,528 |
| | $ 51,702 | $ 0 | $139,528 |
| Gross realized losses: | | | |
| Investment securities | $ 11,231 | $28,471 | $ 0 |
| Mortgage-backed securities | 87,891 | 2,501 | 51,623 |
| | $ 99,122 | $30,972 | $ 51,623 |

The amortized cost and estimated market values of securities available for sale at September 30,1996, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

| | Amortized Cost | Estimated Market Value |
|---|---|---|
| Due in 1 year or less | $ 3,078,251 | $ 3,085,253 |
| Due after 1 year through 5 years | 5,078,965 | 5,071,150 |
| Due after 5 years through 10 years | 2,160,170 | 2,112,830 |
| Due after 10 years and thereafter | 6,297,356 | 6,094,790 |
| | $16,614,742 | $16,364,023 |

At September 30,1996 and 1995,certain of the Banks'assets(primarily investment securities and mortgage-backed securities) with amortized cost of approximately $14,356,136 and $16,277,639, respectively, were pledged to secure certain certificates of deposit, public deposits, a letter of credit, advances from the FHLB, and treasury tax and loan balances with the Federal Reserve Bank of Atlanta.



Loans at September 30,1996 and 1995 are summarized as follows:

| | 1996 | 1995 |
|---|---|---|
| Real estate loans: | | |
| Conventional mortgage | $160,887,037 | $150,372,532 |
| Construction | 21,564,508 | 12,951,880 |
| Partially guaranteed by Federal Housing Administration or Veterans Administration | 446,415 | 507,609 |
| Consumer loans | 28,438,919 | 24,157,352 |
| Commercial loans | 7,441,666 | 4,512,256 |
| | 218,778,545 | 192,501,629 |
| Less: | | |
| Allowance for loan losses | (800,786) | (834,882) |
| Deferred loan fees and other, net | (830,384) | (789,790) |
| Undisbursed portions of loans in process | (7,279,329) | (4,212,944) |
| Net loans | $209,868,046 | $186,664,013 |

During fiscal years ended September 30,1996,1995, and 1994, loans foreclosed and transferred to real estate owned totaled $825,255, $1,569,144, and $317,430, respectively.

The Bank has made loans to directors and executive officers for the purchase of their primary residences and other short-term loans aggregating $1,603,716 and $1,838,969 at September 30,1996 and 1995, respectively. In the opinion of management, these loans are fully collectible. No loans due from directors or executive officers were charged off during the current fiscal year. The following sets forth information regarding the activity during fiscal year 1996 in loans due from directors and executive officers:

| | |
|---|---|
| Balance at September 30, 1995 | $1,838,969 |
| Repayments | (588,481) |
| New borrowings | 353,228 |
| Balance at September 30,1996 | $1,603,716 |

A reconciliation of the allowance for loan losses for the years ended September 30,1996,1995, and 1994 is as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Balance at beginning of year | $834,882 | $786,111 | $869,297 |
| Provision for loan losses | 240,000 | 195,000 | 180,000 |
| Amounts charged off | (299,318) | (189,497) | (30,605) |
| Recoveries | 25,222 | 43,268 | 37,419 |
| Balance at end of year | $800,786 | $834,882 | $786,111 |

5. LOAN SERVICING

The Bank was servicing mortgage loans (which are not included in the accompanying statements of financial condition) with unpaid principal balances totaling $133,264,664, $128,526,732, and $133,599,102 for the benefit of others at September 30, 1996,1995, and 1994, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing were $1,251,325 and $1,475,065 at September 30,1996 and 1995, respectively.



6. PREMISES AND EQUIPMENT

Premises and equipment at September 30,1996 and 1995 consisted of the following:

| | 1996 | 1995 |
|---|---|---|
| Cost | | |
| Land | $ 766,574 | $ 766,574 |
| Buildings | 1,152,599 | 1,152,599 |
| Furniture, fixtures, and equipment | 2,760,477 | 2,758,403 |
| Leasehold improvements | 584,523 | 561,917 |
| Total cost | 5,264,173 | 5,239,493 |
| Less accumulated depreciation and amortization | (3,270,031) | (2,981,167) |

| | | |
|---|---|---|
| | $ 1,994,147 | $ 2,258,326 |

7. DEPOSITS

Included in deposits at September 30,1996 and 1995 are certificates of deposit in denominations of $100,000 or more aggregating $31,999,281 and $34,389,564, respectively.

At September 30,1996, the scheduled maturities of CDs are as follows:

| | |
|---|---|
| 1997 | $100,408,617 |
| 1998 | 18,052,590 |
| 1999 | 12,724,537 |
| 2000 | 5,680,789 |
| 2001 and thereafter | 1,184,860 |
| | $138,051,393 |

8. ADVANCES FROM THE FHLB

Advances from the FHLB as of September 30,1996 and 1995 amounted to $1,500,000 and $2,200,000, respectively. The advances are due in their entirety in 1997.

The weighted average interest rate for outstanding FHLB advances was 7.9% and 6.82% at September 30,1996 and 1995, respectively.

9. RESTRICTIONS ON RETAINED EARNINGS

The Bank is subject to certain restrictions on the amount of dividends that it may declare prior to regulatory approval. At September 30,1996, approximately $6,819,000 of retained earnings were available for dividend declaration without prior regulatory approval.

10. REGULATORY MATTERS

The Bank is subject to various capital requirements administered by the federal banking agencies. 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 require 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). Management believes, as of September 30,1996, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 1996 and September 30, 1995, the most recent notification from the Office of Thrift Supervision categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain certain tangible capital, Tier I (core) capital, and total risk-based capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.



The Bank's actual amounts (in thousands) and ratios are also presented in the table.

| | Actual | | Minimum for Capital Adequacy Purposes | | To Be Well Capitalized for Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Ratio | Amount | Ratio | Amount | Ratio | Amount |
| Stockholder's equity, and ratio to total assets | 10.4% | 26,025 | | | | |
| Unrealized loss on securities available for sale | | 163 | | | | |
| Intangible assets | | (14) | | | | |
| Tangible capital, and ratio to adjusted total assets | 10.5 | 26,174 | 1.5 | $3,739 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Tier I(core) capital, and ratio to adjusted total assets | 10.5 | 26,174 | 3.0 | 7,478 | 5.0 | $12,464 |
| Tier I capital, and ratio to risk-weighted assets | 15.1 | 26,174 | | | 6.0 | 10,406 |
| Allowance for loan losses | | 801 | | | | |
| Assets required to be deducted | | (217) | | | | |
| Tier 2 capital | | 584 | | | | |
| Total risk-based capital and ratio to risk-weighted assets | 15.4% | $26,758 | 8.0% | $13,874 | 10.0% | $17,343 |
| Total Assets | | $249,117 | | | | |
| Adjusted total assets | | $249,266 | | | | |
| Risk-weighted assets | | $173,425 | | | | |

11. INTEREST ON DEPOSITS

Interest on deposits at September 30, 1996, 1995, and 1994 is comprised of the following:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Checking accounts | $ 155,806 | $ 144,307 | $ 123,974 |
| NOW accounts | 471,133 | 571,564 | 475,820 |
| Savings accounts | 502,580 | 510,523 | 575,075 |
| Money market deposit accounts | 472,478 | 546,611 | 514,054 |
| Certificates of deposit | 8,573,732 | 7,437,746 | 5,702,132 |
| | $10,175,709 | $9,210,751 | $7,391,055 |



12. EMPLOYEE BENEFIT PLANS

The bank has a stock option plan for key employees authorizing the granting of options for up to 199,800 shares of common stock. such stock is to be issued from the Bank's authorized but unissued shares. These options are exercisable in equal increments over three years and have a term of five years. No charges are reflected in income as a result of the granting or exercising of the stock options.

The following table presents further information on this plan:

| | 1996 | | 1995 | | 1994 | |
|---|---|---|---|---|---|---|
| | Number of Shares | Option Price Per Share | Number of Shares | Option Price Per Share | Number of Shares | Option Price Per Share |
| Option outstanding at end of prior year | 30,311 | $12-$15 | 30,311 | $12-$15 | 32,311 | $12-$15 |
| Granted | 0 | 0 | 0 | 0 | 0 | 0 |
| Exercised | 0 | 0 | 2,000 | 12 | 1,000 | 15 |
| Canceled or expired | 0 | 0 | 0 | 0 | 0 | 0 |
| Options out standing at end of year | 30,311 | $12-$15 | 30,311 | $12-$15 | 32,311 | $12-$15 |
| Shares exercisable at end of year | 30,311 | $12-$15 | 30,311 | $12-$15 | 32,311 | $12-$15 |

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation," which the Bank is required to adopt in fiscal year 1997. SFAS No. 123 will require the Bank to estimate the value of all stock-based compensation using a recognized pricing model. The Bank will have the option of recognizing this value as an expense or by disclosing its effects on net income. The Bank's management has not yet determined its method of adoption or the financial statement impact of the adoption of SFAS No. 123.

The Bank and its subsidiary have a noncontributory profit-sharing plan which covers substantially all of their employees. The annual contribution to the plan is established each year by the board of directors. Profit-sharing plan expense was $268,640, $298,156 and $271,210 for the years ended September 30, 1996, 1995, and 1994, respectively.

The Bank has also established a savings plan. Under the terms of the plan, eligible employees can make tax-deferred 401(k) contributions. The Bank matches the employee contribution 100% up to the first 2% contributed by an employee, 75% of the next 2%, and 50% of the third 2%. For the years ended September 30, 1996, 1995, and 1994, the Bank's 401(k) contributions were $101,413, $92,644, and $96,849, respectively.

13. OPERATING LEASE OBLIGATIONS

At September 30, 1996, the Bank leased office facilities under agreements with terms of more than one year. Amounts charged to retail expense for operating leases were $342,809, $346,226, and $344,885 for the years ended September 30 1996, 1995, and 1994, respectively.

At September 30, 1996 the Bank's minimum rental commitments under noncancelable operating leases for office space with initial or remaining terms of more than one year were as follows:

| | |
|---|---|
| Fiscal Year: | |
| 1997 | $ 344,904 |
| 1998 | 343,704 |
| 1999 | 314,544 |
| 2000 | 314,544 |
| 2001 | 314,544 |
| Thereafter | 687,212 |
| | $2,319,452 |



14. INCOME TAXES

Income tax expense for the three years ended September 30, 1996 is summarized as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Federal | | | |
| Current | $1,467,123 | $2,047,029 | $734,511 |
| Deferred | (359,411) | (512,099) | 612,106 |
| | 1,107,712 | 1,534,930 | 1,346,617 |
| State: | | | |
| Current | 143,973 | 256,041 | 46,408 |
| Deferred | (59,435) | (90,371) | 76,075 |
| | 84,538 | 165,670 | 122,483 |
| Total | $1,192,250 | $1,700,600 | $1,469,100 |

The differences between income taxes at the federal statutory rate and the provision at the effective tax rate for the tree years ended September 30, 1996 are as follows, net of the cumulative effect of a change in accounting for income taxes:

<TABLE>
<CAPTION>

| <S> | 1996 <C> | 1996 <C> | 1994 <C> |
|---|---|---|---|
| Statutory federal income tax | $1,138,649 | $1,637,120 | $1,436,338 |
| Increases (reductions) in taxes resulting from: | | | |
| State income tax, net of federal benefit | 53,773 | 168,987 | 109,829 |
| Tax-free interest income | (27,285) | (71,470) | (81,600) |
| Other, net | 27,113 | 34,037 | 4,533 |
| | $1,192,250 | $1,700,600 | $1,469,100 |

</TABLE>

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that gave rise to significant portions of the deferred tax liability at September 30, 1996 and 1995 relate to the following:

| | 1996 | 1995 |
|---|---|---|
| Effect of loans mark-to-market deduction | $360,969 | $253,949 |
| Deferred loan fees | 195,578 | 178,460 |
| Dividend received deduction | 182,153 | 182,153 |
| Sale of loan participations | 58,214 | 81,624 |
| Depreciation | 55,827 | 101,608 |
| SAIF assessment | (517,567) | 0 |
| Effect of bad debt deduction | (119,775) | (215,141) |
| Other, net | (142,577) | (79,931) |
| | $ 72,822 | $503,722 |

Under the Internal Revenue Code (the "Code"), the Bank was allowed a special bad debt deduction related to additions to tax bad debt reserves established for the purpose of absorbing losses. The provisions of the Code permitted the Bank to deduct from taxable income an allowance for bad debt equal to the greater of 8% of taxable income before such deduction or actual charge-offs. Retained earnings at September 30, 1996 include approximately $2,477,000 for which no federal income tax has been provided. These amounts represent allocations of income to bad debt reserves and are subject to federal income tax in future years, at the then current corporate rate, if the Bank no longer qualifies as a Bank for federal income tax purposes and in certain other circumstances.

On August 2, 1996, Congress passed the Small Business Job Protection Act that will, among other things, repeal the tax bad debt reserve method for thrifts effective for taxable years beginning after December 31,1995. As a result, the Bank must recapture into taxable income the amount of its post-1987 tax bad debt reserves over a six-year period beginning in fiscal year 1997. The Bank is expected to recapture approximately $187,000 of its tax bad debt reserves into taxable income over six years as a result of this new law. The recapture will not have any effect on the Bank's financial statements because the related tax expense has already been accrued. Effective for the fiscal year ending September 30, 1997, the Bank will be required to utilize the six-year average experience method of loan charge-offs in determining its annual tax bad debt deduction.

As discussed in Note 1, the Bank adopted SFAS No. 109 in the first fiscal quarter of 1994.

15.FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include



commitments to extend credit, standby letters of credit, and loans sold with recourse. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of financial condition. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The Bank, however, does not hold or issue futures, forward, swap, or option contracts.

The Bank's exposure to credit loss in the event of nonperformance by the counterpart to the financial instrument for commitments to extend credit and standby letters of credit and to reimburse the investor for losses on loans sold with recourse is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit, exclusive of the undisbursed portion of loans in process, which amounted to $667,000 at fixed interest rates and $1,433,000 at variable interest rates at September 30, 1996, represent legally binding agreements to lend to customers with various expiration dates, but in no event later than 30 days after September 30, 1996. As some commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements.

Standby letters of credit are conditional commitments issued by the Bank guaranteeing the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank had approximately $1,798,000 in irrevocable standby letters of credit outstanding at September 30, 1996.

The Bank generally sells participating interests in loans without recourse. However, because of market conditions in certain prior years, the Bank sold certain participating interests in loans with recourse in the event of default by borrowers on the related residential mortgage loans. The credit risk involved in selling loans with recourse is essentially the same as that involved in extending loan facilities to customers. As of September 30, 1996, the balance of loans sold with recourse that remains uncollected totals approximately $4,000,000.

The majority of the Bank's business activity is with customers located within its southeast Georgia market area. The Bank's only significant concentration of credit at September 30, 1996 occurs in real estate loans (including certain commercial real estate loans) which totaled $200,177,192 or 92% of total loans. Of total real estate loans, 14% were for construction, land acquisition, and development, 67% were for permanent mortgage loans for one-to-four-family dwellings, and 19% were other loans secured by real estate, primarily commercial properties. It is the Bank's policy to review each prospective credit in order to determine an adequate level of security or collateral prior to making the loan. The type of collateral will vary and ranges from liquid assets to real estate.

16.LEGISLATION

The Bank's savings deposits are insured by the Savings Association Insurance Fund ("SAIF"), which is administered by the FDIC. The assessment rate currently ranges from .23% of deposits for well-capitalized institutions to .31% of deposits for undercapitalized institutions. The FDIC also administers the Bank Insurance Fund ("BIF"), which has the same designated reserve ratio as the SAIF. On August 8, 1995, the FDIC adopted an amendment to the BIF risk-based assessment schedule which lowered the deposits insurance assessment rate for most commercial banks and other depository institutions with deposits insured by the BIF to a range of .31% of insured deposits for undercapitalized BIF-insured institutions to .04% of deposits for well-capitalized institutions, which constitutes over 90% of BIF-insured institutions. The FDIC amendment became effective for the quarter ended September 30, 1995. The amendment created a substantial disparity in the deposit insurance premiums paid by BIF and SAIF

members.

Legislation was enacted on September 30, 1996 to recapitalize the SAIF in order to eliminate the premium disparity. The Treasury Department, the FDIC, and Congress provided for a one-time assessment of .657% of insured deposits on all SAIF-insured deposits held at March 31, 1995. Under this legislation, the BIF and SAIF will be merged into one fund as soon as practicable after they both reach their designated reserve ratios, but no later than January 1, 1998, provided that there are no longer any thrift chartered institutions. The special assessment as described above resulted in a one-time charge to the Bank of approximately $1,362,000, which is included in accrued expenses and other liabilities on the consolidated statement of financial condition as of September 30, 1996, and SAIF assessment in noninterest expense on the consolidated statement of income for the year ended September 30, 1996.

17.LITIGATION

In 1988, the Bank entered into an agreement with The Citizens and Southern Corporation ("C&S") and certain related affiliates which provided for the acquisition of the Bank by C&S and the exchange of bank common stock for C&S common stock. The agreement was amended in 1990 to provide for receipt of C&S/Sovran Financial Corporation ("Sovran") common stock by Bank stockholders as a result of the merger in 1990 of C&S with Sovran (which was acquired by NationsBank Corporation ("NationsBank") in late 1991). On September 27, 1991, the Bank filed a complaint against C&S/Sovran for breach of their merger agreement. C&S/Sovran answered denying liability. The trial court divided the case into two trial, one on liability and a second on damages. In May 1994, in the liability trial, a jury determined C&S/Sovran breached the merger agreement. On December 19, 1994, the trial court ordered C&S/Sovran to specifically perform the agreement with the Bank. On December 4, 1995, the Supreme Court affirmed the trial court decision. The case then was remanded to the trial court for determination of the closing date which would be utilized to determine the terms of the specific performance remedy. A second jury trial was held on July 8, 1996. On July 18, 1996, the second jury determined that the merger agreement would have closed on June 19, 1991, had defendants filed and pursued the regulatory approvals on March 8, 1991. On October 15, 1996 the trial court entered judgment thereon. The Bank and NationsBank have, consistent with the court's order, finalized the terms for consummation of the merger such that, after the Bank pays its contractual obligations for attorneys' fees and senior management agreements of approximately $13.8 million, the Bank's stockholders will receive .80 shares of NationsBank stock for each share of the Bank's stock. The parties anticipate a closing on or before April 30, 1997. Other assets at September 30, 1996 and 1995 include approximately $182,000 of capitalized fees related to the costs of the merger.

The Bank is party to various legal and administrative proceedings and claims. While any litigation contains an element of uncertainty, management believes that the outcome of such proceedings or claims pending or known to be threatened will not have a material adverse effect on the Bank's consolidated financial position.



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of First Federal Savings Bank of Brunswick, Georgia:

We have audited the accompanying consolidated statements of financial condition of FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA (a federal capital stock savings bank), AND SUBSIDIARY as of September 30, 1996 and 1995 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1996. These financial statements are the responsibility of the Banks's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respect, the financial position of First Federal Savings Bank of Brunswick, Georgia, and subsidiary as of September 30, 1996 and 1995 and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles.

Atlanta, Georgia
December 16, 1996

ARTHUR ANDERSEN LLP

Capital Stock:

At the present, there is no established market in which shares of the Bank's capital stock are regularly traded, nor are there any uniformly quoted

prices for such shares. Buyers and sellers are matched as possible by a national firm as an accommodation. On October 21, 1985, the Bank declared a stock split in the form of a 100% stock dividend to stockholders of record as of October 31, 1985. On June 16, 1986, the Bank declared an additional stock split in the form of a 100% stock dividend to stockholders of record as of June 30, 1986. During fiscal year 1996, the Board of Directors approved the payment of cash dividends on its common stock totalling approximately $1,395,000.

The Bank may not declare or pay a cash dividend on any of its stock if the effect thereof would cause the Bank's net worth to be reduced below (i) the amount required for the liquidation account or (ii) the regulatory net worth requirements. Additionally, the Bank may make aggregate capital distribution during a calendar year, without prior approval of the Office of Thrift Supervision, of up to all of its net income to date during the year plus an amount that would reduce its excess capital ratio to one-half of such excess capital ratio at the beginning of the calendar year. Further, for a period of three years after July 21, 1984, the date of the Bank's conversion to stock form, the Bank was not permitted (except with the prior approval of the FSLIC) to declare or pay a cash dividend on any of its stock in an amount in excess of one-half of the greater of (i) the Bank's net income for the fiscal year in which the dividend is declared or (ii) the average of the Bank's net income for the current fiscal year and no more that two of the immediately preceding fiscal years.

As of September 30, 1996, the Bank had 552 stockholders.

Business of the Bank

First Federal Savings Bank of Brunswick is a federally chartered capital stock saving bank headquartered in Brunswick, Georgia. The Bank began its operations in 1926 as a Georgia-chartered mutual building and loan association. In 1935, it converted to a federal mutual savings and loan association, and in 1983, First Federal became a federal mutual saving bank. It completed its conversion to a federal capital stock savings bank in July 1984. First Federal is a member of the Federal Home Loan Bank system, and its deposits are insured by the Federal Deposit Insurance Corporation, through its savings association conduit, the Savings Association Insurance Fund.

The Bank is primarily engaged in the business of obtaining funds in the form of deposits and investing such funds in mortgage loans on residential and commercial real estate, various types of consumer and commercial loans, mortgage-backed securities, and other types of securities. First Federal, like most other federal thrift institutions, has traditionally concentrated its lending activities on the origination of conventional first mortgage loans secured by residential property and, to a lesser extent, construction loans and loans secured by commercial property. Since 1982, the Bank has been seeking (i) to reduce the amount of low interest rate loans in its loan portfolio, (ii) to increase the origination of loans with shorter terms, such as construction loans, consumer loans and commercial loans, and (iii) to originate long-term, fixed-rate loans for sale in the secondary market and to retain variable-rate loans.



BOARD OF DIRECTORS

| | | |
|---|---|---|
| James F. Barger<br>Partner, Tiller,<br>Stewart & Co.<br>LLC CPA | J. Dewey Benefield, Jr.<br>Director, Sea Island<br>Company | William O. Faulkner, Jr.<br>Retired, Citizens &<br>Southern National<br>Bank |
| James H. Gash<br>Senior Vice Pres.<br>Commercial Banking<br>First Federal<br>Savings Bank | (FIRST FEDERAL SAVINGS<br>BANK logo appears here) | Mack F. Mattingly<br>Former U.S. Senator |
| T. Gillis Morgan, III<br>President<br>Tidewater<br>Companies, Inc. | D. Paul Owens<br>Retired<br>Coastal Chevrolet | John J. Rogers<br>Senior Vice President<br>Mortgage Banking<br>First Federal Savings<br>Bank |
| Ben T. Slade, III<br>President<br>First Federal<br>Savings Bank | Jack Torbett<br>Manufacturers<br>Representative | L. Gerald Wright<br>Investor |



OFFICERS & CORPORATE INFORMATION

Chairman and President
BEN T SLADE, III

Senior Vice Presidents
JAMES H. GASH
Commercial Banking

JOHN J. ROGERS
Mortgage Banking

Group Vice Presidents
JERRY E. BUTLER
Commercial Banking

ROBERT B. SAMS
Controller

ROBERT E. STRANGE
Mortgage Banking

Vice Presidents
NANCY BARNA
Human Resources

DONALD L. BLALOCK
Commercial Banking

JAMES L. DAVIS
Consumer Lending

SALLY B. MILES
Operations

WANDA T. MILLER
Branch Coordination

GREGORY T. STRICKLAND
Manager
Glynn Place Mall Office

JO USHER
Mortgage Loan Servicing

BETTY WHITWORTH
Credit Control

Assistant Vice Presidents
CHESTER ANDERSON
Manager
Altama Avenue Office

STEPHEN PARKER
Manager
Ocean Boulevard Office

LINDSAY VINYARD
Marketing

Banking Officers
HELEN BEECHER
Mortgage Lending

BERT CASON
Consumer Lending

GERRY EARP
Corporate Secretary
Stockholder Relations

ALICE EDENFIELD
Account Processing

ANGIE FERRA
Training

DONNA GIBBS
Assistant manager
Altama Avenue Office

JANE S. GREENE
Loan Servicing

GAIL T. JACKSON
Assistant Manager
Plaza Office

LYNETTE MAASSEN
Assistant Manager

Glynn Place Mall Office

KATHY D. MILLS
Assistant Controller

MARY SLAUGHTER
Account Servicing

DAWN SMITH
Internal Auditor

TARA T. STEPHENS
Construction Lending

Main Office
777 Gloucester Street
Brunswick, Georgia 31520
Telephone: (912) 265-1410

Annual Meeting
The annual meeting of First Federal Savings Bank will be held Wednesday, January 22, 1997 at 5 p.m. in the lobby of the Main Office, 777 Gloucester Street, Brunswick, Georgia

Stock Transfer Agent and Registrar
Wachovia Bank of North Carolina, N.A.
Corporate Trust Department
P.O. Box 3001
Winston-Salem,
North Carolina 27102-3001

Common Stock Listing
First Federal's common stock is traded in the National Market System under the NASDAQ symbol FFBG and is listed as "FFdBrun" in newspapers. For further information, contact Mrs. Gerry Earp.

