FORM 10KSB40

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

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

EAST TEXAS FINANCIAL SERVICES INC

CIK:**929646**| IRS No.: **752559089** | State of Incorp.:**DE** | Fiscal Year End: **0930**
Type: **10KSB40** | Act: **34** | File No.: **000-24848** | Film No.: **96687868**
SIC: **6035** Savings institution, federally chartered

Mailing Address
1200 SOUTH BECKHAM AVE
TYLER TX 75701

Business Address
1200 S BECKHAM AVE
TYLER TX 75701
9035931767

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended September 30, 1996

OR

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

For the transition period from to

Commission file number: 0-24848

EAST TEXAS FINANCIAL SERVICES, INC.
(Name of small business issuer as specified in its charter)

Delaware	75-2559089
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1200 South Beckham Avenue, Tyler, Texas	75701
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (903) 593-1767

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

None

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

Nasdaq National Market

(Name of each exchange on which registered)

Common Stock, par value $.01 per share

(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such requirements for the past 90 days. YES [X[NO [ ]

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

State the issuer's revenues for its most recent fiscal year: $8,435,000.

The aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the average of the closing bid and asked prices of such stock on the Nasdaq National Market as of December 11, 1996 was $12.8 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Registrant that such person is an affiliate of the Registrant.)

As of December 11, 1996, there were issued and outstanding 1,079,285 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part II of Form 10-KSB - Portions of Annual Report to Stockholders for the fiscal year ended September 30, 1996.

Part III of Form 10-KSB - Portions of Proxy Statement for 1997 Annual Meeting of Stockholders.

Transitional Small Business Disclosure Format: YES [ ] NO [X]

Item. 1 Description of Business

General

East Texas Financial Services, Inc. (the "Company") is a Delaware corporation organized in 1994 to be the savings and loan holding company of First Federal Savings and Loan Association of Tyler ("First Federal" or the "Association"). First Federal was founded in 1923 as a Texas chartered institution and converted in 1939 to a federally chartered mutual savings and loan association. The Company owns all of the outstanding stock of the Association issued on January 10, 1995, in connection with the completion of its conversion from the mutual to the stock form of organization (the "Conversion"). All references to the Company, unless otherwise indicated, at or before January 10, 1995 refer to the Association. Unless the context otherwise requires, all references herein to the Association or the Company include the Company and Association on a consolidated basis. The Company's Common Stock is quoted on the Nasdaq National Market under the symbol "ETFS."

The Company and the Association are subject to comprehensive regulation, examination and supervision by the Office of Thrift Supervision, Department of the Treasury ("OTS") and by the Federal Deposit Insurance Corporation ("FDIC"). The Association is a member of the Federal Home Loan Bank ("FHLB") System and its deposits are insured by the Savings Association Insurance Fund ("SAIF") to the maximum extent permitted by the FDIC.

The Company serves its primary market area, East Texas with a concentration in Smith County, through its main office and loan production office, each of which is located in Tyler, Texas, and a branch office located in Whitehouse, Texas. At September 30, 1996, the Company had total assets of $114.4 million, deposits of $91.7 million and stockholders' equity of $20.9 million.

The principal business of the Company consists of attracting retail deposits from the general public and investing those funds primarily in one- to four-family residential mortgage loans. To a lesser extent, the Company also originates commercial real estate, one- to four-family construction, multi-family and consumer loans. The Company also purchases mortgage-backed securities and invests in U.S. Government and agency obligations and other permissible investments. At September 30, 1996, substantially all of the Company's real estate mortgage loans (excluding mortgage-backed securities) were secured by properties located in Texas, with most of them located in the Company's primary market area. See "--Originations, Purchases and Sales of Loans."

The Company's revenues are derived primarily from interest earned on loans, mortgage-backed securities and investments and, to a lesser extent, from service charges and loan originations, gains on sales of loans and mortgage-backed securities, and loan servicing fee income. The Company does not originate loans to fund leveraged buyouts, and has no loans to foreign corporations or governments.

The Company currently offers a variety of deposit accounts having a wide range of interest rates and terms. The Company's deposits include passbook and money market accounts, NOW checking accounts, and certificate accounts with terms ranging from one month to five years. The Company solicits deposits in its primary market area and does not accept brokered deposits.

The executive offices of the Company are located at 1200 South Beckham Avenue, Tyler Texas 75701. The telephone number at that address is (903) 593-1767.

Forward-Looking Statements

When used in this Form 10-K or future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result", "are expected to", "will continue", "is anticipated", "estimate", "project", "believe" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national economic conditions, changes in levels of market interest rates, credit risks of lending activities, and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

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

Lending Activities

General. Historically, the Company originated fixed-rate one- to four-family mortgage loans. In the early 1980's, the Company began the origination of adjustable-rate mortgage ("ARM") loans for retention in its portfolio, in order to increase the percentage of loans in its portfolio with more frequent repricing or shorter maturities than fixed-rate mortgage loans. The Company has continued to originate fixed-rate residential mortgage loans in response to consumer demand. The Company underwrites all of its fixed-rate residential mortgage loans under secondary market guidelines allowing them to be saleable primarily to the Federal National Mortgage Association ("FNMA") with the servicing retained, without recourse, in order to generate fee income and reduce the Company's exposure to changes in interest rates. See "--Loan Portfolio Composition" and "--One- to Four-Family Residential Mortgage Lending."

The Company's primary focus in lending activities is on the origination of loans secured by first mortgages on owner-occupied one- to four-family residences. To a lesser extent, the Company originates loans secured by commercial real estate, one- to four-family construction, multi-family and consumer loans. At September 30, 1996, the Company's net loans held in portfolio totalled $47.9 million which constituted 41.9% of the Company's total assets. At that date, the Company had no loans held for sale.

The Loan Committee, comprised of Director L. Lee Kidd (Chairman), President Gerald W. Free, Senior Vice President-Lending Joe C. Hobson, Chief Financial Officer Derrell W. Chapman, Treasurer William L. Wilson, and Vice President-Compliance/Marketing M. Earl Davis has the responsibility for the supervision of the Company's loan portfolio with an overview by the full Board of Directors. Loans may be approved by the Loan Committee, depending on the size of the loan, with all loans subject to ratification by the full Board of Directors. Loans in excess of $500,000 require full board approval. In addition, foreclosure actions or the taking of deeds-in-lieu of foreclosure are subject to oversight by the Board of Directors.

The aggregate amount of loans that the Company is permitted to make under applicable federal regulations to any one borrower, including related entities, or the aggregate amount that the Company could have invested in any one real estate project, is generally the greater of 15% of unimpaired capital and surplus or $500,000. See "Regulation--Federal Regulation of Savings Associations. At September 30, 1996, the maximum amount which the Company could have lent to any one borrower and the borrower's related entities was approximately $2.6 million. At September 30, 1996, the Company had no loans or lending relationships with an outstanding balance in excess of this amount. The largest amount outstanding to any one borrower, or group of related borrowers, was approximately $828,000 at September 30, 1996, and was secured by a country club located in Tyler, Texas. The Company had no other loans or lending relationships in excess of $500,000 at September 30, 1996. See "Regulation--Federal Regulation of Savings Associations." At September 30, 1996, the next two largest loans and lending relationships totalled $385,000 and $370,000, each of which was comprised of a loan secured by commercial real estate. The $370,000 loan was originated in 1992 as part of the sale of a real estate owned property at a 90% loan to value ratio. At September 30, 1996, the loan had a loan to value ratio of approximately 60%. At September 30, 1996 each of these loans was performing in accordance with its respective repayment terms.

Loan Portfolio Composition. The following information concerning the composition of the Company's loan portfolios in dollar amounts and in percentages (before deductions for loans in process, deferred fees and discounts, allowances for losses and loans held for sale) as of the dates indicated.
<TABLE>
<CAPTION>

	September 30,							
	1996		1995		1994		1993	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Real Estate Loans:								
One- to four-family residences.....................	$ 42,773	85.98%	$34,947	81.55%	$28,074	77.32%	$ 28,927	73.93%
Commercial.....................	3,458	6.95	4,387	10.24	5,001	13.77	5,757	14.71
Construction....................	1,806	3.63	1,879	4.38	1,175	3.24	2,258	5.77
Multi-family....................	701	1.41	724	1.69	743	2.05	761	1.94
Total real estate loans.......	48,738	97.97	41,937	97.86	34,993	96.38	37,703	96.35
Other Loans:								
Loans secured by deposits.......	500	1.00	404	0.94	830	2.28	620	1.58
Home improvement................	455	0.92	451	1.05	444	1.22	579	1.48
Commercial business.............	54	0.11	63	0.15	42	0.12	231	.59

Total other loans............	1,009	2.03	918	2.14	1,316	3.62	1,430	3.65
Total loans................	49,747	100.00%	42,855	100.00%	36,309	100.00%	39,133	100.00%
Less:								
Loans in process...............	1,514		777		639		892	
Deferred fees and discounts.....	19		22		33		65	
Allowance for loan losses.......	289		296		300		181	
Loans held for sale............	---		---		---		9,312	
Net portfolio loans.........	$ 47,925		$41,760		$35,337		$ 28,683	

<CAPTION>

<S>	September 30, 1992 Amount <C>	Percent <C>
Real Estate Loans:		
One- to four-family residences.....................	$ 31,724	74.75%
Commercial.....................	6,423	15.14
Construction...................	1,526	3.60
Multi-family...................	969	2.28
Total real estate loans.......	40,642	95.77
Other Loans:		
Loans secured by deposits.......	804	1.89
Home improvement...............	829	1.96
Commercial business............	162	.38
Total other loans............	1,795	4.23
Total loans................	42,437	100.00%
Less:		
Loans in process...............	763	
Deferred fees and discounts.....	108	
Allowance for loan losses.......	122	
Loans held for sale............	4,839	
Net portfolio loans.........	$ 36,605	

</TABLE>

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

<TABLE>
<CAPTION>

	September 30,							
	1996		1995		1994		1993	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Fixed-Rate Loans:								
Real estate:								
One- to four-family residences.............	$29,635	59.57%	$ 24,313	56.73%	$25,292	69.66%	$ 27,395	70.02%
Commercial................................	2,610	5.25	2,739	6.39	3,166	8.72	4,055	10.36
Multi-family..............................	701	1.41	724	1.69	743	2.05	761	1.94
Construction............................	1,806	3.63	295	0.69	---	---	---	---
Total fixed-rate real estate loans.......	34,752	69.86	28,071	65.50	29,201	80.43	32,211	82.32
Other loans:								
Loans secured by deposits..................	500	1.00	404	0.94	830	2.28	620	1.58
Home improvement...........................	455	0.92	451	1.05	444	1.22	579	1.48
Commercial business........................	54	0.11	63	0.15	42	0.12	231	.59
Total other fixed-rate loans............	1,009	2.03	918	2.14	1,316	3.62	1,430	3.65
Total fixed-rate loans	35,761	71.89	28,989	67.64	30,517	84.05	33,641	85.97

Adjustable-Rate Loans								
Real estate:								
One- to four-family residences.............	13,138	26.41	10,634	24.81	2,782	7.66	1,532	3.91
Commercial.................................	848	1.70	1,648	3.85	1,835	5.05	1,702	4.35
Construction loans.........................	0	0.00	1,584	3.70	1,175	3.24	2,258	5.77
Multi-family...............................	---	---	---	---	---	---	---	---
Total adjustable-rate real estate loans..	13,986	28.11	13,866	32.36	5,792	15.95	5,492	14.03
Total loans..........................	49,747	100.00%	42,855	100.00%	36,309	100.00%	39,133	100.00%
Less:								
Loans in process............................	1,514		777		639		892	
Deferred fees and discounts..................	19		22		33		65	
Allowance for loan losses....................	289		296		300		181	
Loans held for sale..........................	---		---		---		9,312	
Net portfolio loans..................	$47,925		$ 41,760		$35,337		$ 28,683	

<CAPTION>

	September 30, 1992	
	Amount	Percent
<S>	<C>	<C>
Fixed-Rate Loans:		
Real estate:		
One- to four-family residences.............	$ 30,237	71.26%
Commercial.................................	4,530	10.67
Multi-family...............................	969	2.28
Construction..............................	---	---
Total fixed-rate real estate loans.......	35,736	84.21
Other loans:		
Loans secured by deposits..................	804	1.89
Home improvement...........................	829	1.96
Commercial business........................	162	.38
Total other fixed-rate loans............	1,795	4.23
Total fixed-rate loans	37,531	88.44
Adjustable-Rate Loans		
Real estate:		
One- to four-family residences.............	1,487	3.50
Commercial.................................	1,893	4.46
Construction loans.........................	1,526	3.60
Multi-family...............................	---	---
Total adjustable-rate real estate loans..	4,906	11.56
Total loans..........................	42,437	100.00%
Less:		
Loans in process............................	763	
Deferred fees and discounts..................	108	
Allowance for loan losses....................	122	
Loans held for sale..........................	4,839	
Net portfolio loans..................	$ 36,605	

</TABLE>

The following schedule illustrates the interest rate sensitivity of the Company's loan portfolio at September 30, 1996. Mortgages which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract is due. The schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

<TABLE>
<CAPTION>

Real Estate							
One- to Four-Family		Other Residential		Nonresidential		Construction	
Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate

				(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Due During Periods Ending September 30,								
1997........................	$ 2,180	7.90%	$326	8.00%	$ 548	10.04%	$1,806	8.39%
1998........................	735	7.32	0	0.00	1,025	8.20	0	0.00
1999........................	771	8.13	0	0.00	99	8.80	0	0.00
2000........................	4,568	7.72	0	0.00	562	9.25	0	0.00
2001........................	4,034	7.12	0	0.00	507	9.16	0	0.00
2002........................	2,974	8.09	0	0.00	47	9.00	0	0.00
2003 to 2006................	3,544	8.33	75	10.00	132	9.50	0	0.00
2007 to 2016................	20,906	7.87	191	8.60	538	8.07	0	0.00
2017 and following..........	3,061	9.46	109	9.75	0	0.00	0	0.00
Total.............	$42,773		$701		$3,458		$1,806	

<CAPTION>

	Other Loans		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
<S>	<C>	<C>	<C>	<C>
Due During Periods Ending September 30,				
1997........................	$ 429	7.46%	$ 5,289	8.26%
1998........................	123	7.32	1,883	7.80
1999........................	52	9.62	922	8.29
2000........................	46	9.67	5,176	7.85
2001........................	65	9.24	4,606	7.37
2002........................	63	10.19	3,084	8.15
2003 to 2006................	135	9.13	3,886	8.43
2007 to 2016................	96	8.40	21,731	7.88
2017 and following..........	0	0.00	3,170	9.47
Total.............	$1,009		$49,747	

</TABLE>

The total amount of loans due after September 30, 1997 which have predetermined interest rates was $33.0 million while the total amount of loans due after such date which have floating or adjustable interest rates was $11.5 million.

One- to Four-Family Residential Mortgage Lending. The Company focuses its lending efforts primarily on the origination of conventional loans for the acquisition of owner-occupied, one- to four-family residences. At September 30, 1996, the Company's one- to four-family residential mortgage loans totalled $42.8 million, or 86.0% of the Company's gross loan portfolio. The Company originates these loans primarily from referrals from real estate agents, existing customers, walk-in customers, builders and from responses to the Company's marketing campaign, directed primarily to individuals in its market area.

The Company currently originates fixed-rate and ARM loans. During the year ended September 30, 1996, the Company originated $20.4 million and $4.8 million of fixed-rate mortgage and adjustable rate mortgage loans, respectively, which were secured by one- to four-family residences. During the same period, the Company sold $7.7 million of fixed-rate real estate loans which were secured by one- to four-family residences.

The Company currently originates one- to four-family residential mortgage loans in amounts up to 95% of the appraised value of the security property and generally requires that private mortgage insurance be obtained in an amount sufficient to reduce the Company's exposure to or below 80% of such value. The terms of such loans are generally for up to a maximum term of 30 years. Interest charged on these mortgage loans is competitively priced according to local market conditions.

The Company currently offers ARMs with one year annual adjustments, and recently began to offer ARMs with three and five year initial terms with adjustments occurring annually thereafter as well as loans that adjust once after five or seven years. All of the annually adjusting ARM loans currently adjust at a margin over the yield on the one year Constant Maturity Treasury Securities Rate. Initial rates on the three and five year ARMs and adjusted rates on the five and seven year ARM products are currently based upon the rate of a United States Treasury Note with a comparable term. ARM loans offered by the Company generally provided for up to a 200 basis point annual cap and a lifetime cap of 500 or 600 basis points greater than the initial rate. ARM loans may not adjust below the initial rate. As a consequence of using caps, the interest rates on the ARMs may not be as rate sensitive as the Company's cost of funds. Borrowers of adjustable rate loans are qualified at the fully-indexed rate of interest. The Company has not experienced difficulty with the payment history for these loans.

In underwriting one- to four-family residential real estate loans, the Company evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Properties securing real estate loans made by the Company are appraised by independent fee appraisers approved and qualified by the Board of Directors. The Company generally requires borrowers to obtain title insurance and fire, property and flood insurance (if required) in an amount not less than the amount of the loan. Real estate loans originated by the Company generally contain a "due on sale" clause allowing the Company to declare the unpaid principal balance due and payable upon the sale of the security property.

Commercial Real Estate and Multi-Family Residential Lending. The Company engages in multi-family and commercial real estate lending, including permanent loans secured primarily by apartment buildings, office buildings and retail establishments in the Company's primary market area. At September 30, 1996, the Company had $3.5 million and $701,000, respectively, of commercial real estate and multi-family loans, which represented 6.95% and 1.41%, respectively, of the Company's gross loan portfolio.

Generally, commercial and multi-family real estate loans originated by the Company are fixed-rate loans. To a lesser extent, the Company originates adjustable-rate loans, with annual adjustments based upon either the one year Constant Maturity Treasury Securities Rate or the Chase Manhattan Prime Rate subject to limitations on the maximum annual and total interest rate increase or decrease over the life of the loan. Commercial real estate loans typically do not exceed 80% of the appraised value of the property securing the loan. The Company analyzes the financial condition of the borrower, the borrower's credit history, the reliability and predictability of the net income generated by the property securing the loan and the value of the property itself. The Company generally requires personal guaranties of the borrowers in addition to the security property as collateral for such loans and personal financial statements on an annual basis. Appraisals on properties securing commercial and multi-family real estate loans originated by the Company are generally performed by independent fee appraisers approved by the Board of Directors.

Loans secured by multi-family and commercial real estate are generally larger and involve a greater degree of credit risk than one- to four-family residential mortgage loans. Commercial real estate and multi-family loans typically involve large balances to single borrowers or groups of related borrowers. Because payments on loans secured by commercial real estate and multi-family properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed), the borrower's ability to repay the loan may be impaired.

Construction Lending. The Company engages in residential construction lending, with $1.8 million, or 3.6% of its gross loan portfolio in construction loans as of September 30, 1996. The Company offers loans to owner-occupants and builders for the construction of one- to four-family residences. Currently, such loans are offered with terms to maturity of up to nine months and in amounts generally up to 80% of the appraised value of the security property.

The Company's construction loans require the payment of interest only on a quarterly basis. The Company generally makes permanent loans on the underlying property consistent with its underwriting standards for one- to four-family residences. The Company also offers loans to a few selected builders in its primary market area to build residential properties in anticipation of the sale of the house or where the house has been presold. Such loans are made for a term of nine months. The Company usually disburses funds on construction loans directly to the builder at certain intervals based upon the completed percentage of the project and inspections of loans in process are performed by the Company's staff. At September 30, 1996, none of the Company's construction loans were to builders for the construction of pre-sold residences and $1.8 million, or 100% of gross construction loans, were to builders for the construction of residences which had not been pre-sold.

Construction lending generally affords the Company an opportunity to receive interest at rates higher than those obtainable from residential lending. Nevertheless, construction lending is generally considered to involve a higher level of credit risk than one- to four-family residential lending since the risk of loss on construction loans is dependent largely, upon the accuracy of the initial estimate of the individual property's value upon completion of the project and the estimated cost (including interest) of the project. If the cost estimate proves to be inaccurate, the Company may be required to advance funds beyond the amount originally committed to permit completion of the project. In addition, to the extent the borrower is unable to obtain a permanent loan on the underlying property, the Company may be required to modify or extend the terms of the loan. In an effort to reduce these risks, the application process includes a submission to the Company of accurate plans, specifications and costs of the project to be constructed. These items are also used as a basis to determine the appraised value of the subject property. Loans are based on the lesser of current appraised value and/or the cost of construction (land plus building).

Construction loans to borrowers other than owner-occupants also involve many of the same risks discussed above regarding multi-family and commercial real estate loans and tend to be more sensitive to general economic conditions than many other types of loans.

Consumer and Commercial Business Lending. The Company offers loans secured by savings deposits and home improvement loans. Substantially all of the Company's consumer loans are originated in its primary market area. These loans are originated on a direct basis.

At September 30, 1996, the Company's consumer loan portfolio totalled $955,000, or 1.92% of its total gross loan portfolio. All consumer loans are currently originated with fixed rates of interest.

Consumer loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards employed by the Company for consumer loans include an application, a determination of the applicant's payment history on other debts, employment stability and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

Consumer loans may entail greater credit risk than do residential mortgage loans. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. Although the level of delinquencies in the Company's consumer loan portfolio has historically been low, at September 30, 1996, three loans, totalling $14,000, or approximately 1.5% of the consumer loan portfolio, was 60 days or more delinquent. There can be no assurance that delinquencies will not increase in the future.

At September 30, 1996, the Company also had $54,000 in commercial business loans outstanding, or less than one percent of the Company's total loan portfolio. The Company's commercial business lending activities have encompassed loans with a variety of purposes and security, including loans to finance inventory and equipment. Generally, the Company's commercial business lending has been limited to borrowers headquartered, or doing business, in the Company's market area. Management does not contemplate significantly increasing its commercial business lending activity.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities

Real estate loans are generally originated by the Company's staff of salaried loan officers. Loan applications are taken and processed at its main office and its loan production office.

In fiscal 1996, the Company originated $25.2 million of loans, compared to $19.8 million and $21.7 million in fiscal 1995 and 1994, respectively. Management attributes the increase in originations to continued lower interest rates and economic conditions in the Tyler area and new loan products. In fiscal 1996, $21.1 million of loans and mortgage-backed securities were repaid compared to $12.5 million and $16.4 million in fiscal 1995 and 1994 respectively.

The Company currently sells its fixed-rate one- to four-family residential mortgage loans with maturities of greater than 15 years, without recourse, to FNMA. Sales of whole loans generally are beneficial to the Company since these sales may generate income at the time of sale, produce future servicing income, provide funds for additional lending and other investments and increase liquidity. The Company sold whole loans in aggregate amounts of $7.7 million, $5.2 million and $14.2 million during the years ended September 30, 1996, 1995 and 1994, respectively. The Company sells loans pursuant to forward sales commitments and, therefore, an increase in interest rates after loan origination and prior to sale should not adversely affect the Company's income at the time of sale.

In periods of economic uncertainty, the Company's ability to originate large dollar volumes of real estate loans may be substantially reduced or restricted with a resultant decrease in related loan origination fees, other fee income and operating earnings. In addition, the Company's ability to sell loans may substantially decrease as potential buyers (principally government agencies) reduce their purchasing activities.

When loans are sold, the Company typically retains the responsibility for servicing the loans. The Company receives a fee for performing these services. The Company serviced for others mortgage loans amounting to $40.1 million, $37.2 million and $37.5 million at September 30, 1996, 1995 and 1994, respectively.

From time to time, the Company has purchased whole loans or loan participations consistent with its loan origination underwriting standards. The Company does not currently purchase loans because there is sufficient product available for origination but will consider favorable purchase opportunities as they arise.

In addition, the Company purchases mortgage-backed securities, consistent with its asset/liability management objectives to complement its mortgage lending activities. The Board believes that the slightly lower yield carried by mortgage-backed securities is somewhat offset by the lower level of credit risk and the lower level of overhead required in connection with these assets, as compared to one- to four-family, non-residential, multi-family and other types of loans. See "--Mortgaged-Backed Securities."

The following table shows the loan and mortgage backed and related securities origination, purchase, sale and repayment activities of the Company for the periods indicated.

<TABLE>
<CAPTION>

	Year Ended September 30,				
	1996	1995	1994	1993	1992
			(In Thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
Originations by type:					
Adjustable rate:					
Real estate - one- to four-family	$ 4,841	$ 9,923	$ 3,874	3,340	$ 1,438
- multi-family	--	--	--	--	--
- commercial	--	--	416	132	--
Total adjustable-rate	4,841	9,923	4,290	3,472	1,438
Fixed-rate:					
Real estate - one- to four-family	20,208	9,736	16,836	17,824	13,576
- multi-family	--	--	--	--	1,857
- commercial	170	--	--	--	1,951
Consumer	4	3	312	802	678
Commercial business	--	138	242	148	135
Total fixed-rate	20,382	9,877	17,390	18,774	18,197
Total loans originated	25,223	19,800	21,680	22,246	19,635
Purchases:					
Mortgage-backed securities	913	38,172	13,116	11,992	4,016
Sales and repayments:					
Real estate - one- to four-family	7,718	5,191	14,233	12,216	6,888
Mortgage-backed securities	--	--	43,886	4,529	--
Total sales	7,718	5,191	58,119	16,745	6,888
Principal repayments - loans	11,434	8,087	10,001	13,457	12,492
Principal repayments - mortgage-backed securities	9,648	4,371	6,424	8,193	8,657
Total reductions	28,800	17,649	74,544	38,395	28,037
Increase (decrease) in other items, net	37	(159)	(104)	(200)	(288)
Net increase (decrease)	$ (2,627)	$ 40,164	$(39,852)	$ (4,357)	$ (4,674)

</TABLE>

Asset Quality

Generally, when a borrower fails to make a required payment on real estate secured loans and other loans by the 17th day after such payment is due, the Company institutes collection procedures by mailing a delinquency notice. The customer is contacted again by telephone or letter when the delinquency is not promptly cured. In most cases delinquencies are cured promptly; however, if a loan secured by real estate or other collateral has been delinquent for more than 80 days, a final letter is sent or a telephone call is made demanding payment and the customer is requested to make arrangements to bring the loan current or, if the situation merits, a 30 day foreclosure notice is sent to the borrower. At 90 days past due a 30 day foreclosure notice is sent (if not previously sent), and unless satisfactory arrangements have been made, immediate repossession or foreclosure procedures will commence.

Generally, when a loan becomes delinquent 90 days or more, or when the collection of principal or interest becomes doubtful, the Company will place the loan on a non-accrual status and, as a result, previously accrued interest income on the loan is taken out of current income. Each account is handled on a individual basis. The loan will be transferred back to an accrual status if the borrower brings the loan current.

The following table sets forth the Company's loan delinquencies by type, amount and percentage of type at September 30, 1996.

<TABLE>
<CAPTION>

	Loans Delinquent For: 60-89 Days			Loans Delinquent For: 90 Days and Over			Total Loans Delinquent 60 Days and Over		
	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category
					(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Real Estate:									
One- to four-family	38	$1,135	2.6%	12	$ 449	1.1%	50	$1,584	3.7%
Consumer	2	13	1.4	1	1	0.1	3	14	1.5
Total	40	$1,148	2.4	13	$ 450	0.9	53	$1,598	3.3

</TABLE>

Non-Performing Assets. The table below sets forth the amounts and categories of non-performing assets in the Company's loan portfolio. At all dates presented, the Company had no troubled debt restructurings (which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates). Foreclosed assets include assets acquired in settlement of loans.
<TABLE>
<CAPTION>

	September 30, 1996	1995	1994	1993	1992
			(Dollars in Thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
Non-accruing loans:					
One- to four-family	$449	$294	$295	$445	$426
Commercial real estate	1	--	--	--	--
Total	450	294	295	445	426
Accruing loans delinquent more than 90 days:					
One- to four-family	--	12	12	21	--
Total	--	12	12	21	--
Foreclosed assets:					
One- to four-family	--	90	--	59	33
Commercial real estate	--	--	--	--	--
Total	--	90	--	59	33
Total non-performing assets	$450	$396	$307	$525	$459
Total as a percentage of total assets	0.39%	0.34%	0.27%	0.45%	0.40%

</TABLE>
For the year ended September 30, 1996, gross interest income which

would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to $41,000. The amount that was included in interest income on such loans was $30,000 year ended September 30, 1996.

Classified assets totalled $999,218 year ended September 30, 1996. Classified assets and non-performing assets differ in that classified assets may include loans less than 90 days delinquent. Also, assets guaranteed by governmental agencies such as the Veterans Administration or the Federal Housing Administration are not included in classified assets but are included in non-performing assets.

Other Assets of Concern. As of September 30, 1996, there was approximately $146,000 in net book value of assets classified by the Company because of known information about the possible credit problems of the borrowers or the cash flows of the security property has caused management to have some doubts as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such item in the non-performing asset categories. Other assets of concern consist of six one-to four-family residences. All of these loans are being monitored by the Company due to periodic delinquencies. See "-- Allowance for Loan Losses."

Classified Assets. Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by the OTS to be of lesser quality as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the savings association 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 present 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 a savings association classifies problem assets as either substandard or doubtful, it may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When a savings association classifies problem assets as "loss," it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. An association's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the association's Regional Director at the regional OTS office, who may order the establishment of additional general or specific loss allowances.

In connection with the filing of its periodic reports with the OTS and in accordance with its classification of assets policy, the Company regularly reviews the loans in its portfolio to determine whether any loans require classification in accordance with applicable regulations. On the basis of management's review of its assets, at September 30, 1996, the Company had classified $999,218 assets as substandard, none as doubtful, and none as loss.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in its loan portfolio and changes in the nature and volume of its loan activity, including those loans which are being specifically monitored by management. Such evaluation, which includes a review of loans for which full collectibility may not be reasonably assured, considers among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an adequate loan loss allowance.

Real estate properties acquired through foreclosure are recorded at lower of cost or fair value, less estimated disposition costs. If fair value at the date of foreclosure is lower than the balance of the related loan, the difference will be charged-off to the allowance for loan losses at the time of transfer. Valuations are periodically updated by management and if the value declines, a specific provision for losses on such property is established by a charge to operations.

Although management believes that it uses the best information available to determine the allowance, unforeseen market conditions could result in adjustments and net earnings could be significantly affected if circumstances differ substantially from the assumptions used in making the final determination. Future additions to the Company's allowance will be the result of periodic loan, property and collateral reviews and thus cannot be predicted in advance. At September 30, 1996, the Company had a total allowance for loan losses of $289,000 or 64.2% of non-performing loans. See Note 1 of the Notes to Consolidated Financial Statements.

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

<TABLE>
<CAPTION>

	Year Ended September 30,				
	1996	1995	1994	1993	1992
	(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Balance at beginning of period	$ 296	$ 300	$ 181	$ 122	$ 183
Charge-offs:					
One- to four-family	7	4	2	1	43
Multi-family	--	--	--	--	9
Commercial real estate	--	--	--	--	--
Total charge-offs	7	4	2	1	52
Recoveries	--	--	--	--	--
Net charge-offs	(7)	(4)	(2)	(1)	(52)
Additions charged to operations	--	--	121	60	(9)
Balance at end of period	$ 289	$ 296	$ 300	$ 181	$ 122
Ratio of net charge-offs during the period to average loans outstanding during the period	.02%	0.01%	0.01%	---%	0.13%
Ratio of net charge-offs during the period to average non-performing assets	1.66%	1.14%	0.48%	0.20%	4.00%

</TABLE>

The distribution of the Company's allowance for losses on loans at the dates indicated is summarized as follows:

<TABLE>
<CAPTION>

	September 30,									
	1996		1995		1994		1993		1992	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
					(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
One- to four-family...........	$ 102	85.98%	$ 80	81.55%	$ 90	77.32%	$ 107	73.93%	$ 35	74.75%
Multi-family..................	---	1.41	---	1.69	4	2.05	---	1.94	---	2.28
Commercial real estate.........	---	6.95	---	10.24	29	13.77	31	14.71	87	15.14
Construction or development.................	---	3.63	---	4.38	--	3.24	---	5.77	---	3.60
Consumer.......................	---	2.03	---	2.14	7	3.62	---	3.65	---	4.23
Unallocated....................	187	---	216	---	170	---	43	---	---	---
Total....................	$ 289	100.00%	$296	100.00%	$300	100.00%	$ 181	100.00%	$ 122	100.00%

</TABLE>

Investment Activities

Generally, the investment policy of the Company is to invest funds among various categories of investments and maturities based upon the Company's need for liquidity, asset/liability management policies, investment quality and marketability, liquidity needs and performance objectives.

At September 30, 1996, the Company had two investment portfolios, one consisting of mortgage-backed securities and the other consisting principally of U.S. Government obligations. These investments were made in order to generate income and because these securities carry a low risk weighting for OTS risk-based capital purposes and satisfy OTS liquid-asset requirements. See "Regulation--Capital Requirements" and "--Liquidity."

At September 30, 1996, the Company's investment securities totalled

$30.1 million or 26.4% of total assets and mortgage-backed securities totalled $24.9 million or 21.8% of total assets. All of the Company's investment securities and mortgage-backed securities were classified as held to maturity at September 30, 1996. For information regarding the amortized cost and market values of the Company's investment securities portfolio, see Note 3 of the Notes to Consolidated Financial Statements. At September 30, 1996, the weighted average term to maturity or repricing of the investment securities portfolio, excluding FHLB stock, was 1.4 years. For information regarding the amortized cost and market values of the Company's mortgage-backed securities portfolio, see Note 4 of the Notes to Consolidated Financial Statements.

Mortgage-Backed Securities. The Company purchases mortgage-backed and related securities to complement its mortgage lending activities. The Company began making significant purchases of mortgage-backed and related securities in 1991 as an alternative to home mortgage originations for its portfolio. Management determined that such investments would produce relatively higher risk-adjusted yields for the Company when compared to other investment securities and substituted for loan originations, in light of the competition for home mortgages in the Company's market area. The Company has emphasized mortgage-backed and related securities with high credit quality, high cash flow, low interest-rate risk, high liquidity and acceptable prepayment risk.

The Company's mortgage-backed and related securities portfolio consists primarily of securities issued under government-sponsored agency programs, including those of FNMA and FHLMC. The FNMA and FHLMC certificates are modified pass-through mortgage-backed securities that represent undivided interests in underlying pools of fixed-rate, or certain types of adjustable rate, single-family residential mortgages issued by these government-sponsored entities. FNMA and FHLMC generally provide the certificate holder a guarantee of timely payments of interest, whether or not collected. The Company has held securities issued by GNMA in prior years, but held no GNMA securities at September 30, 1996.

Mortgage-backed securities generally yield less than the loans that underlie such securities, because of the cost of payment guarantees or credit enhancements that reduce credit risk to holders. Mortgage-backed securities are also more liquid than individual mortgage loans and may be used to collateralize obligations of the Company. In general, mortgage-backed securities issued or guaranteed by FNMA, FHLMC and certain AAA- or AA-rated mortgage-backed pass-through securities are weighted at no more than 20% for risk-based capital purposes, and mortgage-backed securities issued or guaranteed by GNMA are weighted at 0% for risk-based capital purposes, compared to an assigned risk weighting of 50% to 100% for whole residential mortgage loans. These types of securities thus allow the Company to optimize regulatory capital to a greater extent than non-securitized whole loans.

While mortgage-backed securities carry a reduced credit risk as compared to whole loans, such securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed, and value, of such securities. Because the rising interest rate environment has altered the prepayment speeds of its mortgage-backed securities thus increasing their average life, the Company decided to restructure its balance sheet during fiscal 1994 and sell its entire mortgage-backed securities portfolio. The proceeds were reinvested in adjustable rate and/or short maturity mortgage-backed securities consistent with its asset/liability objectives.

The following table sets forth the composition of the Company's mortgage-backed securities at the dates indicated.
<TABLE>
<CAPTION>

	September 30,									
	1996		1995		1994		1993		1992	
	Amortized Cost	% of Total	Amortized Cost	% of Total	Amortized Cost	% of Total	Amortized Cost	% of Total	Amortize Cost	% of Total
	(Dollars in Thousands)									
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Mortgage-backed securities held to maturity:										
GNMA	$ --	---%	$ --	---%	$ --	---%	$16,611	44.66%	$15,133	39.72%
FHLMC	20,289	81.33	27,015	80.07	--	--	14,193	38.16	13,149	34.51
FNMA	4,569	18.31	6,573	19.48	--	--	5,941	15.97	9,328	24.48
Subtotal	24,858	99.64	33,588	99.55	--	--	36,745	98.79	37,610	98.71
Unamortized premium, net	91	0.36	153	0.45	--	--	449	1.21	492	1.29

Total mortgage-backed securities	$24,949	100.00%	$33,741	100.00%	$ --	---%	$37,194	100.00%	$38,102	100.00%
	=======	======	=======	======	=====	====	=======	======	=======	======

</TABLE>

The following table sets forth the contractual maturities of the Company's mortgage-backed securities at September 30, 1996.

<TABLE>
<CAPTION>

	Due in				
	5 Years or Less	5 to 10 Years	10 to 20 Years	Over 20 Years	Total Balance Outstanding
			(Dollars in Thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
Mortgage-backed securities held to maturity:					
FHLMC..	$5,832	$ ---	$ ---	$14,517	$20,349
FNMA...	---	---	---	4,600	4,600
	------	---	---	-------	-------
Total......................................	$5,832	---	---	$19,117	$24,949
	======	===	===	=======	=======
Weighted average yield.........................	7.05%	---%	---%	7.10%	7.08%

</TABLE>

The following table sets forth the composition of the Company's investment securities, excluding mortgage-backed securities, at the dates indicated.

<TABLE>
<CAPTION>

	September 30,					
	1996		1995		1994	
	Amortized Cost	% of Total	Amortized Cost	% of Total	Amortized Cost	% of Total
			(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Investment securities held to maturity:						
U.S. government securities..............	$ 1,998	5.23%	$ 1,996	5.20%	$ ---	---%
Federal agency obligations..............	28,141	73.61	28,267	73.68	---	---
Other investment securities.............	---	---	---	---	---	---
	-------	-----	-------	-----		---
Total investment securities.............	30,139	78.84	30,263	78.88	---	---
	-------	-----	------	-----	-----	------
Average remaining life of investment securities...............................	1.4 years		1.3 years			
Other interest-earning assets:						
FHLB stock..............................	949	2.48	893	2.33	839	1.09
Interest-bearing deposits with banks(1)..	6,658	17.42	6,515	16.97	75,185	97.89
Other overnight deposits(2).............	480	1.26	697	1.82	785	1.02
	-------	-----	------	-----	-------	------
Total other interest-earning assets...	8,087	21.16	8,105	21.12	76,809	100.00
	-------	-----	------	-----	-------	------
Total investment securities, FHLB stock and other interest-earning assets..................................	$38,226	100.0%	$38,368	100.00%	$76,809	100.00%
	=======	=====	=======	======	=======	======

----
(1) Includes investments in insured certificates of deposit.
(2) Includes securities purchased under agreement to resell and federal funds sold.

</TABLE>

The following table sets forth the composition and maturities of the Company's investment securities portfolio at September 30, 1996.

<TABLE>
<CAPTION>

	Less Than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	No Stated Maturity	Total Investment Securities Amortized Cost	Market Value
	------	-----	-----	-----	--------	----	-----
			(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Investment securities held to maturity:							
U.S. government securities............	$ 1,999	$ ---	$ ---	$ ---	$ ---	$ 1,999	$ 2,007
Federal agency obligations............	11,527	14,539	2,074	---	---	28,140	28,108
Other securities......................	---	---	---	---	---	---	---
	-------	-------	------	-------	-------	---------	-------

Total investment securities.........	$13,526	$14,539	$2,074	$ ---	$ ---	$ 30,139	$30,115
	=======	=======	======	=======	=======	=========	=======
Weighted average yield...................	6.71%	6.03%	5.86%	0.00%	0.00%	6.32%	

</TABLE>

The OTS has issued guidelines regarding management oversight and accounting treatment for securities, including investment securities, loans, mortgage-backed securities and derivative securities. The guidelines require thrift institutions to reduce the carrying value of securities to the lesser of cost or market value unless it can be demonstrated that a class of securities is intended to be held to maturity.

Sources of Funds

General. The Company's primary sources of funds are deposits, amortization and prepayment of loan principal, borrowings, interest earned on, maturation and sales of investment securities and short-term investments, and net earnings.

Borrowings may be used on a short-term basis to compensate for seasonal reductions in deposits or deposit inflows at less than projected levels, and may be used on a longer-term basis to support expanded lending activities or to increase the effectiveness of the Company's asset/liability management program. In this regard, in order to enhance both the return on the capital raised in the Conversion and its interest rate spread, the Company may utilize advances from the FHLB of Dallas and attempt to match the maturities of such liabilities with assets such as mortgage-backed securities having similar effective maturities but higher yields compared to the rate paid on such advances.

Deposits. The Company offers the following types of deposit accounts: passbook savings, NOW checking accounts, money market deposit accounts and certificates of deposit. The Company solicits deposits from its market area and does not accept brokered deposits. The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates, and competition. The Company relies primarily on competitive pricing policies, advertising and customer service to attract and retain these deposits.

The variety of deposit accounts offered by the Company has allowed it to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. The Company has become more susceptible to short-term fluctuations in deposit flows, as customers have become more interest rate conscious. In this regard, deposits decreased from $92.5 million at September 30, 1995 to $91.7 million at September 30, 1996. Management believes that the decrease in deposits was due to its decision not to pay the highest rates in the local market. Based on its experience, the Company believes that its deposits are relatively stable sources of funds. However, the ability of the Company to attract and maintain certificates of deposit, and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions.