Independent Public Accountants
Arthur Andersen LLP
133 Peachtree Street, N.E.
Atlanta, Georgia 30303

Legal Counsel
Smith, Mackinnon, Harris, Greeley, Bowdoin & Edwards, P.A.
Suite 800
255 South Orange Avenue
Orlando, Florida, 32801

Form 10-K
A copy of the Form 10-K, including financial statement schedules as filed with the Office of Thrift Supervision, will be furnished without charge to stockholders as of the record date upon written request to:
Mrs. Gerry Earp, First Federal Savings Bank, P.O. Box 1877, Brunswick, Georgia 31521



Exhibit 21.1

First Federal Savings Bank of Brunswick, Georgia

Subsidiary of Registrant

First Shelter Service Corporation

OFFICE OF THRIFT SUPERVISION
Washington, D.C. 20552

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

| | |
|---|---|
| For the Fiscal Year Ended September 30, 1996 | Office of Thrift Supervision Docket Number: 3175 |

FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Chartered by the Office of Thrift Supervision under the laws of the United States | 58-0175025 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 777 Gloucester Street, Brunswick, Georgia | 31520 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (912) 265-1410

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 $1.00 per share
(Title of Class)

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

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant is $83,031,444, based on the price at which shares of Common Stock were sold on December 24, 1996.

As of December 24, 1996 there were issued and outstanding 1,499,939 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the 1996 Annual Report to Stockholders for year ended September 30, 1996 are incorporated into Part II, Items 5 - 9 of this Annual Report on Form 10-K.

2. Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on January 22, 1997, to be filed with the Office of Thrift Supervision pursuant to Regulation 14A within 120 days of the registrant's fiscal year end are incorporated into Part III, Items 10 - 13 of this Annual Report on Form 10-K.

# PART I

## Item 1. Business

### General

First Federal Savings Bank of Brunswick, Georgia ("Brunswick") began its operations in 1926 as a Georgia-chartered building and loan association. Brunswick converted to a federal savings and loan association in 1935, conducting its business under the name of Brunswick Federal Savings and Loan Association, and changed its name to First Federal Savings and Loan Association of Brunswick in 1959. Brunswick converted to a federal mutual savings bank on December 5, 1983, and became a federal capital stock savings bank on July 21,

1984. Brunswick is subject to supervision and regulation by the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC"), and its deposits are insured through the Savings Association Insurance Fund ("SAIF") of the FDIC. Brunswick's operations are conducted from its headquarters, two branch offices in Brunswick, and two branch offices on St. Simons Island, Georgia.

Brunswick primarily engages in the business of attracting deposits from the general public and investing those funds in real estate, commercial and consumer loans.

Lending Activities

General. As a federally chartered thrift institution, Brunswick may invest in real estate loans throughout the United States. Brunswick has, however, limited its lending area primarily to Southeast Georgia. Historically, Brunswick's lending activities have concentrated on the origination of conventional permanent loans on single-family dwellings and, to a lesser degree, on construction loans for residential dwellings. Brunswick's loans are predominantly conventional loans, i.e., loans that are not insured by the Federal Housing Administration ("FHA") or guaranteed by the Veterans Administration ("VA").

In recent years Brunswick has sought to increase the amount of construction, commercial, and consumer loans in its portfolio. The shorter term and the normally higher interest rates available on these loans are consistent with Brunswick's efforts to shorten the term of its loan portfolio and to improve the spread between the average yield on its assets and its cost of funds. In addition, in an effort to increase the interest-sensitivity of Brunswick's loan portfolio, Brunswick offers a variety of adjustable-rate loan products. By originating adjustable-rate loans, management believes that Brunswick is better able to match increases in the rates paid on its liabilities with increased rates received on its assets.

First Mortgage Loans. On September 30, 1996, Brunswick held in its loan portfolio approximately $150.3 million of first mortgage loans (including $19.9 million in construction loans) secured by one-to four-family residential units, which represented 71.6% of its total net loan portfolio. As of that date, Brunswick also held $42.3 million, or 20.2% of its total net loan portfolio of first mortgage loans secured by commercial real estate, multi-family residential property and land. For purposes of this discussion, the term "net" when used with respect to Brunswick's total loan portfolio, means (i) net of loans in process, deferred loan fees and other, and the allowance for possible loan losses and (ii) inclusive of mortgage loans held for sale.

Reflecting prior federal regulations, approximately $67 million or 37.7% of Brunswick's total mortgage loans due subsequent to one year after September 30, 1996 provided for fixed rates of interest and for repayment of principal over a fixed period. Regulatory changes in recent years have provided substantial flexibility to federally chartered institutions such as Brunswick in structuring the terms of mortgage loans to adjust more easily to changes in interest rates. These regulations permit, among other things, mortgage loans



to be written for shorter maturities and at adjustable interest rates, as compared to longer term, fixed rate mortgage instruments. Approximately $110 million or 62.3% of Brunswick's total mortgage loans due subsequent to one year after September 30, 1996 were adjustable rate loans, compared to 67.4% and 63.2% due subsequent to one year after September 30, 1995 and 1994, respectively. The adjustable-rate loans that are currently being made have terms of 30 years or 15 years and interest rate adjustment periods of one or three years. However, the extent of this interest-sensitivity is limited by annual and lifetime "caps" on interest rate adjustments. The terms of such loans also increase the likelihood of delinquencies in periods of high interest rates, particularly if such loans are offered with initial discounted interest rates. Generally, Brunswick offers adjustable-rate mortgage loans with annual adjustment caps of 2.0% and lifetime adjustment caps of 6.0%.

Permanent residential mortgage loans originated by Brunswick have generally been 30-year fixed and adjustable rate loans amortized on a monthly basis with principal and interest due monthly. Based upon historical experience, these loans generally have average lives of approximately 12 years. Most of the residential loans originated by Brunswick are conventional loans. Brunswick's permanent loans on commercial real estate have been 15 to 25 year loans with principal and interest due monthly. The loans generally have a three or five year adjustable rate or balloon feature.

Construction Loans. As of September 30, 1996, construction loans totalled $21.6 million, or 10.3% of Brunswick's net total loan portfolio. This amount is

composed of $19.9 million of construction loans secured by one- to four-family residential units. In past years, Brunswick has solicited construction loans for a variety of structures, including residences, nursing homes, strip shopping centers, medical buildings, warehouses, condominiums and motels. Generally, the loans are made for six to 12 months at interest rates tied to the prime rate and adjusted monthly. Because of certain lending restrictions based on the amount of the institution's regulatory capital, Brunswick sometimes sells participations in the construction loans that it originates. Brunswick also makes combined construction and permanent loans.

Commercial Loans. A federally chartered savings institution is permitted to invest up to 10% of its assets in commercial loans not secured by real estate. Brunswick makes commercial loans for purposes such as working capital, inventory accumulations, equipment acquisition and similar purposes. These loans are either made at a fixed rate of interest or at an interest rate tied to a regional bank's prime rate, with rate adjustments at monthly, annual or less frequent intervals. At September 30, 1996, commercial loans totalled approximately $7.4 million, or 3.5% of Brunswick's total net loan portfolio.

Consumer Loans. A federally chartered savings institution is permitted to make secured and unsecured consumer loans up to 35% of the institution's assets. Certain consumer loans may be made without being included in the 35% limitation. At September 30, 1996, Brunswick's consumer loans included $1.5 million of loans secured by deposit accounts at Brunswick, $9.6 million of consumer loans (including unsecured loans, boat loans, automobile loans, equipment loans and educational loans) and $17.3 million of home equity loans secured in part by a mortgage on the borrower's home. At September 30, 1996, all consumer loans comprised 13.6% of Brunswick's total net loan portfolio. Home equity consumer loans generally have adjustable rates of interest tied to a regional bank's prime rate, with monthly rate adjustments. Other consumer loans are generally made for a term of three to five years and have fixed rates of interest. Brunswick also offers lines of credit secured by home equity. This type of loan, which is made at an interest rate at a margin above the prime rate that adjusts monthly, is intended to combine both high quality and high yield.



The composition of Brunswick's loan portfolio at the end of the fiscal years during the three-year period ended September 30, 1996 is set forth below. At September 30, 1996, Brunswick's total net loan portfolio represented 84.2% of its total assets.
<TABLE>
<CAPTION>

| | At September 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| <S> <C> | | | |
| Conventional real estate loans: | | | |
| Interim construction loans ............... | $ 21,564,508 | $ 12,951,880 | $ 11,016,556 |
| Loans on existing property ............... | 129,083,083 | 140,932,677 | 136,781,662 |
| Loans refinanced ......................... | 31,803,954 | 9,439,855 | 10,234,595 |
| Insured or guaranteed real estate loans............................ | 446,415 | 507,609 | 564,504 |
| Commercial loans........................... | 7,441,666 | 4,512,256 | 5,046,800 |
| Consumer loans | | | |
| Education loans........................... | 48,490 | 74,523 | 106,314 |
| Savings account loans..................... | 1,525,713 | 1,379,482 | 1,262,012 |
| Home improvement loans.................... | 17,279,232 | 15,836,687 | 14,018,318 |
| Others.................................... | 9,585,484 | 6,866,660 | 5,183,438 |
| - | | | |
| Total loans receivable.................. | $218,778,545 | $192,501,629 | $184,214,199 |
| Less: | | | |
| Undisbursed loans in process............... | $ 7,279,329 | $ 4,212,944 | $3,458,863 |
| Deferred loan fees and other............... | 830,384 | 763,316 | 925,589 |
| Allowance for possible loan losses ............................ | 800,786 | 861,356 | 812,585 |
| - | | | |
| Total net loan portfolio........... | $209,868,046 | $186,664,013 | $179,017,162 |
| Type of Security: | | | |
| Residential real estate | | | |
| Single-family............................. | $ 150,261,872 | $ 136,233,631 | $124,195,721 |
| 2-to-4 family............................. | 3,323,157 | 5,074,844 | 5,754,995 |

| | | | |
|---|---|---|---|
| Other dwelling units...................... | 4,255,430 | 2,324,341 | 2,971,440 |
| Commercial or industrial real estate ........................... | 42,336,733 | 36,035,892 | 39,693,479 |
| Savings accounts.......................... | 1,525,713 | 1,379,482 | 1,262,012 |
| Other..................................... | 17,075,640 | 11,534,439 | 10,336,552 |
| Total loans receivable................. | $218,778,545 | $192,501,629 | $184,214,199 |
| Less: | | | |
| Undisbursed loans in process.............. | 7,279,329 | 4,212,944 | 3,458,863 |
| Deferred loan fees and other.............. | 830,384 | 763,316 | 964,957 |
| Allowance for possible loan losses............................. | 800,786 | 861,356 | 812,585 |
| Total net loan portfolio .......... | $209,868,046 | $186,664,013 | $179,017,162 |

</TABLE>

FIRREA makes applicable to savings associations the current national bank limits on loans to one borrower. Generally, national banks may lend to a single or related group of borrowers, on an unsecured basis, an amount equal to 15% of its unimpaired capital and surplus. An additional amount, equal to 10% of unimpaired capital and surplus, may be loaned if such loan is secured by readily marketable collateral, which is defined to include certain securities and bullion, but generally does not include real estate. Under such provisions, as of September 30, 1996, Brunswick could lend to a single borrower and its related entities



on an unsecured basis an amount not to exceed $3.9 million. Also, as of such date, it could lend an additional $2.6 million secured by readily marketable collateral. As of September 30, 1996, the amount outstanding to the largest single borrower of Brunswick was approximately $3.3 million.

Loan Originations. Loan originations were approximately $91.9 million for the year ended September 30, 1996. Loan originations come from a number of sources. Most real estate loans are attributable to walk-in customers at Brunswick's offices, real estate brokers and referrals by a mortgage broker. In addition, Brunswick has solicited applications for consumer loans through newspaper advertisements.

Each loan is underwritten by qualified personnel in Brunswick's main office, and independent appraisers are engaged to appraise property intended to secure real estate loans. The underwriting procedures of Brunswick are intended to assess a borrower's ability to repay the loan and the value of any collateral property. Loan applications must be reviewed and approved by authorized officers or directors in accordance with Brunswick's loan policy. After a loan application is approved, Brunswick customarily gives the applicant a commitment to make the loan at any time within 30 days thereafter on terms determined on the basis of market conditions as of the date of the commitment. Commitments for longer periods are issued at rates to be set at the time of closing, and, generally, a 1% commitment fee is charged.

Federal regulations require boards of directors of federally chartered savings institutions to establish their own loan-to-value ratios for loans made on the security of real estate, subject to certain conditions. The regulations provide that an institution must require appropriate credit enhancement in the form of mortgage insurance or readily marketable collateral for all owner-occupied family or home equity loans which at the time of origination are in excess of 90% of the appraised value of the collateral property. Brunswick makes permanent residential mortgage loans with up to a 95% loan-to-value ratio. Brunswick usually lends up to 75% of the appraised value for construction loans on commercial real estate and 80% of the appraised value for permanent loans on commercial real estate.

Although Brunswick continues to originate long-term fixed-rate loans, most of the loans are originated with documentation and underwriting guidelines which will allow their sale in the secondary market to the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC"). All other long-term loans originated by Brunswick are adjustable-rate loans.

Brunswick includes due-on-sale provisions in its permanent real estate loans. Due-on-sale clauses give Brunswick the right to declare a loan immediately due and payable in the event that the borrower sells the property securing the mortgage. This provides Brunswick with a means of increasing the interest rate on existing low interest fixed-rate loans. It is Brunswick's

policy to waive the due-on-sale clause, subject to the approval of the borrower, and to increase the interest rate to the market rate of interest at the time of the sale if the loan is saleable or to charge an adjustable rate of interest if it is not saleable. The effect of this policy, however, is essentially the same as enforcing the due-on-sale clause.

Brunswick requires title insurance to insure the priority of its property lien on its mortgage loans. It also requires fire and casualty insurance to be maintained on all security property in amounts at least equal to the principal balance on the loans.



The following table sets forth certain information at September 30, 1996, regarding the dollar amount of loans maturing in Brunswick's portfolio based on their contractual terms to maturity. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less.

Principal Repayments Contractually Due
in the Year(s) Ending September 30,

<TABLE>
<CAPTION>

| | 1997 | 1998 | 1999 | 2000 2001 | 2002 2006 | 2007 2011 | 2012 and there-after | Total |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | | | | |
| Real estate mortgage....... | $14,038 | $ 6,855 | $2,231 | $7,603 | $20,928 | $44,617 | $65,061 | $161,333 |
| Real estate construction... | 21,565 | 0 | 0 | 0 | 0 | 0 | 0 | 21,565 |
| Consumer................... | 4,888 | 3,675 | 3,526 | 7,118 | 8,580 | 605 | 47 | 28,439 |
| Commercial................. | 1,801 | 618 | 844 | 1,055 | 3,124 | 0 | 0 | 7,442 |
| Total.................... | $42,292 | $11,148 | $6,601 | $15,776 | $32,632 | $45,222 | $65,108 | $218,779 |

</TABLE>

The following table sets forth the dollar amount of all loans due more than one year after September 30, 1996, which have pre-determined interest rates and have floating or adjustable interest rates.

<TABLE>
<CAPTION>

| | Predetermined Rates | Floating or Adjustable Rates |
|---|---|---|
| | (Dollars in Thousands) | |
| Real estate mortgage................ | $51,781 | $ 95,514 |
| Real estate construction............ | -- | -- |
| Consumer............................ | 13,971 | 9,580 |
| Commercial.......................... | 825 | 4,816 |
| Total......................... | $66,577 | $109,910 |

</TABLE>

In comparison, at September 30, 1995, Brunswick had total loans due more than one year after such date with predetermined interest rates and floating or adjustable interest rates of approximately $56.5 million and $104.1 million, respectively.

Loan Purchases and Sales. Most of the loans in Brunswick's portfolio have been originated by Brunswick. However, prior to 1986, Brunswick purchased construction or adjustable-rate mortgage loans during periods when it was unable to originate a sufficient amount of such loans to meet its intended investment goals. After fiscal year 1985, Brunswick deemphasized such activities because management believed that there was a lack of such loans that met Brunswick's underwriting standards.

Brunswick is active in the sale of participations and whole loans in the secondary market to thrift institutions, commercial banks, FNMA and FHLMC. Participations in construction loans are sold particularly to ensure compliance with regulatory limitations on investment in loans to a single borrower. Brunswick also sells loans to provide additional funds for lending or to reduce Brunswick's investment in long-term, fixed-rate mortgage loans. Brunswick also

has exchanged participating interests in pools of mortgage loans. From time to time, Brunswick converts additional amounts of its fixed-rate, long-term mortgage loans into mortgage-backed securities through similar transactions. The purpose of these transactions is to convert the loans into marketable securities which can be easily sold for cash or used as collateral for borrowings. Brunswick did not sell any loans with recourse against Brunswick in fiscal years 1996, 1995, and 1994. At September 30,



1996, Brunswick was servicing approximately $133.3 million in loans for others, on which it receives an average of 27% per annum in servicing fees.

The Bank sells loans on a cash gain or loss basis, a method which does not necessitate the creation of an excess servicing balance upon sale. The Bank has continued this policy during fiscal year 1996, and generally all gains (losses) recorded during fiscal year 1996 reflect such treatment.

Set forth below is a table showing Brunswick's loan origination, purchase, and sales for the periods indicated.

<TABLE>
<CAPTION>

| | Year Ended September 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| <S> <C> | | | |
| Loans Originated: | | | |
| Conventional real estate loans: | | | |
| Construction loans............. | $18,367,505 | $11,274,329 | $14,069,125 |
| Loans on existing property ..................... | 30,886,985 | 49,630,201 | 51,947,624 |
| Loans refinanced ............. | 33,423,992 | 10,392,350 | 22,627,910 |
| Other Loans (1) ................ | 9,246,959 | 9,128,733 | 7,263,905 |
| Total Loans Originated................... | $91,925,441 | $80,425,613 | $95,908,564 |
| Loans Sold: | | | |
| Participation loans............ | $ 950,000 | $ -0- | $ -0- |
| Whole Loans (2) ................ | 32,330,171 | 12,019,672 | 33,500,598 |
| Total loans sold.............. | $33,280,171 | $12,019,672 | $33,500,598 |

</TABLE>

- -------------------

(1) Includes consumer loans on a net change basis. Total consumer loan originations, including multiple rollovers of short term credits, for the fiscal years 1996, 1995, and 1994 were $25,263,332, $22,500,501, and $20,400,473, respectively.

(2) Fiscal year 1996 amount includes $6,445,235 in loans exchanged with the Federal Home Loan Mortgage Corporation for mortgage-backed securities.

Income from Lending Activities. Brunswick's primary source of income is from the interest earned on the loans that it has in its loan portfolio. Interest rates charged on loans originated by Brunswick are primarily determined by the level of prevailing interest rates, the availability of lendable funds, the demand for such loans and competitive conditions.

In addition to interest earned on loans, Brunswick receives fees in connection with loan originations, long-term commitments to lend funds and the servicing of loans sold by Brunswick. Brunswick also receives other income relating to existing loans in its portfolio, including loan prepayment penalties, late charges and fees collected in connection with loan modifications. Income realized from these sources varies significantly from period to period with the volume and types of loans made in response to competitive factors.

At September 30, 1996, Brunswick had $690,856 in deferred mortgage loan fees. Pursuant to Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 91, loan fees and costs are deferred and amortized net as an adjustment of yield over the life of the related loan.

Nonperforming Assets. Brunswick's collection procedures on delinquent loans provide that the borrower will be contacted by mail and payment will be requested when a loan payment is 15 days past due and again after 30 days. If the delinquency continues, subsequent efforts will be made to contact the delinquent borrower by telephone. If the loan continues in a delinquent status for 90 days, Brunswick generally will initiate foreclosure proceedings. Any property acquired by Brunswick as a result of foreclosure or by deed in lieu of foreclosure is then sold to recover all or part of Brunswick's investment.

The table below sets forth the amounts and categories of Brunswick's non-performing assets, as computed by Brunswick.

| | At September 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Non-accrual loans (1) | $261,193 | $ 788,116 | $1,080,021 |
| Restructured Loans (2) | 779,706 | 1,143,462 | 776,959 |
| Real estate owned (3) | 954,904 | 2,208,679 | 1,743,374 |
| Total non-performing assets | 1,995,803 | 4,140,257 | 3,600,354 |
| Potential problem loans (4) | 2,904,673 | 210,416 | 1,422,471 |
| Total non-performing assets and potential problem loans | $4,900,476 | $4,350,673 | $5,022,825 |
| Non-performing assets and potential problem loans as a percentage of assets | 1.97% | 1.72% | 2.17% |

- --------------------

(1) Generally refers to (i) certain loans (based primarily on the age of the loans) that are contractually delinquent for 60 to 90 days, or (ii) certain mortgage loans on which taxes on the security property are delinquent for two or more years.

(2) Refers to certain loans wherein concessions have been granted to the borrower(s) for economic reasons related to the borrower's financial difficulties, as defined by FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring."

(3) Refers to real estate acquired by Brunswick through foreclosure or voluntary deed.

(4) Potential problem loans are those loans that management has identified as having certain characteristics that could impair the ability of the borrower to comply with the present loan repayment terms and that may result in such loans being placed on non-accrual status or becoming a troubled debt restructuring, or real estate owned in the future. These loans are generally 60 days past due and are monitored by management to facilitate further attention if necessary.

Also, at September 30, 1996, Brunswick had 10 properties that were real estate owned, which were composed of five residential and five commercial properties. The five residential properties consist of one



apartment building having a value of $47,109, one developed tract of residential lots valued at $45,932, and one individual residential lot valued at $4,979. Residential properties also include two single family units valued at $27,953 in aggregate, net of amounts owned by investors. Of the five commercial properties, three represent improved properties having a value in aggregate of $303,708. The remaining commercial properties consist of two developed parcels of land having values of $212,034 and $313,189, respectively. The properties are recorded at the lower of cost or fair value at the date of acquisition and are carried at the lower of acquisition value or net realizable value subsequent to the date of acquisition. If the amount is less than cost, the difference is charged to operations.