The following table sets forth the dollar amount of savings deposits in the various types of deposit programs offered by the Company for the periods indicated.
<TABLE>
<CAPTION>

	September 30,					
	1996		1995		1994	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
			(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Transaction and Savings Deposits:						
Non-interest checking.................	$ 2,890	3.15%	$ 2,692	2.91%	$ 2,876	2.81%
NOW accounts	1,514	1.65	1,467	1.59	1,633	1.60
Passbook accounts.....................	3,010	3.28	2,906	3.14	3,049	2.98
Money market accounts.................	6,575	7.18	6,140	6.64	8,368	8.19
	-------	------	-------	------	-------	------
Total non-certificates............	13,989	15.26	13,205	14.28	15,926	15.58
	-------	------	-------	------	-------	------
Certificates:						
0.00 - 3.99%.....................	---	---	222	0.24	30,464	29.81
4.00 - 4.99%.....................	18,669	20.37	21,570	23.32	42,244	41.33
5.00 - 5.99%.....................	52,775	57.58	46,612	50.40	11,179	10.94
6.00 - 6.99%.....................	4,147	4.52	8,605	9.31	2,014	1.97
7.00 - 7.99%.....................	2,081	2.27	2,245	2.43	316	0.31
8.00 - 8.99%.....................	---	---	15	0.02	57	0.06
9.00% and over....................	---	---	---	---	---	---

Total certificates...............	77,672	84.74	79,269	85.72	86,274	84.42
Total Deposits........................	$91,661	100.00%	$92,474	100.00%	$102,200	100.00%

</TABLE>

The following table sets forth the savings flows at the Company during the periods indicated.

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
Opening balance	$ 92,474	$ 102,200	$ 102,349
Deposits	16,039	16,264	22,452
Withdrawals	19,009	26,951	24,274
Interest credited	2,157	961	1,673
Ending balance	$ 91,661	$ 92,474	$ 102,200
Net increase (decrease)	$ (813)	$ (9,726)	$ (149)
Percent increase (decrease)	(0.88)%	(9.52)%	(0.15)%

</TABLE>

The following table shows rate and maturity information for the Company's certificates of deposit as of September 30, 1996.

<TABLE>
<CAPTION>

	0.00-3.99%	4.00-4.99%	5.00-5.99%	6.00-6.99%	7.00-7.99%	8.00% or Greater	Total	Percent of Total
				(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Certificate accounts maturing in quarter ending:								
December 31, 1996	$ 0	$ 7,021	$11,512	$ 377	$ 0	$ 0	$18,910	24.36%
March 31, 1997	0	6,107	11,257	161	0	0	17,525	22.56
June 30, 1997	0	2,401	6,715	461	0	0	9,577	12.33
September 30, 1997	0	2,251	7,002	20	0	0	9,273	11.94
December 31, 1997	0	708	2,004	347	10	0	3,069	3.95
March 31, 1998	0	0	4,313	559	75	0	4,947	6.37
June 30, 1998	0	0	2,631	0	44	0	2,675	3.44
September 30, 1998	0	0	2,725	0	7	0	2,732	3.52
December 31, 1998	0	119	2,011	0	15	0	2,145	2.76
March 31, 1999	0	62	1,239	210	6	0	1,517	1.95
June 30, 1999	0	0	698	175	0	0	873	1.12
September 30, 1999	0	0	233	25	0	0	258	0.33
Thereafter	0	0	435	1,812	1,924	0	4,171	5.37
Total	$ 0	$18,669	$52,775	$ 4,147	$ 2,081	$ 0	$77,672	100.00%
Percent of total............	0%	24.03%	67.95%	5.34%	2.68%	0.00%		

</TABLE>

The following table indicates the amount of the Company's certificates of deposit and other deposits by time remaining until maturity as of September 30, 1996.

<TABLE>
<CAPTION>

	Maturity				
	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 months	Total
			(In Thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
Certificates of deposit of less than $100,000	$ 9,733	$10,391	$10,786	$19,489	$50,399

Certificates of deposit of $100,000 or more	9,177	7,134	8,064	2,898	27,273
Total certificates of deposit .	$18,910	$17,525	$18,850	$22,387	$77,672

</TABLE>

Borrowings. The Company has the ability to use advances from the FHLB of Dallas to supplement its deposits when the rates are favorable. As a member of the FHLB of Dallas, the Company is required to own capital stock and is authorized to apply for advances. Each FHLB credit program has its own interest rate, which may be fixed or variable, and includes a range of maturities. The FHLB of Dallas may prescribe the acceptable uses to which these advances may be put, as well as limitations on the size of the advances and repayment provisions.

The Association has had no borrowings or FHLB advances during the past five years.

Subsidiary Activities

As a federal savings and loan association, First Federal is permitted by OTS regulations to invest up to 2% of its assets or approximately $2.3 million at September 30, 1996, in the stock of, or unsecured loans to, service corporation subsidiaries. First Federal may invest an additional 1% of its assets in service corporations where such additional funds are used for inner-city or community development purposes. At September 30, 1996, the Association did not have any subsidiaries.

REGULATION

General

First Federal is a federally chartered savings and loan association, the deposits of which are federally insured and backed by the full faith and credit of the United States Government. Accordingly, the Association is subject to broad federal regulation and oversight extending to all its operations. First Federal is a member of the FHLB of Dallas and is subject to certain limited regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). As the savings and loan holding company of First Federal, the Company also is subject to federal regulation and oversight. The purpose of the regulation of the Company and other holding companies is to protect subsidiary savings associations. The Association is a member of the Savings Association Insurance Fund ("SAIF"), which together with the Bank Insurance Fund (the "BIF") are the two deposit insurance funds administered by the FDIC, and the deposits of First Federal are insured by the FDIC. As a result, the FDIC has certain regulatory and examination authority over the Association.

Certain of these regulatory requirements and restrictions affecting First Federal and the Company are discussed below or elsewhere in this document.

Federal Regulation of Savings Associations

The OTS has extensive authority over the operations of savings associations. As part of this authority, First Federal is required to file periodic reports with the OTS and is subject to periodic examinations by the OTS and the FDIC. The last regular OTS and FDIC examinations of First Federal were as of June 30, 1995, and August 17, 1990, respectively. Under agency scheduling guidelines, it is likely that another examination will be initiated in the near future. When these examinations are conducted by the OTS and the FDIC, the examiners may require the Association to provide for higher general or specific loan loss reserves. All savings associations are subject to a semi-annual assessment, based upon the savings association's total assets, to find the operations of the OTS. The Association's OTS assessment for the fiscal year ended September 30, 1996, was $36,000.

The OTS also has extensive enforcement authority over all savings institutions and their holding companies, including the Association and the Company. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS. Except under certain circumstances, public disclosure of final enforcement actions by the OTS is required.

In addition, the investment, lending and branching authority of First Federal is prescribed by federal laws and it is prohibited from engaging in any activities not permitted by such laws. For instance, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal associations in loans secured by non-residential real property may not exceed 400% of total capital, except with approval of the OTS. Federal savings associations are also generally authorized to branch nationwide. The Association is in compliance with the noted restrictions.

The Association's general permissible lending limit for loans-to-one-borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At September 30, 1996, the Association's lending limit under this restriction was $2.6 million. First Federal is in compliance with the loans-to-one-borrower limitation.

The OTS, as well as the other federal banking agencies, has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution which fails to comply with these standards must submit a compliance plan. A failure to submit a plan or to comply with an approved plan will subject the institution to further enforcement action. The OTS and the other federal banking agencies have also proposed additional guidelines on asset quality and earnings standards. No assurance can be given as to whether or in what form the proposed regulations will be adopted.

Insurance of Accounts and Regulation by the FDIC

First Federal is a member of the SAIF, which is administered by the FDIC. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the SAIF or the BIF. The FDIC also has the authority to initiate enforcement actions against savings associations, after giving the OTS an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC's deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums, ranging from .23% to .31% of deposits, based upon their level of capital and supervisory evaluation. Under the system, institutions classified as well capitalized (i.e., a core capital ratio of at least 5%, a ratio of Tier 1 or core capital to risk-weighted assets ("Tier 1 risk-based capital") of at least 6% and a risk-based capital ratio of at least 10%) and considered healthy pay the lowest premium while institutions that are less than adequately capitalized (i.e., core or Tier 1 risk-based capital ratios of less than 4% or a risk-based capital ratio of less than 8%) and considered of substantial supervisory concern pay the highest premium. Risk classification of all insured institutions will be made by the FDIC for each semi-annual assessment period.

The FDIC is authorized to increase assessment rates, on a semiannual basis, if it determines that the reserve ratio of the SAIF will be less than the designated reserve ratio of 1.25% of SAIF insured deposits. In setting these increased assessments, the FDIC must seek to restore the reserve ratio to that designated reserve level, or such higher reserve ratio as established by the FDIC. The FDIC may also impose special assessments on SAIF members to repay amounts borrowed from the United States Treasury or for any other reason deemed necessary by the FDIC.

As is the case with the SAIF, the FDIC is authorized to adjust the insurance premium rates for banks that are insured by the BIF of the FDIC in order to maintain the reserve ratio of the BIF at 1.25% of BIF insured deposits. As a result of the BIF reaching its statutory reserve ratio the FDIC revised the premium schedule for BIF insured institutions to provide a range of .04% to .31% of deposits. The revisions became effective in the third quarter of 1995. In addition, the BIF rates were further revised, effective January 1996, to provide a range of 0% to .27% with a minimum annual assessment of $2,000. The SAIF rates, however, were not adjusted. As a result of these revisions, BIF members will generally pay lower premiums.

On September 30, 1996, federal legislation was enacted that requires the Savings Association Insurance Fund ("SAIF") to be recapitalized with a one-time assessment on virtually all SAIF-insured institutions, such as the Bank, equal to 65.7 basis points on SAIF-insured deposits maintained by those institutions as of March 31, 1995. This SAIF assessment, which is to be paid to the FDIC by November 27, 1996, is approximately $645,000 and has been accrued by the First Federal at September 30, 1996.

As a result of the SAIF recapitalization, the FDIC has proposed to amend its regulation concerning the insurance premiums payable by SAIF-insured institutions. Effective October 1, 1996 through December 31, 1996, the FDIC has proposed that the SAIF insurance premium for all SAIF-insured institutions that are required to pay the Financing Corporation (FICO) obligation, such as the

Bank, be reduced to a range of 18 to 27 basis points from 23 to 31 basis points per $100 of domestic deposits. The Bank currently qualifies for the minimum SAIF insurance premium of 23 basis points. The FDIC has also proposed to further reduce the SAIF insurance premium to a range of 0 to 27 basis points per $100 of domestic deposits, effective January 1, 1997. Management cannot predict whether or in what form the FDIC's final regulation may be promulgated.

Regulatory Capital Requirements

Federally insured savings associations, such as First Federal, are required to maintain a minimum level of regulatory capital. The OTS has established capital standards, including a tangible capital requirement, a leverage ratio (or core capital) requirement and a risk-based capital requirement applicable to such savings associations. These capital requirements must be generally as stringent as the comparable capital requirements for national banks. The OTS is also authorized to impose capital requirements in excess of these standards on individual associations on a case-by-case basis.

The capital regulations require tangible capital of at least 1.5% of adjusted total assets (as defined by regulation). Tangible capital generally includes common stockholders' equity and retained income, and certain noncumulative perpetual preferred stock and related income. In addition, all intangible assets, other than a limited amount of purchased mortgage servicing rights, must be deducted from tangible capital for calculating compliance with this requirement. At September 30, 1996, the Association had intangible assets consisting of Deferred Tax Assets of $130,825.

The OTS regulations establish special capitalization requirements for savings associations that own subsidiaries. In determining compliance with the capital requirements, all subsidiaries engaged solely in activities permissible for national banks or engaged in certain other activities solely as agent for its customers are "includable" subsidiaries that are consolidated for capital purposes in proportion to the association's level of ownership. For excludable subsidiaries the debt and equity investments in such subsidiaries are deducted from assets and capital. The Association currently has no subsidiaries.

At September 30, 1996, the Association had tangible capital of $17.5 million, or 15.3% of adjusted total assets, which is approximately $15.8 million above the minimum requirement of 1.5% of adjusted total assets in effect on that date.

The capital standards also require core capital equal to at least 3% of adjusted total assets. Core capital generally consists of tangible capital plus certain intangible assets, including a limited amount of purchased credit card relationships. As a result of the prompt corrective action provisions discussed below, however, a savings association must maintain a core capital ratio of at least 4% to be considered adequately capitalized unless its supervisory condition is such to allow it to maintain a 3% ratio. At September 30, 1996, the Association had intangible assets of $130,825.

At September 30, 1996, the Association had core capital equal to $17.5 million, or 15.3% of adjusted total assets, which is $14.0 million above the minimum leverage ratio requirement of 3% as in effect on that date.

The OTS risk-based requirement requires savings associations to have total capital of at least 8% of risk-weighted assets. Total capital consists of core capital, as defined above, and supplementary capital. Supplementary capital consists of certain permanent and maturing capital instruments that do not qualify as core capital and general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. Supplementary capital may be used to satisfy the risk-based requirement only to the extent of core capital. The OTS is also authorized to require a savings association to maintain an additional amount of total capital to account for concentration of credit risk and the risk of non-traditional activities. At September 30, 1996, the Association had no capital instruments that qualify as supplementary capital and $289,000 of general loss reserves, which was less than 1.25% of risk-weighted assets.

Certain exclusions from capital and assets are required to be made for the purpose of calculating total capital. Such exclusions consist of equity investments (as defined by regulation) and that portion of land loans and nonresidential construction loans in excess of an 80% loan-to-value ratio and reciprocal holdings of qualifying capital instruments. First Federal had no such exclusions from capital and assets at September 30, 1996.

In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet items, will be multiplied by a risk weight, ranging from 0% to 100%, based on the risk inherent in the type of asset. For example, the OTS has assigned a risk weight of 50% for prudently underwritten permanent one- to four-family first lien mortgage loans not more than 90 days delinquent and having a loan to value ratio of not more than 80% at origination unless insured to such ratio by an insurer approved by the FNMA or FHLMC.

The OTS has adopted a final rule that requires every savings association with more than normal interest rate risk exposure to deduct from its total capital, for purposes of determining compliance with such requirement, an amount equal to 50% of its interest-rate risk exposure multiplied by the present value of its assets. This exposure is a measure of the potential decline in the net portfolio value of a savings association, greater than 2% of the present value of its assets, based upon a hypothetical 200 basis point increase or

decrease in interest rates (whichever results in a greater decline). Net portfolio value is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts. The rule provides for a two quarter lag between calculating interest rate risk and recognizing any deduction from capital. The rule will not become effective until the OTS evaluates the process by which savings associations may appeal an interest rate risk deduction determination. It is uncertain as to when this evaluation may be completed. Any savings association with less than $300 million in assets and a total capital ratio in excess of 12% is exempt from this requirement unless the OTS determines otherwise.

On September 30, 1996, First Federal had total risk based capital of $17.8 million (including $17.5 million in core capital and no qualifying supplementary capital) and risk-weighted assets of $40.1 million (including no converted off-balance sheet assets); or total risk based capital of 44.2% of risk-weighted assets. This amount was $14.5 million above the 8% requirement in effect on that date.

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

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

Any savings association that fails to comply with its capital plan or is "significantly undercapitalized" (i.e., Tier 1 risk-based or core capital ratios of less than 3% or a risk-based capital ratio of less than 6%) must be made subject to one or more of additional specified actions and operating restrictions which may cover all aspects of its operations and include a forced merger or acquisition of the association. An association that becomes "critically undercapitalized" (i.e., a tangible capital ratio of 2% or less) is subject to further mandatory restrictions on its activities in addition to those applicable to significantly undercapitalized associations. In addition, the OTS must appoint a receiver (or conservator with the concurrence of the FDIC) for a savings association, with certain limited exceptions, within 90 days after it becomes critically undercapitalized. Any undercapitalized association is also subject to the general enforcement authority of the OTS and the FDIC, including the appointment of a conservator or receiver.

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

The imposition by the OTS or the FDIC of any of these measures on First Federal may have a substantial adverse effect on the Association's operations and profitability and the value of the common stock purchased in the Conversion. Company stockholders do not have preemptive rights, and therefore, if the Company is directed by the OTS or the FDIC to issue additional shares of Common Stock, such issuance may result in the dilution in the percentage of ownership of the Company by existing stockholders of those persons purchasing shares in the Conversion.

Limitations on Dividends and Other Capital Distributions

OTS regulations impose various restrictions on savings associations with respect to their ability to make distributions of capital which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. OTS regulations also prohibit a savings association from declaring or paying any dividends or from repurchasing any of its stock if, as a result, the regulatory capital of the association would be reduced below the amount required to be maintained for the liquidation account established in connection with its mutual to stock conversion.

Generally, savings associations, such as First Federal, that before and after the proposed distribution meet their capital requirements, may make capital distributions during any calendar year equal to the greater of 100% of net income for the year-to-date plus 50% of the amount by which the lesser of the association's tangible, core or risk-based capital exceeds its capital requirement for such capital component, as measured at the beginning of the calendar year, or 75% of its net income for the most recent four quarter period. However, an association deemed to be in need of more than normal supervision by the OTS may have its dividend authority restricted by the OTS. First Federal may pay dividends in accordance with this general authority.

Savings associations proposing to make any capital distribution need only submit written notice to the OTS 30 days prior to such distribution. Savings associations that do not, or would not meet their current minimum capital requirements following a proposed capital distribution, however, must obtain OTS approval prior to making such distribution. The OTS may object to the distribution during that 30-day period notice based on safety and soundness concerns. See "- Regulatory Capital Requirements."

The OTS has proposed regulations that would revise the current capital distribution restrictions. Under the proposal a savings association may make a capital distribution without notice to the OTS (unless it is a subsidiary of a holding company) provided that it has a CAMEL 1 or 2 rating, is not of supervisory concern, and would remain adequately capitalized (as defined in the OTS prompt corrective action regulations) following the proposed distribution. Savings associations that would remain adequately capitalized following the proposed distribution but do not meet the other noted requirements must notify the OTS 30 days prior to declaring a capital distribution. The OTS stated it will generally regard as permissible that amount of capital distributions that do not exceed 50% of the institution's excess regulatory capital plus net income to date during the calendar year. A savings association may not make a capital distribution without prior approval of the OTS and the FDIC if it is undercapitalized before, or as a result of, such a distribution. As under the current rule, the OTS may object to a capital distribution if it would constitute an unsafe or unsound practice. No assurance may be given as to whether or in what form the regulations may be adopted.

Liquidity

All savings associations, including First Federal, are required to maintain an average daily balance of liquid assets equal to a certain percentage of the sum of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. For a discussion of what First Federal includes in liquid assets, see "Management's Discussion and Analysis of Financial Condition and Results of Operation-Liquidity and Capital Resources." This liquid asset ratio requirement may vary from time to time (between 4% and 10%) depending upon economic conditions and savings flows of all savings associations. At the present time, the minimum liquid asset ratio is 5%.

In addition, short-term liquid assets (e.g., cash, certain time deposits, certain bankers acceptances and short-term United States Treasury obligations) currently must constitute at least 1% of the association's average daily balance of net withdrawable deposit accounts and current borrowings. Penalties may be imposed upon associations for violations of either liquid asset ratio requirement. At September 30, 1996, the Association was in compliance with both requirements, with an overall liquid asset ratio of 47.6% and a short-term liquid assets ratio of 5.7%.

Accounting

An OTS policy statement applicable to all savings associations clarifies and re-emphasizes that the investment activities of a savings association must be in compliance with approved and documented investment policies and strategies, and must be accounted for in accordance with GAAP. Under the policy statement, management must support its classification of and accounting for loans and securities (i.e., whether held for investment, sale or trading) with appropriate documentation. The Association is in compliance with these amended rules.

OTS accounting regulations, which may be made more stringent than GAAP by the OTS, require that transactions be reported in a manner that best reflects their underlying economic substance and inherent risk and that financial reports must incorporate any other accounting regulations or orders prescribed by the OTS.

Qualified Thrift Lender Test

All savings associations, including First Federal, are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on their operations. This test requires a savings association to have at least 65% of its portfolio assets (as defined by regulation) in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. Such assets primarily consist of residential housing related loans and investments. At September 30, 1996, the Association met the test and has always met the test since its effectiveness.

Any savings association that fails to meet the QTL test must convert to a national bank charter, unless it requalifies as a QTL and thereafter remains a QTL. If an association does not requalify and converts to a national bank charter, it must remain SAIF-insured until the FDIC permits it to transfer to the BIF. If such an association has not yet requalified or converted to a national bank, its new investments and activities are limited to those

permissible for both a savings association and a national bank, and it is limited to national bank branching rights in its home state. In addition, the association is immediately ineligible to receive any new FHLB borrowings and is subject to national bank limits for payment of dividends. If such association has not requalified or converted to a national bank within three years after the failure, it must divest of all investments and cease all activities not permissible for a national bank. In addition, it must repay promptly any outstanding FHLB borrowings, which may result in prepayment penalties. If any association that fails the QTL test is controlled by a holding company, then within one year after the failure, the holding company must register as a bank holding company and become subject to all restrictions on bank holding companies. See "--Holding Company Regulation."

Community Reinvestment Act

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

The federal banking agencies, including the OTS, have recently revised the CRA regulations and the methodology for determining an institution's compliance with the CRA. Due to the heightened attention being given to the CRA in the past few years, the Association may be required to devote additional funds for investment and lending in its local community. The Association was examined for CRA compliance in August 1995 and received a rating of "Outstanding."

Transactions with Affiliates

Generally, transactions between a savings association or its subsidiaries and its affiliates are required to be on terms as favorable to the association as transactions with non-affiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the association's capital. Affiliates of the Association include the Company and any company which is under common control with the Association. In addition, a savings association may not lend to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of most affiliates. First Federal's Subsidiaries are not deemed affiliates, however; the OTS has the discretion to treat subsidiaries of savings associations as affiliates on a case by case basis.

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

Holding Company Regulation

The Company is a unitary savings and loan holding company subject to regulatory oversight by the OTS. As such, the Company is required to register and file reports with the OTS and is subject to regulation and examination by the OTS. In addition, the OTS has enforcement authority over the Company and its non-savings association subsidiaries which also permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings association.

As a unitary savings and loan holding company, the Company generally is not subject to activity restrictions. If the holding company acquires control of another savings association as a separate subsidiary, it would become a multiple savings and loan holding company, and the activities of the Company and any of its subsidiaries (other than First Federal or any other SAIF-insured savings association) would become subject to such restrictions unless such other associations each qualify as a QTL and were acquired in a supervisory acquisition.

If the Association fails the QTL test, the Company must obtain the approval of the OTS prior to continuing after such failure, directly or through its other subsidiaries, any business activity other than those approved for multiple savings and loan holding companies or their subsidiaries. In addition, within one year of such failure the Company must register as, and will become subject to, the restrictions applicable to bank holding companies. The activities authorized for a bank holding company are more limited than are the activities authorized for a unitary or multiple savings and loan holding company. See "--Qualified Thrift Lender Test."

The Company must obtain approval from the OTS before acquiring control of any other SAIF-insured association. Such acquisitions are generally prohibited if they result in a multiple 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.

Federal Securities Law

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

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

Federal Reserve System

The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW and Super NOW checking accounts). At September 30, 1996, First Federal was in compliance with these reserve requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy liquidity requirements that may be imposed by the OTS. See "--Liquidity."

Savings associations are authorized to borrow from the Federal Reserve Bank "discount window," but Federal Reserve Board regulations require associations to exhaust other reasonable alternative sources of funds, including FHLB borrowings, before borrowing from the Federal Reserve Bank.

Federal Home Loan Bank System

First Federal is a member of the FHLB of Dallas, which is one of 12 regional FHLBs, that administers the home financing credit function of savings associations. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures, established by the board of directors of the FHLB, which are subject to the regulation and oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing.

As a member, First Federal is required to purchase and maintain stock in the FHLB of Dallas. At September 30, 1996, First Federal had $949,000 in FHLB stock, which was in compliance with this requirement. In past years, First Federal has received substantial dividends on its FHLB stock. Over the past five calendar years such dividends have averaged 4.77% and were 6.00% for fiscal year 1996.

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

For the fiscal year ended September 30, 1996, dividends paid by the FHLB of Dallas to First Federal totalled $55,000, which constitute a $1,000 increase over the amount of dividends received in fiscal year 1995. The $14,000 dividend received for the quarter ended September 30, 1996 reflects an annualized rate of 5.89%, or 11 basis points below the rate for fiscal 1996.

Federal and State Taxation

Savings associations such as the Association that meet certain definitional tests relating to the composition of assets and other conditions prescribed by the Internal Revenue Code of 1986, as amended (the "Code"), had been permitted to establish reserves for bad debts and to make annual additions thereto which may, within specified formula limits, be taken as a deduction in computing taxable income for federal income tax purposes. The amount of the bad debt reserve deduction for "non-qualifying loans" is computed under the experience method. The amount of the bad debt reserve deduction for "qualifying real property loans" (generally loans secured by improved real estate) may be computed under either the experience method or the percentage of taxable income method (based on an annual election). Under the experience method, the bad debt reserve deduction is an amount determined under a formula based generally upon the bad debts actually sustained by the savings association over a period of years.

The percentage of specially computed taxable income that is used to compute a savings association's bad debt reserve deduction under the percentage of taxable income method (the "percentage bad debt deduction") is 8%. The percentage bad debt deduction thus computed is reduced by the amount permitted as a deduction for non-qualifying loans under the experience method. The availability of the percentage of taxable income method permits qualifying savings associations to be taxed at a lower effective federal income tax rate than that applicable to corporations generally (approximately 31.3% assuming the maximum percentage bad debt deduction).

If an association's specified assets (generally, loans secured by residential real estate or deposits, educational loans, cash and certain government obligations) constitute less than 60% of its total assets, the association may not deduct any addition to a bad debt reserve and generally must include existing reserves in income over a four year period. No representation can be made as to whether First Federal will meet the 60% test for subsequent taxable years.

Under the percentage of taxable income method, the percentage bad debt deduction cannot exceed the amount necessary to increase the balance in the reserve for "qualifying real property loans" to an amount equal to 6% of such loans outstanding at the end of the taxable year or the greater of (i) the amount deductible under the experience method or (ii) the amount which when added to the bad debt deduction for "non-qualifying loans" equals the amount by which 12% of the amount comprising savings accounts at year-end exceeds the sum of surplus, undivided profits and reserves at the beginning of the year. For the year ended September 30, 1996, the Association was precluded from using the percentage bad debt deduction. Under the percentage of taxable income method, the maximum allowable addition to the Association's reserve under qualifying real property loans was limited to $122,641, or 8% of taxable income. However, this amount was not available to be used as an addition to the reserve since the balance in the reserve before the current year addition $2.80 million was greater than the Association's base year reserve amount $2.78 million. Further, even if the percentage of taxable income method had been available, the addition to the reserve was further limited by the fact that the Association's surplus and reserves at October 1, 1995, the beginning of the current tax year, was greater than 12% of withdrawable accounts at September 30, 1996. The 6% and 12% limitations also may limit the Association's ability to use the percentage of taxable income method in the future.

In August 1996, legislation was enacted that repeals the reserve method of accounting (including the percentage of taxable income method) used by many thrifts, including the Bank, to calculate their bad debt reserve for federal income tax purposes. As a result, large thrifts such as the Bank must recapture that portion of the reserve that exceeds the amount that could have been taken under the specific charge-off method for post-1987 tax years. The legislation also requires thrifts to account for bad debts for federal income tax purposes on the same basis as commercial banks for tax years beginning after December 31, 1995. The recapture will occur over a six-year period, the commencement of which will be delayed until the first taxable year beginning after December 31, 1997, provided the institution meets certain residential lending requirements. The management of the Company does not believe that the legislation will have a material impact on the Company or the Bank.

In addition to the regular income tax, corporations, including savings associations such as the Association, generally are subject to a minimum tax. An alternative minimum tax is imposed at a minimum tax rate of 20% on alternative minimum taxable income, which is the sum of a corporation's regular taxable income (with certain adjustments) and tax preference items, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds the corporation's regular income tax and net operating losses can offset no more than 90% of alternative minimum taxable income. For taxable years beginning after 1986 and before 1996, corporations, including savings associations such as the Association, are also subject to an environmental tax equal to 0.12% of the excess of alternative minimum taxable income for the taxable year (determined without regard to net operating losses and the deduction for the environmental tax) over $2 million.

To the extent earnings appropriated to a savings association's bad debt reserves for "qualifying real property loans" and deducted for federal income tax purposes exceed the allowable amount of such reserves computed under the experience method and to the extent of the association's supplemental reserves for losses on loans ("Excess"), such Excess may not, without adverse tax consequences, be utilized for the payment of cash dividends or other distributions to a shareholder (including distributions on redemption, dissolution or liquidation) or for any other purpose (except to absorb bad debt losses). As of September 30, 1996, the Association's Excess for tax purposes totalled approximately $2.7 million.

The Association files federal income tax returns on a fiscal year basis using the accrual method of accounting. The Company intends to file consolidated federal income tax returns with the Bank. Savings associations, such as the Association, that file federal income tax returns as part of a consolidated group are required by applicable Treasury regulations to reduce their taxable income for purposes of computing the percentage bad debt deduction for losses attributable to activities of the non-savings association members of the consolidated group that are functionally related to the activities of the savings association member.

The Association has been audited by the IRS with respect to federal income tax returns for the tax years through December 31, 1988. With respect to years examined by the IRS, any deficiencies have been satisfied. In the opinion of management, any examination of still open returns would not result in a deficiency which could have a material adverse effect on the financial condition of the Bank.

Change in Accounting for Income Taxes. SFAS No. 109 was issued by the FASB in early 1992 and is required for fiscal years beginning after December 15, 1992. SFAS No. 109 requires a change from the deferred method to the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Under SFAS No. 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Under the deferred method, deferred taxes were recognized using the tax rate applicable to the year of the calculation and were not adjusted for subsequent changes in tax rates. The Association elected to adopt SFAS No. 109 in fiscal 1993, and has reported the cumulative effect of the change in the method of accounting for income taxes as of October 1, 1992, in the Company's Consolidated Statement of Income.

Texas Taxation. The State of Texas does not have a corporate income tax, but it does have a corporate franchise tax. Prior to January 1, 1992 savings and loan associations had been exempt from the corporate franchise tax.

The tax for the year 1996 is the higher of 0.25% of taxable capital (usually the amount of paid in capital plus retained earnings) or 4.5% of "net taxable earned surplus." "Net taxable earned surplus" is net income for federal income tax purposes increased by the compensation of directors and executive officers and decreased by interest on obligations guaranteed by the U.S. government. Net income cannot be reduced by net operating loss carryforwards from years prior to 1991, and operating loss carryovers are limited to five years.

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

Competition

The Company faces strong competition, both in originating loans and in attracting deposits. Competition in originating loans comes primarily from other commercial banks, savings associations, credit unions and mortgage bankers making loans secured by real estate located in the Company's market area. The Company competes for loans principally on the basis of the quality of services it provides to borrowers, interest rates and loan fees it charges, and the types of loans it originates.

The Company attracts all of its deposits through its retail banking offices, primarily from the communities it serves. Therefore, competition for those deposits is principally from other commercial banks, savings associations and brokerage houses located in the same communities. The Company competes for these deposits by offering deposit accounts at competitive rates and convenient business hours.

The Company's primary market area covers Smith County, Texas. There are 14 commercial banks, one savings association and 13 credit unions which compete for deposits and loans in the Company's primary market area. The Company estimates its share of the residential mortgage loan market and savings deposit base to be not more than 15% and 5%, respectively.

Employees

The Company had 25 full-time employees and two part-time employees as of September 30, 1996, none of whom was represented by a collective bargaining agreement. The Company believes that its relations with its personnel have been good.

Executive Officers Who Are Not Directors

The following is a description of the Company's and the Association's executive officers who were not also directors as of September 30, 1996.

Derrell W. Chapman, age 38, is Vice President, Chief Operating Officer and Chief Financial Officer of the Company and the Association. He has held such positions with the Company since its formation and the Association since 1989. Prior to his employment with the Association, Mr. Chapman was Vice President and Controller of Jasper Federal Savings and Loan Association, located in Jasper, Texas.

Joe C. Hobson, age 43, is Senior Vice President--Lending of the Association, a position he has held since 1992. Mr. Hobson has served the Association in various capacities since 1975.

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the SEC reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended September 30, 1996, the Company complied with all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners.

Item 2. Description of Property

The Company conducts its business at its main office and a drive-through facility located in Tyler, Texas, a full service branch office located in Whitehouse, Texas and a loan production office located in Tyler. The following table sets forth information relating to each of the Company's properties as of September 30, 1996.
<TABLE>
<CAPTION>

Location	Year Acquired	Owned or Leased	Total Approximate Square Footage	Book Value
			(In Thousands)	
<S>	<C>	<C>	<C>	<C>
Main Office: 1200 South Beckham Tyler, Texas	1962	Owned	10,000	$ 432
Full-Service Branch: 107 Highway 110 North Whitehouse, Texas	1984	Owned	2,500	278
Loan Agency: 4550 Kinsey Drive Tyler, Texas	1994	Owned	2,200	151

</TABLE>

The Company believes that its current facilities are adequate to meet the present and foreseeable needs of the Association and the Company, subject to possible future expansion.

The Company maintains an on-line data base with a service bureau servicing financial institutions. The net book value of the data processing and computer equipment utilized by the Company at September 30, 1996 was $50,000.

Item 3. Legal Proceedings

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

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

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise during the quarter ended September 30, 1996.

PART II

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

Page 27 of the Company's 1996 Annual Report to Stockholders is incorporated herein by reference.

Item 6. Management's Discussion and Analysis or Plan of Operation

Pages 6 through 27 of the Company's 1996 Annual Report to Stockholders are incorporated herein by reference.

Item 7. Financial Statements

Pages 29 through 34 of the Company's 1996 Annual Report to Stockholders are incorporated herein by reference.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There has been no Current Report on Form 8-K filed within 24 months prior to the date of the most recent financial statements reporting a change of accountants and/or reporting disagreements on any matter of accounting principle or financial statement disclosure.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Directors

Information concerning Directors of the Company is incorporated herein by reference from the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on January 22, 1997, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Compliance with Section 16(a)

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Bank's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports are required, during the fiscal year ended September 30, 1996, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10 percent beneficial owners were complied with.

Item 10. Executive Compensation

Information concerning executive compensation is incorporated herein by reference from the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on January 22 , 1997, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Information concerning security ownership of certain beneficial owners and management is incorporated herein by reference from the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on January 22, 1997, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 12. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions is incorporated herein by reference from the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on January 22, 1997, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 13. Exhibits and Reports on Form 8-K

(a) Exhibits

<TABLE>
<CAPTION>

	Reference to Prior Filing or Exhibit

Regulation S-B Exhibit Number	Document	Number Attached Hereto
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	None
3(a)	Articles of Incorporation	*
3(b)	By-Laws	*
4	Instruments defining the rights of security holders, including debentures	*
9	Voting Trust Agreement	None
10	Material contracts	*
11	Statement re: computation of per share earnings	11
12	Statement re: computation of ratios	Not required
13	Annual Report to Security Holders	13
16	Letter re: change in certifying accountants	None
18	Letter re: change in accounting principles	None
21	Subsidiaries of Registrant	21
22	Published report regarding matters submitted to vote of security holders	None
23	Consents of Experts and Counsel	23
24	Power of Attorney	Not required
99	Additional Exhibits	None

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* Filed as exhibits to the Company's Form S-1 registration statement (File No. 33-83758) filed on September 6, 1994 pursuant to Section 5 of the Securities Act of 1933. All of such previously filed documents are hereby incorporated herein by reference in accordance with Item 601 of Regulation S-B.

</TABLE>

(b) Reports on Form 8-K

There was one report on Form 8-K filed during the quarter ended September 30, 1996 regarding the following matters:

1. a) Report dated August 1, 1996.
   b) Item 5 - Reporting the issuance of a press release announcing the earnings for the quarter ended June 30, 1996.
   c) No financial statements were filed.

SIGNATURES

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

EAST TEXAS FINANCIAL
SERVICES, INC.

Date: December 30, 1996

By: /s/Gerald W. Free

Gerald W. Free, President, Chief
Executive Officer and Director
(Duly Authorized Representative)

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

/s/Gerald W. Free

Gerald W. Free, President, Chief
Executive Officer and Director
(Principal Executive Officer)

/s/Jack W. Flock

Jack W. Flock, Chairman
of the Board

Date: December 30, 1996

/s/Derrell W. Chapman

Derrell W. Chapman, Vice President,
Chief Operating Officer and Chief
Financial Officer (Principal Financial
and Accounting Officer)

Date: December 30, 1996

/s/James W. Fair

James W. Fair, Director

Date: December 30, 1996

/s/L. Lee Kidd

L. Lee Kidd, Director

Date: December 30, 1996

/s/Jim M. Vaughn, M.D.

Jim M. Vaughn, M.D.

Date: December 30, 1996

Date: December 30, 1996

/s/M. Earl Davis

M. Earl Davis, Director

Date: December 30, 1996

/s/Charles R. Halstead

Charles R. Halstead, Director

Date: December 30, 1996

/s/H. H. Richardson, Jr.

H. H. Richardson, Jr., Director

Date: December 30, 1996

<TABLE>
<CAPTION>

Exhibit 11

EAST TEXAS FINANCIAL SERVICES, INC.

Statement re: Computation of Per Share Earnings

Fiscal Year Ended September 30, 1996

<S>	Total Shares Issued <C>	Unallocated ESOP Shares* <C>	Total Shares For EPS Calculation <C>
September 30, 1995	1,256,387	88,148	1,168,239
October 31, 1995	1,256,387	88,148	1,168,239
November 30, 1995	1,256,387	88,148	1,168,239
December 31, 1995	1,193,568	88,148	1,105,420
January 31, 1996	1,193,568	88,148	1,105,420
February 29, 1996	1,193,568	88,148	1,105,420
March 31, 1996	1,193,568	88,148	1,105,420
April 30, 1996	1,133,890	88,148	1,045,742
May 31, 1996	1,133,890	88,148	1,045,742
June 30, 1996	1,133,890	88,148	1,045,742
July 31, 1996	1,133,890	88,148	1,045,742
August 31, 1996	1,079,285	88,148	991,137
September 30, 1996	1,079,285	76,321	1,002,964
			14,103,466
		Divided by:	13
		Weighted average shares outstanding:	1,084,882
		Net income of $457,876 divided by: weighted average shares outstanding of 1,084,882	$ 0.42

* In accordance with SOP 93-6, unallocated ESOP shares not committed to be released were not considered as outstanding.

</TABLE>

Exhibit 13

East Texas Financial Services, Inc. and Subsidiary

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<TABLE>
<CAPTION>

Selected Financial Data

(Dollars in Thousands, except share data)	1996	1995	1994	1993	1992
<S> <C>	<C>	<C>	<C>	<C>	<C>
At September 30,					
Total assets	$ 114,373	$ 117,077	$ 114,935	$ 115,728	$ 115,370
Loans receivable, net					
Held for sale	0	0	0	9,312	4,839
Held in portfolio	47,925	41,760	35,337	28,683	36,605
Investment securities - held-to-maturity	30,139	30,263	0	26,985	7,069
Mortgage-backed securities - held-to-maturity	24,949	33,741	0	37,194	38,102
Deposits	91,661	92,474	102,200	102,349	103,227
Stockholders' equity	20,931	23,146	11,458	12,217	11,059
Common shares outstanding	1,079,285	1,256,387	N.A.	N.A.	N.A.
Book value per share	19.39	18.42	N.A.	N.A.	N.A.

For The Year Ended September 30,						
Net interest income		$ 3,552	$ 3,658	$ 3,040	$ 2,967	$ 2,769
Provision for loan losses		0	0	121	61	(9)
Other operating income		371	299	(2,118)	705	389
Operating expenses		3,200	2,335	1,981	1,700	1,684
Net income		458	1,071	(759)	1,158	1,015
Selected Financial Ratios						
Return on average assets	(1) 0.75 %	0.40 %	0.92 %	(0.66) %	1.00 %	0.86 %
Return on average equity	(1) 3.93	2.08	5.47	(6.41)	9.95	9.62
Interest rate spread (average)		2.27	2.49	2.33	2.32	2.11
Net interest margin		3.16	3.21	2.67	2.66	2.47
Ratio of interest-earning assets to interest- bearing liabilities		122.23	119.13	110.08	109.61	107.29
Operating expenses to average assets	(1) 2.21	2.77	2.01	1.72	1.47	1.43
Efficiency ratio	(1)67.10	84.10	59.70	61.70	50.70	53.80
Net interest income to operating expenses	(1) 1.39 x	1.11 x	1.57 x	1.47 x	1.71 x	1.65 x
Asset Quality Ratios						
Non-performing assets to total assets		0.39 %	0.34 %	0.27 %	0.45 %	0.40 %
Non-performing loans to total loans receivable		0.94	0.95	0.87	1.38	1.11
Allowance for loan losses to non-performing loans		64.22	74.75	97.72	34.48	26.58
Allowance for loan losses to total loans		0.60	0.71	0.85	0.48	0.29
Allowance for loan losses to total assets		0.25	0.25	0.26	0.16	0.11

<CAPTION>
Selected Financial Data (continued)

(Dollars in Thousands, except share data)	1996	1995	1994	1993	1992
---	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>
Regulatory Capital Ratios (Association only)					
Total capital to total assets	15.39 %	14.40 %	9.97 %	10.56 %	9.59 %
Tangible capital ratio	15.30	14.40	9.97	10.56	9.59
Core capital ratio	15.30	14.40	9.97	10.56	9.59
Risk-based capital ratio	44.23	43.44	31.06	37.32	31.93

(1) 1996 without the SAIF special assessment
</TABLE>

To Our Shareholders:

On behalf of your Board of Directors, we take pleasure in presenting to you the second annual report of East Texas Financial Services, Inc., the holding company of First Federal Savings and Loan Association of Tyler.