Loans on which accrual of interest has been discontinued amounted to

approximately $1.0 million at September 30, 1996. If interest on these loans had been accrued in accordance with the original contractual terms, such income for the year ended September 30, 1996 would have approximated $32,000. Interest payments on these loans of approximately $100,000 were received and recorded as interest income in the year ended September 30, 1996.

Provision and Allowance for Probable Loan Losses. The following table sets forth an analysis of loan losses for the periods indicated:

<TABLE>
<CAPTION>

| | Year Ended September 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| <S> <C> | | | |
| Balance at beginning of period.......................... | $834,882 | $786,111 | $869,297 |
| Provision for possible loan losses....................... | 240,000 | 195,000 | 180,000 |
| Amounts charged off................ | (299,318) | (189,497) | (300,605) |
| Recoveries.......................... | 25,222 | 43,768 | 37,419 |
| Balance at end of period............................. | $800,786 | $834,882 | $786,111 |

</TABLE>

Management establishes an allowance for probable loan losses based upon management's evaluation of the pertinent factors underlying the types and quality of loans, current and anticipated economic conditions, collection experience, detailed analysis of individual loans to which full collectibility may not be assured, and determination of the existence and realizable value of the collateral and guarantees securing such loans. At September 30, 1996, Brunswick had $800,786 in general and $-0- in specific reserves for potential losses. Brunswick's total reserves at September 30, 1996 were allocated at approximately 43%, 25% and 32% to its three primary loan types, i.e., first mortgages, commercial loans, and consumer loans, respectively. Management believes that the allowance for probable loan losses was adequate at September 30, 1996. Although management believes that it uses the best information available to make determinations with respect to loan loss reserves, subsequent adjustments to reserves may be necessary if future economic conditions differ substantially from the assumptions used in making the initial determinations.

SFAS No. 114 and 118. On October 1, 1994, Brunswick adopted Statements of Financial Accounting Standards No. 114 and 118 ("SFAS 114 and 118"). These Statements address the accounting by creditors for impairment of certain loans. The Statements generally require Brunswick to identify loans for which Brunswick probably will not receive full payment of principal and interest, as impaired loans. The Statements require that impaired loans be valued at the present value of expected future cash flows, discounted at the loan's effective interest rate, or at the observable market price of the loan, or the fair value of the underlying collateral if the loan is collateral dependent. Brunswick has implemented the Statements by modifying its periodic review of the adequacy of the allowance for loan losses to also identify in value impaired loans in accordance with guidance in the Statements. The adoption of the Statements did not have any material effect on the results of operations for the year ended September 30, 1996.



For impairment recognized in accordance with SFAS 114 and 118, the entire change in the present value of expected cash flows, or the entire change in estimated fair value of collateral for collateral dependent loans, is reported as a provision for credit losses in the same manner in which impairment was initially recognized or as a reduction in the amount of the provision that otherwise would be reported. Brunswick maintains an allowance for the possible loss of accrued but uncollected interest on impaired loans when management believes that the collection of the interest is doubtful. If the ultimate collectibility of principal, either in whole or in part, is in doubt, any payment received on a loan for which the accrual of interest has been discontinued is applied to reduce principal to the extent necessary to eliminate such doubt. If the ultimate collectibility of principal is not in doubt, interest is credited to income in the period of recovery.

The following summarizes the September 30, 1996 amounts that were reclassified as a result of Brunswick adopting SFAS 114 and 118, the amounts of impaired loans at September 30, 1996, and the average net investment in impaired loans and interest income recognized and received on impaired loans during the years ended September 30, 1996 and 1995:

<TABLE>

<CAPTION>

| | September 30, 1996 |
|---|---|
| <S> <C> | |
| Insubstance foreclosures reclassified to loans receivable | $ 0 |
| Allowance for loss on insubstance foreclosures reclassified to allowances for losses | 0 |
| Loans identified as impaired: | |
| Gross loans with no related allowance for losses | 779,706 |
| Gross loans with related allowance for losses recorded | 0 |
| Less: Allowances on these loans | 0 |
| Net investment in impaired loans | 779,706 |

</TABLE>
<TABLE>
<CAPTION>

| | Year Ended September 30 1996 | 1995 |
|---|---|---|
| <S> <C> | | |
| Average investment in impaired loans | $ 951.646 | $ 831,869 |
| Interest income recognized on impaired loans | 78,466 | 113,610 |
| Interest income received on impaired loans | 78,466 | 85,169 |

</TABLE>

Other Investment Activities

Brunswick invests in short-term and long-term government securities primarily for the purpose of meeting the federal regulation requiring savings institutions to maintain a ratio of cash and short-term securities to net withdrawable deposit accounts and short-term borrowings of 5%. At September 30, 1996, Brunswick maintained a liquidity ratio of 8.4%. See "Regulation and Supervision -- Liquidity." It has been Brunswick's policy to maintain liquidity above the required amounts.



Investment Securities and Mortgage-Backed Securities

Brunswick's investment securities at September 30, 1996, 1995, and 1994 consisted of U.S. Government treasury and agency and tax-free municipal obligations. The carrying values and estimated market values of investment securities on the dates indicated were as follows:

| | Amortized Cost | Estimated Market Value |
|---|---|---|
| September 30, 1996 | $ 8,032,109 | $ 8,024,132 |
| September 30, 1995 | $ 16,353,511 | $ 16,488,815 |
| September 30, 1994 | $ 15,976,701 | $ 15,815,769 |

At September 30, 1996, Brunswick had unrealized gains and losses in its investment securities portfolio of $33,366 and $41,343, respectively, as compared to unrealized gains and losses at September 30, 1995 of $156,286 and $20,982, respectively. At September 30, 1996, Brunswick had unrealized gains and losses of $3,612 and $246,354, respectively, as compared to unrealized gains and losses of $77,895 and $89,917, respectively, at September 30, 1995 on mortgage-backed securities.

The amortized cost and estimated market values of debt securities held as investments at September 30, 1996, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

<TABLE>
<CAPTION>

| | Amortized Cost | Estimated Market Value |
|---|---|---|
| <S> <C> | | |
| Due in one year or less | $3,004,145 | $3,010,320 |
| Due after one year through five years | 4,027,964 | 4,040,681 |
| Due after five years through ten years | 1,000,000 | 973,131 |

| | | |
|---|---|---|
| Due after ten years | -- | -- |
| | $8,032,109 | $8,024,132 |
| Mortgage-backed securities | 8,582,633 | 8,339,891 |
| | $16,614,742 | $16,364,023 |

</TABLE>

Sources of Funds

General. Savings accounts and other types of deposits have traditionally been the primary source of funds for Brunswick's lending activities and for other general business purposes. In addition, Brunswick derives funds from loan repayments and Federal Home Loan Bank ("FHLB") advances, as well as other borrowings. Loan repayments are a relatively stable source of funds while deposit inflows and outflows vary widely and are influenced by prevailing interest rates and market conditions. Borrowings may be used to compensate for 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. Brunswick offers a variety of savings programs and related services. Deposits are obtained primarily from the communities in which Brunswick's offices are located. Brunswick does not advertise outside of these areas and does not solicit deposits from brokers. It offers premiums on certain accounts in order to attract funds.

Savings deposits in Brunswick as of September 30, 1996, were represented by the various types of savings programs set forth below.

<TABLE>
<CAPTION>

| Category | Interest Rate (1) | Minimum Term | Minimum Balance | Total Amount | Percentage of Savings |
|---|---|---|---|---|---|
| Now Account-Non Interest | None | None | $ -- | $ 10,099,015 | 4.63% |
| Now Account | 2.25% | None | 50 | 21,309,582 | 9.77 |
| Passbook Statement Account | 2.50% | None | 50 | 20,104,167 | 9.22 |
| Wall Street Checking | 2.25%(3) | None | 2,500 | 4,161,181 | 1.91 |
| Money Market Deposit Account | 2.25%(4) | None | 2,500 | 10,570,806 | 4.85 |
| Commercial Check-Interest | 2.25% | None | 50 | 5,525,179 | 2.53 |
| Commercial Checking | None | None | 50 | 7,729,774 | 3.55 |
| Gold Edge | 2.50% | 90 days | 50 | 524,762 | .24 |
| | | | | $ 80,024,466 | 36.70% |
| Certificates of Deposit: | | | | | |
| Fixed-Term - Fixed-Rate | 5.50% | 48 months | 500 | 7,415,705 | 3.40 |
| Fixed-Term - Fixed-Rate | 5.30% | 12 months | 500 | 46,392,962 | 21.27 |
| Fixed-Term - Fixed-Rate | 5.30% | 18 months | 500 | 3,297,778 | 1.51 |
| 6-Month Money Market | 5.00% | 182 days | 1,000 | 12,758,797 | 5.85 |
| 3-Month Money Market | 4.25% | 91 days | 1,000 | 2,142,585 | .98 |
| Fixed-Term - Fixed-Rate | 5.50% | 36 months | 500 | 5,756,833 | 2.64 |
| Negotiated Jumbo | 5.30%(2) | 1-12 mos. | 100,000 | 27,261,881 | 12.50 |
| Fixed-Term - Fixed-Rate | 5.30% | 24 months | 500 | 15,676,559 | 7.19 |
| Fixed-Term - Fixed-Rate | * % | 30 months | NONE | 163,335 | .08 |
| Fixed-Term - Fixed-Rate | 5.50% | 60 months | 500 | 17,184,958 | 7.88 |
| | | | | 138,051,393 | 63.30 |
| | | | | $218,075,859 | 100.00% |

* Plan no longer offered

</TABLE>

(1) Rates offered as of September 30, 1996.
(2) Rate on 12-month term.
(3) Rate tiers up to 3.00%.
(4) Rate tiers up to 3.50%.



The following table sets forth the time deposits in Brunswick classified

by rates being paid as of the dates indicated.

<TABLE>
<CAPTION>

| <S> | <C> At September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| 1.75% - 3.75% | $ 325,001 | $ 658,691 | $ 25,931,085 |
| 3.76% - 5.75% | 72,406,637 | 31,124,375 | 62,478,823 |
| 5.76% - 7.75% | 64,594,186 | 111,556,545 | 27,855,210 |
| 7.76% - 9.75% | 334,156 | 608,452 | 1,795,672 |
| 9.76% - 11.75% | 391,413 | 451,427 | 529,075 |
| 11.76% - 13.75% | -0- | -0- | 78,433 |
| | $138,051,393 | $144,399,490 | $118,668,298 |

</TABLE>

The following table sets forth the amount and maturities of time deposits in Brunswick at September 30, 1996.

<TABLE>
<CAPTION>

| Rate <S> | <C> Amount Due: Less than One Year | 1-2 Years | 2-3 Years | 3 Years and Thereafter | Total |
|---|---|---|---|---|---|
| 2 - 4% | $ -0- | $ 135,344 | $ 221,393 | $ -0- | $ 356,737 |
| 4 - 6% | 1,086,629 | 77,439,888 | 12,390,921 | 7,532,768 | 98,450,206 |
| 6 - 8% | 5,329,589 | 17,702,328 | 8,656,900 | 6,895,066 | 38,583,883 |
| 8 - 10% | -0- | 52,307 | 567,885 | -0- | 620,192 |
| 10 - 12% | -0- | -0- | 40,375 | -0- | 40,375 |
| - | | | | | |
| | $6,416,218 | $95,329,867 | $21,877,474 | $14,427,834 | $138,051,398 |

</TABLE>

As part of its strategy to maintain its interest rate sensitivity within desired tolerances, Brunswick periodically seeks to lengthen the term of its liabilities so as to match such liabilities with assets of similar terms. Brunswick seeks to attract such deposits through advertising campaigns and by offering competitive rates, gifts and incentives to employees.



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

<TABLE>
<CAPTION>

| <S> | <C> Year Ended September 30, 1996 | <C> 1995 | 1994 |
|---|---|---|---|
| Deposits......................... | $1,268,795,400 | $1,144,975,849 | $1,063,073,724 |
| Withdrawals ..................... | 1,282,953,549 | 1,131,564,224 | 1,065,862,680 |
| Net cash increase (decrease) before interested credited........... | (14,158,149) | 13,411,625 | (2,788,956) |
| Interest credited................ | $9,428,012 | $ 8,678,990 | 6,957,844 |
| Net increase (decrease) in deposits...................... | $ (4,730,137 | $ 22,090,615 | $ 4,168,888 |

</TABLE>

The following table sets forth time deposits of $100,000 or more (jumbo deposits) by remaining time to maturity, as of September 30, 1996.

| | |
|---|---|
| 0 - 3 months.......................... | $ 7,198,719 |
| 4 - 6 months.......................... | 5,316,189 |
| 7 - 12 months.......................... | 8,844,676 |
| Greater than 12 months.......................... | 10,639,697 |

$31,999,281
==========

Borrowings. Brunswick periodically obtains funds through borrowings from the FHLB of Atlanta. At September 30, 1996, Brunswick had $1,500,000 in advances at interest rates ranging from 7.90% to 7.91% compared to advances of $2,200,000 and $4,000,000 at September 30, 1995 and 1994, respectively. FHLB borrowings have been made on the security of Brunswick's FHLB stock, mortgage-backed securities, investment securities and cash. Brunswick had no other short-term borrowings during fiscal years 1996, 1995, and 1994.

A savings institution is required to be a "qualified thrift lender" in order to have full access to FHLB advances. Generally, an institution must have at least 65% of its portfolio assets invested in housing and housing related investments in order to qualify. As of September 30, 1996, Brunswick satisfied the qualified thrift lender test. For information regarding the "qualified thrift lender" requirements, see "Regulation and Supervision" below.

Interest Rate Comparison and Profitability

Brunswick's earnings are affected by its "spread", that is, the difference between the rate of return on its loan and investment portfolios and its cost of money (consisting principally of interest paid on savings deposits and on borrowings). The return on its loan portfolio changes primarily as a result of the rates and volumes of new and existing loans, and the return on its investment portfolio depends on the interest rates paid on such securities and the amount of funds invested. The cost of money is primarily dependent on short-term interest rates, which are subject to volatile movements. Expanded investment authority and the ability to make adjustable rate mortgage loans has provided Brunswick with better means to match the maturities of its assets and liabilities.

Brunswick has implemented a number of measures in recent years in an effort to make the yields on its loan and investment portfolios more responsive to changes in its cost of money. These steps include an emphasis on consumer, construction and other short-term or variable rate loans, and efforts to reduce the amount of long-term, fixed-rate real estate loans with low interest rates in Brunswick's portfolio. Moreover,



substantially all long-term, fixed-rate loans currently being originated are being sold in the secondary market. In addition, Brunswick is trying to solicit deposits with longer terms, to increase core deposits and to match assets with liabilities to the extent possible.

The following tables set forth for the periods and at the dates indicated the weighted average yields earned on Brunswick's assets and the weighted average interest rates paid on Brunswick's liabilities (e.g., deposits and borrowings), together with the net spread on interest-earning assets for the periods indicated (loan portfolio data includes mortgage-backed securities and non-accrual loans) and selected performance ratios.

<TABLE>
<CAPTION>

| | Year Ended September 30, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| <S> <C> | | | |
| Weighted average yield on loan portfolio.................... | 8.64% | 8.68% | 8.10% |
| Weighted average yield on mortgage-backed securities........................... | 6.74 | 6.99 | 6.84 |
| Weighted average yield on investment securi- ties ............................ | 6.56 | 6.43 | 5.81 |
| Weighted average yield on other investments................. | 5.65 | 6.36 | 4.24 |
| Weighted average yield on all interest-earning assets ............................ | 8.31 | 8.27 | 7.62 |
| Weighted average rate paid on savings deposits............................ | 4.66 | 4.40 | 3.71 |
| Weighted average rate paid on FHLB advances................ | 6.96 | 5.87 | 5.99 |
| Weighted average rate paid on short-term borrowings....... | 2.25 | 2.50 | -- |
| Weighted average rate | | | |

| | | | |
|---|---|---|---|
| paid on all interest-bearing liabilities........................ | 4.69 | 4.42 | 3.77 |
| Net yield on average interest earning assets............. | 4.05 | 4.21 | 4.16 |
| Return on assets..................... | .86 | 1.28 | 1.42 |
| Return on equity..................... | 8.31 | 12.82 | 13.89 |
| Equity to assets..................... | 10.31 | 10.01 | 9.80 |



<CAPTION>

| | At September 30, 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> <C> | | | |
| Weighted average yield on loan portfolio....................... | 8.62% | 8.59% | 8.34% |
| Weighted average yield on mortgage-backed securities.............................. | 6.44 | 6.99 | 6.88 |
| Weighted average yield on investment securities.............................. | 6.48 | 6.41 | 6.08 |
| Weighted average yield on other investments.................... | 5.47 | 5.74 | 4.77 |
| Weighted average yield on all interest-earning assets................................. | 8.30 | 8.08 | 7.90 |
| Weighted average rate paid on savings deposits................................ | 4.43 | 4.81 | 3.77 |
| Weighted average rate paid on FHLB advances................... | 7.91 | 6.82 | 6.32 |
| Weighted average rate paid on all interest-bearing liabilities............................ | 4.46 | 4.83 | 3.82 |
| Net spread on average interest earning assets................................. | 3.84 | 3.25 | 4.08 |
| Equity to assets ratio................... | 10.45 | 10.07 | 10.24 |

</TABLE>



The following table sets forth certain information regarding changes in interest income and interest expense of Brunswick for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume of assets or liabilities outstanding (changes in volume multiplied by old rate), (ii) changes in the interest rate earned or paid on those balances (changes in rate multiplied by old volume), and (iii) a combination of changes in rate and volume (change in rate multiplied by the change in volume).

<TABLE>
<CAPTION>

| | Year Ended September 30, 1996 vs. 1995 Increase (Decrease) Due to | | | 1995 vs. 1994 Increase (Decrease) Due to | | | 1994 vs. 1993 Increase (Decrease) Due to | | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | Volume | Rate | Rate/ Volume | Volume | Rate | Rate/ Volume | Volume | Rate | Rate/ Volume |
| <S> <C> | | | | | | | | | |
| Interest earning assets: | | | | | | | | | |
| Loans ..................... | $1,359 | $(75) | $(6) | $643 | $1,043 | $46 | $1,074 | $(434) | $(34) |
| Mortgage-backed | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| securities................. | 242 | (29) | (8) | (6) | 18 | -- | 108 | (38) | (6) |
| Investment securities....... | (232) | 20 | (5) | (119) | 109 | (13) | (372) | (154) | 38 |
| Other interest.............. earning assets............. | (174) | (121) | 19 | 162 | 281 | 81 | 57 | 71 | 10 |
| Total interest earning assets .................... | 893 | 93 | 4 | 736 | 1,446 | 63 | 811 | (467) | (23) |
| Interest bearing liabilities: | | | | | | | | | |
| Savings deposits............ | 397 | 544 | 24 | 375 | 1,375 | 70 | 274 | (654) | (23) |
| Advances from the FHLB....................... | (62) | 39 | (11) | (96) | (6) | 2 | 72 | (30) | (8) |
| Short-term borrowings....... | -- | (1) | -- | -- | -- | 3 | -- | -- | -- |
| Total interest-bearing liabilities................ | 334 | 576 | 20 | 337 | 1,328 | 58 | 325 | (668) | (27) |

</TABLE>

Service Corporation Activities

Federally chartered thrift institutions may invest in service corporations as a vehicle to engage in securities, real estate development and other activities that may not be directly permissible. Brunswick is permitted to invest an amount equal to 3% of its assets in its service corporation. In addition, a federal thrift institution meeting its applicable minimum regulatory capital requirements may invest, but subject to restrictions on loans to one borrower, up to 50% of the institution's total capital in conforming loans to service corporations.

Brunswick formed a wholly owned service corporation, First Shelter Service Corporation ("First Service"), in 1971 primarily for the purpose of providing appraisal and construction inspection services to Brunswick. In the past, First Shelter had engaged in limited land development and joint venture activities, in addition to providing appraisal and construction inspection services. At present, First Shelter is inactive. As of September 30, 1996, the net book value of Brunswick's investment in its service corporation, which consisted of its investment in the stock and accumulated undistributed retained earnings of the service corporation, was approximately $304,000 or .12% of assets.



Regulation and Supervision

General. Brunswick is a member of the FHLB system ("FHLB System") and its deposit accounts are insured up to applicable limits by the SAIF of the FDIC. Brunswick is subject to extensive regulation by the OTS and the FDIC and must file reports with the OTS 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 depository institutions. The OTS conducts periodic examinations to determine Brunswick's compliance with various regulatory requirements.

In 1989, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") was enacted. This law was designed to reduce the number of problem savings and loan associations, to recapitalize the thrift insurance fund, and to reform and reorganize the regulatory structure applicable to savings associations that were regulated by the Federal Home Loan Bank Board ("FHLBB") prior to FIRREA. Under FIRREA, the Federal Savings and Loan Insurance Corporation ("FSLIC") was dissolved and the SAIF was created as the new insurance fund for savings institutions. The insurance fund for commercial banks was renamed the Bank Insurance Fund ("BIF"), the assets of which are not commingled with those of the SAIF. The OTS, which replaced the FHLBB and is the primary federal regulator for all thrift institutions, is a bureau of the Department of the Treasury.

In 1991, a comprehensive deposit insurance and banking reform plan, the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), became law. FDICIA, which was enacted to recapitalize the BIF, effects a number of regulatory reforms that impact both savings institutions and banks. FDICIA authorizes the regulators to take prompt corrective action to solve the problems of critically undercapitalized institutions. As a result, the banking regulators are required to take certain supervisory actions against undercapitalized

institutions, the severity of which increases as an institution's level of capitalization decreases. Pursuant to FDICIA, the federal banking agencies have established the levels at which an insured institution is considered to be "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." See "Capital Requirements" below for a discussion of the applicable levels. In addition, FDICIA requires each federal banking agency to establish standards relating to internal controls, information systems, and internal audit systems that are designed to assess the financial condition and management of the institution; loan documentation; credit underwriting; interest rate exposure; asset growth; and compensation, fees and benefits. FDICIA lowered the qualified thrift lender (QTL) investment percentage applicable to SAIF-insured institutions. FDICIA further requires annual on-site full examinations of depository institutions, with certain exceptions, and annual reports on institutions' financial and management controls.

The following material summarizes certain of the regulatory requirements applicable to Brunswick.

Federal Home Loan Bank System. The FHLB System, which consists of 12 regional FHLBs, provides a central credit facility primarily for member institutions. As a member of the FHLB of Atlanta, Brunswick is required to acquire and hold shares of capital stock in that FHLB in an amount at least equal to the greater of 1% of the aggregate principal amount of Brunswick's unpaid residential mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 5% of its aggregate outstanding advances (borrowings) from the FHLB of Atlanta. As of September 30, 1996, Brunswick was in compliance with this requirement, with an investment in FHLB of Atlanta stock of approximately $1.6 million.

The FHLB of Atlanta serves as a reserve or central bank for the member institutions within its assigned region. It is funded primarily from the sale of consolidated obligations of the FHLB System. It makes advances to members in accordance with policies and procedures established by the Federal Housing Finance Board and the Board of Directors of the FHLB of Atlanta. At September 30, 1996, Brunswick had $1.5 million in advances from the FHLB of Atlanta, at interest rates ranging from 7.90% to 7.91%. The advances will mature by January 27, 1997.



Liquidity. Brunswick is required to maintain an average daily balance of liquid assets (cash, balances maintained in or passed through to a Federal Reserve Bank, certain time deposits, certain bankers' acceptances, specified United States government, state or Federal agency obligations, shares of certain mutual funds, certain corporate debt securities, certain commercial paper, and certain mortgage-related securities) equal to a monthly average of not less than a specified percentage of its net withdrawable accounts plus borrowings payable on demand or in one year or less ("Short Term Borrowings"). This liquidity requirement may be changed from time to time by the Director of the OTS ("Director") to between 4% to 10%; it is currently 5%. OTS regulations also require each member savings institution to maintain an average daily balance of short-term liquid assets at a specified percentage (currently 1%) of the total of its net withdrawable accounts and short-term borrowings. Monetary penalties may be imposed for failure to meet those liquidity requirements. The daily average liquidity of Brunswick for September 1996 was 10.47% and exceeded the then-applicable 5% liquidity requirement. Its short-term daily average liquidity ratio for September 1996 was 4.14% and exceeded the then-applicable 1% short-term liquidity requirement.

In addition, Federal Reserve regulations generally require that reserves of 3% be maintained against aggregate transaction accounts of $49.3 million or less (subject to adjustment by the Federal Reserve), and that an initial reserve of 10% (subject to adjustment by the Federal Reserve between 8% and 14%) be maintained against that portion of total transaction accounts in excess of such amount. In addition, the Federal Reserve may require an initial reserve of between 0% and 9% to be maintained on nonpersonal time deposits with, or regarded as having, an original maturity of less than one and one-half (1.5) years. Money market deposit accounts are subject to the reserve requirement applicable to nonpersonal time deposits when not held by a natural person. The first $4.4 million of otherwise reservable balances (subject to adjustments by the Federal Reserve) are exempted from the reserve requirements.

The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements that may be imposed by the OTS. Because required reserves must be maintained in the form of either vault cash, a non-interest-bearing account at a Federal Reserve Bank, or a "pass-through account," as defined by the Federal Reserve, the effect of the reserve requirement is to reduce Brunswick's interest-earning assets.

FHLB System members also are authorized to borrow from the Federal Reserve discount window, but Federal Reserve regulations require institutions to exhaust all FHLB sources before borrowing from a Federal Reserve Bank.

Insurance of Deposit Accounts. Brunswick's deposit accounts are insured by the FDIC to the maximum amount permitted by law, currently $100,000 for each insured account, through the SAIF fund. With respect to assessments paid by associations, the FDIC historically imposed assessments on each association based on the institution's assessment risk classification. The rates ranged from $.23 to $.31 for each $100 of domestic deposits. The rate at which a SAIF member institution paid assessments was determined on the basis of capital and supervisory measures. For the fiscal year ended September 30, 1996, Brunswick's assessment rate was $.23 for each $100 of domestic deposits. On September 30, 1996, legislation was enacted which, among other things, imposed a special one-time assessment on SAIF member institutions, including Brunswick, in order to recapitalize the SAIF and allocate to SAIF and BIF-insured institutions an annual assessment to cover interest payments on Financing Corp. (FICO) bonds issued in the 1980's to assist the thrift industry. The special one-time assessment levied by the FDIC amounts to 65.7 basis points on SAIF assessable deposits held by an institution as of March 31, 1995. SAIF-insured institutions were required to recognize the special assessment, which is tax deductible, as of September 30, 1996. Accordingly, Brunswick took a charge of $2.36 million before taxes as a result of the FDIC special assessment. Beginning on January 1, 1997, SAIF members will pay an annual assessment of 6.4 basis points on SAIF-insured deposits to cover interest payments on the FICO bonds. The FDIC also has proposed a base assessment schedule for SAIF institutions which would range from 4 to 31 basis points, with an adjusted assessment schedule that would immediately reduce those rates by 4 basis points. Accordingly, well-capitalized thrifts, similar to BIF-insured members, would



effectively have an assessment rate of zero for deposit insurance, excepting the FICO assessment of 6.4 basis points discussed above. The new rate would apply to all SAIF-insured institutions beginning January 1, 1997.

The FDIC has the authority to suspend the deposit insurance of any thrift without tangible capital. However, if a thrift achieves positive capital by including qualifying supervisory goodwill, the FDIC cannot suspend deposit insurance unless the FDIC's Board of Directors determines that: (i) the thrift's capital has declined materially; (ii) the thrift is engaging in an unsafe or unsound practice or is in an unsafe or unsound condition; or (iii) the thrift has violated an applicable law, rule, regulation, or order, or any condition imposed by, or written agreement entered into with, a federal banking agency, or has failed to enter timely into an acceptable capital improvement plan. At September 30, 1995, Brunswick had tangible capital of 10.01% of total assets.

Loans to One Borrower and Certain Loan Limits. FIRREA provides that the same limits on loans to one borrower that apply to national banks apply to savings institutions. Generally, a savings association may lend to a single or related group of borrowers, on an unsecured basis, an amount equal to 15% of its unimpaired capital and surplus. An additional amount equal to 10% of unimpaired capital and surplus, may be loaned if secured by readily marketable collateral, which is defined to include securities and bullion, but generally does not include real estate. Notwithstanding such provisions, a savings association may make loans to one borrower (i) for any purpose, up to $500,000, or (ii) to develop domestic residential housing units, up to the lesser $30 million or 30% of the association's unimpaired capital and unimpaired surplus, if certain conditions are satisfied. In addition, a savings association's loans to one borrower to finance a sale of real property acquired in satisfaction of debts previously contracted in good faith may not exceed the 15% limit.

Under the regulations described above, as of September 30, 1996, Brunswick could lend to a single borrower and its related entities on an unsecured basis an amount not to exceed $3.9 million based upon its unimpaired capital and surplus. Also as of that date, it could lend an additional $2.6 million if secured by readily marketable collateral. As of September 30, 1996, the amount outstanding to the largest single borrower of Brunswick was $3.3 million.

FIRREA also imposes limits on a federal savings association's aggregate "nonresidential real property loans." FIRREA generally limits the aggregate amount of "loans on the security of liens upon nonresidential real property" to 400% of the association's capital as determined under the capital standards of FIRREA. FIRREA also permits the Director to allow an association to exceed the aggregate limitation if the Director determines that exceeding the limitation would pose no significant risks to the safe and sound operation of the association, and would be consistent with prudent operating practices.

Qualified Thrift Lender Test. The QTL test generally requires that a savings association's qualified thrift investments equal or exceed 65% of the

association's "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) on a monthly average basis in nine of every twelve months.

"Qualified thrift investments" include all investments related to domestic residential real estate or mobile homes, the book value of property used by the savings association in conducting its business and stock issued by any FHLB. "Investments related to domestic residential real estate" include: home mortgages; homeimprovement loans; other loans on the security of residential real estate; obligations of the FHLB System; investments in deposits of other insured institutions; securities issued or guaranteed by the FHLMC, Federal National Mortgage Association, or Government National Mortgage Association, or issued by the FSLIC Financing Corporation; mortgage servicing rights; and other mortgage-related securities. Investments related to domestic residential real estate also include investment in a corporation, partnership, or trust in proportion to the amount of gross revenues derived by that entity from activities related to domestic housing. In addition to investments related to domestic residential real estate and property used in conducting the association's business, qualified thrift investments also include specified liquid assets and 50% of the residential mortgage



loans originated by the association and sold within 90 days of origination, but those liquid assets and mortgage loans may not exceed 20% of the association's tangible assets.

Any savings institution that fails to become or remain a QTL must either convert to a commercial bank charter or be subject to restrictions specified in the OTS regulations. A savings institution that converts to a bank must pay all SAIF insurance assessments until the date of its conversion to BIF membership. Any such institution that does not become a bank is prohibited from: (i) engaging in any new activity not permissible for a national bank; (ii) paying dividends not permissible under national bank regulations; (iii) obtaining advances from any FHLB; and (iv) establishing any new branch office in a location not permissible for a national bank in the association's home state. In addition, beginning three years after the association failed the QTL test, the association would be prohibited from engaging in any activity not permissible for a national bank and would have to repay any outstanding advances from an FHLB as promptly as possible. A savings institution may requalify as a QTL if it thereafter complies with the QTL test. As of September 30, 1996, Brunswick was in compliance with the QTL test as amended by FDICIA.

Enforcement Powers. Pursuant to FIRREA, the OTS was granted enhanced, extensive enforcement authority over all savings associations. 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. Since the enactment of FIRREA, the OTS has significantly increased the use of written agreements to correct compliance deficiencies with respect to applicable laws and regulations and to ensure safe and sound practices; violations of such written agreements are grounds for initiation of cease and desist proceedings. FIRREA significantly increased the amount of and grounds for civil money penalties assessable against savings associations and "institution-affiliated parties." FDICIA granted the FDIC back-up enforcement authority to recommend enforcement to an appropriate federal banking agency (i.e., the OTS) and to bring such enforcement action against a savings association or an institution-affiliated party if such federal banking agency fails to follow the FDIC's recommendation. In addition, FIRREA requires, except under certain circumstances, public disclosure of final enforcement actions by the OTS. FIRREA also expanded the group of persons subject to administrative enforcement proceedings to include any "institution-affiliated party," including (i) controlling shareholders, (ii) certain persons who participate in the affairs of an institution, and (iii) attorneys, appraisers, and accountants who knowingly or recklessly participate in wrongful action that had or is likely to have an adverse effect on an insured depository institution. The FDIC Act, as amended by FIRREA, provides that an institution-affiliated party may be subject to removal or suspension whenever such person has violated any law, regulation, or order or has engaged in an unsafe or unsound practice that causes the institution to suffer financial loss.

FIRREA substantially increased the civil money penalties that may be assessed for violations of law to as much as $1 million per day. Sentences now range from up to 30 years for most financial institutions-related crimes involving theft, fraud, and embezzlement to as much as life imprisonment in the case of "financial kingpins" who derive more than $5 million from their crimes within a certain period. Federal financial institutions agencies also have the authority to prevent the dissipation of assets wrongfully obtained by institution-affiliated parties and amends federal bankruptcy laws to prevent

such persons from using bankruptcy to avoid payment of civil and criminal money penalties. It also is a crime to knowingly conceal an asset or property from the FDIC or the Resolution Trust Corporation ("RTC") or to obstruct the examination of a financial institution.

FIRREA also expanded the grounds for appointment for a conservator or receiver for a savings association. Grounds for such appointment include: insolvency; substantial dissipation of assets or earnings; existence of an unsafe or unsound condition to transact business; likelihood that the association will be unable to pay its obligations in the normal course of business; and insufficient capital or the likely incurring of losses that will deplete substantially all capital with no reasonable prospect for replenishment. FIDIC added additional grounds for the appointment of a conservator or receiver of a savings association.



As a result of FIRREA and FDICIA, federal regulators have greater flexibility to impose enforcement action on an institution that fails to comply with its regulatory requirements, particularly with respect to the capital requirements. Possible enforcement action ranges from the imposition of a capital plan to the termination of deposit insurance. While the OTS has primary responsibility over savings associations, the FDIC is empowered to recommend enforcement action to the Director. If the Director does not take action, the FDIC has authority to compel such action under certain circumstances.

Capital Requirements. FIRREA and the implementing regulations of the OTS and the FDIC changed the capital requirements applicable to savings associations, including Brunswick, and the consequences of failing to comply with those requirements. The capital standards include (i) a core capital requirement, (ii) a tangible capital requirement, and (iii) a risk-based capital requirement. As described in more detail below, if an association fails to meet any of the three capital standards, it must submit a capital restoration plan to be approved by the OTS. Such failure may also result in the imposition of various restrictions on the association.

The core capital standard requires a savings association to maintain "core capital" of not less than 3% of adjusted total assets. "Core capital" includes common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries, certain nonwithdrawable accounts, pledged deposits of mutual savings associations, and certain goodwill resulting from prior regulatory accounting practices.

While the items mentioned above are included in core capital, intangible assets must be deducted in computing core capital because they are excluded from assets under FIRREA's capital rules. There are exceptions to that rule of deduction, however. Purchased credit card relationships and mortgage servicing rights may be included in core capital, in an amount not in excess of 50% of core capital computed before deducting any disallowed intangible assets or mortgage servicing rights. Purchased mortgage servicing rights, provided that such rights must be valued at the lower of 90% of fair market value to the extent determinable, or current amortized book value, and that any amount written off must be deducted from core capital. Qualifying supervisory goodwill held by an eligible savings association must be deducted from assets in determining core capital. Finally, investments in subsidiaries engaged in activities not permissible for a national bank generally must be deducted from assets in determining core capital.

The tangible capital requirement requires a savings association to maintain tangible capital in an amount not less than 1.5% of adjusted total assets. "Tangible capital" is defined as core capital minus intangible assets. FIRREA authorizes the inclusion of up to 90% of purchased mortgage servicing rights in calculating tangible capital, but OTS regulations prohibit the inclusion of supervisory goodwill in calculating tangible capital.

The risk-based capital requirement requires a savings association to maintain risk-based capital of not less than 8% of risk-weighted assets. Risk-based capital includes core capital and supplementary capital, provided that the amount of supplementary capital counting toward the requirement may not exceed core capital.

In calculating the risk-based capital requirement for a savings association, risk-weighted assets equals total assets plus consolidated off-balance sheet items, where each asset or item is multiplied by the appropriate risk weight as described below. Before an off-balance sheet item is assigned a risk weight, it must be converted to an on-balance sheet credit equivalent amount. That conversion generally is accomplished by multiplying the item by either 100%, 50%, 20%, or 0%, whichever is applicable under the OTS regulations. Each asset and each credit equivalent amount is assigned a risk weight as follows: (i) 0%, for cash and certain government securities; (ii) 20%, for securities of the United States government or its agencies not backed by the full faith and credit of the United States government and for high-quality

mortgage-related securities; (iii) 50%, for certain revenue bonds and qualifying residential mortgage loans; or (iv) 100%, for most other loans.



For purposes of determining the core and tangible capital components, FIRREA requires that investments in certain "nonincludable subsidiaries" be deducted from assets. Nonincludable subsidiaries are generally those engaged in activities not permissible for national banks. However, certain exemptions generally apply where the subsidiary: (i) is engaged in the activities solely as an agent for its customers; (ii) is engaged solely in mortgage-banking activities; (iii) (a) is an insured depository institution or a company whose sole investment is an insured depository institution and (b) was acquired by the association prior to May 1989; or (iv) is a federal savings association that existed as such on August 9, 1989, and was, or acquired its principal assets from, an association that was chartered before October 15, 1982, as a state savings or cooperative bank. At September 30, 1996, Brunswick had no investments in or advances to nonincludable subsidiaries.

OTS regulations provide that a savings association's total capital is equal to its core capital plus its supplementary capital (up to 100% of its core capital). However, in addition to assets otherwise required to be deducted in calculating core capital, reciprocal holdings of depository institution capital instruments must be deducted from assets in determining total capital. In addition, that portion of land and nonresidential construction loans in excess of 80% loan-to-value ratio, as well as all equity investments, must be deducted from assets in determining total capital. At September 30, 1996, Brunswick's investment in the portion of land and nonresidential construction loans in excess of 80% loan-to-value ratio and all equity investments was not significant.

Brunswick must maintain core capital at least equal to 3.0% of total adjusted assets and risk-based capital at least equal to 8.0% of risk-weighted assets. Additionally, Brunswick must maintain tangible capital at least equal to 1.5% of total adjusted assets.

The following table presents Brunswick's capital levels at September 30, 1996, relative to these requirements.

<TABLE>
<CAPTION>

| (Dollars in thousands) | Amount Required | Percent Required | Actual Amount | Actual Percent | Excess Amount |
|---|---|---|---|---|---|
| Core Capital..................... | $7,478 | 3.0% | $26,174 | 10.5% | $18,696 |
| Tangible Capital................. | 3,739 | 1.5 | 26,174 | 10.5 | 22,435 |
| Risk-Based Capital.............. | 13,874 | 8.0 | 26,758 | 15.4 (1) | 12,884 |

</TABLE>

(1) Represents risk-based capital as a percentage of risk-weighted assets.

Although those capital ratios exceed the minimum capital requirements imposed by the implementing OTS regulations at September 30, 1996, future events, such as increased interest rates, asset write-downs, or a downturn in the economy in areas where Brunswick has most of its loans, could adversely affect future earnings and, consequently, the ability of Brunswick to meet its future minimum capital requirements.

Savings associations with "above normal" interest rate risk exposure are subject to a deduction from total capital for purposes of calculating their risk-based capital requirements. A savings association's interest rate risk is measured by the decline in the net portfolio value of its assets (i.e., the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts) that would result from a hypothetical 200-basis point increase or decrease in market interest rates (except when the 3-month Treasury bond equivalent yield falls below 4%, then the decrease will be equal to one-half of that Treasury rate) divided by the estimated economic value of the association's assets, as calculated in accordance with guidelines set forth by the OTS. A savings association whose measured interest rate risk exposure exceeds 2% must deduct an interest rate component in calculating its total capital under the risk-based capital rule. The interest rate risk component is an amount equal to one-half of the difference between the institution's measured interest rate risk and 2%, multiplied by the estimated economic value of the association's assets. That dollar amount is deducted from an association's total capital in calculating compliance with its risk-based capital requirement. Under the rule, there is a two quarter lag between the reporting date of an institution's financial

data and the effective date for the new capital requirement based on that data. The rule also provides that the Director of the OTS may waive or defer an association's interest rate risk component on a case-by-case basis.

The OTS also has adopted regulations to implement the system of prompt corrective action established by FDICIA. The rules permit the OTS to take certain supervisory actions when an insured association falls within one of five specifically enumerated capital categories. Under the rules, an institution will be deemed to be (i) "well-capitalized" if the association has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and the association is not subject to any enforcement agreement relating to capital; (ii) "adequately capitalized" if the association exceeds a riskbased capital ratio of 8%, a Tier 1 risk-based capital ratio of 4%, and a leverage ratio of 4% (3% if the association has a composite one rating); (iii) "under capitalized" if the association's risk-based capital ratio is less than 8%, Tier 1 capital ratio is less than 4%, or leverage ratio is less than 4% (3% if it has a composite one rating); (iv) "significantly under capitalized" if the association's risk-based capital is less than 6%, Tier 1 capital ratio is less than 3%, or leverage ratio is less than 3%; and (v) "critically under capitalized" if the association has a ratio of tangible equity to total assets that is 2% or below. The regulations provide a framework of supervisory actions based on the capital level of an insured association. Generally, an association may not declare any dividends, make any other capital distribution, or pay a management fee if, following the distribution or payment, the institution would be within any one of the three under capitalized categories. There is a limited exception to this prohibition for stock redemptions that do not result in any decrease in an association's capital and would improve the association's financial condition, provided the redemption has been approved by the OTS. Institutions that are classified as under capitalized also are subject to additional mandatory supervisory actions, including increased monitoring by the OTS, a requirement to submit a capital restoration plan, and restrictions on growth of the institution's assets as well as a limitation on its ability to make acquisitions and open branches. In addition to the foregoing, a significantly under capitalized institution may not pay bonuses or raises to its senior executive officers without prior OTS approval and also must comply with additional mandatory requirements regarding the operation of the association in the interim. Based upon the foregoing regulations and First Federal's capital ratios as of September 30, 1996, First Federal would be considered in the well-capitalized category.

The Director may grant an exemption from a capital directive imposing operational restrictions or corrective actions if: (i) the exemption would pose no significant risk to the affected deposit insurance fund; (ii) the association's management is competent; (iii) the association is in substantial compliance with all applicable statutes, regulations, orders, and supervisory agreements and directives; and (iv) the association's management has not engaged in any activities that have jeopardized the association's safety and soundness or contributed to impairing its capital. In addition, a savings association that does not meet applicable capital standards may not increase its assets without the Director's prior written approval, and in no event may increase its assets beyond the amount of net interest credited to its deposit liabilities.

In addition to the foregoing prompt corrective action provisions, FDICIA also sets forth requirements that the federal banking agencies, including the OTS, review their capital standards every two years to ensure that their standards require sufficient capital to facilitate prompt corrective action and to minimize loss to the SAIF and the BIF.

Appointment of Receiver or Conservator. FIRREA and FDICIA significantly expand the grounds upon which a receiver or conservator may be appointed for a savings association. That expansion enhanced the ability of regulatory authorities to engage in "early intervention" to take control of an association before it is insolvent. Included in the new grounds for appointment are (i) "having substantially insufficient capital," (ii) incurrence or likely incurrence of losses that will substantially deplete all of the association's capital and no reasonable prospect for replenishing that capital without federal assistance, and (iii) a violation of law or regulation that is likely to weaken the association's condition.



Limitation on Capital Distributions. The OTS has promulgated a rule governing capital distributions such as dividends, stock repurchases, and cash-out mergers by savings associations. The rule establishes three tiers of institutions. An institution that meets or exceeds its fully phased-in capital requirement after giving effect to a proposed distribution is considered a "Tier 1 Institution" under the rule and may make aggregate capital distributions during a calendar year, without prior OTS approval, of up to the greater of (i) all of its net income to date during the year plus an amount that would reduce its excess capital ratio to one-half of such excess capital ratio at the beginning of the calendar year or (ii) 75% of its net income over the most

recent four quarterly period. An institution that meets its current regulatory capital requirement, but not its fully phased-in requirement, after giving effect to a proposed distribution is a "Tier 2 Institution" and may make capital distributions without prior OTS approval of up to the following percentage of net income for the most recent four-quarter period: (i) 75% of such net income if the association meets its fully phased-in risk-based capital requirements before the distribution; or (ii) 50% of such net income if the association meets only its current risk-based capital standards before the distribution. A savings association that fails to meet its regulatory capital requirements (a "Tier 3 Institution") may not make capital distributions without the OTS's prior written approval. An institution meeting the Tier 1 capital criteria but that has been notified by the OTS that it is in need of more than normal supervision may be treated as a Tier 2 or a Tier 3 institution. As of September 30, 1996, Brunswick was a Tier 1 Institution and would be permitted to distribute 100% of net income and one-half of its excess capital in a given year. However, there can be no assurance that Brunswick will remain a Tier 1 Institution for purposes of the rule.

The OTS also may determine that any capital distribution would constitute an unsafe or unsound practice and prohibit the distribution, in particular if Brunswick's capital were decreasing due to substantial losses.

Transactions with Affiliates. FIRREA made Federal Reserve Act ("FRA") Sections 23A, 23B, and 22(h) applicable to savings associations. Those sections limit extensions of credit to affiliated institutions, executive officers, directors, and 10% stockholders. Generally, Sections 23A and 23B (i) limit the extent to which the insured association or its subsidiaries may engage in certain covered transactions with an affiliated institution to an amount equal to 10% of such institution's capital stock and surplus, and place an aggregate limit on all such transactions with all affiliated institutions of an amount equal to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms consistent with safe and sound banking practices. "Covered transactions" include the making of loans, the purchasing of assets, the issuance of a guarantee, and similar transactions. FIRREA also imposed three additional rules on savings associations: (i) a savings association may not make any extension of credit to an affiliate unless that affiliate is engaged only in activities permissible for bank holding companies; (ii) a savings association may not purchase or invest in securities insured by an affiliate, other than a subsidiary; and (iii) the Director may impose more stringent restrictions on savings associations than those set forth in Sections 23A, 23B, and 22(h) of the FRA.

Brokered Deposits. FIRREA also added a new Section 29 to the FDI Act generally prohibiting the acceptance or renewal of brokered deposits by any under-capitalized insured depository institution after December 7, 1989, except upon the specific application to and waiver of that prohibition by the FDIC. The statute defines "brokered deposits" to include not only (i) deposits solicited through the assistance of a third-party deposit broker, but also (ii) deposits obtained by a depository institution by offering a rate of interest that is at least 50 basis points (0.5%) higher than the prevailing rate offered by similar depository institutions in the same market area. As of September 30, 1996, Brunswick had no deposits that would be considered to be "brokered deposits" under the statute and the FDIC's regulations.

Corporate Debt Securities Below Investment Grade. FIRREA also generally prohibits savings associations and their subsidiaries from acquiring or retaining any corporate debt security that, at the time of acquisition, is not (or, in the case of previously acquired securities, was not) rated in one of the four highest rating categories by at least one nationally recognized statistical rating organization. At September 30, 1996, Brunswick had no corporate debt securities below investment grade.