The year ended September 30, 1996, was a challenging year. There were events beyond the control of the Board of Directors that had a profound influence on the earnings of the Company.

Action by the United States Congress to recapitalize the Savings Association Insurance Fund had the greatest effect on earnings during the year. The Board had expected a decline in net income as a result of the recapitalization. We did not know when, if, or how much the special assessment would be. The assessment totaled approximately $645,000 for First Federal. It is unfortunate that this thrift, like most thrift institutions today, was not part of the savings and loan crisis of the 1980's and yet was asked to recapitalize the fund with this special assessment. However, we believe the sacrifice made today will help insure the long-term viability of the entire banking industry. With the recapitalization of the fund behind us and the proposed reduction in annual SAIF premiums, deposit insurance expense of the Company should decrease substantially in the future.

The Company had net income for the fiscal year ending September 30, 1996, of $457,876 or $.42 per share, based on 1,084,882 weighted average shares outstanding for the year. This compared to net income of $1,070,829 or $.95 per share, for the year ending September 30, 1995.

If the effects of the one-time special assessment were not considered, net income and earnings per share would have approximated $884,000 and $.81 per share, respectively. Without the special assessment, the decrease in net income was primarily the result of a 9.4% increase in total non-interest expense resulting from additional expenses related to the Company's 1995 stockholder approved Stock Option and Recognition and Retention Plans, as well as a 2.9% decrease in net interest income after provision for loan losses. A 2.4% increase in non-interest income, resulting from additional loan fee income and gains on the sale of loans, helped offset the decline in net interest income and increase in non-interest expense.

We are pleased to report that the Company's asset quality continues to remain strong. At year end, ratios for non-performing loans and assets and delinquency ratios compared favorably to the prior year and to our peer group.

We are extremely pleased with the increased lending activity experienced during the year. The $25.2 million in loans made during the year was a record for the Association and was a result of the continued strength of the real estate market in Tyler and the surrounding communities, as well as the efforts of a dedicated and hard-working staff.

Stockholders' equity totaled $20.9 million at September 30, 1996, or 18.3%, of total assets, compared to $23.1 million or 19.8% of total assets at September 30, 1995, a $2.2 million decrease. The decrease in stockholders' equity was

primarily a result of the Company's decision to repurchase, in the open market, approximately 179,000 shares of Company stock during the year. The Board of Directors believes that the repurchase of our shares represents an attractive investment opportunity which will benefit the Company and our shareholders. At year end, the Company owned 177,102 shares of treasury stock at an average price of $15.79 per share, for a total of $2.8 million.

Capital levels for the Company's wholly owned subsidiary, First Federal Savings and Loan Association of Tyler, were reported at year end as 15.3% for both tangible and core capital ratios, well in excess of the minimum required levels of 1.5% and 3.0% respectively. The Association's risk-based capital ratio was 44.2% of risk-weighted assets at September 30, 1996, as compared to the minimum 8.0% regulatory requirement. At year end, the Association was considered a "well-capitalized" institution.

To the extent we experience continued decreases in the overall level of interest rates during 1997, we will be faced with the challenge of dealing with increased prepayments of existing higher rate mortgage loans and mortgage-backed securities. Also, if long-term rates approach historical lows once again, we can expect more loan customers to seek fixed rate long-term mortgages which we are not currently placing into portfolio. Conversely, interest rates paid on deposits will decrease but at a slower pace due to the competition for deposits in our market. The result could be that our net interest margin and net interest income could decline slightly.

As we enter 1997, the Company's major focus will be to improve core earnings. We will continue to monitor expenses and seek new products and services which will create fee income for the Company. The Company is recognized by local builders, realtors, and customers as an innovative lender who is willing, after careful research, to offer new loan products and the most competitive rates.

We are excited about the future of East Texas Financial Services, Inc. The strong capital position allows us to continue to seek ways to grow the Company. Your Board is committed to the long term viability, prosperity and continued profitability of East Texas Financial Services, Inc.

We thank each of our shareholders for their strong support and commitment to the Company and we invite you to attend our second annual stockholders meeting, to be held on Wednesday, January 22, 1997, at 2:00 p.m. in our home office located at 1200 S. Beckham Avenue in Tyler, Texas. We would be pleased to have every shareholder attend the meeting. Please return the enclosed proxy at your earliest convenience, whether or not you plan to attend.

We wish each of you a joyous holiday season and our desire is that you and the Company will have a prosperous new year.

Sincerely,

Jack W. Flock	Gerald W. Free
Chairman of the Board	President and Chief Executive Officer

G l o s s a r y

Book Value Per Share
Indicates the amount of stockholders' equity attributable to each outstanding share of common stock. It is determined by dividing total stockholders' equity by the total number of common shares outstanding at the end of a period.

Earnings Per Share
Indicates the amount of net income attributable to each share of common stock. It is determined by dividing net income for the period by the weighted average number of common shares outstanding during the same period.

Efficiency Ratio
A measure of operating efficiency determined by dividing total operating expenses by the sum of net interest income after provisions for loan losses and non-interest income, excluding net gains or losses on sale of assets.

Interest Rate Sensitivity
A measure of the sensitivity of the Company's net interest income to changes in market interest rates. It is determined by analyzing the difference between the amount of interest-earning assets maturing or repricing within a given time period and the amount of interest-bearing liabilities maturing or repricing within that same time period.

Interest Rate Spread
The difference between the average yield earned on the Company's interest-earning assets and the average rate paid on its interest-bearing liabilities.

Net Interest Income
The dollar difference between the interest earned on the Company's interest-earning assets and the interest paid on its interest-bearing liabilities.

Net Interest Margin
Net interest income as a percentage of average interest-earning assets.

Net Portfolio Value
The present value of future expected cash flows on interest-earning assets less the present value of future expected cash flows on interest-bearing liabilities.

Non-Performing Assets
Loans on which the Company has discontinued accruing interest or are delinquent more than ninety days and still accruing interest and foreclosed real estate.

Return On Average Assets
A measure of profitability determined by dividing net income by average assets.

Return On Average Stockholders' Equity
A measure of profitability determined by dividing net income by average stockholders' equity.

Management's Discussion and Analysis of Financial Condition and Operating Results

SUMMARY

East Texas Financial Services, Inc. (the "Company") is a Delaware corporation organized in September of 1994, as the holding company for First Federal Savings and Loan Association of Tyler (the "Association").

On January 10, 1995, the Company issued 1,215,190 shares of common stock as part of its initial public stock offering. On July 26, 1995, the Company issued an additional 41,197 shares of common stock to fund the issuance of shares of stock granted in the Company's 1995 Recognition and Retention Plan. At September 30, 1995, 1,256,387 shares of common stock were outstanding.

During the fiscal year ended September 30, 1996, the Company completed three stock repurchase programs totaling 179,192 shares, or approximately 15% of the Company's outstanding shares. The Company issued 2,090 shares of treasury stock in conjunction with exercises of stock options under the Company's 1995 Stock Option and Incentive Plan. At September 30, 1996, the Company had outstanding 1,079,285 shares of stock and held 177,102 shares of treasury stock at an average price of $15.79 per share. The closing stock price on that date was $15.50 per share. The high and low prices for the year were $17.00 and $14.00 respectively.

Additionally, the Company declared and paid three quarterly cash dividends of $.05 per share for a total of $170,337. Based on the September 30, 1996, closing stock price of $15.50 per share, the annualized dividend amount of $.20 per share would equal an annual dividend rate of 1.29%.

At September 30, 1996, the Company reported total assets of $114.4 million, compared to $117.1 million at September 30, 1995. Loans receivable totaled $47.9 million at September 30, 1996, up $6.1 million from the $41.8 million reported at September 30, 1995, an increase of 14.6%. The increase was a result of a record year for loan originations. The Company originated approximately $25.2 million in loans during the fiscal year ended September 30, 1996.

Investment and mortgage-backed securities totaled $55.1 million at September 30, 1996, compared to $64.0 million at September 30, 1995. The decrease was a result of increased prepayments on the adjustable rate portion of the portfolio as interest rates remained lower during the year and borrowers refinanced to fixed rate mortgages.

Total deposits declined $813,000 to $91.7 million at September 30, 1996, compared to $92.5 million at September 30, 1995. Competition for certificates of deposit remained strong during the year.

Stockholders' equity was $20.9 million at September 30, 1996, representing 18.3% of total assets and a book value per share of $19.39. At September 30, 1996, the Association's capital levels were well in excess of the minimum requirements and the Association was considered a "well capitalized" institution.

RESULTS OF OPERATIONS

Net Income

1996 and 1995 Comparison

Net income totaled $458,000, or $.42 per share, for the year ended September 30, 1996, compared to $1.1 million, or $.95 per share, for the year ended September 30, 1995.

The decline in net income was due primarily to an $865,000 increase in total non-interest expense to $3.2 million for the year ended September 30, 1996, compared to $2.3 million for the year ended September 30, 1995. The increase was primarily the result of the one-time special assessment charged to all Savings Association Insurance Fund ("SAIF") insured thrift institutions in order to recapitalize the SAIF insurance fund. The Company's portion of the one-time assessment was approximately $645,000, before the effects of income taxes were considered. Additionally, net interest income declined by $105,000 to $3.6 million for the fiscal year ended September 30, 1996, compared to $3.7 million for 1995.

Partially offsetting the increase in non-interest expense and decrease in net interest income were a $72,000 increase in total non-interest income, primarily as a result of additional gains on the sale of mortgage loans after the adoption of SFAS No. 122, Accounting for Originated Mortgage Servicing Rights, and a $286,000 decrease in income tax expenses from $551,000 for the year ended September 30, 1995, to $265,000 for the year ended September 30, 1996.

For the year ended September 30, 1996, return on average assets was .40%, compared to .92% for the prior year. Return on average stockholders' equity equaled 2.08% for 1996, compared to 5.47% for 1995.

If the effects of the special SAIF assessment were not considered, net income and earnings per share would have been approximately $884,000 and $.81 per share respectively, while return on average assets and return on average stockholders' equity would have approximated .75% and 3.93% respectively for 1996.

1995 and 1994 Comparison

For the year ended September 30, 1995, net income totaled $1.1 million, or $.95 per share, a 241.1% increase over the $(759,000) loss reported in 1994.

The increase in net income was due primarily to increases in net interest income after provisions for loan losses to $3.7 million in 1995 compared, to $2.9 million in 1994, and total non-interest income to $299,000 in 1995, compared to $(2.1) million in 1994. The increases in net interest income and total non-interest income were offset in part by increases in total non-interest expense to $2.3 million in 1995, compared to $2.0 million in 1994, and income tax expense to $551,000 in 1995, compared to a benefit of $421,000 in 1994.

For the year ended September 30, 1995, the Company reported a return on average assets of 0.92%, as compared to the negative (0.66)% in 1994. Return on average stockholders' equity equaled 5.47% for 1995, as compared to a negative (6.41)% for 1994.

<TABLE>
<CAPTION>
Net Interest Income Analysis

	Year Ended September 30,								
	1996			1995			1994		
	Average Balance	Interest Earned/ Paid	Yield/ Rate	Average Balance	Interest Earned/ Paid	Yield/ Rate	Average Balance	Interest Earned/ Paid	Yield/ Rate
				(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:									
Loans receivable	$ 44,406	$ 3,641	8.20 %	$ 39,306	$ 3,387	8.61 %	$ 36,149	$ 3,143	8.70 %
Mortgage-backed securities	28,912	2,000	6.92	31,144	1,708	5.48	37,130	2,033	5.48
Investment securities	38,155	2,368	6.21	42,659	2,802	6.57	39,788	1,624	4.08
FHLB stock	917	55	6.00	861	54	6.27	818	34	4.16
Total interest-earning assets (1)	$112,390	$ 8,064	7.18 %	$ 113,970	$ 7,951	6.98 %	$ 113,885	$ 6,834	6.00 %
Interest-bearing liabilities:									
Demand accounts	$ 2,401	$ 0	0.00 %	$ 2,358	$ 0	0.00 %	$ 2,204	$ 0	0.00 %
NOW accounts	1,468	30	2.04	1,544	31	2.01	1,667	34	2.04
Savings accounts	2,948	88	2.99	2,901	83	2.86	3,370	78	2.32
Money market checking	6,329	213	3.37	6,865	210	3.06	9,483	252	2.66
Certificate accounts	78,807	4,181	5.31	82,003	3,969	4.84	86,734	3,430	3.96
Borrowings	0	0	0.00	0	0	0.00	0	0	0.00
Total interest-bearing liabilities	$ 91,953	$ 4,512	4.91 %	$ 95,671	$ 4,293	4.49 %	$ 103,458	$ 3,794	3.67 %
Net interest income		$ 3,552			$ 3,658			$ 3,040	
Net interest rate spread (2)			2.27 %			2.49 %			2.33 %
Net earning assets	$ 20,437			$ 18,299			$ 10,427		
Net yield on average interest earning assets (3)			3.16 %			3.21 %			2.67 %
Average interest-earning assets to average interest-bearing liabilities			122.23 %			119.13 %			110.08 %

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(1) Calculated net of deferred loan fees, loan discounts, loans in process, loss reserves and premiums or discounts.
(2) Net interest rate spread represents the difference between the average yield on interet-earning assets and the average cost of interest-bearing liabilites.
(3) Net yield on interest-earning assets represents annualized net interest income as a percentage of average interest-earnings assets.
</TABLE>

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Rate/Volume Analysis

	Year Ended September 30,								
	1995 vs 1996			1994 vs 1995			1993 vs 1994		
	Increase (Decrease) Due to		Total Increase	Increase (Decrease) Due to		Total Increase	Increase (Decrease) Due to		Total Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
				(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:									
Loans receivable	$ 439	$ (185)	$ 254	$ 275	$ (31)	$ 244	$ (80)	$ (230)	$ (310)
Mortgage-backed securities	(122)	414	292	(325)	0	(325)	(28)	(55)	(83)
Investment securities	(296)	(138)	(434)	117	1,061	1,178	129	223	352
FHLB stock	4	(3)	1	2	18	20	1	6	7
Total interest-earning assets	$ 25	$ 88	$ 113	$ 69	$ 1,048	$ 1,117	$ 22	$ (56)	$ (34)
Interest-bearing liabilities:									
NOW accounts	$ (2)	$ 1	$ (1)	$ (3)	$ 0	$ (3)	$ 2	$ (5)	$ (3)
Savings deposits	1	4	5	(11)	16	5	3	(14)	(11)
Money market checking accounts	(16)	19	3	(70)	28	(42)	(30)	(18)	(48)
Certificate accounts	(155)	367	212	(187)	726	539	100	(146)	(46)
Total interest-bearing liabilities	$ (172)	$ 391	$ 219	$ (271)	$ 770	$ 499	$ 75	$ (183)	$ (108)
Net change in interest income			$ (106)			$ 618			$ 74
Net interest income			$ 3,552			$ 3,658			$ 3,040

</TABLE>

Interest Income

Interest income is dependent upon the composition and dollar amounts of the Company's interest-earning assets, the yield on those assets and the current level of market interest rates.

Interest income is generated by the earnings of the Company's loans receivable and investment securities and mortgage-backed securities portfolios. The Company's loans receivable portfolio is primarily comprised of fixed rate, single family residential mortgages and, to a lesser extent, adjustable rate single family mortgages and other real estate loans of both fixed and adjustable rates.

Currently, all fixed rate and term one- to four-family mortgage loans with final maturities of more than fifteen years are sold into the secondary market upon origination. Fixed rate and term loans with maturities of fifteen years or less and with interest rates of greater than 7.25% are placed into portfolio. All adjustable rate loans are held in portfolio.

A significant portion of interest income is also derived from the Company's investment and mortgage-backed securities portfolios, which averaged $67.1 million, or 59.7%, of average interest earning assets during 1996. The investment securities portfolio is comprised of U. S. Treasury and agency securities with a weighted average maturity of 1.4 years. With portions of the

portfolio scheduled to mature on a staggered basis, the portfolio provides liquidity for the Company's operations and additional flexibility with regard to asset and liability management. Additionally, 76.6% of the mortgage-backed securities portfolio is comprised of securities that have interest rate adjustment frequencies of either six months or one year. The remainder of the portfolio is comprised of fixed rate securities all having final maturities of less than five years.

For the fiscal year ending September 30, 1997, the level of interest income will be dependent upon the Company's ability to reinvest scheduled and unscheduled cash flows from maturing or prepaying interest-earning assets. Approximately $13.5 million in investment securities are scheduled to mature during 1997, principle prepayments on mortgage-backed securities should approximate $10.0 million during the year and scheduled and unscheduled principal payments on the

Company's loan portfolio will provide additional challenges for reinvesting the cash flows. Also, a period of lower interest rates could have the effect of increasing prepayments on the loan and mortgage-backed securities portfolios. Interest income in 1997 will be dependent upon the Company's ability to meet targeted portfolio loan projections. In the event loan projections are not met, cash flow will be reinvested in investment and mortgage-backed securities at yield significantly less than those of portfolio loans and less than current yields on the cash flow. The net effect would be a decline in interest income for the year.

1996 and 1995 Comparison

Interest income totaled $8.1 million for the year ended September 30, 1996, up $113,000 or 1.4% from $8.0 million in 1995. The additional income was a result of a 20 basis point increase in the Company's average yield on earning assets from 6.98% in 1995, to 7.18% in 1996, which more than offset a decline in average interest-earning assets from $114.0 million in 1995, to $112.4 million in 1996. The composition of the Company's interest-earning assets continued to change throughout fiscal 1996 as more loans were placed into portfolio and were funded by principal prepayments on mortgage-backed securities and maturing investment securities. As a result, interest income from loans receivable totaled $3.6 million for the year ended September 30, 1996, up $254,000 from the $3.4 million in 1995, despite the fact that the average yield on the loan portfolio declined from 8.61% in 1995, to 8.20% in 1996. An increase in the average loans receivable balance outstanding to $44.4 million in 1996, from $39.3 in 1995 (a 13.0% increase), more than offset the decline in yield.

Interest on mortgage-backed securities increased $292,000 from $1.7 million reported for 1995 to $2.0 million during 1996. The increase was primarily due to a 144 basis point increase in the average yield on the portfolio from 5.48% in 1995 to 6.92% in 1996 as the adjustable rate portion of the portfolio reached a fully indexed status in 1996. However, with lower interest rates, the adjustable rate portion of the portfolio continued to experience significant principle pre-payments during 1996. The average balance on the mortgage-backed securities portfolio declined $2.2 million, from $31.1 million in 1995, to $28.9 million in 1996.

The average yield on the Company's investment securities portfolio was 6.21% for the year ended September 30, 1996, as compared to 6.57% in 1995. Also, the average balance in the portfolio declined from $42.7 million from 1995, to $38.2 million during 1996. As a result, interest income on investment securities declined to $2.4 million in 1996 from $2.8 million in 1995.

1995 and 1994 Comparison

The Company's interest income totaled $8.0 million for the year ended September 30, 1995, up $1.1 million, or 16.3%, from $6.8 million in 1994. The increase was driven by an increase in the Company's average yield on interest-earning assets to 6.98% for 1995 as compared to 6.00% in 1994. The increase in the average weighted yield was a direct result of the Company's investment portfolio restructuring undertaken in 1994. The earnings on the investment portfolio, $2.8 million in 1995, compared to $1.6 million in 1994, was due primarily to the higher rates achieved in the restructured portfolio. In fact, 93.8% of the increase in net interest income in 1995 as compared to 1994 was attributable to changes in the yield as compared to changes in the volume of interest-earning assets. Average interest-earning assets totaled $114.0 million for 1995 as compared to $113.9 million for 1994.

The average yield on the Company's investment portfolio was 6.57% for the year ended September 30, 1995, as compared to 4.08% for 1994, a 249 basis point increase. This increase was a result of the Company's restructuring of its investment security portfolio in 1994. The Company sold its entire investment security portfolio during August and September 1994, and reinvested all of the proceeds into fixed rate U. S. Treasury and agency debentures with maturities of one to three years. The reinvestment, at the peak of short term interest rates in late 1994, allowed the Company to construct a portfolio of higher rate securities, some of which have yields in excess of 7.00%. Additionally, the average outstanding balance of the investment securities portfolio increased $2.9 million to $42.7 million for 1995, as compared to $39.8 million for the prior year.

Interest income from loans receivable increased to $3.4 million in 1995, as compared to $3.1 million in 1994, a 7.8% increase despite the fact that the average yield on the portfolio declined slightly to 8.61% in 1995, as compared to 8.70% in 1994. The Company's emphasis on portfolio lending in 1995 helped increase the average balance outstanding on loans receivable to $39.3 million during 1995, as compared to $36.1 million in 1994, an 8.7% increase.

Partially offsetting the increases in interest income from investment securities and loans receivable was a decrease in interest earning on mortgage-backed securities. Interest income from mortgage-backed securities declined to $1.7 million in 1995, as compared to $2.0 million in 1994, a 16.0% decrease.