Investment Portfolio Accounting. Savings associations are required to account for transactions in accordance with GAAP, which requires that investment securities held to maturity be accounted for at amortized cost; securities available-for-sale, at the lower of cost or market; and trading securities, at market.

Asset Classification. The OTS has a classification system for problem assets of insured institutions which covers all problem assets, including assets that previously had been treated as "scheduled items." Under that classification system, problem assets of insured institutions are classified as "substandard," "doubtful," or "loss," depending on the presence of certain characteristics as discussed below.

An asset is considered "substandard" if 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 of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When an insured institution classifies problem assets as either substandard or doubtful, it is required to establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but that, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets 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. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the institution's Principal Supervisory Agent, who can order the establishment of additional general or specific loss allowances.

Service Corporation Subsidiaries. The HOLA authorizes federally chartered savings associations to invest up to 3% of their assets in the stock of service corporation subsidiaries. In addition, federal thrift institutions meeting their applicable minimum regulatory capital requirements may invest up to 50% of regulatory capital in conforming loans to service corporations. The OTS's implementing regulations require that the activities of a service corporation be reasonably related to the activities of a federal association and generally provide that OTS approval must be obtained before a service corporation may commence any new activity. However, the regulations list a number of activities in which a service corporation may engage without prior OTS approval, including: (i) originating and servicing mortgage, consumer, educational, and commercial loans; (ii) providing escrow, liquidity and credit analysis, and other backroom services for other financial institutions; (iii) developing and managing real estate; and (iv) providing certain securities brokerage services.

Under Section 18(m) of the FDI Act, also added by FIRREA, all savings associations must provide the FDIC and the OTS with 30 days' notice prior to (i) establishing or acquiring a new subsidiary or (ii) commencing a new activity through an existing subsidiary, and, as part of the notice, must furnish such information regarding the new subsidiary or activity as either agency may require.

Assessments. FIRREA also amended the HOLA to allow the OTS to assess fees on savings associations to fund the operations of the OTS, to recover the costs of examining institutions under its jurisdiction, and to provide for the processing of various types of applications, notices, requests, and securities filings. Prior to the enactment of FIRREA, the FHLBB had obtained its funding primarily from FHLB contributions and FSLIC insurance premiums. The OTS has adopted regulations which implement these statutory provisions. The regulations provide for OTS assessments to be made either quarterly or semiannually based on the total consolidated assets of a savings association as shown on its most recent report to the agency. Troubled savings



associations are to be assessed at a rate 50% higher than similarly sized thrifts that are not experiencing problems.

Restrictions on Acquisition. Brunswick must obtain approval from the OTS before acquiring control of any other savings association. Such acquisitions are generally prohibited if they result in a savings and loan holding company controlling savings associations in more than one state. However, such interstate acquisitions are permitted based on specific state authorization or in a supervisory acquisition of a failing savings association. Brunswick may acquire up to 5%, in the aggregate, of the voting stock of any nonsubsidiary savings association or savings and loan holding company without being deemed to acquire "control" of the association or holding company. In addition, a savings and loan holding company may hold shares of a savings association or a savings and loan holding company for certain purposes, including a bona fide fiduciary, as an underwriter or in an account solely for trading purposes. Under certain conditions, a savings and loan holding company may acquire up to 15% of the shares of a savings association or savings and loan holding company in a qualified stock issuance; such acquisition is not deemed a controlling interest.

Federal statutes applicable to all depository institutions require a person or entity seeking to obtain control of Brunswick to obtain the prior approval of the OTS as the principal regulatory agency of federally chartered savings banks. FIRREA amended the Change in Bank Control Act (the "Control Act") to apply to savings associations. The Control Act provides that no person, acting directly, indirectly, or through or in concert with one or more other persons, may acquire "control" of a savings association without giving at least 60 days' prior written notice to the Director and having the Director not object or extend such 60-day period. Federal law also generally provides that no

company may acquire "control" of an insured savings association without the Director's prior approval, and that any company that acquires such control becomes a "savings and loan holding company" subject to registration, examination, and regulation under Section 10 of the HOLA and regulations adopted pursuant thereto.

FIRREA also authorizes the Federal Reserve to approve bank holding company acquisitions of savings associations and provides that the Federal Reserve may not impose "tandem restrictions" in connection with such approvals. Those provisions of FIRREA specifically reverse a long-standing policy of the Federal Reserve precluding acquisitions of healthy thrift institutions by bank holding companies.

Federal Income Taxation. Brunswick and its subsidiary are subject to taxation as corporations under applicable provisions of the Internal Revenue Code. Brunswick's federal income tax returns have been audited by the Internal Revenue Service through September 30, 1992. Brunswick and its subsidiary file a consolidated federal income tax return on the basis of a September 30 fiscal year using the accrual method of accounting. Although Brunswick is included in a consolidated tax return with its subsidiary, certain federal income tax rules are applicable to Brunswick only.

For example, savings institutions like Brunswick that meet certain definitional tests, primarily relating to their assets and the nature of their business, are permitted to deduct annual additions to a reserve for bad debts, within specified formula limits. In each tax year, the deductible addition may be computed using the more favorable of either: (i) a method based generally on the institution's average loan loss experience over the six-year period ending with the taxable year (the "Experience Method"), or (ii) a method based on a specified percentage of the institution's taxable income (the "Percentage Method").

Brunswick uses the Percentage Method for computing additions to its bad debt reserve for "qualifying real property loans" (generally those loans secured by interests in real property). Additions to the reserve for nonqualifying real property loans must be computed under the Experience Method.

Under the Percentage Method, the allowable deduction is computed as a percentage of Brunswick's taxable income before the deduction, as adjusted for certain items (such as the dividends-received deduction, withdrawals from excess bad debt reserves, as discussed below, and certain gains), and is generally equal to



8% of adjusted taxable income, less any amounts deducted in connection with nonqualifying real property loans. The allowable deduction for qualifying real property loans computed under the Percentage Method is also subject to various other limitations that historically have not affected Brunswick.

To the extent that Brunswick's reserve for losses on qualifying real property loans exceeds the amount that would have been allowed under the Experience Method, then amounts that are considered to have been withdrawn from that excess reserve to make distributions to stockholders will be included in Brunswick's taxable income. Dividend distributions in excess of Brunswick's current or accumulated earnings and profits as calculated for federal income tax purposes will be considered to result in withdrawals from its bad debt reserve. Distributions in redemption of stock or in partial or complete liquidation also are considered to result in withdrawals from the bad debt reserve regardless of the level of current or accumulated earnings and profits. In the case of Brunswick, no such distributions have taken place, nor does management anticipate that any such distributions will take place in the near future.

Certain other special rules apply to financial institutions such as Brunswick. For example, financial institutions are permitted to carry net operating losses ("NOLs") back for three years or forward for fifteen years. In addition, although taxpayers generally are not permitted to deduct interest expense allocable to the purchase or carrying of tax-exempt obligations, financial institutions are entitled to deduct 80% of their interest expense deemed allocable to tax-exempt obligations acquired before August 8, 1986 (100% for obligations acquired before 1983). A financial institution is not permitted to deduct any portion of its interest expense allocable to tax-exempt obligations acquired after August 7, 1986, other than designated tax-exempt obligations issued by small municipal issuers, which remain subject to the 80% limit.

Corporations are liable for an alternative minimum tax ("AMT") equal to 20% of alternative minimum taxable income (taxable income after making certain "adjustments" and adding certain "preferences") if and to the extent the AMT exceeds the regular income tax. The preference and adjustment items include (but are not limited to): (i) the excess of the allowable bad debt deduction over the

deduction that would have been allowable on the basis of actual experience, (ii) for taxable years beginning after 1989, 75% of the difference (positive or negative) between "Adjusted current earnings" and alternative minimum taxable income (as specifically determined for this purpose), (iii) interest on certain "private activity" bonds( issued for the benefit of nongovernmental persons) issued after August 7, 1986, and (iv) replacement of the regular NOL deduction with the alternative minimum tax NOL deduction (computed with the AMT adjustments and reduced by preference items) which may be utilized to offset only 90% of the alternative minimum taxable income. Brunswick was not liable for the AMT for its taxable year ended September 30, 1996.

State Income Taxation. Under Georgia law, financial institutions generally are subject to the same taxes, state and local, as other corporations in Georgia. The state corporation income tax rate to which Brunswick is subject is 6% of Georgia taxable net income, which is equal to federal taxable income with certain adjustments. In addition to the corporate income tax, financial institutions in Georgia are subject to a corporate net worth tax, intangible, tangible, real and personal property taxes, and a special occupation tax at a rate of .25% of gross receipts. The appropriate county or city is also permitted to levy a business license fee at a rate of .25% of gross receipts. The total amount of the license fee and occupation tax is allowed as a credit against the corporation income tax.



Effect of Governmental Policies

The earnings and business of Brunswick are and will be affected by the policies of various regulatory authorities of the United States, especially the Federal Reserve Board. The Federal Reserve Board, among other things, regulates the supply of credit and deals with general economic conditions within the United States. The instruments of monetary policy employed by the Federal Reserve Board for these purposes influence in various ways the overall level of investments, loans, other extensions of credit and deposits, and the interest rates paid on liabilities and received on assets.

Interest and Usury

Brunswick is subject to numerous state and federal statutes that affect the interest rates that may be charged on loans. These laws do not, under present market conditions, deter Brunswick from continuing the process of originating loans.

Competition

Brunswick encounters significant competition in its market from commercial banks, thrift institutions, other financial institutions and financial intermediaries. Brunswick not only competes with other banks performing banking services in its markets, but also competes with various other types of financial institutions for deposits, certain commercial, fiduciary and investment services and various types of loans and certain other financial services. Brunswick also competes for interest-bearing funds with a number of other financial intermediaries and investment alternatives, including "money-market" mutual funds and brokerage firms.

Brunswick competes not only with financial institutions based in the State of Georgia, but also with a number of out-of-state banks, bank holding companies and other financial institutions which have an established market presence in Georgia. Many of the financial institutions operating in Georgia are engaged in local, regional, national and international operations and have more assets and personnel than Brunswick. Most of the southeastern states, including Georgia, have enacted legislation that allows bank holding companies (and in certain cases, thrift institutions) in those states to acquire banks (and in certain cases, thrift institutions) and bank holding companies in other states located in the region, which has the effect of causing competition to intensify.

Employees

As of September 30, 1996, Brunswick and its subsidiary had 102 full-time employees and 35 part-time employees. The employees are not represented by a collective bargaining unit. Brunswick believes that its employee relations are excellent.



Item 2. Properties

Properties

The following table sets forth certain information concerning Brunswick's offices. All were full service offices at September 30, 1996. The total net book value of such offices at September 30, 1996 was approximately $1.4 million.

| Office Location | Year Facility Opened | Title to the Building (1) |
|---|---|---|
| Main Office<br>777 Gloucester Street<br>Brunswick, GA 31520 | 1974 | Leasehold. Lease terminates in 2003 and has one ten-year renewal option. |
| St. Simons Ocean Boulevard Office<br>621 Ocean Boulevard<br>St. Simons Island, GA 31522 | 1961 | Fee Simple. |
| St. Simons Plaza Office<br>1600 Frederica Road<br>St. Simons Island, GA 31522 | 1986 | Leasehold. Lease terminates in 2006 and has two ten-year renewal options. |
| Glynn Place Mall Office<br>167 Altama Connector<br>Brunswick, GA 31520 | 1986 | Fee Simple. |
| Altama Office<br>4401 Altama Avenue<br>Brunswick, GA 31520 | 1966 | Leasehold. Lease terminates in 1998 and has two ten-year renewal options. |

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(1) Brunswick owns the land on which all of its offices, except the St. Simons Plaza, is located.

Brunswick uses the services of an outside data processing firm for its data processing and recordkeeping functions.

Item 3. Legal Proceedings

In 1988, Brunswick entered into an agreement with The Citizens & Southern Corporation and certain related affiliates which provided for the acquisition of Brunswick by C&S and the exchange of Brunswick common stock for C&S common stock. The agreement was amended in 1990 to provide for receipt of C&S/Sovran Corporation stock by Brunswick stockholders as a result of the merger in 1990 of C&S with Sovran



Financial Corporation (which was acquired by NationsBank Corporation ("NationsBank") in late 1991). On September 27, 1991, Brunswick filed a suit in Glenn County Superior Court against C&S/Sovran and its affiliated entities asserting that they had breached the agreement entered into with Brunswick. In May, 1994, a jury found that C&S/Sovran breached the agreement in March, 1991 by not filing certain regulatory applications to pursue the acquisition of Brunswick. On December 16, 1994, the court issued an order which provided that Brunswick would be entitled to the remedy of specific performance of the agreement entered into with C&S/Sovran. The order also provided that a subsequent jury trial would be held to determine when the merger should have closed. The order also required the defendants to make an acquisition proposal to Brunswick stockholders to acquire Brunswick stock in exchange for NationsBank stock. On July 18, 1996, a Glynn County jury determined that the merger would have closed on June 19, 1991. On October 15, 1996, the Court issued an Order finding that the number of NationsBank shares required to be offered to Brunswick stockholders is 1,280,268 shares, increased by the number of NationsBank shares in an amount equal to the difference between dividends paid by the defendants since December 1991 less dividends paid on all Brunswick shares from June 19, 1991 to the date of the offer. The Order stated that the number of NationsBank shares to be offered is subject to reduction by the amount payable by First Federal pursuant to employment severance agreements as well as legal fees paid by Brunswick which exceed amounts set forth in the Court's Order. On November 12, 1996, Brunswick sent a share calculation letter to NationsBank addressing the method by which the Order will be implemented and advising NationsBank that, after Brunswick pays approximately $12.5 million for its contractual obligations for litigation attorneys' fees and $1.3 million to four senior executive officers pursuant to change of control agreements, Brunswick's stockholders will receive .80 shares of NationsBank stock for each share of Brunswick stock. The parties anticipate that the closing of the NationsBank transaction will occur in the second quarter of 1997.

Brunswick and its subsidiary are party to various legal proceedings in the normal course of their business; however, Brunswick management believes that the ultimate outcome in such proceedings in the aggregate would not have a material adverse effect on the financial position or results of operations of Brunswick and its subsidiary on a consolidated basis.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 1996.

PART II

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

The information contained under the section captioned "Capital Stock" in the Annual Report is incorporated herein by reference.

Item 6. Selected Financial Data

The information contained in the table captioned "Selected Financial Highlights" in the Annual Report is incorporated herein by reference.



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

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

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements contained in the Annual Report are incorporated herein by reference.

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

The registrant has not had any disagreements with its accountants on any matter of accounting principles or practices or financial statement disclosure.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information contained under the sections captioned "Directors" and "Executive Officers" under "Proposal One - Election of Directors" in the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on January 22, 1997, to be filed with the OTS pursuant to Regulation 14A within 120 days of the registrant's fiscal year end (the "Proxy Statement"), is incorporated herein by reference.

Item 11. Executive Compensation

The information contained in the sections captioned "Information About the Board of Directors and Its Committees", "Executive Compensation and Benefits" and "Information on Benefit Plans and Policies" under "Proposal One - Election of Directors" in the Proxy Statement, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information contained in the sections captioned "Directors" and "Management Stock Ownership" under "Proposal One - Election of Directors," and "Ownership of Equity Securities" in the Proxy Statement, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information contained in the section captioned "Certain Transactions" under "Proposal One Election of Directors" in the Proxy Statement, is incorporated herein by reference.



PART IV

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

The following are contained in the registrant's Annual Report to Stockholders.

(a) 1. Financial Statements

Report of Independent Public Accountants - First Federal Savings Bank of Brunswick, Georgia and Subsidiary

Consolidated Statements of Financial Condition as of September 30, 1996 and 1995

Consolidated Statements of Income for the Years Ended September 30, 1996, 1995, and 1994

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended September 30, 1996, 1995 and 1994

Consolidated Statements of Cash Flows for the Years Ended September 30, 1996, 1995 and 1994

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All schedules have been omitted as the required information is either inapplicable or included in the Notes to Consolidated Financial Statements.

3. Exhibits

3.1 Charter and By-laws of First Federal Savings Bank of Brunswick, Georgia (Incorporated by reference to Exhibit 3 to Brunswick's Form 10 filed with the FHLBB on June 28, 1984)

3.2 Assistant Secretary's Certificate dated November 18, 1991 setting forth Corporate Resolutions amending Bylaws of First Federal Savings Bank of Brunswick, Georgia (Incorporated by reference to Exhibit 3.2 to Brunswick's Annual Report on Form 10-K for the fiscal year ended September 30, 1993)

10.1 First Federal Savings Bank of Brunswick, Georgia 1984 Stock Option Plan, as amended (Incorporated by reference to Exhibit 10 to Brunswick's Annual Report on Form 10-K for the fiscal year ended December 31, 1986)

10.2 Form of Agreement entered into January 1, 1995 between First Federal Savings Bank of Brunswick, Georgia and each of Ben T. Slade, III, John J. Rogers and James H. Gash (incorporated by reference to Exhibit 10.2 to Brunswick's Annual Report on Form 10-K for the fiscal year ended September 30, 1994)



13.1 First Federal Savings Bank of Brunswick, Georgia 1996 Annual Report

21.1 Subsidiary of the Registrant

(b) Reports on Form 8-K

No Current Reports on Form 8-K were filed by Brunswick during the last fiscal quarter covered by this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Brunswick, State of Georgia, on December 26, 1996.

FIRST FEDERAL SAVINGS BANK
OF BRUNSWICK, GEORGIA

By: /s/ Ben T. Slade, III
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Ben T. Slade, III, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on December 26, 1996.

| Signature | Title |
|---|---|
| /s/ Ben T. Slade, III<br>Ben T. Slade III | Chairman of the Board and President |
| /s/ John J. Rogers<br>John J. Rogers | Senior Vice President - Mortgage Banking, Chief Financial Officer, and Director |
| /s/ Robert B. Sams<br>Robert B. Sams | Vice President and Controller |
| /s/ James H. Gash<br>James H. Gash | Senior Vice President - Commercial Banking and Director |
| /s/ James F. Barger<br>James F. Barger | Director |
| /s/ J. Dewey Benefield, Jr.<br>J. Dewey Benefield, Jr. | Director |
| William O. Faulkner | Director |
| /s/ Mack F. Mattingly<br>Mack F. Mattingly | Director |
| /s/ T. Gillis Morgan, III<br>T. Gillis Morgan, III | Director |
| /s/ D. Paul Owens<br>D. Paul Owens | Director |
| Jack Torbett | Director |
| /s/ L. Gerald Wright<br>L. Gerald Wright | Director |



First Federal Savings Bank of Brunswick, Georgia
Form 10-K
For Fiscal Year Ending September 30, 1996

## EXHIBIT INDEX

| Exhibit No. | Exhibit | Page No. |
|---|---|---|
| 13.1 | First Federal Savings Bank of Brunswick, Georgia 1996 Annual Report | |

22.1 Subsidiary of the Registrant



Exhibit 13.1

First Federal Savings Bank of Brunswick, Georgia

Annual Report to Stockholders

For Fiscal Year Ended September 30, 1996

A MESSAGE FROM THE PRESIDENT

Our net income for the fiscal year ended September 30, 1996 was $2,156,717 (earnings per share of $1.42) compared to $3,114,460 (earnings per share of $2.05) for the prior year. The primary reason for the decline was the one-time expense to the Bank of approximately $1,362,000 ($885,000 after tax) representing a special assessment on deposits of 65.7 basis points required to recapitalize the Savings and Loan Insurance Fund ("SAIF"). Now that the fund is recapitalized, our premiums for Federal Deposit Insurance will decline dramatically and this will have a beneficial effect on our future income. Another reason for the decline in net income is the $171,518 increase in legal fee expense because of the July 1996 trial in our litigation with NationsBank.

Picture of The President Goes Here

Return on average assets for the year ended September 30, 1996 was .86% compared with 1.28% for 1995. Exclusive of the one-time SAIF assessment and the net increase in legal fees, our return on average assets would have been 1.25%.

During July of 1996, we celebrated the 70th birthday of First Federal Savings Bank. This was a delightful occasion and gave us the opportunity to thank many long-time customers for their loyalty over the years. Several customers who have been with us for the full seventy years attended the birthday party.

As previously reported, the NationsBank litigation has now been settled pursuant to the Court Order of October 5, 1996. The result will be the acquisition of First Federal by NationsBank Corporation in a tax-free exchange of stock. Stockholders of First Federal will be offered .80 shares of NationsBank stock for each First Federal share. The full details of the proposed transaction will be described in the proxy materials that should be mailed in March of 1997. The projected closing should occur between March 31, 1997 and April 30, 1997.

We are, of course, pleased to have this lengthy litigation behind us and feel that the result will be rewarding for all stockholders of First Federal. At current prices for NationsBank stock, the transaction will be valued at approximately $115 million. When you consider that our original stock issue was approximately $2.7 million, this is quite a substantial increase in value over the twelve-year period that we've been a public company.

We've been assured by NationsBank that they are eager to conclude this transaction and bring their array of services to the people of Brunswick and Glynn County. All of us at First Federal will do our best to provide for a smooth transition and hope all of our stockholders and customers will be pleased with the resulting changes.

Yours very truly,

/s/ Ben T. Slade, III

Ben T. Slade, III
President

HIGHLIGHTS OF 1996

NET INTEREST INCOME
(graph appears below
and plot points appears
as follows:)

| Millions of Dollars | |
|---|---|
| 1992 | 7.74 |
| 1993 | 8.57 |
| 1994 | 9.26 |
| 1995 | 9.78 |
| 1996 | 9.84 |

DIVIDENDS PAID
(graph appears below
and plot points appears
as follows:)

| Thousands of Dollars | |
|---|---|
| 1992 | 868 |
| 1993 | 913 |
| 1994 | 1,123 |
| 1995 | 1,334 |
| 1996 | 1,395 |

Shifts in net interest income are a function of volume, movements in interest rates, and the positioning of the Bank with respect to interest rate risk management. The Bank works to maximize net interest income within the parameters of interest rate risk management so as to provide for stability in net interest income over varying movements in interest rates.

The $5,633,000 in cash dividends paid to shareholders over the past five years exceeds the net amount raised in 1984, in the Bank's only public offering, by $3,250,000.

SELECTED FINANCIAL HIGHLIGHTS

<TABLE>
<CAPTION>

| | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Gross Income | $22,736,355 | $21,309,238 | $19,020,263 | $19,217,317 | $21,171,010 |
| Total Interest Income | 20,191,565 | 19,202,040 | 16,957,142 | 16,636,594 | 18,487,263 |
| Total Interest Expense | 10,353,532 | 9,423,311 | 7,700,190 | 8,069,801 | 10,750,488 |
| Net Interest Income | 9,838,033 | 9,778,729 | 9,256,952 | 8,566,793 | 7,736,775 |
| Income Before Income Taxes | 3,348,967 | 4,815,060 | 4,224,524 | 4,109,802 | 3,536,157 |
| Net Income | 2,156,717 | 3,114,460 | 3,280,424 | 2,660,712 | 2,245,357 |
| Net Income Per Share1 | 1.42 | 2.05 | 2.17 | 1.77 | 1.50 |
| Cash Dividends Declared | .95 | .89 | .75 | .61 | .58 |
| Book Value Per Share 2 | 17.29 | 17.00 | 15.44 | 14.33 | 13.19 |
| Real Estate Loans 3 | 182,897,960 | 163,832,021 | 158,597,317 | 155,377,526 | 141,230,291 |
| Total Net Loans 3 | 209,868,046 | 186,664,013 | 179,017,162 | 173,200,538 | 158,257,837 |
| Mortgage-Backed Securities | 8,339,891 | 12,232,044 | 11,074,637 | 11,086,923 | 9,092,030 |
| Investment Securities | 8,024,132 | 16,488,815 | 15,976,701 | 20,247,531 | 22,164,392 |
| Total Assets | 249,117,444 | 253,287,453 | 231,514,862 | 228,145,524 | 220,644,738 |
| Total Deposits | 218,075,859 | 222,805,996 | 200,715,381 | 196,546,493 | 192,374,447 |
| Total Borrowings | 1,500,000 | 2,200,000 | 4,000,000 | 5,300,000 | 3,300,000 |
| Total Net Worth | 26,025,085 | 25,506,415 | 23,622,064 | 21,449,495 | 19,701,917 |
| Total Regulatory Capital | 26,758,000 | 26,101,000 | 24,114,000 | 22,318,000 | 20,445,000 |
| Total Full Service Offices | 5 | 5 | 5 | 5 | 5 |

</TABLE>

1 Calculated based on fully diluted shares outstanding.
2 Calculated assuming all options exercised.
3 Includes mortgage loans held for sale.



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

General Overview:

From the Bank's headquarters and two branch offices located in Brunswick, along with two branch offices on St. Simons Island, the Bank is primarily engaged in the business of attracting deposits from the general public and investing those funds in real estate, consumer, and commercial loans. Deposits averaged $218.4 million in the current year compared to average deposits of $209.3 million in the year ago period. The Bank's loan portfolio averaged $203.4 million in the current year, rising from an average of $187.7 million during the period one year ago.

The Bank recorded net income of $2,156,717 or $1.42 per share for the fiscal year ended September 30,1996 compared to net income of $3,114,460 ($2.05 per share) and $3,280,424 ($2.17 per share) for the years ended September 30,1995 and 1994. Fiscal year 1996 results included a charge of $1,362,018 representing a provision made for the payment of a special assessment imposed by Congress intended to re-capitalize the "thrift" portion of the Federal Deposit Insurance Fund. This charge reduced net income by approximately $885,000 or 5.58 per share.

Liquidity and Capital Resources:

The Bank is required to maintain minimum liquidity levels of cash and eligible securities equal to 5% of withdrawable savings accounts and short-term borrowings. Cash and eligible securities include cash and due from banks, interest-bearing deposits in other banks, federal funds sold, other short-term investments and certain investment securities. At September 30, 1996 and 1995, cash and eligible securities totalled $24.0 million and $46.0 million, respectively. It has been the Bank's policy to maintain liquidity in excess of the required 5% amount. A secondary source of liquidity to the Bank has resulted from the conversion of single family mortgage loans to Federal Home Loan Mortgage Corporation ("FreddieMac") participation certificates ("PC's"). During fiscal year 1996, $6.4 million in loans were exchanged with FreddieMac for PC's. While not eligible to be considered for regulatory liquidity, these certificates may be readily sold to raise additional cash and may also be used as collateral for both short and long-term borrowings. At September 30,1996, the Bank held approximately $3.9 million in PC's resulting from such exchanges with FreddieMac. Average daily liquidity was 10.47% and 19.90% for the months of September 1996 and 1995, respectively.

The Bank's one year interest rate gap was a positive $34.8 million at September 30,1996 compared to a positive $38.0 million at September 30,1995. The interest rate gap calculation involves measuring the difference between maturing or repricing interest earning assets and maturing or repricing interest bearing liabilities over a given time frame, e.g., one year. Measurement of the Bank's gap has historically categorized NOW and passbook deposit accounts as non-interest rate sensitive liabilities. At September 30, 1996, NOW and passbook accounts totalled, in aggregate, $55.9 million, and should interest rates remain at or rise from current levels, the rates paid by the Bank on these accounts could rise as well. The decrease in the Bank's positive one year gap resulted primarily from a decrease in short term liquid investments from $23.4 million at September 30,1995 to $14.1 million at September 30,1996. Funds held in short-term liquid investments at September 30,1995, consisting of federal funds sold, interest bearing deposits in other banks, and treasury and agency securities maturing within one year, were shifted into mortgage, consumer, and commercial loans throughout the current fiscal year as loan demand and interest rate risk considerations allowed. This action provided for an increase in the Bank's weighted yield on interest earning assets from 8.08% at September 30, 1995 to 8.30% at September 30, 1996, despite a decline in both the prime and federal funds rates of 50 basis points during the current fiscal year.

Total loan originations for the year ended September 30, 1996 increased to $91.9 million from $80.4 million one year ago, reflective of a healthy economy combined with accommodative levels of interest rates. Loans secured by real estate increased to $200.2 million at September 30,1996 from $179.7 million at September 30, 1995. Construction loans accounted for 40% of this increase, rising from $13.0 million one year ago to $21.2 million at September 30,1996.

Total deposits decreased to $218.1 million at September 30, 1996 from $222.8 million at September 30,1995, as certificate of deposit balances declined $6.3 million in the current year. During the first two quarters of fiscal year 1995, as the Federal Reserve board ("FRB") increased short term interest rates in order to cool economic activity, the rates offered on certificates of deposit increased to levels attractive to investors as certificate balances increased by $25.7 million. During the fourth quarter of fiscal year 1995, the FRB began lowering short-term interest rates in response to several months of acceptable economic and inflation indicators and continued this posture into the first two quarters of the current year. In response to this action, the rates offered on certificates declined significantly and some proceeds from maturing accounts were transferred to investments outside the Bank.

Advances from the Federal Home Loan Bank declined from $2.2 million at September 30,1995 to $1.5 million at September 30,1996. Twelve million dollars in new short-term advances were drawn and repaid during the current fiscal year and an additional $.7 million, drawn in prior years, was repaid as well.

At September 30,1996, the Bank had approximately $2.1 million in outstanding commitments to fund loans. Of this amount, approximately $1.2 million were commitments to fund loans on single family residential homes, approximately $.7 million were to fund loans on other real estate, and approximately $.2 million were to fund various consumer and non-real estate commercial loans. The cash needed to fund these loans will be derived from principal repayments on outstanding loans and through the fulfillment of commitments to sell loans in the secondary markets.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) requires that savings associations must now satisfy three separate capital standards. The Bank must maintain core capital at least equal to 3.0% of adjusted total assets and risk- based capital at least equal to 8.0% of risk-weighted assets. Additionally, the Bank must maintain tangible capital at least equal to 1.5% of total adjusted assets. At September 30,1996, the Bank's position with respect to these requirements was as follows:

| (Dollars in Thousands) | Amount Required | Percent Required | Actual Amount | Actual Percent | Excess Amount |
|---|---|---|---|---|---|
| Core Capital | $7,478 | 3.0% | $26,174 | 10.5% | $18,696 |
| Tangible Capital | 3,739 | 1.5 | 26,174 | 10.5 | 22,435 |
| Risk-Based Capital | 13,874 | 8.0 | 25,758 | 15.4(1) | 12,884 |

(1) Represents risk-based capital as a percentage of risk-weighted assets.

Impact of Inflation and Changing Prices:

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The principal element of the Bank's earnings is interest income which may be significantly affected by the level of inflation and by government monetary and fiscal policies adopted in response to inflationary or deflationary pressures.

During fiscal year 1994, in response to significantly higher levels of economic activity, the FRB increased the federal funds rate from 3.00% to 3.25%, and followed up with four additional increases to raise the rate to 4.75% at September 30, 1994. During the first two quarters of fiscal year 1995, the FRB continued its efforts to cool the economy and raised the federal funds rates to 6.00%. Early in the fourth quarter of fiscal year 1995, responding to several months of acceptable economic and inflationary indicators the FRB reduced the federal funds rate by 25 basis points to 5.75%. During December and January of the current year the funds rate was cumulatively lowered an additional 50 basis points to 5.25% and remained at this level through September 30,1996.

Any future measures designed to restrict the growth in the monetary supply could cause an increase in short-term interest rates. These rates have a greater effect on the Bank than the general level of inflation and changing prices and give added importance to the need to manage the interest rate gap.

Results of Operations:

Net income for the fiscal year ended September 30,1996 was $2,156,717 ($1.42 per share) compared to $3,114,460 ($2.05 per share) for the fiscal year ended September 30,1995, which followed net income of $3,280,424($2.17 per share) for the fiscal year ended September 30, 1994. Fiscal year 1996 included a one-time charge to the Bank of approximately $1,362,000 representing a special assessment on deposits of 65.7 basis points enacted by Congress on September 30,1996 as a measure to recapitalize the Savings Association Insurance Fund. This charge reduced net income by approximately $885,000 or approximately $.58 per share. Fiscal year 1994 net income included income of $525,000 ($.35 per share) resulting from the required adoption of the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes". The rules set forth in SFAS No. 109 changed the manner in which income tax expense is determined for financial statement purposes. Adoption of SFAS No. 109 during the first quarter of fiscal year 1994 resulted in a reduction in the Bank's deferred tax liability with a resulting benefit recorded through the income statement as a cumulative effect of a change in accounting principle.

The largest components of the Bank's total income and total expenses are interest income from loans and investments and interest expense on deposits and borrowings. The difference between these items is net interest income, and the difference between the combined yield on loans and investments and the cost of deposits and borrowings is referred to as the yield spread.

Total interest income for the years ended September 30, 1996, 1995 and 1994 was approximately $20,191,565, $19,202,040, and $16,957,142, respectively. Of the increase in interest income from fiscal year 1995 to 1996 of approximately $1.0 million, approximately $.1 million was due to an increase in rate and approximately $.9 million was due to an increase in volume.

The primary factor in the increase in interest income from fiscal year 1995 to 1996 was the increase in the Bank's earning assets. The fiscal year 1995 increase in the Bank's total assets of $21.8 million (resulting from certificates of deposit inflow) occurred primarily during the third and fourth quarters, and although total assets did decline during fiscal year 1996 by $4.2 million, interest earning assets averaged $242.7 million in the current year compared to $232.2 million during fiscal year 1995. Additionally, the weighted average yield on the Bank's interest earning assets increased from 8.27% during fiscal year 1995 to 8.31% during fiscal year 1996, despite a 50 basis point decline in both the prime and federal funds rates in the current year. This improvement in yield resulted from a shift in funds from both federal funds sold and securities available for sale accounts into higher yielding loan products. The Bank's loan to deposit ratio increased from 83.8% at September 30,1995 to 96.2% at September 30, 1996.

Interest on mortgage-backed securities increased to $1,021,788 in the current

year from $817,223 during fiscal year 1995 resulting from an increase in the average portfolio balance from $11.7 million during fiscal year 1995 to $15.1 million in the current year. During the first quarter of fiscal year 1996, short-term liquid funds were invested in mortgage-backed securities so as to lock-in yields in a then declining rate environment. During subsequent periods of fiscal year 1996, certain of these mortgage-backed securities were sold to provide funding for new loans.

Interest on investment securities declined from $1,002,301 in 1995 to $785,315 in the current year due primarily to lower average portfolio volume of approximately $3.6 million.

The primary factor in the increase in interest income from fiscal year 1994 to 1995 was the increase in the weighted average yield on interest earning assets from 7.62% during fiscal year 1994 to 8.27% in fiscal year 1995, reflective of the 300 basis point increase in the federal funds rate over a period of five quarters beginning in the second quarter of fiscal year 1994. Adjustable rate loans represented 63.4% of the total loan portfolio during fiscal year 1994 and 64.1% during fiscal year 1995. The primary indices to which these loans are tied, prime and one year treasury bills which averaged 6.69% and 4.61%, respectively, during fiscal year 1994, rose to averages of 8.71% and 6.62% for fiscal year 1995.

Total interest expense for the years ended September 30, 1996, 1995 and 1994 was $10,353,532, $9,423,311, and $7,700,190, respectively. Of the increase in interest expense from fiscal year 1995 to 1996 of approximately $.9 million, approximately $.4 million was due to an increase in volume



and approximately $.5 million was due to an increase in rate. The major component of the Bank's interest expense is interest on deposits. The cost of deposits increased from 4.40% for the fiscal year ended September 30, 1995 to 4.66% for the fiscal year ended September 30,1996, primarily resulting from an increase in the cost of certificates of deposit from 5.70% one year ago to 6.13% in the current period. Rates offered on certificates of deposit rose sharply during the second and third quarters of fiscal year 1995. This rise in rates not only affected the then maturing certificates of deposit, but also attracted funds from outside the Bank as certificate balances increased from $130.2 million at March 31, 1995 to $144.4 million at September 30, 1995. The timing of the rollover and acquisition along with the related maturity terms of these higher yielding certificates served to impact the current fiscal year to a greater extent than the year ended September 30,1995. Additionally, certificates of deposit as a percentage of total deposits increased from 62.1% during fiscal year 1995 to 64.0% for fiscal year 1996, serving to further increase the Bank's cost of deposits. The increase in interest expense from $7.7 million for the fiscal year 1994 to $9.4 million for fiscal year 1995 resulted primarily from the increase in the weighted rate paid on certificates of deposit from 4.77% in fiscal year 1994 to 5.70% in fiscal year 1995 as well as the significant increase in certificates of deposit balances from $118.7 million at September 30,1994 to $144.4 million at September 30,1995.

Net interest income for the fiscal years ended September 30,1996, 1995 and 1994 was $9.84 million, $9.78 million and $9.26 million, respectively. The increase from fiscal year 1995 to 1996 was the result of the Bank's growth of $10.5 million in average earning assets as the net yield on interest earning assets declined from 4.21% in fiscal year 1995 to 4.05% in fiscal year 1996. The growth in average interest earning assets was funded primarily by average deposit growth of $9.0 million and to a lesser extent, earnings from operations. Average advances outstanding from the Federal Home Loan Bank decreased $1.1 million during the current year as compared to fiscal year 1995.

The increase in the net yield from fiscal year 1994 to 1995, from 4.16% to 4.21%, was due primarily to the Bank's positive one year interest rate gap which generally benefits the net spread during periods of rising interest rates. From the second quarter of fiscal year 1994 to the fourth quarter of fiscal year 1995, the federal funds and prime rates increased by 300 basis points along with a generally commensurate increase across the entire yield curve.

Noninterest income increased to $2,544 790 for the year ended September 30,1996 from $2,107,198 for the year ended September 30,1995, which followed $2,146,954 for the year ended September 30, 1994. Service charges and other fees were $2,086,188 for the year ended September 30, 1996, compared to $1,894,101 and $1,750,739 for the years ended September 30,1995 and 1994, respectively. The increase in fiscal year 1996 over the two prior years resulted primarily from increases in various service charges on deposit accounts due to increases in fee structure, transaction activity, and volume of accounts.

Gains on the sale of loans increased to $211,688 for the year ended September 30,1996 from $121,398 for the year ended September 30,1995, Which followed $195,954 for fiscal year 1994. Gains on the sale of loans have, for the past three fiscal years, been generated primarily from the sale of thirty year fixed rate conforming residential first mortgage loans. Gains realized are a function of the Bank's pricing levels relative to local market competition. The general

trend and level of interest rates, and the volume of loans sold. The volume of loans sold during fiscal year 1996 increased to $26.8 million from $11.0 million and $16.7 million in fiscal years 1995 and 1994, respectively. During fiscal year 1996, the Bank continued its policy of selling current production of thirty year fixed rate residential mortgage loans in the secondary market, while retaining ten to fifteen year fixed rate and thirty year adjustable rate residential mortgage loans in its portfolio either in the form of loans or mortgage backed securities, subject to liquidity and interest rate risk parameters. A gradual decline in the general level of interest rates which began during the fourth quarter of fiscal year 1995 continued throughout the first 5 months of fiscal year 1996, and attracted residential mortgage customers to fixed rate fifteen and thirty year loans for new purchases as well as for the refinancing of existing residences. With this increase in thirty year fixed rate loan production came increased loan sale activity in order to manage the Bank's interest rate risk exposure. During the first three quarters of fiscal year 1995, the general trend of interest rates had been upward and the demand for residential mortgage loans had favored adjustable rate and to a lesser extent, shorter-term ten to fifteen year fixed rate products, while the volume of thirty year fixed rate originations had declined significantly. The general trend of long-term interest rates during the first two quarters of fiscal year 1994 had been toward lower levels, and had thus provided a more favorable environment for fixed rate loan originations and sales than was the case during the first three quarters of fiscal year 1995. Although the Bank's market area has witnessed increased competition for these loans, no significant changes in the Bank's pricing of these loans has occurred.

The sale of securities available for sale generated losses of $47,420 and $30,972, respectively, during fiscal years 1996 and 1995, compared to a gain of $87,905 during fiscal year 1994. Securities available for sale include Treasury and Agency securities with maturities of generally five years or less, as well as various types of mortgage-backed securities acquired through both securitization of the Bank's own portfolio of originations or through purchases in the open market. Subject to interest rate risk and asset quality considerations, securities are acquired for the purpose of attaining the highest possible yield on funds not required to fund loan demand or to satisfy short-term liquidity requirements. Gains and losses recorded on the sale of these securities are dependent upon the volume of securities sold as well as the market level of interest rates. During primarily the third and fourth quarters of fiscal year 1996, the Bank sold securities totalling $19.7 million in order to meet increasing loan demand. Securities sales totalled $4.0 and $14.2 million, respectively, during fiscal years 1995 and 1994.

Other income increased to $294,334 in the current year compared to $122,671 and $112,356, respectively, for the years ended September 30, 1995 and 1994. The fiscal year 1996 amount includes income of $149,306 resulting from the Bank's adoption of SFAS No. 122. "Accounting for Mortgage Servicing Rights". This statement requires that the value of mort-



gage servicing rights associated with mortgage loans originated and sold by the Bank be capitalized as an asset. All capitalized amounts are amortized against future servicing revenues, and are subject to subsequent measurement for impairment based on the then fair value estimates. SFAS No. 122 is more fully described in footnote 1 of these financial statements.

Noninterest expense increased to $8,793,856 for the year ended September 30,1996 from $6,875,867 for the year ended September 30,1995 which followed expense of $6,999,382 for the year ended September 30, 1994. Salaries and related benefits increased to $3,788,706 in fiscal year 1996 from $3,573,873 in the prior year, which followed an increase from $3,491,966 in 1994. These increases have resulted primarily from increased wages and payroll taxes related to general year-to-year raises of approximately four percent, and additionally from increases in the cost of employee medical insurance.

Federal deposit insurance premiums were $502,244, $463,010, and $452,181 for the years ended September 30, 1996,1995 and 1994, respectively. Variances in these amounts have resulted from changes in the volume of deposits subject to coverage, as the underlying rate charged by the FDIC over these periods has remained constant. The Bank was also assessed a one-time charge of $1,362,018 during fiscal year 1996 due to legislation enacted on September 30, 1996 to recapitalize the SAIF. This legislation is more fully discussed in footnote number 16 contained in this year's audited financial statements.

Net occupancy and equipment expense decreased to $997,586 in fiscal year 1996 from $1,031,636 and $997,091 in fiscal years 1995 and 1994, respectively. The decrease from 1995 to 1996 resulted primarily from lower depreciation costs related to furniture, fixtures and equipment, while the increase from fiscal year 1994 to 1995 resulted primarily from increases in equipment repair and maintenance charges as well as general branch site maintenance.

Data processing and outside service fees were $477,376 for the year ended

September 30, 1996 compared to $465,021 and $478,136 for the years ended September 30,1995 and 1994, respectively. The increase in expense from fiscal year 1995 to 1996 resulted primarily from increases in both transaction volume and customer files. The decrease in expense from fiscal year 1994 to 1995 was the result of a negotiated decrease in the Bank's contract with its outside data processor.

Legal expense increased to $465,021 for the year ended September 30,1996 from $293,503 and $510,370 for the years ended September 30,1995 and 1994, respectively. Legal expense increased during the current fiscal year due to increased litigation in connection with the Bank's lawsuit against NationsBank, which is more fully described in footnote number 17 contained in this year's audited financial statements. Legal expense decreased in fiscal year 1995 from 1994 due to very little activity occurring during fiscal year 1995 as we awaited the damages trial, following a liability lawsuit in 1994 in which the Bank prevailed.

Telephone and postage expense increased to $270,4)4 in the current year compared to $248,965 and $235,970 for fiscal years 1995 and 199, respectively, due primarily to increased postal rates.

Advertising expense rose to $111,094 for fiscal year 1996 from $78,020 and $86,782 for fiscal years 1995 and 1994, respectively, resulting from increased media exposure, including promotional requirements related to both the introduction of the Bank's new credit card service as well as the commemorative celebration of the Bank s seventieth anniversary of service to Glynn County.

Expense (income) from real estate owned, net was $45,182, $32,132, and ($26,611) for the years ended September 30, 1996 1995, and 1994, respectively. Expense from real estate owned encompasses the normal costs of ownership such as property taxes, maintenance and repairs, utilities, and insurance. Additionally, the above cited amounts include the results from both gains and losses recognized upon disposal and write-downs subsequent to foreclosure and are thus dependent upon various economic and market conditions. Expenses related to ownership amounted to approximately $8,000, $11,000 and $49,000 for the years ended September 30,1996, 1995, and 1994, respectively and are relatively proportional to the level of real estate owned.

Other expense was $774,225, $689,707, and $793,497 for the years ended September 30,1996,1995, and 1994, respectively. The increase in expenses from fiscal year 1995 to 1996 resulted primarily from the disposal of various obsolete fixed assets and from expenses incurred resulting from the commencement of the Bank's proprietary credit card program. The decrease in expenses from fiscal year 1994 to 1995 resulted primarily from reductions in write-downs of excess servicing fees and charges for equipment obsolescence along with lower premiums paid on business insurance.

The ratio of noninterest expense to total income was 38.7%, 32.3%, and 36.6% for the years ended September 30, 1996, 1995, and 1994, respectively. The increase from fiscal year 1995 to 1996 was due primarily to an increase in legal expense in the current fiscal year, as well as the one-time special assessment to recapitalize the SAIF. The decrease from fiscal year 1994 to 1995 resulted from a decrease in legal expense for fiscal year 1995.

The provision for loan losses was $240,000, $195,000 and $180,000 for the years ended September 30,1996,1995, and 1994, respectively. Non-accrual loans decreased to $261,193 at September 30,1996 from $788,116 at September 30,1995. Potential problem loans increased to $2,904,673 at September 30,1996 from $210,416 one year ago. Included in the current year amount are 12 loans totalling $2.7 million, in aggregate, secured by commercial real estate, and are generally delinquent sixty days. The Bank is well collateralized on these loans and believes them to be fully collectible. Management believes the allowance for loan losses to be adequate at September 30, 1996, based upon conditions reasonably known to management; however, the allowance may be increased based upon future economic changes or conditions.

The provision for income taxes decreased to $1,192,250 for the year ended September 30,1996 from $1,700,600 for fiscal year 1995, which followed $1,469,100 for fiscal year 1994. The decrease in provision for the current fiscal year was due primarily to a decrease in taxable income due to increased litigation expenses and the one-time SAlF assessment in 1996.