This decrease was attributable to a decline in the average balance outstanding, from $37.1 million in 1994, to $31.1 million in 1995, as the Company reduced its mortgage-backed securities portfolio and increased its investment securities portfolio during the balance sheet restructuring. The average yield on mortgage-backed securities remained unchanged at 5.48% for both 1995 and 1994.

Interest Expense

The Company's interest expense is dependent upon the pricing and volume of its interest-earning liabilities, comprised primarily of certificates of deposit and, to a lesser extent, savings accounts, NOW accounts and money market accounts. The level of interest expense depends upon the composition, pricing and dollar amount of the Company's interest-bearing liabilities, competition for deposits and the current level of market interest rates. Competition for certificate of deposit accounts continues to have an impact on the Company's ability to control interest expense. Aggressive pricing by several large regional banking organizations forced the Company to pay somewhat higher rates for deposits during 1996.

1996 and 1995 Comparison

The Company's overall cost of interest-bearing liabilities increased 42 basis points to 4.91% for the year ended September 30, 1996, compared to 4.49% in 1995. As a result and despite the fact that average interest-bearing liabilities declined $3.7 million to $92.0 million in 1996, from $95.7 million in 1995, the Company's total interest expense increased $219,000 to $4.5 million in 1996, from $4.3 million in 1995.

A $212,000 increase in interest paid on certificates of deposit, from $4.0 million in 1995, to $4.2 million in 1996, accounted for substantially all of the increase in interest expense for the year. The increase in interest on certificates of deposit was primarily the result of a 47 basis point increase in the average rate paid on the accounts from 4.84% in 1995, to 5.31% in 1996, despite the fact that average balances outstanding on certificate accounts declined to $78.8 million in 1996, from $82.0 million in 1995 as the Company continued its policy of not paying the highest rates of interest for deposits in the local market.

1995 and 1994 Comparison

Early in 1995, management made the decision to not pay the highest rate in the local market for deposits. The result was that the Company's average outstanding balance in deposits declined to $95.7 million in 1995, down $7.8 million or 7.5% from the $103.5 million reported for 1994. Approximately $1.9 million of the decrease was attributable to withdrawals from deposit accounts to purchase stock in the Company's initial public stock offering on January 10, 1995.

Despite not paying the highest rates in its market, the Company's overall cost of interest-bearing liabilities increased 82 basis points to 4.49% for 1995, as compared to 3.67% for 1994, due to the rise in rates during 1994, the full effect of which was evidenced in 1995. Total interest expense on interest-bearing liabilities was $4.3 million for 1995, compared to $3.8 million for 1994, a 13.2% increase. This increase was primarily attributable to an increase in the weighted average rate paid on certificate of deposit accounts. Although the average balance outstanding on certificate of deposit accounts decreased to $82.0 million during 1995, as compared to $86.7 million in 1994, the weighted average rate on certificates of deposit increased 88 basis points from 3.96% in 1994, to 4.84% in 1995.

Net Interest Income

Net interest income is the Company's principle source of earnings, and is directly affected by the relative level, composition and pricing of interest sensitive assets and liabilities. These factors are, in turn, affected by current economic conditions and the overall level of interest rates.

1996 and 1995 Comparison

Net interest income totaled $3.6 million for the fiscal year ended September 30, 1996, down $106,000 or 2.9%, from the $3.7 million reported for the year ended September 30, 1995.

The decline in net interest income was primarily the result of the $219,000 increase in interest expense which in turn was the result of a significant increase, 42 basis points, in the Company's overall cost of interest-bearing liabilities, as the Company paid more competitive interest rates on certificates of deposit during 1996.

During the year ended September 30, 1996, average net interest spread was 2.27%, compared to 2.49% for 1995. At September 30, 1996, the Company's net interest spread was 2.42%, down 22 basis points from the 2.64% at September 30, 1995. Despite the drop in net interest spread, average net interest margin was down only five basis points from 3.21% in 1995, to 3.16% during 1996 because the Company's ratio of average interest-earning assets to average interest-bearing liabilities increased to 122.23% in 1996, from 119.13% in 1995.

1995 and 1994 Comparison

For the year ended September 30, 1995, the Company recorded net interest income of $3.7 million, up $618,000 or 20.3%, over the $3.0 million reported for 1994. The increase was attributable to the Company's 1994 investment portfolio restructuring into higher short term securities and the earnings generated from the proceeds received in the Company's initial public stock offerings in January of 1995.

The Company's average net interest spread increased to 2.49% for the year ended September 30, 1995, compared to 2.33% for 1994, as a result of the balance sheet restructuring and the earnings from proceeds received in the stock sale. At September 30, 1995, the Company reported a net interest spread of 2.64%, compared to 2.04% at September 30, 1994.

Further, the Company's average net interest margin increased to 3.21% for the year ended September 30, 1995, as compared to 2.67% for the year ended September 30, 1994. For 1995, the Company's ratio of average interest-earning assets to average interest-bearing liabilities increased to 119.13%, compared to 110.08% for 1994, reflecting the proceeds received in the sale of common stock as a source of funds on which the Company does not pay interest expense and are available for investing in interest-earning assets.

Provisions for Loan Losses

The Company's provision for loan losses is determined by management's periodic assessment of the adequacy of the allowance for loan losses. Management's assessment of the desired level of the allowance for loan losses is affected by factors such as the composition of the loan portfolio and the risk characteristics of various classes of loans, the current level of non-performing loans, economic conditions and real estate values, as well as current regulatory trends.

1996 and 1995 Comparison

During the years ended September 30, 1996, and September 30, 1995, no additional provisions for loan losses were made. Management made the decision, based upon the type and quality of loans currently being placed into portfolio, to maintain the current level of allowance for losses on loans.

Non-performing assets to total assets were .39% at September 30, 1996, compared to .34% at September 30, 1995. Non-performing loans to loans receivable equaled .94% at September 30, 1996, compared to .95% at September 30, 1995. Allowances for loan losses as a percentage of non-performing loans was 64.22% at year end, compared to 74.75% at September 30, 1995. Allowances for loan losses to total loans receivable declined to .60% at September 30, 1996, from .71% at September 30, 1995, as the Company's loan portfolio increased during the year.

1995 and 1994 Comparison

As a result of continued improvement in the quality of the Company's assets, management made the decision to make no additional provisions for loan losses during the year ended September 30, 1995. Based upon its assessment factors and despite loans receivable increasing during the year, management made the decision that the current level of allowances for loan losses was adequate. During 1994, as the volume of portfolio loans continued to increase, management made the decision to increase its allowance for loan losses by charging an additional $121,000 to provisions for loan losses.

Non-performing assets to total assets equaled .34% at September 30, 1995, as compared to .27% for 1994. Non-performing loans to total loans receivable equaled .95% at September 30, 1995, as compared to .87% at September 30, 1994. The Company's allowance for loan losses to non-performing loans was 74.75% at year end, as compared to 97.72% for the prior year and the allowance for loan losses to total loans receivable was .71% at September 30, 1995, compared to .85% at September 30, 1994.

Other Operating Income

Other operating income consists primarily of fee income from service charges, origination fees and servicing fees on the Company's loan portfolio, gains or losses on the sale of loans and fees from transaction accounts.

1996 and 1995 Comparison

Other operating income totaled $371,000 in 1996, up $72,000 from the $299,000 reported for 1995.

Loan origination fees increased to $84,000 for the year ended September 30, 1996, compared to $66,000 for 1995, primarily as a result of the increased number of loans made during the year. Net gains on the sale of loans totaled $116,000 for 1996, up $61,000 from the $55,000 reported in 1995. The increase was a result of a full year of applying the accounting requirements of SFAS No. 122, Accounting For Mortgage Servicing Rights, compared to a partial year in 1995. See "Impact of Accounting Requirements".

Partially offsetting the increases in loan origination fees and gains on sale of loans was a $19,000 decrease in loan servicing fees from $130,000 in 1995, to $111,000 in 1996. The decrease resulted from the Company's decision to continue placing more loans into portfolio and selling more loans into the secondary market. Additionally, on the loans that are now sold, SFAS No. 122 requires that originated mortgage servicing rights recorded at the time of sale be amortized against loan servicing fee income. See - "Impact of Accounting Pronouncements".

1995 and 1994 Comparison

The Company reported other operating income of $299,000 in 1995, as compared to $(2.1) million in 1994. The negative other operating income reported in 1994 was a result of the Company's decision to restructure its investment and mortgage-backed securities portfolios. As part of the plan to restructure its portfolios, the Company sold approximately $74.6 million in investment and mortgage-backed securities and recorded losses of approximately $2.4 million.

Loan origination and loan servicing fee income totaled $66,000 and $130,000, respectively, in 1995, down slightly from the $93,000 and $144,000 reported in 1994. The decreases resulted from the Company's decision to concentrate more on portfolio lending throughout 1995 and sell fewer loans into the secondary market than in 1994.

Operating Expenses

Operating expenses are comprised of compensation and benefits, occupancy and equipment and general and administrative expense, together with FDIC insurance premiums.

1996 and 1995 Comparison

Operating expenses were directly impacted by the one-time special assessment, mandated by the U. S. Congress, and charged to all SAIF insured institutions during the year. The Company's portion of the assessment was approximately $645,000.

Operating expenses were $3.2 million for the year ended September 30, 1996, an $865,000 increase over the $2.3 million reported for 1995. Without the special assessment, total operating expenses would have been $2.6 million, or approximately $220,000 or 9.4% increase over 1995. An increase in compensation and benefits expense of $203,000 or 14.6% from $1.4 million in 1995, to $1.6 million in 1996, accounted for most of the increase in total non-interest expense other than the special assessment.

The increase in compensation and benefits expense primarily resulted from additional expenses associated with the Company's ESOP and 1995 Recognition and Retention Plan. ESOP compensation expense for 1996 totaled $182,000 compared to $118,000 in 1995, as more shares were released in 1996 than in 1995. Expenses associated with the 1995 Recognition and Retention Plan were $116,000 for 1996, a full year, as compared to $19,000 for two months in 1995.

In addition, other operating expenses increased $50,000, from $536,000 in 1995, to $586,000 in 1996, from additional state franchise tax expense, charitable contributions and miscellaneous expenses related to year end reporting requirements.

Total non-interest expense as a percentage of average assets was 2.77% for the year ended September 30, 1996, compared to 2.01% for 1995. If the one time special SAIF assessment were not considered, operating expenses to average total assets would have been approximately 2.21% in 1996.

The Company's efficiency ratio, which considers operating expenses as a percentage of net interest income and other operating income (excluding gains or losses on sales of assets), was 84.1% in 1996, compared to 59.7% in 1995. Without the special SAIF assessment, the ratio would have been 67.1% in 1996, an increase over 1995 due primarily to additional non-interest expenses.

1995 and 1994 Comparison

Operating expenses totaled $2.3 million in 1995, representing 2.01% of average total assets, as compared to $2.0 million in 1994, or 1.72%, of average total assets. The $354,000 or 17.9% increase was primarily attributable to increased compensation and benefits expense, up $213,000 or 18.2%, to $1.4 million for 1995, as compared to $1.2 million in 1994.

The increased compensation and benefits expense resulted primarily from the implementation, as part of the Company's initial public stock offering in January of 1995, of an employee stock ownership plan ("ESOP"). ESOP compensation expense for the year ended September 30, 1995, totaled $118,000. Compensation and benefits expense also increased with the adoption on July 26, 1995, of the Recognition and Retention Plan for directors and certain officers of the Company. Compensation expense related to the Recognition and Retention Plan totaled $19,000 for the year. Additionally, net periodic pension costs for the Company's defined benefit pension plan increased $27,000 to $123,000 in 1995, as compared to $96,000 in 1994.

Other general and administrative expenses totaled $536,000 for the year ended September 30, 1995, as compared to $430,000 for 1994, reflecting additional expenses as a public company.

The Company's efficiency ratio improved to 59.7% in 1995, as compared to 61.7% in 1994.

Income Tax Expense

Income tax expense is comprised of federal income tax. The Company does not incur any state or local income tax liability.

1996 and 1995 Comparison

Income tax expense was $265,000 or 36.7% of pre-tax income of $723,000 in 1996, compared to $551,000 or 34.0% of pre-tax income of $1,622,000 in 1995.

1995 and 1994 Comparison

In 1995, income tax expense totaled $551,000 as compared to an income tax benefit of $421,000 for 1994. The tax benefit reported in 1994 was a result of the pre-tax net operating loss resulting from the losses incurred in the Company's balance sheet restructuring. For 1995, income tax expense equaled 34.0% of the $1.6 million in pre-tax income.

FINANCIAL CONDITION

Balance Sheet Summary

The decision to repurchase shares of common stock in the open market had a significant impact on the Company's balance sheet during the year. In 1996, the Company announced and successfully completed three different stock repurchase programs for a total of 179,192 shares, or approximately 15% of the shares outstanding. The shares were acquired at an average price of approximately $15.77 per share. The shares were placed into treasury stock to be used for general corporate purposes including issuance of shares in conjunction with the

Company's stock option plans. At September 30, 1996, the Company held 177,102 shares of treasury stock at an average cost of $15.79 per share for a total of $2.8 million. The use of cash to purchase treasury stock accounted for substantially all of the $2.7 million decrease in the total assets from $117.1 million at September 30, 1995, to $114.4 million at September 30, 1996.

The balance sheet was also affected by the Company's decision to continue placing into portfolio the majority of loans originated during the year. Total loans receivable were $47.9 million at year end, compared to $41.8 million at September 30, 1995.

The Company experienced significant prepayments on its mortgage-backed securities portfolio during 1996. With many of the underlying loans on the adjustable rate securities reaching a fully indexed status and with interest rates on fixed rate loans at lower levels, many borrowers chose to refinance their mortgages which resulted in the increased prepayments. The mortgage-backed securities portfolio totaled $24.9 million at September 30, 1996, compared to $33.7 million at September 30, 1995. The cash flow from the prepayments was used to fund loan originations and the treasury stock purchases.

Competition for certificate of deposit balances continued throughout the year. As a result, and with the Company's decision to not pay the highest rates in the market, total deposits declined $813,000 from $92.5 million at September 30, 1995, to $91.7 million at September 30, 1996.

Loan Portfolio Anaylsis
<TABLE>
<CAPTION>

	September 30,					
	1 9 9 6		1 9 9 5		1 9 9 4	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate loans:						
One- to four-family .... residences	$42,773	85.98 %	$34,947	81.55 %	$28,074	77.32 %
Other residential property	701	1.41	724	1.69	743	2.05
Nonresidential property ...	3,458	6.95	4,387	10.24	5,001	13.77
Construction loans	1,806	3.63	1,879	4.38	1,175	3.24
Total real estate loans .	48,738	97.97	41,937	97.86	34,993	96.38
Other loans:						
Loans secured by deposits .	500	1.00	404	0.94	830	2.28
Home improvement	455	0.92	451	1.05	444	1.22
Commercial	54	0.11	63	0.15	42	0.12
Total other loans	1,009	2.03	918	2.14	1,316	3.62
Total loans	49,747	100.00 %	42,855	100.00 %	36,309	100.00 %
Less:						
Loans in process	1,514		777		639	
Deferred fees and discounts	19		22		33	
Allowance for loan losses .	289		296		300	
Total loans receivable, net	47,925		41,760		35,337	
Less:						
Loans held for sale	0		0		0	
Net portfolio loans	$47,925		$41,760		$ 35,337	

</TABLE>

Loans

During 1996, the Company continued to focus its efforts on mortgage lending, specifically one- to four-family home loans. The Company originated $25.1 million in one- to four-family loans, substantially all of the $25.2 million in total loans originated during the year. Of the total loans originated, $7.7 million, or 30.6%, were sold into the secondary market while $17.5 million, or 69.4%, were placed into portfolio. As a result, the Company's loans receivable portfolio increased to $47.9 million at September 30, 1996, from $41.8 million at September 30, 1995, a $6.2 million, or 14.8%, increase, which combined with 1995's increase, equals a 35% increase in the Company's loan portfolio over the past two years.

The Company continued its policy of placing into portfolio all fifteen year amortizing loans made with interest rates above 7.25%. Fixed rate loans totaled $20.4 million, or 80.8% of loans originated during the year and 72.3% of loans placed into portfolio during the year. Adjustable rate loans originated in 1996 totaled $4.8 million, or approximately 19.2% of all loans originated and 27.7% of loans placed into portfolio.

At September 30, 1996, one- to four-family loans totaled $42.8 million, or 86.0% total loans receivable, compared to $34.9 million or 81.6% at September 30, 1995. At year end, the loan portfolio was comprised of $35.8 million, or 71.9%, fixed rate loans and $14.0 million, or 28.1%, in adjustable rate loans.

Mortgage-backed Securities

At September 30, 1996, mortgage-backed securities totaled $24.9 million, down $8.8 million, or 26.1%, from the $33.7 million reported at September 30, 1995. All of the securities were in a held-to-maturity category. The decrease in balances outstanding was a result of the increased principle prepayments on the adjustable rate portion of the securities as more borrowers on the underlying adjustable rate loans of the securities elected to refinance into fixed rate loans due to current lower interest rates. At September 30, 1996, approximately $19.1 million, or 76.6% of the portfolio, was in securities with adjustable rates as compared to $27.7 million, or 82.3%, at September 30, 1995.

The remaining $5.8 million of the portfolio at September 30, 1996, was comprised of fixed rate securities with final maturities of less than five years.

The Company utilizes the mortgage-backed securities portfolio as an alternative to its lending operations and the adjustable rate nature of the majority of the portfolio helps balance the inherent interest rate risk in the fixed rate loan portfolio and aides the Association in meeting its Qualified Thrift Lender Test under Office of Thrift Supervision regulations. A continued period of lower interest rates could have the effect of increasing the expected principle prepayments on the portfolio and could result in lower yields on the proceeds as they are invested at lower interest rates.

Investment Securities

At September 30, 1996, the Company's portfolio of fixed rate and term investment securities totaled $30.1 million, a decrease of only $125,000 from the $30.3 million reported at September 30, 1995. All of the securities were in a held-to-maturity category and had a weighted average yield of approximately 6.32%. All of the securities had final maturities of less than five years, with $13.5 million, or 44.9% of the portfolio, scheduled to mature in less than one year.

At September 30, 1996, other interest-earning assets totaled $8.1 million and were comprised of overnight deposit accounts with the Federal Home Loan Bank of Dallas and other financial institutions, as well as insured certificates of deposit with less than three years to maturity.

Interest Rate Sensitivity

Interest rate sensitivity is a measure of the extent to which the Association's net interest income and net portfolio value may be affected by future changes in market interest rates. Numerous assumptions, primarily future changes in interest rates, changes in cash flows on assets and liabilities and future product preferences of customers, which are affected by assumptions about future pricing of products, are required to arrive at the approximation of the net interest income impact.

The Association also monitors interest rate risk by measuring the difference between rate sensitive assets and rate sensitive liabilities that mature or reprice within a given time period, adjusted for the effects of estimated prepayments and early withdrawals on interest sensitive assets and liabilities.

Certain deficiencies are inherent in the assumptions and methods used to calculate the Company's level of interest rate sensitivity. For example, changes in the overall levels of interest rates could affect prepayment and early withdrawal assumptions assumed in the calculations. Also, interest rates on certain assets and liabilities may change in advance of or lag behind changes in market rates.

In order to enhance the match between the maturities and repricing dates of its interest-earning assets with the maturities and repricing dates of its interest-bearing liabilities, management has emphasized the origination of mortgage loans with one, three, and five year adjustable rate features and by selling into the secondary market all fixed rate loans with maturities of greater than fifteen years. Also, management invests in short term investment securities and money market investments with maturities of less than five years. Additionally, the Company's mortgage-backed securities portfolio consists primarily of adjustable rate securities with interest rate adjustment frequencies of six months or one year.

The Office of Thrift Supervision adopted a final rule in August of 1993 incorporating an interest rate risk component into the risk-based capital rules. Under the rule, an institution with a greater than normal level of interest rate risk will be subject to a deduction of its interest rate component from total capital for purposes of calculating the risk-based capital requirement. An institution with greater than normal interest rate risk is defined as an institution that would suffer a loss of net portfolio value exceeding 2.0% of the estimated market value of its assets in the event of a 200 basis point increase or decrease in interest rates.

Net portfolio value is the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts. A resulting change in net portfolio value of more than 2.0% of the estimated market value of an institution's assets will require the institution to deduct from its capital 50% of that excess change when calculating regulatory capital ratios. The effective date of the rule has been postponed by the Office of Thrift Supervision until further notice. Further, institutions with less than $300 million in total assets and a risk-based capital ratio of greater than 12.0% are generally exempt from the requirements of the rule and exempt from filing information with the Office of Thrift Supervision necessary to calculate the component. Under the current rule, the Association would not be subject to the interest rate risk component.

In an attempt to ensure that interest rate risk is maintained within limits established by the Board of Directors, management presently monitors and evaluates the potential impact of interest rate changes upon the market value of the Association's equity and the level of its net interest income on a quarterly basis. Management conducts this analysis with an asset and liability management simulation model using estimated prepayment rates for various classes of interest sensitive assets and estimated decay rates for interest-bearing NOW accounts, money market accounts and savings accounts. The assumptions used may not be indicative of future withdrawals of deposits or prepayments on loans and mortgage-backed securities.