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
SEPTEMBER 30, 1996 AND 1995

(Note 17)

<TABLE>
<CAPTION>

| ASSETS | 1996 | 1995 |
|---|---|---|
| <S> | <C> | <C> |

| | | |
|---|---|---|
| CASH AND DUE FROM BANKS | $ 4,788,450 | $ 7,077,786 |
| INTEREST-BEARING DEPOSITS WITH OTHER BANKS | 10,504,682 | 11,551,711 |
| FEDERAL FUNDS SOLD | 545,000 | 10,675,000 |
| SECURITIES AVAILABLE FOR SALE (Note 3) | 16,364,023 | 28,720,859 |
| LOANS, net (Note 4) | 209,868,046 | 186,664,013 |
| REAL ESTATE OWNED, net | 954,904 | 2,208,679 |
| PREMISES AND EQUIPMENT, net (Note 6) | 1,994,142 | 2,258,326 |
| FEDERAL HOME LOAN BANK STOCK, at cost | 1,598,700 | 1,598,700 |
| ACCRUED INTEREST: | | |
| Loans | 1,583,448 | 1,388,875 |
| Investments | 172,297 | 400,131 |
| OTHER ASSETS | 743,752 | 743,373 |
| | $249,117,444 | $253,287,453 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| DEPOSITS (Note 7): | | |
| Checking accounts | $13,561,385 | $10,860,048 |
| NOW accounts | 35,293,128 | 34,702,626 |
| Savings accounts | 20,598,108 | 20,000,808 |
| Money market deposit accounts | 10,571,845 | 12,843,024 |
| Certificates of deposit | 138,051,393 | 144,399,490 |
| Total deposits | 218,075,859 | 222,805,996 |
| ADVANCES FROM THE FHLB (Note 8) | 1,500,000 | 2,200,000 |
| ADVANCE PAYMENTS BY BORROWERS FOR TAXES AND INSURANCE | 1,251,325 | 1,475,065 |
| ACCRUED EXPENSES AND OTHER LIABILITIES | 2,192,353 | 796,255 |
| DEFERRED INCOME TAXES (Note 14) | 72,822 | 503,722 |
| Total liabilities | 223,092,359 | 227,781,038 |
| COMMITMENTS AND CONTINGENCIES (Notes 13, 15 and 17) | | |
| STOCKHOLDERS' EQUITY (Note 10): | | |
| Common stock, $1 par value; 4,000,000 shares authorized, 1,499,939 shares issued and outstanding | 1,499,939 | 1,499,939 |
| Additional paid-in capital | 1,550,208 | 1,550,208 |
| Retained earnings | 23,137,905 | 22,376,131 |
| Net unrealized (depreciation) appreciation on securities available for sale, net of tax of $87,752 and $43,145 in 1996 and 1995 (Note 1) | (162,967) | 80,137 |
| Total stockholders' equity | 26,025,085 | 25,506,415 |
| | $249,117,444 | $253,287,453 |

</TABLE>

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



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
ENDED SEPTEMBER 30, 1996, 1995, AND 1994

| | FOR THE YEARS | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| INTEREST INCOME: | | | |
| Interest on loans | $17,573,029 | $16,295,326 | $14,563,642 |
| Interest on securities available for sale | 1,807,103 | 1,819,524 | 1,830,475 |
| Interest on federal funds sold and interest-bearing deposits with banks | 695,088 | 972,291 | 472,833 |
| Dividends on FHLB stock | 116,345 | 114,899 | 90,192 |
| Total interest income | 20,191,565 | 19,202,040 | 16,957,142 |
| INTEREST EXPENSE: | | | |
| Interest on deposits (Note 11) | 10,175,709 | 9,210,751 | 7,391,055 |
| Interest on advances from the FHLB and other | 177,823 | 212,560 | 309,135 |
| Total interest expense | 10,353,532 | 9,423,311 | 7,700,190 |
| NET INTEREST INCOME | 9,838,033 | 9,778,729 | 9,256,952 |
| PROVISION FOR LOAN LOSSES | 240,000 | 195,000 | 180,000 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 9,598,033 | 9,583,729 | 9,076,952 |
| NONINTEREST INCOME: | | | |
| Service charges and other fees | 2,056,188 | 1,894,101 | 1,750,739 |
| Gain on sale of loans, net | | | |

| | | | |
|---|---|---|---|
| (Note 1) | 211,688 | 121,398 | 195,954 |
| (Loss) gain on sale of securities available for sale | (47,420) | (30,972) | 87,905 |
| Other | 294,334 | 122,671 | 112,356 |
| Total noninterest income | 2,544,790 | 2,107,198 | 2,146,954 |
| NONINTEREST EXPENSE: | | | |
| Salaries and related benefits | 3,788,706 | 3,573,873 | 3,491,966 |
| SAIF assessment (Note 16) | 1,362,018 | 0 | 0 |
| Federal deposit insurance premiums | 502,244 | 463,010 | 452,181 |
| Net occupancy and equipment expense | 997,586 | 1,031,636 | 977,091 |
| Data processing and outside service fees | 477,376 | 465,021 | 478,136 |
| Legal | 465,021 | 293,503 | 510,370 |
| Telephone and postage | 270,404 | 248,965 | 235,970 |
| Advertising | 111,094 | 78,020 | 86,782 |
| Expense (income) from real estate owned, net | 45,182 | 32,132 | (26,611) |
| Other | 774,225 | 689,707 | 793,497 |
| Total noninterest expense | 8,793,856 | 6,875,867 | 6,999,382 |
| INCOME BEFORE INCOME TAXES | 3,348,967 | 4,815,060 | 4,224,524 |
| INCOME TAX EXPENSE (Note 14) | 1,192,250 | 1,700,600 | 1,469,100 |
| INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE | 2,156,717 | 3,114,460 | 2,755,424 |
| CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (Note 1) | 0 | 0 | 525,000 |
| NET INCOME | $ 2,156,717 | $3,114,460 | $3,280,424 |
| EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (Note 1) | $1.42 | $2.05 | $1.82 |
| CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE | 0 | 0 | 0 |
| EARNINGS PER SHARE | $1.42 | $2.05 | $2 17 |

The accompanying note are an integral part of these consolidated statements.



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995, AND 1994

(Note 10)

<TABLE>
<CAPTION>

| <S> | Common Stock <C> | Additional Paid-In Capital <C> | Retained Earnings <C> | Net Unrealized Appreciation (Depreciation) on Securities Available for Sale <C> | Total <C> |
|---|---|---|---|---|---|
| BALANCE, September 30,1993 | $1,496,939 | $1,514,208 | $18,438,348 | $ 0 | $21,449,495 |
| Net income | 0 | 0 | 3,280,424 | 0 | 3,280,424 |
| Dividends declared ($.75 per share) | 0 | 0 | (1,122,855) | 0 | (1,122,855) |
| Stock options exercised | 1,000 | 14,000 | 0 | 0 | 15,000 |
| BALANCE, September 30, 1994 | 1,497,939 | 1,528,208 | 20,595,917 | 0 | 23,622,064 |
| Net income | 0 | 0 | 3,114,460 | 0 | 3,114,460 |
| Dividends declared ($.89 per share) | 0 | 0 | (1,334,246) | 0 | (1,334,246) |
| Stock options exercised | 2,000 | 22,000 | 0 | 0 | 24,000 |
| Change in net unrealized appreciation on securities available for sale, net of taxes of $43,145 (Note 1) | 0 | 0 | 0 | 80,137 | 80,137 |
| BALANCE, September 30, 1995 | 1,499,939 | 1,550,208 | 22,376,131 | 80,137 | 25,506,415 |
| Net income | 0 | 0 | 2,156,717 | 0 | 2,156,717 |
| Dividends declared ($.93 per share) | 0 | 0 | (1,394,943) | 0 | (1,394,943) |
| Change in net unrealized depreciation on securities available for sale, net of taxes of $87,752 (Note 1) | 0 | 0 | 0 | (243,104) | (243,104) |
| BALANCE, September 30,1996 | $1,499,939 | $1,550,208 | $23,137,905 | $(162,967) | $26,025,085 |

</TABLE>

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

FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995, AND 1994

(Note 1)

<TABLE>
<CAPTION>

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Interest received on loans | $ 17,038,817 | $ 15,648,553 | $ 14,055,687 |
| Interest and dividends received on securities available for sale | 2,846,370 | 2,836,623 | 2,490,370 |
| Loan fees collected | 799,968 | 583,199 | 955,427 |
| Service charges on deposit accounts | 1,486,568 | 1,182,844 | 958,074 |
| Other fees collected | 1,009,549 | 875,841 | 962,965 |
| Interest paid on deposits | (10,234,098) | (9,164,898) | (7,381,855) |
| Payments for salaries and related benefits | (3,954,050) | (3,823,418) | (4,002,239) |
| Payments for general and administrative expenses | (3,231,601) | (2,876,778) | (3,094,923) |
| Income taxes paid, net | (1,435,153) | (1,498,000) | (1,683,872) |
| Interest paid on borrowings | (195,823) | (212,560) | (309,135) |
| Net cash provided by operating activities | 4,130,547 | 3,551,406 | 2,950,499 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Proceeds from sales of loans | 26,834,936 | 11,003,152 | 16,722,929 |
| Purchases of securities available for sale | (9,778,004) | (9,188,300) | (5,522,533) |
| Principal collected on loans and mortgage-backed securities | 71,720,864 | 75,623,568 | 75,923,574 |
| Loans funded | (124,581,499) | (94,936,408) | (114,608,300) |
| Purchase of premises and equipment | (101,892) | (119,960) | (340,842) |
| Proceeds from sales and maturities of securities available for sale | 24,865,055 | 7,507,264 | 25,268,555 |
| Other, net | 448,708 | 459,706 | (745,836) |
| Cash flows used in investing activities | (10,591,832) | (9,650,978) | (3,302,453) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Net increase (decrease) in: | | | |
| Checking accounts | 2,701,337 | 860,806 | 1,454,147 |
| NOW accounts | 590,502 | (1,454,841) | 3,674,259 |
| Savings and money market deposit accounts | (1,673,879) | (3,046,542) | (1,307,960) |
| Proceeds from issuance of certificates of deposit | 240,267,682 | 223,502,234 | 179,412,768 |
| Payments for maturing certificates of deposit | (246,615,779) | (197,771,042) | (179,064,326) |
| Payments of maturing FHLB advances | (12,700,000) | 6,000,000 | (2,000,000) |
| Proceeds from FHLB advances | 12,000,000 | (7,800,000) | 700,000 |
| Proceeds from other borrowed money | 12,000,000 | 11,000,000 | 0 |
| Payments of other borrowed money | (12,000,000) | (11,000,000) | 0 |
| Dividends paid | (1,394,943) | (1,334,246) | (1,122,855) |
| Net cash (used in)provided by financing activities | (6,825,080) | 18,956,369 | 1,746,033 |
| Net (decrease) increase in cash and cash equivalents | (13,286,365) | 12,856,797 | 1,394,079 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 29,304,497 | 16,447,700 | 15,053,621 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 16,018,132 | $ 29,304,497 | $ 16,447,700 |
| NET INCOME | $ 2,156,717 | $ 3,114,460 | $ 3,280,424 |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Depreciation | 366,076 | 403,029 | 359,986 |
| Provision for loan losses | 240,000 | 195,000 | 180,000 |
| (Benefit) provision for deferred income taxes | (418,846) | (602,470) | 163,181 |
| Loan and excess servicing fees deferred, net | (64,521) | (111,767) | 33,335 |
| (Increase) decrease in interest receivable | 33,261 | (251,358) | 85,746 |
| Increase (decrease) in interest payable | (58,389) | 45,853 | 9,200 |
| Increase (decrease) in accrued expenses and other liabilities | 1,412,221 | (478,414) | (314,961) |
| Other, net | 464,028 | 1,237,073 | (846,412) |
| Total adjustments | 1,973,830 | 436,946 | (329,925) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 4,130,547 | $ 3,551,406 | $ 2,950,499 |

| | | | |
|---|---|---|---|
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES: | | | |
| Loans exchanged for mortgage-backed securities | $ 6,445,235 | $ 1,016,520 | $ 16,777,670 |

</TABLE>

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



FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA, AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996, 1995, AND 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

First Federal Savings Bank of Brunswick, Georgia (the "Bank"), is a savings bank primarily engaged in the business of obtaining deposits and providing mortgage and other loans to the general public. The more significant accounting and reporting policies not described elsewhere in these notes to financial statements are discussed below.

Principles of Consolidation and
Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Bank and its wholly owned subsidiary, First Shelter Service Corporation ("First Shelter"). All significant intercompany balances and transactions have been eliminated in consolidation. As of September 30, 1996 and 1995, the investment in First Shelter amounted to $304,398 and $303,954, respectively.

Certain 1995 and 1994 amounts have been reclassified to conform with the 1996 presentation.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the accompanying financial statements and disclosures. Actual results could differ from those estimates.

Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits with banks, and federal funds sold, all of which have an original maturity of less than 90 days from the date of purchase.

Securities Available for Sale

The Bank adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" as of October 1,1994. In accordance with SFAS No. 115, securities are classified as either held-to-maturity, trading, or available-for-sale. Held-to-maturity securities are carried at amortized cost. Trading securities are carried at fair value, with unrealized gains and losses included in earnings. Available-for-sale securities are carried at fair value, with unrealized gains and losses excluded from earnings and reported in stockholders' equity. The Bank classifies all of its securities as available-for-sale which were reported at their fair value of $16,364,023 on September 30, 1996. The net unrealized depreciation on securities available for sale of $250,719 was recorded net of taxes as a separate component of stockholders' equity.

Premiums and discounts are recognized in interest income using the interest method over the period of maturity.

Loans

During 1996, the Bank adopted SFAS No. 118, "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures," which amended SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." These statements require that impaired loans, as defined, be measured based on the discounted present value of expected future cash flows, the observable market price of the loan, or the fair value of the collateral if the loan is collateral-dependent. There was no effect on current period earnings as a result of the adoption of SFAS No. 118. Additionally, as permitted by these statements, in-substance foreclosures of $0 and $845,036 were reclassified to loans, net, from real

estate owned at September 30, 1996 and 1995, respectively.

Allowance for Loan Losses

The allowance for loan losses is based on management's estimate of the allowance required to reflect the risks in the loan portfolio based on circumstances and conditions known or anticipated at each reporting date. A provision for loan losses is charged to operations based on management's periodic evaluation of these risks. Provisions not specifically identified are based on the Bank's experience and other factors. It is the opinion of management that the allowance for loan losses is adequate at September 30, 1996 based on conditions reasonably known to management; however, the allowance may be increased based on future economic changes or conditions.

Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less costs to sell. Costs related to holding real estate and charges to write down real estate for subsequent declines in net realizable value are charged to operations. Real estate owned by the Bank at September 30, 1996 and 1995 is recorded net of a valuation allowance of $41,000 and $25,000, respectively.

Gains on sales of real estate acquired through foreclosure are recognized using cash down payment guidelines established by authoritative accounting pronouncements.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided principally using the straight-line method over the estimated useful lives of the assets of 20 to 30 years for buildings, 10 years for leasehold improvements, and 3 to 10 years for furniture, fixtures, and equipment.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank System, is required to maintain an investment in capital stock of the Federal Home Loan Bank ("FHLB") in an amount equal to the greater of 1% of its outstanding permanent residential mortgage loans or 5% of its outstanding advances. No ready market exists for the FHLB stock, and it has no quoted value. For disclosure purposes, such stock is assumed to have a market value equal to cost.

Interest Income

Income on loans and investments is recognized when the interest is earned in order to yield a constant rate of return on funds outstanding.

Uncollected Interest

Loans 90 days or more delinquent are placed on nonaccrual status. Non-accrual and restructured loans totalled approximately $1,040,899 and $1,932,000 at September 30,1996 and 1995, respectively. Interest on these loans, if ultimately collected, is credited to income in the period of recovery. During 1996, 1995, and 1994, additional gross interest income totaling approximately $31,000, $62,000 and $113,000, respectively, would have been recorded on nonaccrual and restructured loans if all such loans at September 30,1996, 1995, and 1994 had been accruing interest at the original contractual rate. Interest payments recorded in 1996,1995, and 1994 as income, excluding reversals of previously accrued interest, for all such nonperforming loans at September 30,1996, 1995, and 1994 were approximately $100,000,



$104,000, and $44,000, respectively. The Bank does not have significant commitments to lend additional funds to any of these borrowers.

Loan Fees

Loan fees and direct costs of originating successful loans are being deferred and amortized, net, as an adjustment to interest yield over the life of the related loan.

Loan Sales and Loan Servicing

Additional funds for lending are provided by selling participating interests in loans or whole loans. Under most sales agreements, the Bank continues to provide loan servicing, which includes collecting payments and remitting its portion thereof to the buyer, net of servicing fees. On October 1, 1996, the Bank adopted SFAS No. 122, "Accounting for Mortgage Servicing Rights" which, among

other provisions, requires that the value of mortgage servicing rights associated with mortgage loans originated by an entity, which it intends to sell, be capitalized as assets. The cost of these mortgage servicing rights is amortized in proportion to, and over the period of, the estimated net servicing revenues. In connection with the October 1, 1995 adoption of SFAS No. 122, the Bank has capitalized mortgage servicing rights of $149,306 in 1996. Amortization of mortgage servicing rights was $8,815 in 1996. No valuation allowance was recorded during 1996. Accordingly, adoption of SFAS No. 122 increased net income after taxes by $97,049, or $.06 per share. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant risk characteristics of the Bank's loans are the interest rate and loan type. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed their fair value.

When participating interests in loans sold have an average contractual interest rate, adjusted for normal servicing fees, that differs from the agreed yield to the purchaser, gains or losses are recognized equal to the present value of such differential over the estimated remaining life of such loans. The resulting "excess servicing receivable," included in other assets, is amortized over the estimated useful life using the level yield method.

Quoted market prices are not available for the excess servicing receivables. Thus, the excess servicing receivables and the amortization thereon are periodically evaluated in relation to estimated future servicing revenues, taking into consideration changes in interest rates, current prepayment rates, and expected future cash flows. The Bank evaluates the carrying value of the excess servicing receivables by estimating the future servicing income of the excess servicing receivables based on management's best estimate of remaining loan lives and discounted at the original discount rate.

Income Taxes

Effective October 1,1993,the Bank adopted SFAS No.109, "Accounting for Income Taxes" which requires the asset and liability method of accounting for deferred income taxes. The Bank previously accounted for deferred taxes under the deferral method required by Accounting Principles Board Opinion No. 11. This change resulted in the Bank recording a cumulative effect of a change in accounting principle in the consolidated statement of income for the year ended September 30,1994 of $525,000.

Earnings per Share

Earnings per share are calculated based on the weighted average common shares and common stock equivalents outstanding during the year of 1,523,693, 1,516,868, and 1,514,017 in 1996,1995, and 1994, respectively.

2. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Bank in determining estimates of fair value disclosures for financial instruments:

Cash and Due From Banks, Interest-Bearing Deposits With Banks, and Federal Funds Sold

The carrying amount for these cash equivalents approximates their fair value.

Securities Available for Sale

Fair values of securities available for sale are based on quoted market prices, where available. In the event that quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The estimated fair value of securities available for sale was $16,364,023 and $28,720,859 at September 30,1996 and 1995, respectively.

Loans, Net

The fair values of conforming residential mortgage loans are based on quoted market prices or quoted market prices of similar loans sold, adjusted for differences in loan characteristics. The fair values of other loans are estimated using discounted future cash flow analyses using interest rates or secondary market yield requirements currently being offered for loans with similar terms and credit quality. The carrying amount of accrued interest approximates its fair value. The estimated fair value of loans, net, were approximately $208,825,000 and $186,862,000 at September 30, 1996 and 1995, respectively.

Off-Balance Sheet Instruments

The fair values of commitments to sell mortgage loans and commitments to extend credit approximate their carrying amounts. Commitments or commercial letters of credit are not significant, and their related fair value would be nominal.

Deposits

The fair values of checking, NOW, savings, and money market deposit accounts are equal to the reported carrying amount, which is the amount payable on demand as of the reporting date. Fair values for certificates of deposit are estimated using a discounted future cash flow method, which applies rates currently offered for deposits of similar remaining maturities. The estimated fair value of certificates of deposit were approximately $138,824,000 and $145,154,000 at September 30,1996 and 1995, respectively.

Borrowings

The fair value of the Bank's borrowings is determined by estimates using discounted future cash flow analyses based on the Bank's current incremental borrowing rates for similar types of instruments. The estimated fair value of advances from the FHLB were approximately $1,509,000 and $2,200,000 at September 30,1996 and 1995, respectively.

The techniques used to estimate fair values are significantly affected by the assumptions used, including the discount rate and estimated future cash flows. Therefore, the fair value estimates for these financial instruments cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of a particular financial instrument of the Bank. The aggregate fair value amounts presented herein do not represent the aggregate underlying value of the Bank and may not be indicative of amounts that might ultimately be realized upon disposition of those assets and liabilities individually or in aggregate.



3. SECURITIES AVAILABLE FOR SALE

Securities available for sale at September 30, 1996 and 1995 consist solely of U.S. Treasury notes, agency bonds, mortgage-backed securities, and tax-free municipal securities.

The amortized cost and estimated fair value of securities available for sale were as follows at September 30, 1996 and 1995:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| 1996: | | | | |
| Investment securities | $ 8,032,109 | $ 33,366 | $ 41,343 | $ 8,024,132 |
| Mortgage-backed securities | 8,582,633 | 3,612 | 246,354 | 8,339,891 |
| | $16,614,742 | $ 36,978 | $ 287,697 | $16,364,023 |
| 1995: | | | | |
| Investment securities | $16,353,511 | $ 156,286 | $ 20,982 | $16,488,815 |
| Mortgage-backed securities | 12,244,066 | 77,895 | 89,917 | 12,232,044 |
| | $28,597,577 | $ 234,181 | $ 110,899 | $28,720,859 |

Gross realized gains and losses on sale of investments in securities were as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Gross realized gains: | | | |
| Investment securities | $ 34,042 | $ 0 | $ 0 |
| Mortgage-backed securities | 17,660 | 0 | 139,528 |
| | $ 51,702 | $ 0 | $139,528 |
| Gross realized losses: | | | |
| Investment securities | $ 11,231 | $28,471 | $ 0 |
| Mortgage-backed securities | 87,891 | 2,501 | 51,623 |
| | $ 99,122 | $30,972 | $ 51,623 |

The amortized cost and estimated market values of securities available for sale at September 30,1996, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

| | Amortized Cost | Estimated Market Value |
|---|---|---|
| Due in 1 year or less | $ 3,078,251 | $ 3,085,253 |
| Due after 1 year through 5 years | 5,078,965 | 5,071,150 |
| Due after 5 years through 10 years | 2,160,170 | 2,112,830 |
| Due after 10 years and thereafter | 6,297,356 | 6,094,790 |
| | $16,614,742 | $16,364,023 |

At September 30,1996 and 1995,certain of the Banks'assets(primarily investment securities and mortgage-backed securities) with amortized cost of approximately $14,356,136 and $16,277,639, respectively, were pledged to secure certain certificates of deposit, public deposits, a letter of credit, advances from the FHLB, and treasury tax and loan balances with the Federal Reserve Bank of Atlanta.



Loans at September 30,1996 and 1995 are summarized as follows:

| | 1996 | 1995 |
|---|---|---|
| Real estate loans: | | |
| Conventional mortgage | $160,887,037 | $150,372,532 |
| Construction | 21,564,508 | 12,951,880 |
| Partially guaranteed by Federal Housing Administration or Veterans Administration | 446,415 | 507,609 |
| Consumer loans | 28,438,919 | 24,157,352 |
| Commercial loans | 7,441,666 | 4,512,256 |
| | 218,778,545 | 192,501,629 |
| Less: | | |
| Allowance for loan losses | (800,786) | (834,882) |
| Deferred loan fees and other, net | (830,384) | (789,790) |
| Undisbursed portions of loans in process | (7,279,329) | (4,212,944) |
| Net loans | $209,868,046 | $186,664,013 |

During fiscal years ended September 30,1996,1995, and 1994, loans foreclosed and transferred to real estate owned totaled $825,255, $1,569,144, and $317,430, respectively.

The Bank has made loans to directors and executive officers for the purchase of their primary residences and other short-term loans aggregating $1,603,716 and $1,838,969 at September 30,1996 and 1995, respectively. In the opinion of management, these loans are fully collectible. No loans due from directors or executive officers were charged off during the current fiscal year. The following sets forth information regarding the activity during fiscal year 1996 in loans due from directors and executive officers:

| | |
|---|---|
| Balance at September 30, 1995 | $1,838,969 |
| Repayments | (588,481) |
| New borrowings | 353,228 |
| Balance at September 30,1996 | $1,603,716 |

A reconciliation of the allowance for loan losses for the years ended September 30,1996,1995, and 1994 is as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Balance at beginning of year | $834,882 | $786,111 | $869,297 |
| Provision for loan losses | 240,000 | 195,000 | 180,000 |
| Amounts charged off | (299,318) | (189,497) | (30,605) |
| Recoveries | 25,222 | 43,268 | 37,419 |
| Balance at end of year | $800,786 | $834,882 | $786,111 |

5. LOAN SERVICING

The Bank was servicing mortgage loans (which are not included in the accompanying statements of financial condition) with unpaid principal balances totaling $133,264,664, $128,526,732, and $133,599,102 for the benefit of others at September 30, 1996,1995, and 1994, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing were $1,251,325 and $1,475,065 at September 30,1996 and 1995, respectively.



6. PREMISES AND EQUIPMENT

Premises and equipment at September 30,1996 and 1995 consisted of the following:

| | 1996 | 1995 |
|---|---|---|
| Cost | | |
| Land | $ 766,574 | $ 766,574 |
| Buildings | 1,152,599 | 1,152,599 |
| Furniture, fixtures, and equipment | 2,760,477 | 2,758,403 |
| Leasehold improvements | 584,523 | 561,917 |
| Total cost | 5,264,173 | 5,239,493 |
| Less accumulated depreciation and amortization | (3,270,031) | (2,981,167) |

| | | |
|---|---|---|
| | $ 1,994,147 | $ 2,258,326 |

7. DEPOSITS

Included in deposits at September 30,1996 and 1995 are certificates of deposit in denominations of $100,000 or more aggregating $31,999,281 and $34,389,564, respectively.

At September 30,1996, the scheduled maturities of CDs are as follows:

| | |
|---|---|
| 1997 | $100,408,617 |
| 1998 | 18,052,590 |
| 1999 | 12,724,537 |
| 2000 | 5,680,789 |
| 2001 and thereafter | 1,184,860 |
| | $138,051,393 |

8. ADVANCES FROM THE FHLB

Advances from the FHLB as of September 30,1996 and 1995 amounted to $1,500,000 and $2,200,000, respectively. The advances are due in their entirety in 1997.

The weighted average interest rate for outstanding FHLB advances was 7.9% and 6.82% at September 30,1996 and 1995, respectively.

9. RESTRICTIONS ON RETAINED EARNINGS

The Bank is subject to certain restrictions on the amount of dividends that it may declare prior to regulatory approval. At September 30,1996, approximately $6,819,000 of retained earnings were available for dividend declaration without prior regulatory approval.

10. REGULATORY MATTERS

The Bank is subject to various capital requirements administered by the federal banking agencies. 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 require 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). Management believes, as of September 30,1996, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 1996 and September 30, 1995, the most recent notification from the Office of Thrift Supervision categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain certain tangible capital, Tier I (core) capital, and total risk-based capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.



The Bank's actual amounts (in thousands) and ratios are also presented in the table.

| | Actual | | Minimum for Capital Adequacy Purposes | | To Be Well Capitalized for Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Ratio | Amount | Ratio | Amount | Ratio | Amount |
| Stockholder's equity, and ratio to total assets | 10.4% | 26,025 | | | | |
| Unrealized loss on securities available for sale | | 163 | | | | |
| Intangible assets | | (14) | | | | |
| Tangible capital, and ratio to adjusted total assets | 10.5 | 26,174 | 1.5 | $3,739 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Tier I(core) capital, and ratio to adjusted total assets | 10.5 | 26,174 | 3.0 | 7,478 | 5.0 | $12,464 |
| Tier I capital, and ratio to risk-weighted assets | 15.1 | 26,174 | | | 6.0 | 10,406 |
| Allowance for loan losses | | 801 | | | | |
| Assets required to be deducted | | (217) | | | | |
| Tier 2 capital | | 584 | | | | |
| Total risk-based capital and ratio to risk-weighted assets | 15.4% | $26,758 | 8.0% | $13,874 | 10.0% | $17,343 |
| Total Assets | | $249,117 | | | | |
| Adjusted total assets | | $249,266 | | | | |
| Risk-weighted assets | | $173,425 | | | | |

11. INTEREST ON DEPOSITS

Interest on deposits at September 30, 1996, 1995, and 1994 is comprised of the following:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Checking accounts | $ 155,806 | $ 144,307 | $ 123,974 |
| NOW accounts | 471,133 | 571,564 | 475,820 |
| Savings accounts | 502,580 | 510,523 | 575,075 |
| Money market deposit accounts | 472,478 | 546,611 | 514,054 |
| Certificates of deposit | 8,573,732 | 7,437,746 | 5,702,132 |
| | $10,175,709 | $9,210,751 | $7,391,055 |



12. EMPLOYEE BENEFIT PLANS

The bank has a stock option plan for key employees authorizing the granting of options for up to 199,800 shares of common stock. such stock is to be issued from the Bank's authorized but unissued shares. These options are exercisable in equal increments over three years and have a term of five years. No charges are reflected in income as a result of the granting or exercising of the stock options.

The following table presents further information on this plan:

| | 1996 | | 1995 | | 1994 | |
|---|---|---|---|---|---|---|
| | Number of Shares | Option Price Per Share | Number of Shares | Option Price Per Share | Number of Shares | Option Price Per Share |
| Option outstanding at end of prior year | 30,311 | $12-$15 | 30,311 | $12-$15 | 32,311 | $12-$15 |
| Granted | 0 | 0 | 0 | 0 | 0 | 0 |
| Exercised | 0 | 0 | 2,000 | 12 | 1,000 | 15 |
| Canceled or expired | 0 | 0 | 0 | 0 | 0 | 0 |
| Options out standing at end of year | 30,311 | $12-$15 | 30,311 | $12-$15 | 32,311 | $12-$15 |
| Shares exercisable at end of year | 30,311 | $12-$15 | 30,311 | $12-$15 | 32,311 | $12-$15 |

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation," which the Bank is required to adopt in fiscal year 1997. SFAS No. 123 will require the Bank to estimate the value of all stock-based compensation using a recognized pricing model. The Bank will have the option of recognizing this value as an expense or by disclosing its effects on net income. The Bank's management has not yet determined its method of adoption or the financial statement impact of the adoption of SFAS No. 123.

The Bank and its subsidiary have a noncontributory profit-sharing plan which covers substantially all of their employees. The annual contribution to the plan is established each year by the board of directors. Profit-sharing plan expense was $268,640, $298,156 and $271,210 for the years ended September 30, 1996, 1995, and 1994, respectively.

The Bank has also established a savings plan. Under the terms of the plan, eligible employees can make tax-deferred 401(k) contributions. The Bank matches the employee contribution 100% up to the first 2% contributed by an employee, 75% of the next 2%, and 50% of the third 2%. For the years ended September 30, 1996, 1995, and 1994, the Bank's 401(k) contributions were $101,413, $92,644, and $96,849, respectively.

13. OPERATING LEASE OBLIGATIONS

At September 30, 1996, the Bank leased office facilities under agreements with terms of more than one year. Amounts charged to retail expense for operating leases were $342,809, $346,226, and $344,885 for the years ended September 30 1996, 1995, and 1994, respectively.

At September 30, 1996 the Bank's minimum rental commitments under noncancelable operating leases for office space with initial or remaining terms of more than one year were as follows:

| | |
|---|---|
| Fiscal Year: | |
| 1997 | $ 344,904 |
| 1998 | 343,704 |
| 1999 | 314,544 |
| 2000 | 314,544 |
| 2001 | 314,544 |
| Thereafter | 687,212 |
| | $2,319,452 |



14. INCOME TAXES

Income tax expense for the three years ended September 30, 1996 is summarized as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Federal | | | |
| Current | $1,467,123 | $2,047,029 | $734,511 |
| Deferred | (359,411) | (512,099) | 612,106 |
| | 1,107,712 | 1,534,930 | 1,346,617 |
| State: | | | |
| Current | 143,973 | 256,041 | 46,408 |
| Deferred | (59,435) | (90,371) | 76,075 |
| | 84,538 | 165,670 | 122,483 |
| Total | $1,192,250 | $1,700,600 | $1,469,100 |

The differences between income taxes at the federal statutory rate and the provision at the effective tax rate for the tree years ended September 30, 1996 are as follows, net of the cumulative effect of a change in accounting for income taxes:

<TABLE>
<CAPTION>

| | 1996 | 1996 | 1994 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Statutory federal income tax | $1,138,649 | $1,637,120 | $1,436,338 |
| Increases (reductions) in taxes resulting from: | | | |
| State income tax, net of federal benefit | 53,773 | 168,987 | 109,829 |
| Tax-free interest income | (27,285) | (71,470) | (81,600) |
| Other, net | 27,113 | 34,037 | 4,533 |
| | $1,192,250 | $1,700,600 | $1,469,100 |

</TABLE>

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that gave rise to significant portions of the deferred tax liability at September 30, 1996 and 1995 relate to the following:

| | 1996 | 1995 |
|---|---|---|
| Effect of loans mark-to-market deduction | $360,969 | $253,949 |
| Deferred loan fees | 195,578 | 178,460 |
| Dividend received deduction | 182,153 | 182,153 |
| Sale of loan participations | 58,214 | 81,624 |
| Depreciation | 55,827 | 101,608 |
| SAIF assessment | (517,567) | 0 |
| Effect of bad debt deduction | (119,775) | (215,141) |
| Other, net | (142,577) | (79,931) |
| | $ 72,822 | $503,722 |

Under the Internal Revenue Code (the "Code"), the Bank was allowed a special bad debt deduction related to additions to tax bad debt reserves established for the purpose of absorbing losses. The provisions of the Code permitted the Bank to deduct from taxable income an allowance for bad debt equal to the greater of 8% of taxable income before such deduction or actual charge-offs. Retained earnings at September 30, 1996 include approximately $2,477,000 for which no federal income tax has been provided. These amounts represent allocations of income to bad debt reserves and are subject to federal income tax in future years, at the then current corporate rate, if the Bank no longer qualifies as a Bank for federal income tax purposes and in certain other circumstances.

On August 2, 1996, Congress passed the Small Business Job Protection Act that will, among other things, repeal the tax bad debt reserve method for thrifts effective for taxable years beginning after December 31,1995. As a result, the Bank must recapture into taxable income the amount of its post-1987 tax bad debt reserves over a six-year period beginning in fiscal year 1997. The Bank is expected to recapture approximately $187,000 of its tax bad debt reserves into taxable income over six years as a result of this new law. The recapture will not have any effect on the Bank's financial statements because the related tax expense has already been accrued. Effective for the fiscal year ending September 30, 1997, the Bank will be required to utilize the six-year average experience method of loan charge-offs in determining its annual tax bad debt deduction.

As discussed in Note 1, the Bank adopted SFAS No. 109 in the first fiscal quarter of 1994.

15.FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include



commitments to extend credit, standby letters of credit, and loans sold with recourse. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of financial condition. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The Bank, however, does not hold or issue futures, forward, swap, or option contracts.

The Bank's exposure to credit loss in the event of nonperformance by the counterpart to the financial instrument for commitments to extend credit and standby letters of credit and to reimburse the investor for losses on loans sold with recourse is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit, exclusive of the undisbursed portion of loans in process, which amounted to $667,000 at fixed interest rates and $1,433,000 at variable interest rates at September 30, 1996, represent legally binding agreements to lend to customers with various expiration dates, but in no event later than 30 days after September 30, 1996. As some commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements.

Standby letters of credit are conditional commitments issued by the Bank guaranteeing the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank had approximately $1,798,000 in irrevocable standby letters of credit outstanding at September 30, 1996.

The Bank generally sells participating interests in loans without recourse. However, because of market conditions in certain prior years, the Bank sold certain participating interests in loans with recourse in the event of default by borrowers on the related residential mortgage loans. The credit risk involved in selling loans with recourse is essentially the same as that involved in extending loan facilities to customers. As of September 30, 1996, the balance of loans sold with recourse that remains uncollected totals approximately $4,000,000.

The majority of the Bank's business activity is with customers located within its southeast Georgia market area. The Bank's only significant concentration of credit at September 30, 1996 occurs in real estate loans (including certain commercial real estate loans) which totaled $200,177,192 or 92% of total loans. Of total real estate loans, 14% were for construction, land acquisition, and development, 67% were for permanent mortgage loans for one-to-four-family dwellings, and 19% were other loans secured by real estate, primarily commercial properties. It is the Bank's policy to review each prospective credit in order to determine an adequate level of security or collateral prior to making the loan. The type of collateral will vary and ranges from liquid assets to real estate.

16.LEGISLATION

The Bank's savings deposits are insured by the Savings Association Insurance Fund ("SAIF"), which is administered by the FDIC. The assessment rate currently ranges from .23% of deposits for well-capitalized institutions to .31% of deposits for undercapitalized institutions. The FDIC also administers the Bank Insurance Fund ("BIF"), which has the same designated reserve ratio as the SAIF. On August 8, 1995, the FDIC adopted an amendment to the BIF risk-based assessment schedule which lowered the deposits insurance assessment rate for most commercial banks and other depository institutions with deposits insured by the BIF to a range of .31% of insured deposits for undercapitalized BIF-insured institutions to .04% of deposits for well-capitalized institutions, which constitutes over 90% of BIF-insured institutions. The FDIC amendment became effective for the quarter ended September 30, 1995. The amendment created a substantial disparity in the deposit insurance premiums paid by BIF and SAIF

members.

Legislation was enacted on September 30, 1996 to recapitalize the SAIF in order to eliminate the premium disparity. The Treasury Department, the FDIC, and Congress provided for a one-time assessment of .657% of insured deposits on all SAIF-insured deposits held at March 31, 1995. Under this legislation, the BIF and SAIF will be merged into one fund as soon as practicable after they both reach their designated reserve ratios, but no later than January 1, 1998, provided that there are no longer any thrift chartered institutions. The special assessment as described above resulted in a one-time charge to the Bank of approximately $1,362,000, which is included in accrued expenses and other liabilities on the consolidated statement of financial condition as of September 30, 1996, and SAIF assessment in noninterest expense on the consolidated statement of income for the year ended September 30, 1996.

17.LITIGATION

In 1988, the Bank entered into an agreement with The Citizens and Southern Corporation ("C&S") and certain related affiliates which provided for the acquisition of the Bank by C&S and the exchange of bank common stock for C&S common stock. The agreement was amended in 1990 to provide for receipt of C&S/ Sovran Financial Corporation ("Sovran") common stock by Bank stockholders as a result of the merger in 1990 of C&S with Sovran (which was acquired by NationsBank Corporation ("NationsBank") in late 1991). On September 27, 1991, the Bank filed a complaint against C&S/Sovran for breach of their merger agreement. C&S/Sovran answered denying liability. The trial court divided the case into two trial, one on liability and a second on damages. In May 1994, in the liability trial, a jury determined C&S/Sovran breached the merger agreement. On December 19, 1994, the trial court ordered C&S/Sovran to specifically perform the agreement with the Bank. On December 4, 1995, the Supreme Court affirmed the trial court decision. The case then was remanded to the trial court for determination of the closing date which would be utilized to determine the terms of the specific performance remedy. A second jury trial was held on July 8, 1996. On July 18, 1996, the second jury determined that the merger agreement would have closed on June 19, 1991, had defendants filed and pursued the regulatory approvals on March 8, 1991. On October 15, 1996 the trial court entered judgment thereon. The Bank and NationsBank have, consistent with the court's order, finalized the terms for consummation of the merger such that, after the Bank pays its contractual obligations for attorneys' fees and senior management agreements of approximately $13.8 million, the Bank's stockholders will receive .80 shares of NationsBank stock for each share of the Bank's stock. The parties anticipate a closing on or before April 30, 1997. Other assets at September 30, 1996 and 1995 include approximately $182,000 of capitalized fees related to the costs of the merger.

The Bank is party to various legal and administrative proceedings and claims. While any litigation contains an element of uncertainty, management believes that the outcome of such proceedings or claims pending or known to be threatened will not have a material adverse effect on the Bank's consolidated financial position.



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of First Federal Savings Bank of Brunswick, Georgia:

We have audited the accompanying consolidated statements of financial condition of FIRST FEDERAL SAVINGS BANK OF BRUNSWICK, GEORGIA (a federal capital stock savings bank), AND SUBSIDIARY as of September 30, 1996 and 1995 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1996. These financial statements are the responsibility of the Banks's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respect, the financial position of First Federal Savings Bank of Brunswick, Georgia, and subsidiary as of September 30, 1996 and 1995 and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles.

Atlanta, Georgia
December 16, 1996

ARTHUR ANDERSEN LLP

Capital Stock:

At the present, there is no established market in which shares of the Bank's capital stock are regularly traded, nor are there any uniformly quoted

prices for such shares. Buyers and sellers are matched as possible by a national firm as an accommodation. On October 21, 1985, the Bank declared a stock split in the form of a 100% stock dividend to stockholders of record as of October 31, 1985. On June 16, 1986, the Bank declared an additional stock split in the form of a 100% stock dividend to stockholders of record as of June 30, 1986. During fiscal year 1996, the Board of Directors approved the payment of cash dividends on its common stock totalling approximately $1,395,000.

The Bank may not declare or pay a cash dividend on any of its stock if the effect thereof would cause the Bank's net worth to be reduced below (i) the amount required for the liquidation account or (ii) the regulatory net worth requirements. Additionally, the Bank may make aggregate capital distribution during a calendar year, without prior approval of the Office of Thrift Supervision, of up to all of its net income to date during the year plus an amount that would reduce its excess capital ratio to one-half of such excess capital ratio at the beginning of the calendar year. Further, for a period of three years after July 21, 1984, the date of the Bank's conversion to stock form, the Bank was not permitted (except with the prior approval of the FSLIC) to declare or pay a cash dividend on any of its stock in an amount in excess of one-half of the greater of (i) the Bank's net income for the fiscal year in which the dividend is declared or (ii) the average of the Bank's net income for the current fiscal year and no more that two of the immediately preceding fiscal years.

As of September 30, 1996, the Bank had 552 stockholders.

Business of the Bank

First Federal Savings Bank of Brunswick is a federally chartered capital stock saving bank headquartered in Brunswick, Georgia. The Bank began its operations in 1926 as a Georgia-chartered mutual building and loan association. In 1935, it converted to a federal mutual savings and loan association, and in 1983, First Federal became a federal mutual saving bank. It completed its conversion to a federal capital stock savings bank in July 1984. First Federal is a member of the Federal Home Loan Bank system, and its deposits are insured by the Federal Deposit Insurance Corporation, through its savings association conduit, the Savings Association Insurance Fund.

The Bank is primarily engaged in the business of obtaining funds in the form of deposits and investing such funds in mortgage loans on residential and commercial real estate, various types of consumer and commercial loans, mortgage-backed securities, and other types of securities. First Federal, like most other federal thrift institutions, has traditionally concentrated its lending activities on the origination of conventional first mortgage loans secured by residential property and, to a lesser extent, construction loans and loans secured by commercial property. Since 1982, the Bank has been seeking (i) to reduce the amount of low interest rate loans in its loan portfolio, (ii) to increase the origination of loans with shorter terms, such as construction loans, consumer loans and commercial loans, and (iii) to originate long-term, fixed-rate loans for sale in the secondary market and to retain variable-rate loans.



BOARD OF DIRECTORS

| | | |
|---|---|---|
| James F. Barger<br>Partner, Tiller,<br>Stewart & Co.<br>LLC CPA | J. Dewey Benefield, Jr.<br>Director, Sea Island<br>Company | William O. Faulkner, Jr.<br>Retired, Citizens &<br>Southern National<br>Bank |
| James H. Gash<br>Senior Vice Pres.<br>Commercial Banking<br>First Federal<br>Savings Bank | (FIRST FEDERAL SAVINGS<br>BANK logo appears here) | Mack F. Mattingly<br>Former U.S. Senator |
| T. Gillis Morgan, III<br>President<br>Tidewater<br>Companies, Inc. | D. Paul Owens<br>Retired<br>Coastal Chevrolet | John J. Rogers<br>Senior Vice President<br>Mortgage Banking<br>First Federal Savings<br>Bank |
| Ben T. Slade, III<br>President<br>First Federal<br>Savings Bank | Jack Torbett<br>Manufacturers<br>Representative | L. Gerald Wright<br>Investor |



OFFICERS & CORPORATE INFORMATION

Chairman and President
BEN T SLADE, III

Senior Vice Presidents
JAMES H. GASH
Commercial Banking

JOHN J. ROGERS
Mortgage Banking

Group Vice Presidents
JERRY E. BUTLER
Commercial Banking

ROBERT B. SAMS
Controller

ROBERT E. STRANGE
Mortgage Banking

Vice Presidents
NANCY BARNA
Human Resources

DONALD L. BLALOCK
Commercial Banking

JAMES L. DAVIS
Consumer Lending

SALLY B. MILES
Operations

WANDA T. MILLER
Branch Coordination

GREGORY T. STRICKLAND
Manager
Glynn Place Mall Office

JO USHER
Mortgage Loan Servicing

BETTY WHITWORTH
Credit Control

Assistant Vice Presidents
CHESTER ANDERSON
Manager
Altama Avenue Office

STEPHEN PARKER
Manager
Ocean Boulevard Office

LINDSAY VINYARD
Marketing

Banking Officers
HELEN BEECHER
Mortgage Lending

BERT CASON
Consumer Lending

GERRY EARP
Corporate Secretary
Stockholder Relations

ALICE EDENFIELD
Account Processing

ANGIE FERRA
Training

DONNA GIBBS
Assistant manager
Altama Avenue Office

JANE S. GREENE
Loan Servicing

GAIL T. JACKSON
Assistant Manager
Plaza Office

LYNETTE MAASSEN
Assistant Manager

Glynn Place Mall Office

KATHY D. MILLS
Assistant Controller

MARY SLAUGHTER
Account Servicing

DAWN SMITH
Internal Auditor

TARA T. STEPHENS
Construction Lending

Main Office
777 Gloucester Street
Brunswick, Georgia  31520
Telephone: (912) 265-1410

Annual Meeting
The annual meeting of First Federal Savings Bank will be held Wednesday, January 22, 1997 at 5 p.m. in the lobby of the Main Office, 777 Gloucester Street, Brunswick, Georgia

Stock Transfer Agent and Registrar
Wachovia Bank of North Carolina, N.A.
Corporate Trust Department
P.O. Box 3001
Winston-Salem,
North Carolina 27102-3001

Common Stock Listing
First Federal's common stock is traded in the National Market System under the NASDAQ symbol FFBG and is listed as "FFdBrun" in newspapers.  For further information, contact Mrs. Gerry Earp.

Independent Public Accountants
Arthur Andersen LLP
133 Peachtree Street, N.E.
Atlanta, Georgia 30303

Legal Counsel
Smith, Mackinnon, Harris, Greeley, Bowdoin & Edwards, P.A.
Suite 800
255 South Orange Avenue
Orlando, Florida, 32801

Form 10-K
A copy of the Form 10-K, including financial statement schedules as filed with the Office of Thrift Supervision, will be furnished without charge to stockholders as of the record date upon written request to:
Mrs.  Gerry Earp, First Federal Savings Bank, P.O. Box 1877, Brunswick, Georgia 31521



Exhibit 21.1

First Federal Savings Bank of Brunswick, Georgia

Subsidiary of Registrant

First Shelter Service Corporation