The following table presents the Association's analysis of its net portfolio value and net interest income under various instantaneous changes in interest rates at September 30, 1996.

<TABLE>
<CAPTION>

	Net Portfolio Value			Net Interest Income		
Change In Interest Rates (basis points)	Estimated NPV	Amount Of Change	Percent Of Change	Net Income	Amount Of Change	Percent Of Change
			(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
+400	$ 14,148	$(5,341)	(27.4)%	$3,469	(14)	(0.4)%
+300	15,646	(3,843)	(19.7)	3,463	(20)	(0.6)
+200	17,032	(2,457)	(12.6)	3,481	(2)	(0.1)
+100	18,217	(1,272)	(6.5)	3,498	15	0.4
0	19,489			3,483		
-100	20,797	1,308	6.7	3,341	(142)	(4.1)
-200	21,021	1,532	7.8	3,243	(240)	(6.9)
-300	22,213	2,724	14.0	3,567	84	2.4
-400	23,529	4,040	20.7	3,655	172	4.9

</TABLE>

The table indicates that the Association's estimated net portfolio value (market value of assets less market value of liabilities) is approximately $19.5 million or 16.8% of market value of assets at September 30, 1996. The estimated net portfolio value is approximately $1.9 million more than the Association's reported net worth of $17.6 million, which is approximately 15.4% of total assets. In addition, under a worst case scenario of a 400 basis point immediate and permanent increase in interest rates, the Association's estimated net portfolio value would only decline by 27.4% to $14.1 million and would still be approximately 13.2% of market value of assets.

The table also shows that the Association's net interest income, in an unchanged rate scenario, would approximate $3.5 million and would only vary by $240,000 or 6.9%, under changes in the level of interest rates up to 400 basis points. As of September 30, 1996, the Association met all of its Board of Director-established limits for both changes in net portfolio value and net interest income.

Asset Quality

At September 30, 1996, non-performing assets were $450,000 or .39% of total assets, compared to $396,000 or .34% of total assets at September 30, 1995. At September 30, 1996, non-performing assets were comprised entirely of non-accruing loans, all except one loan were one- to four-family residential loans. All of the Company's multi-family, commercial real estate and construction loans were performing at year end.

The Company's allowance for loan losses totaled $289,000 at September 30, 1996, down $7,000, the net chargeoffs for the year, from $296,000 at September 30, 1995. At September 30, 1996, the Company's allowance for loan losses was .60% of loans receivable, compared to .71% at September 30, 1995, and was 64.2% of non-performing loans at September 30, 1996, compared to 74.8% at September 30, 1995.

The following table sets forth an analysis of the Company's allowance for loan losses:
<TABLE>
<CAPTION>

	Year Ended September 30,			
	1996	1995	1994	1993
	(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>
Balance at beginning of period	$ 296	$ 300	$ 181	$ 122
Charge-offs:				
One- to four-family	7	4	2	1
Total charge-offs	7	4	2	1
Recoveries:	0	0	0	0
Total recoveries	0	0	0	0
Net charge-offs	(7)	(4)	(2)	(1)
Additions charged to operations	0	0	121	60
Balance at end of period	$ 289	$ 296	$ 300	$ 181
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02 %	0.01 %	0.01 %	0.00 %
Ratio of net charge-offs during the period to average non-performing assets	1.66 %	1.14 %	0.48 %	0.20 %

</TABLE>

The following table presents the amounts and categories of non-performing assets of the Company:
<TABLE>
<CAPTION>

	September 30,			
	1996	1995	1994	1993
	(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>
Non-accruing loans:				
One- to four-family	$449	$294	$295	$445
Other loans	1	0	0	0
Total	450	294	295	445
Accruing loans delinquent more than 90 days:				
One- to four-family	0	12	12	21
Total	0	12	12	21
Foreclosed assets:				
One- to four-family	0	90	0	59

Total	0	90	0	59
Total non-performing assets	$450	$396	$307	$525
Total as a percentage of total assets	0.39 %	0.34 %	0.27 %	0.45 %

</TABLE>

Liquidity and Capital Position

The Company's principal sources of funds are deposits from customers, amortization and prepayments of loan principal (including mortgage-backed securities), maturities of securities, sales of loans and operations.

Current Office of Thrift Supervision regulations require cash and eligible investments (liquid assets), in an amount equal to 5.0% of net withdrawable savings deposits and borrowings payable on demand or within five years or less during the preceding month, be held by the Association. Liquid assets include cash, certain time deposits, and U. S. Government and agency securities having maturities of less than five years. At September 30, 1996, the Association's liquid asset ratio equaled 47.6%.

The Company uses its liquidity and capital resources principally to meet ongoing commitments to fund maturing certificates of deposit and loan commitments, maintain liquidity and pay operating expenses. At September 30, 1996, the Company had outstanding commitments to extend credit on $2.3 million of single family residential loans.

Cash and cash equivalents totaled $5.7 million at September 30, 1996, compared to $6.2 million at September 30, 1995. The primary use of funds during the year was to fund loan originations, purchase securities, and purchase treasury stock.

The primary source of funds during the year was from maturing investment securities and prepayments on mortgage-backed securities and loans. Management believes that it has adequate resources to fund all of its current commitments.

Total stockholders' equity equaled $20.9 million at September 30, 1996, a decrease of $2.2 million from the $23.1 million reported at September 30, 1995. The decrease in total stockholders' equity resulted primarily from the Company's $2.8 million repurchase of its stock and the payment of approximately $170,000 in cash dividends, offset by the $458,000 in net income reported for the year ended September 30, 1996.

As of September 30, 1996, the Company's reported book value per share, using a total stockholders' equity of $20.9 million (net of unallocated ESOP and RRP shares) and 1,079,285 outstanding shares of common stock (the total outstanding shares including unallocated ESOP and RRP shares), equaled $19.39 per share.

Under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), Congress imposed a three part capital requirement for thrift institutions. At September 30, 1996, the Association's actual and required capital amounts under each of the three requirements were as follows:

- Tangible Capital (stockholders' equity plus certain intangible assets) was $17.5 million, or 15.3% of total assets, exceeding the minimum requirement of 1.5% by $15.8 million.

- Core Capital (tangible capital plus certain intangible assets) was $17.5 million, or 15.3% of total assets, exceeding the minimum requirements of 3.0% by $14.0 million.

- Risk-based capital (core capital plus general loan and valuation allowances) equaled $17.8 million, or 44.2% of risk weighted assets, as of September 30, 1996, exceeding the minimum requirement of 8.0% of risk weighted assets by $14.5 million.

At September 30, 1996, the Association met all of the requirements to be considered a "well capitalized" institution under the Federal Deposit Insurance Corporation Improvement Act.

Impact of Accounting Announcements

SFAS No. 107 In December 1991, the Financial Accounting Standards Board issued SFAS No. 107, Disclosures About Fair Value of Financial Instruments. SFAS No. 107 requires all entities to disclose, in financial statements or the notes thereto, the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial condition, for which it is practicable to estimate fair value. SFAS No. 107 was effective for financial statements of institutions with assets greater than $150 million issued for years ending after December 15, 1992, and for financial statements issued for years ending after December 15, 1995, for institutions with assets of less than $150 million. Substantially all of the assets of the Company are financial instruments and will be required to be disclosed upon adoption of the statement. The Company adopted the statement for the fiscal year ending September 30, 1996.

SFAS No. 119 SFAS No. 119 Disclosure About Derivative Financial Instruments and Fair Value of Financial Instruments, requires disclosure about the amount, nature, and terms of derivative financial instruments such as futures, forward, swap and option contracts, and other financial instruments with similar characteristics that are not subject to SFAS No. 105 because they do not result in off-balance sheet risk of accounting loss. The effective date of the pronouncement was for fiscal years ending after December 15, 1994, except for entities with less than $150 million in total assets. For those entities, the Statement is effective for financial statements issued for fiscal years ending after December 15, 1995. The Company adopted the Statement for the fiscal year ending September 30, 1996. The adoption did not have a material effect on the financial statements of the Company.

SFAS No. 121 In March 1995, the Financial Accounting Standards Board issued SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. SFAS No. 121 applies to all entities and to long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used and to long-lived assets and certain identifiable intangibles to be disposed of. SFAS No. 121 does not apply to financial instruments, long-term customer relationships of a financial institution, mortgage and other servicing rights, deferred acquisition costs, or deferred tax assets. Under the provisions of SFAS No. 121, an entity shall review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 121 applies to financial statements issued for fiscal years beginning after December 15, 1995, with earlier application encouraged. The Company adopted the statement for the fiscal year ending September 30, 1996. The adoption of SFAS No. 121 did not have a material impact on the Company's financial condition or the results of its operations for the fiscal year ended September 30, 1996.

SFAS No. 122 Statement of Financial Accounting Standards No. 122, Accounting for Mortgage Servicing Rights, modified the treatment of the capitalization of servicing rights by mortgage banking enterprises (including banks and thrift institutions involved in selling loans into the secondary market and retaining mortgage loan servicing rights). SFAS No. 22, by amending SFAS No. 65, prescribes a single procedure for the capitalization of mortgage servicing rights acquired either through loan origination or through transactions where a mortgage banking enterprise buys the servicing rights. SFAS No. 122 further provides guidance for considering possible impairment of the capitalized value of mortgage servicing rights.

SFAS No. 122 applies prospectively to financial statements presented for fiscal years beginning after December 15, 1995. However, earlier application is encouraged as of the beginning of a fiscal year for which annual financial statements have not been issued or as of the beginning of an interim period within that fiscal year for which interim financial statements have not been issued.

The Company adopted SFAS No. 122 as of July 1, 1995. The effect of this adoption was to increase reported gains on sales of loans where servicing is retained and to decrease servicing fee income as capitalized mortgage servicing assets are amortized over an estimated life of the loan against servicing income. The overall impact to Company's earnings will be dependent on the volume of loans originated and sold into the secondary market which is determined by management based upon the coupon rates and terms of loans originated which is in turn affected by the general level of interest rates and competition for loans in the

Company's local market. A continued period of lower interest rates would have the effect of increasing the number of loans originated and sold into the secondary market while significant increases in the overall level of interest rates would allow more loans to be held in portfolio which are not subject to SFAS No. 122.

At September 30, 1996, the Company had outstanding capitalized mortgage servicing rights of $120,000.

SFAS No. 123 In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, Accounting for Stock-Based Compensation which established a fair value based method of accounting for stock-based compensation plans. It encourages entities to adopt that method in place of the provisions of APB opinion No. 25, Accounting for Stock Issued to Employees, for all arrangements under which employees receive shares of stock or other equity instruments of the employer or the employer insures liabilities to employees in amounts based on the price of its stock. It permits entities to continue to use the intrinsic value method included in APB No. 25, but regardless of the method used to account for the compensation cost associated with stock option and similar plans, its requires employers to show significant expanded disclosures, including the pro forma amount of net income (and earnings per share) as if the fair value-based method were used to account for stock-based compensation.

The Company adopted the Statement for the fiscal year beginning October 1, 1996. It will continue to use the accounting methods presented in APB No. 25 for recognition requirements. SFAS No. 123 disclosure requirements would be applicable to any new stock option plans issued in subsequent years.

Impact of Inflation and Changing Prices

The consolidated financial statements and related data presented herein have been prepared in accordance with generally accepted account principles, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative power of money due to inflation.

Most of the Company's assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or at the same magnitude as the prices of goods and services.

Forward-Looking Information

Except for the historical information contained herein, the matters discussed in the Annual Report may be deemed to be forward-looking statements that involve risks and uncertainties, including the acceptance of new products, the impact of competitive products and pricing, and the other risks detailed from time to time in the Company's SEC reports, including the report on Form 10-KSB, for the year ended September 30, 1996. Actual strategies and results in future periods may differ materially from those currently expected. These forward-looking statements represent the Company's judgment as of the date of this Report. The Company disclaims, however, any intent or obligation to update these forward-looking statements.

Market Price of Common Stock

East Texas Financial Services, Inc. trades on The Nasdaq National Market under the symbol "ETFS". At September 30, 1996, the Company had 1,079,285 shares outstanding and approximately 500 stockholders of records.

The following table presents the cash dividends per share paid and the high/low price range and closing prices for the fiscal periods indicated:
<TABLE>
<CAPTION>

	High	Low	Close	Divdends
<S>	<C>	<C>	<C>	<C>
Fiscal 1996				
First Quarter	$17.00	$15.125	$16.25	-0-
Second Quarter	$16.75	$14.50	$14.81	$0.05
Third Quarter	$15.75	$14.50	$14.63	$0.05
Fourth Quarter	$15.50	$14.00	$15.50	$0.05

	High	Low	Close	Dividends
Fiscal 1995				
First Quarter	N.A.	N.A.	N.A.	-0-
Second Quarter	$12.25	$10.25	$12.00	$0.00
Third Quarter	$14.75	$11.50	$14.00	$0.00
Fourth Quarter	$16.50	$13.75	$15.50	$0.00

</TABLE>

Report of Independent Accountants

Board of Directors and Shareholders
East Texas Financial Services, Inc.
Tyler, Texas

We have audited the accompanying consolidated statements of financial condition of East Texas Financial Services, Inc. and Subsidiary as of September 30, 1996 and 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years ended September 30, 1996. These financial statements are the responsibility of the Company'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 our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of East Texas Financial Services, Inc. and Subsidiary as of September 30, 1996 and 1995, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles.

As discussed in the notes to the consolidated financial statements, the Company changed the accounting for mortgage servicing rights on July 1, 1995.

Tyler, Texas
November 12, 1996

<TABLE>
<CAPTION>

East Texas Financial Services, Inc. and Subsidiary
Consolidated Statements of Financial Condition
September 30, 1996 and 1995

Assets	1996	1995
<S>	<C>	<C>
Cash and due from banks	$ 704,615	$ 537,326
Interest-bearing deposits due from banks	4,995,032	5,702,510
Total cash and cash equivalents	5,699,647	6,239,836
Interest-earning time deposits	1,663,573	882,000
Federal funds sold	480,285	626,596
Investment securities held-to-maturity (fair value of $30,114,685 in 1996 and $30,505,193 in 1995)	30,138,744	30,263,495
Mortgage-backed securities held-to-maturity (fair value of $25,383,579 in 1996 and $34,314,627 in 1995)	24,948,793	33,741,155
Loans receivable, net	47,925,067	41,760,272
Accrued interest receivable	930,657	1,056,326
Federal Home Loan Bank stock, at cost	948,500	893,400
Premises and equipment, net	970,184	1,020,965
Foreclosed real estate, net of allowances of $-0- in 1995	-0-	90,000
Deferred income taxes	130,825	-0-
Mortgage servicing rights, net	119,845	41,473
Other assets	416,816	461,072
Total assets	$114,372,936	$117,076,590

<CAPTION>

Liabilities and Stockholders' Equity		
<S>	<C>	<C>
Liabilities:		
Demand deposits	$ 2,889,861	$ 2,692,259
Savings and NOW deposits	11,099,604	10,512,930
Other time deposits	77,671,666	79,268,616
Total deposits	91,661,131	92,473,805
Advances from borrowers for taxes and insurance	917,222	978,583

Federal income taxes		
Current	5,044	38,682
Deferred	-0-	62,474
Accrued expenses and other liabilities	858,926	376,651
Total liabilities	93,442,323	93,930,195
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 500,000 shares authorized, none outstanding		
Common stock, $0.01 par value, 5,500,000 shares authorized, 1,256,387 shares issued and 1,079,285 outstanding at September 30, 1996 and 1,256,387 issued and outstanding at September 30, 1995	12,564	12,564
Additional paid-in capital	12,112,516	12,048,775
Deferred compensation - RRP shares	(446,129)	(562,511)
Unearned employee stock ownership plan shares	(763,206)	(881,477)
Retained earnings (substantially restricted)	12,811,881	12,529,044
Treasury stock, at cost, 177,102 shares	(2,797,013)	-0-
Total stockholders' equity	20,930,613	23,146,395
Total liabilities and stockholders' equity	$114,372,936	$117,076,590

The accompanying notes are an integral part of the consolidated financial statements.
</TABLE>

<TABLE>
<CAPTION>

East Texas Financial Services, Inc. and Subsidiary
Consolidated Statements of Income
Years Ended September 30, 1996, 1995, and 1994

<S>	1996 <C>	1995 <C>	1994 <C>
Interest income			
Loans receivable:			
First mortgage loans	$ 3,564,258	$ 3,299,246	$ 3,042,342
Consumer and other loans	77,456	87,570	101,272
Investment securities	2,129,362	2,017,702	1,365,788
Mortgage-backed securities	2,000,439	1,707,505	2,032,987
Deposits with banks	292,525	838,656	292,130
Total interest income	8,064,040	7,950,679	6,834,519
Interest expense			
Deposits	4,511,934	4,293,359	3,794,518
Net interest income	3,552,106	3,657,320	3,040,001
Provisions for loan losses	-0-	-0-	120,623
Net interest income after provision for loan losses	3,552,106	3,657,320	2,919,378
Noninterest income			
Net gain (loss) on sale of loans	116,316	55,135	(110,355)
Net realized loss on sale of investment securities	-0-	(9,042)	(1,108,256)
Net realized loss on sale of mortgage-backed securities	-0-	-0-	(1,192,638)
Loan origination and commitment fees	83,769	66,247	93,442
Loan servicing fees	110,576	130,271	143,748
Other	60,156	56,660	56,252
Total noninterest income	370,817	299,271	(2,117,807)
Noninterest expense			
Compensation and benefits	1,586,838	1,384,377	1,171,470
Occupancy and equipment	154,321	167,558	162,624
SAIF deposit insurance premium	867,859	237,305	213,036
Loss on foreclosed real estate	4,826	9,875	3,870
Other	586,067	535,670	430,119

Total noninterest expense	3,199,911	2,334,785	1,981,119

<CAPTION>

East Texas Financial Services, Inc. and Subsidiary
Consolidated Statements of Income
Years Ended September 30, 1996, 1995, and 1994
(continued)

<S>	1996 <C>	1995 <C>	1994 <C>
Income (loss) before provision for income taxes	723,012	1,621,806	(1,179,548)
Income tax expense (benefit)	265,136	550,977	(420,558)
Net income (loss)	$ 457,876	$ 1,070,829	$ (758,990)
Earnings per common share	$ .42	$ .95	

The accompanying notes are an integral part of the consolidated financial statements.
</TABLE>

<TABLE>
<CAPTION>

East Texas Financial Services, Inc. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
Years Ended September 30, 1996, 1995, and 1994

<S>	Common Stock <C>	Additional Paid-in Capital <C>	Retained Earnings <C>	Treasury Stock <C>	Deferred Compensation Recognition $ Retention Plan <C>	Unearned Employee Stock Ownership Plan Shares <C>	Total <C>
Balance at September 30, 1993 ...			$ 12,217,205				$ 12,217,205
Net income (loss)			(758,990)				(758,990)
Balance at September 30, 1994 ...			11,458,215				11,458,215
Net income			1,070,829				1,070,829
Net proceeds from common stock issued in stock conversion	$ 12,152	$ 11,439,533				$ (972,150)	10,479,535
Issuance of common stock to the recognition and retention plan	412	581,496			$(581,908)		-0-
Deferred compensation amortization					19,397		19,397
Release of employee stock ownership plan shares						90,673	90,673
Appreciation in employee stock ownership plan shares released		27,746					27,746
Balance at September 30, 1995	12,564	12,048,775	12,529,044		(562,511)	(881,477)	23,146,395

<CAPTION>

East Texas Financial Services, Inc. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
Years Ended September 30, 1996, 1995, and 1994
(continued)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Deferred Compensation Recognition $ Retention Plan	Unearned Employee Stock Ownership Plan Shares	Total

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net income			457,876				
Deferred compensation amortization					116,382		116,382
Release of employee stock ownership plan shares						118,271	118,271
Appreciation in employee stock ownership plan shares released		63,741					63,741
Purchase of treasury stock at cost (179,192 shares)				$ (2,831,237)			(2,831,237)
Exercise of stock .... options (2,090 shares)			(4,702)	34,224			29,522
Cash dividends of $0.15 per share			(170,337)				(170,337)
Balance at September 30, 1996	$ 12,564	$12,112,516	$ 12,811,881	$ (2,797,013)	$(446,129)	$(763,206)	$20,930,613

The accompanying notes are an integral part of the consolidated financial statements.
</TABLE>

On October 17, 1996, the Company announced the declaration of a cash dividend of $.05 per share to stockholders of record on November 13, 1996, payable on November 27, 1996.

<TABLE>
<CAPTION>

East Texas Financial Services, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended September 30, 1996, 1995, and 1994

<S>	1996 <C>	1995 <C>	1994 <C>
Cash flows from operating activities:			
Net income (loss)	$ 457,876	$ 1,070,829	$ (758,990)
Adjustments to reconcile net income to net cash provided by operating activities:			
amortization of deferred loan origination fees	(2,988)	(11,877)	
Amortization of premiums and discounts on investment securities, mortgage-backed securities, and loans	201,336	(99,187)	146,582
Amortization of deferred compensation	116,382	19,397	-0-
Amortization of mortgage servicing rights	15,618	1,173	-0-
Compensation charge related to release of ESOP shares	84,805	45,513	-0-
Depreciation	74,424	74,792	70,039
Provision for loan losses and losses on real estate	-0-	-0-	120,623
Deferred income taxes	(193,299)	(149,677)	63,422
Stock dividend on FHLB stock	(55,100)	(54,100)	(34,200)
Net (gain) loss on sale of:			
Investment securities held for sale:			
Obligations-U.S. Govt. and agencies	-0-	-0-	901,723
Mortgage-backed securities	-0-	-0-	1,189,169
Other securities	-0-	-0-	158,794
Investment securities:			
Obligations-U.S. Govt. and agencies	-0-	9,042	(6,124)
Mortgage-backed securities	-0-	-0-	3,469
Other securities	-0-	-0-	53,863
Loans held for sale	(22,326)	(12,489)	110,355
Foreclosed real estate	-0-	-0-	(4,543)
Equipment	4,101	(2,261)	-0-
Proceeds from sale of loans	7,740,431	5,202,995	14,185,665
Originations of loans held for sale	(7,718,105)	(5,190,506)	(12,265,779)
(Increase) decrease in:			
Accrued interest receivable	125,669	(838,958)	506,581
Other assets	44,255	969,247	(973,659)
Increase (decrease) in:			
Federal income tax payable	(33,638)	38,682	-0-
Accrued expenses and other liabilities	482,275	162,276	16,363
Net cash provided by operating activities	1,321,716	1,234,891	3,451,406

continued

<CAPTION>

East Texas Financial Services, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended September 30, 1996, 1995, and 1994

	1996	1995	1994
<S>	<C>	<C>	<C>
Cash flows from investing activities:			
Purchases of interest-earning time deposits	$ (977,573)	$ (882,000)	$ -0-
Maturities of interest-earning time deposits	196,000	-0-	-0-
Net decrease in fed funds sold	146,311	158,575	2,398,756
Purchases of obligations - U.S. Govt. and agencies held for sale	-0-	-0-	(977,351)
Proceeds from sales of obligations - U.S. Govt. and agencies held for sale	-0-	-0-	27,688,812
Purchases of mortgage-backed securities held for sale	-0-	-0-	(1,802,609)
Principal payments on mortgage-backed securities held for sale	-0-	-0-	1,918,141
Proceeds from sales of mortgage-backed securities held for sale	-0-	-0-	40,825,990
Purchases of other securities held for sale	-0-	-0-	(68,964)
Proceeds from sales of other securities held for sale	-0-	-0-	6,042,186
Purchase of investment securities held-to-maturity	(11,633,820)	(62,097,829)	(16,099,048)
Proceeds from maturities of investment securities held-to-maturity	11,615,000	23,000,000	3,885,000
Proceeds from sales of obligations - U. S. Govt. and agencies held-to-maturity	-0-	8,984,062	2,510,313
Purchases of mortgage-backed securities held-to-maturity	(913,080)	(38,171,881)	(11,313,705)
Principal payments on mortgage-backed securities held-to-maturity	9,647,677	4,371,143	4,505,393
Proceeds from sales of mortgage-backed securities held for investment	-0-	-0-	1,764,168
Purchases of other securities held for investment	-0-	-0-	(5,196,091)
Proceeds from sales of other securities held for investment	-0-	-0-	8,049,616
Net change in loans receivable	(6,071,127)	(6,578,073)	539,917
Proceeds from sale of foreclosed real estate	(680)	79,851	64,501
Acquisition costs related to foreclosed real estate	-0-	(503)	(2,091)
Expenditures for premises and equipment	(27,744)	(201,531)	(45,464)
Origination of mortgage servicing rights	(93,990)	(42,646)	-0-
Net cash provided (used) by investing activities	1,886,974	(71,380,832)	64,687,470

continued

<CAPTION>

East Texas Financial Services, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended September 30, 1996, 1995, and 1994

	1996	1995	1994
<S>	<C>	<C>	<C>
Cash flows from financing activities:			
Net increase (decrease) in:			
Non-interest bearing deposits, savings, and NOW accounts	$ 784,276	$ (2,721,473)	$ (1,794,835)
Time deposits	(1,596,950)	(5,099,094)	1,646,449
Advances from borrowers	(61,361)	129,124	34,606
Net proceeds from issuance of common stock	-0-	9,545,685	-0-
Purchase of treasury stock at cost	(2,831,237)	-0-	-0-
Exercise of stock options	29,522	-0-	-0-
Dividends paid	(170,337)	-0-	-0-
ESOP stock purchase	-0-	(972,150)	-0-
ESOP loan repayment	97,208	72,906	-0-
Net cash provided (used) by financing activities	(3,748,879)	954,998	(113,780)
Net increase (decrease) in cash and cash equivalents	(540,189)	(69,190,943)	68,025,096

Cash and cash equivalents at beginning of year	6,239,836	75,430,779	7,405,683
Cash and cash equivalents at end of year	$ 5,699,647	$ 6,239,836	$ 75,430,779
Supplemental disclosure:			
Cash paid for:			
Interest on deposits	$ 2,354,934	$ 3,332,359	$ 2,095,010
Income taxes	$ 492,083	$ 411,452	$ 216,066
Transfers from investment securities to securities held for sale	$ -0-	$ -0-	$ 27,618,560
Transfers from mortgage-backed securities held for investment to held for sale	$ -0-	$ -0-	$ 42,137,148
Transfers from other securities held for investment to held for sale	$ -0-	$ -0-	$ 6,132,016

<CAPTION>

East Texas Financial Services, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended September 30, 1996, 1995, and 1994
(continued)

<S>	1996 <C>	1995 <C>	1994 <C>
Transfers from loans held for sale to loans receivable portfolio	$ -0-	$ -0-	$ 7,281,497
Transfers from loans to real estate acquired through foreclosures	$ -0-	$ 173,548	$ 104,293
Loans made to facilitate the sale of REO	$ 84,000	$ -0-	$ 103,400
Issuance of common stock to RRP	$ -0-	$ 581,908	$ -0-
Deposit accounts converted to purchase common stocks	$ -0-	$ 1,906,000	$ -0-

The accompanying notes are an integral part of the consolidated financial statements.
</TABLE>

East Texas Financial Services, Inc. and Subsidiary
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Principles of Consolidation and Use of Estimates - East Texas Financial Services, Inc. ("Holding Corp."), is a savings and loan holding company for its wholly-owned subsidiary, First Federal Savings and Loan Association of Tyler ("Association"), collectively referred to as the Company.

The Company is principally engaged in the business of attracting retail deposits from the general public and investing those funds in first mortgage single-family residential loans and in mortgage-backed securities. In addition, the Company originates residential construction loans, commercial real estate loans, and consumer loans and services loans for others.

The Holding Corp. was incorporated on September 6, 1994, and on January 10, 1995, acquired all of the common stock of the Association upon its conversion from a mutual to a stock savings and loan. The consolidated financial statements in 1996, 1995, and 1994 include the accounts of the Holding Corp. and its subsidiary after elimination of all significant intercompany balances. Prior to completion of the aforementioned conversion, the financial statements include the accounts of the Association.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, amounts deposited with other financial institutions, and short-term investments with original maturities of three months or less. Short-term investments are carried at cost.

Securities - The Company adopted Statement of Financial Accounting Standards No. 115 (SFAS 115), Accounting for Certain Investments in Debt and Equity Securities on October 1, 1994. Since at that time the Company did not have any securities, there was no cumulative effect on stockholders' equity or operations for the change in accounting.

Marketable debt securities, consisting of mortgage-backed securities and U.S. Government and agency obligations held to maturity, are carried at cost and adjusted for amortization of premiums and accretion of discounts as the Company has the intent and ability to hold them to maturity. Premiums and discounts are amortized using the interest method.

Trading account securities are carried at market value. Realized and unrealized gains and losses on trading account securities are recognized in the statement of income as they occur. The Company had no trading account securities during 1996, 1995, or 1994.

Available-for-sale securities are carried at market value. Unrealized gains and losses net of tax are recognized in the statement of stockholders' equity. Realized gains and losses are recognized in the statement of income as they occur. The Company had no available-for-sale securities during 1996, 1995, or 1994.

Management reviews the Company's financial position, liquidity, and future plans in evaluating the criteria for classifying securities. Securities are classified among categories at the time the securities are purchased. Declines in the fair value of individual held-to-maturity securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. Management believes that none of the unrealized losses should be

considered other than temporary.

Note 1 - Summary of Significant Accounting Policies, continued

At September 30, 1996 and 1995, the Company had no outstanding commitments to sell or purchase securities or mortgage-backed securities.

Loans Held for Sale - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. The Company did not have any loans held for sale on hand at September 30, 1996, 1995, or 1994.

Loans Receivable - Loans receivable are stated at unpaid principal balances less the allowance for loan losses, undisbursed portion of loans, and net deferred loan origination fees and discounts.

The Company adopted Statement of Financial Accounting Standards No. 114 (SFAS 114), Accounting by Creditors for Impairment of a Loan as of October 1, 1995. Under the new standard, a loan is considered impaired, based on current information and events, if it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans and related allowance for loan losses is based on the present value of expected future cash flows discounted at the loan's effective interest rate or based on the fair value of the collateral if the loan is collateral dependent. As permitted by SFAS 114, smaller-balance homogeneous loans consisting of residential mortgages and consumer loans are evaluated for reserves collectively based on historical loss experience.

The adequacy of the allowance for loan losses is periodically evaluated by the Company. Such evaluation includes a review of loans on which full collectibility may not be reasonably assured and considers the estimated value of the underlying collateral on the loan, current and anticipated economic conditions, and other factors, which in management's judgment deserve recognition. The evaluation of the adequacy of loan collateral is often based upon estimates and appraisals. Because of changing economic conditions, the valuations determined from such estimates and appraisals may also change. Accordingly, losses may ultimately be incurred in amounts different from management's current estimates. Additionally, the Association is subject to regulatory examinations and may be directed to record loss allowances by regulatory authorities. Adjustments to the allowance for estimated losses will be reported in the period such adjustments become known or are reasonably estimable. The Association's most recent regulatory examination, dated August 1995, did not result in an increase to the allowance for loan losses.

The allowance for loan losses is established through charges to operations in the form of a provision for loan losses. Increases and decreases in the allowance due to changes in the measurement of the impaired loans are included in the provision for loan losses. Loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable. When a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance and subsequent recoveries, if any, are credited to the allowance.

Loans are generally classified as nonaccrual when there exists reasonable doubt as to the full, timely collection of interest or principal of the loan (usually when a loan is delinquent for greater than 90 days). Uncollectible interest on loans that is contractually past due is charged off, or an allowance is established based on management's periodic valuation. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent cash payments

are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

Note 1 - Summary of Significant Accounting Policies, continued

Loan Origination Fees and Related Costs - Loan fees received are accounted for in accordance with Statement of Financial Accounting Standards No. 91 (SFAS 91), Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans.

Foreclosed Real Estate - Real estate acquired in settlement of loans is initially recorded at the lower of the outstanding loan balance or fair value. Fair value is defined as the amount of cash or cash-equivalent value of other consideration that a real estate parcel would yield in a current sale between a willing buyer and a willing seller - that is, in other than a forced or liquidation sale. The resulting loss, if any, is charged to the allowance for loan losses. Subsequent to foreclosure, real estate is carried at the lower of its new cost basis or fair value minus selling costs. Costs of improvements to property are capitalized. Operating expenses, including depreciation, of such properties, net of related income, and gains and losses on disposition are included in current operations. Recognition of gain on sale of real estate is dependent upon the transaction meeting certain criteria relating to the nature of the property sold and the terms of the sale. Under certain circumstances, the gain, or a portion thereof, is deferred until the necessary criteria are met.

Premises and Equipment - Land is carried at cost. Buildings, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Maintenance and repairs are charged to operating expense, and renewals and betterments are capitalized. Gains or losses on dispositions are reflected currently in the statement of income.

Mortgage Servicing Rights - On July 1, 1995, the Company adopted Statement of Financial Accounting Standards No. 122 (SFAS 122), Accounting for Mortgage Servicing Rights. SFAS 122 requires that the Company recognize as separate assets rights to service mortgage loans for others, regardless of how those mortgage servicing rights are acquired. This eliminates the distinction between purchased servicing rights, which are capitalized, and originated servicing rights, for which no value could be capitalized under the previous standard. SFAS 122 prohibits retroactive application. The adoption of SFAS 122 increased gain on sale of loans by approximately $93,990 in 1996 and $42,646 in 1995. SFAS 122 also requires that capitalized mortgage servicing rights be evaluated for impairment based on the fair value of those rights on a disaggregated basis.

For originated mortgage servicing rights, the Company allocates the net cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values. Fair values are based on quoted market prices in active markets for loans and loan servicing rights.

Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income which approximates the level-yield method. The Company stratifies mortgage servicing rights based on one or more of the predominant risk characteristics of the underlying loans. The Company periodically evaluates the carrying value of the mortgage servicing rights in relation to the present value of the estimated future net servicing revenue based on management's best estimate of remaining loan lives. Impairment is recognized through a valuation allowance for an individual stratum, and the amount of impairment is the amount by which the mortgage servicing rights for a stratum exceed their fair value.

Note 1 - Summary of Significant Accounting Policies, continued

Income Taxes - Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Advertising - The Company expenses the costs of advertising the first time the advertising takes place.

Financial Instruments - All derivative financial instruments held or issued by the Company are held or issued for purposes other than trading.

In the ordinary course of business the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the financial statements when they are funded.

Fair Values of Financial Instruments - Statement of Financial Accounting Standards No. 107 (SFAS 107), Disclosures about Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. SFAS 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating fair values of financial instruments as disclosed herein:

Cash and cash equivalents. The carrying amounts of cash and cash equivalents approximate their fair value.

Interest-earning time deposits. Fair values for time deposits are estimated using a discounted cash flow analysis that applies interest rates currently being offered on certificates.

Investments and mortgage-backed securities. Fair values for securities are based on quoted market prices.

Loans receivable. Fair values for loans receivable are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Federal Home Loan Bank Stock. The fair value of stock in the Federal Home Loan Bank of Dallas is estimated to be equal to its carrying amount, since it is not a publicly traded equity security, has an adjustable dividend rate, and transactions in the stock have been executed at the stated par value.

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

Note 1 - Summary of Significant Accounting Policies, continued

Accrued interest. The carrying amounts of accrued interest approximate their fair values.

Advance from borrowers for taxes and insurance. The carrying amount of escrow accounts approximate fair value.

Off-balance-sheet instruments. Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter parties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

Earnings Per Common Share - Primary earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding. When dilutive, stock options are included as share equivalents using the treasury stock method. ESOP shares that have not been committed to be released are not considered outstanding for the computation of primary and fully diluted earnings per share for the years ended September 30, 1996 and 1995, in accordance with Statement of Position (SOP) 93-6, Employers' Accounting for Employee Stock Ownership Plans. The weighted average number of common shares outstanding during 1996 and 1995 were 1,084,822 and 1,129,030, respectively. Primary and fully-diluted earnings per share were the same for 1996 and 1995.

Impact of New Accounting Standards - In March 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 121 (SFAS 121), Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The Company is required to adopt SFAS 121 for the Company's fiscal year beginning October 1, 1996. The adoption of SFAS No. did not have a material impact on the Company's financial position or results of operations.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock Based Compensation, which establishes accounting and reporting standards for stock-based employee compensation plans. The Company adopted the disclosure requirements of SFAS 123 for the fiscal year beginning October 1, 1996, and will continue to use the accounting methods prescribed in Accounting Principles Board No. 25 for recognition requirements. SFAS 123 disclosure requirements would be applicable to any new stock option plans issued in subsequent years.

Reclassifications - Certain amounts previously reported in the financial statements for 1995 and 1994 have been reclassified to facilitate comparability with 1996. These reclassifications had no effect on net income or stockholders' equity.

Note 2 - Conversion of the Association

The Association completed a conversion from a mutual to a stock savings and loan association on January 10, 1995. Simultaneous with the conversion was the formation of the Holding Corp., incorporated in the State of Delaware. The initial issuance of shares of common stock in the Holding Corp. on January 10, 1995, was 1,215,900 shares at $10 per share and was accomplished through an offering to a tax-qualified employee stock ownership plan, eligible account holders of record, and other members of the Association. The cost of the conversion and stock offering was accounted for as a reduction of the proceeds from the issuance of common stock of the Holding Corp. Upon closing of the stock offering, the Holding Corp. purchased all common shares issued by the

Association for $5,750,000. This transaction was accounted for in a manner similar to the pooling of interests method.

Note 2 - Conversion of the Association, continued

The following schedule summarizes the issuance of common stock by the Holding Corp. in the conversion:

<TABLE>
<CAPTION>

<S>	<C>
Deposit accounts converted to purchase stock	$ 1,906,000
Stock issued to ESOP	972,150
Proceeds received from other investors	9,273,750
	12,151,900
Conversion costs	(700,215)
	$ 11,451,685

</TABLE>

Federal regulations require that, upon conversion from a mutual to stock form of ownership, a "liquidation account" be established by restricting a portion of retained earnings for the benefit of eligible savings account holders who maintain their savings accounts with the Association after conversion. In the event of complete liquidation (and only in such event), each savings account holder who continues to maintain his savings account shall be entitled to receive a distribution from the liquidation account after payment to all creditors, but before any liquidation distribution with respect to capital stock. This account will be proportionately reduced for any subsequent reduction in the eligible holders' savings accounts.

Federal regulations impose limitations on the payment of dividends and other capital distributions, including, among others, that the Association may not declare or pay a cash dividend on any of its stock if the effect thereof would cause the Association's capital to be reduced below the amount required for the liquidation account or the capital requirements imposed by the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) and the Office of Thrift Supervision (The "OTS").

Note 3 - Investment Securities

The amortized cost and fair values of investment securities held-to-maturity consisting of U.S. Government and agency obligations, are summarized as follows:

	Amortized Cost	Unrealized Gains	Gross Unrealized Losses	Gross Fair Value
September 30, 1996	$30,138,744	$ 117,550	$ 141,610	$30,114,685
September 30, 1995	$30,263,495	$ 241,698	$ -0-	$30,505,193

East Texas Financial Services, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 3 - Investment Securities, continued

The following is a summary of amortized cost and fair value of investment securities held-to-maturity at September 30, 1996, by contractual maturity:

	Amortized Cost	Fair Value
Due in one year or less	$ 13,525,399	$13,592,625
Due after one year through five years	16,613,345	16,522,060
Due after five years through ten years	-0-	-0-
Due after ten years	-0-	-0-
	$ 30,138,744	$30,114,685

There were no sales of investment securities for 1996.

Information related to sales of investment securities for 1995 and 1994 is as follows:

	1995	1994
Debt securities:		
Sales proceeds	$ 8,984,062	$2,510,313
Gross gains	$ -0-	$ 6,124
Gross losses	(9,042)	-0-
Net gains (losses)	$ (9,042)	$ 6,124
Other equity securities:		
Sales proceeds		$8,049,616
Gross gains		$ 6,960
Gross losses		(60,823)
Net gains (losses)		$ (53,863)

The Company's management sold securities during the year ended September 30, 1995, since the securities were within sixty days of maturity. It was management's determination that changes in market interest rates would not have significantly affected the securities' fair value.

Note 3 - Investment Securities, continued

On May 31, 1994, the Company transferred its entire investment portfolio from held for investment to held for sale. All investments were sold as of September 30, 1994. Information relating to sales of investment securities held for sale is as follows:

<TABLE>
<CAPTION>

	1994
<S>	<C>
Debt securities:	
Sales proceeds	$ 27,688,812
Gross gains	$ -0-
Gross losses	(901,723)
Net gains (losses)	$ (901,723)
Mortgage-backed securities:	
Sales proceeds	$ 40,825,990
Gross gains	$ 1,359
Gross losses	(1,190,528)
Net gains (losses)	$ (1,189,169)
Other equity securities:	
Sales proceeds	$ 6,042,186
Gross gains	$ -0-
Gross losses	(158,794)
Net gains (losses)	$ (158,794)

</TABLE>

Note 4 - Mortgage-Backed Securities

The amortized cost and fair values of mortgage-backed securities held-to-maturity are summarized as follows:
<TABLE>
<CAPTION>

	Amortized Cost	Unrealized Gains	Gross Unrealized Losses	Gross Fair Value
<S>	<C>	<C>	<C>	<C>
September 30, 1996:				
FHLMC Certificates	$20,349,015	$ 401,769	$ 84,296	$20,666,488
FNMA Certificates	4,599,778	117,313	-0-	4,717,091
	$24,948,793	$ 519,082	$ 84,296	$25,383,579
September 30, 1995:				
FHLMC Certificates	$27,108,392	$ 437,073	$ 24,895	$27,520,570
FNMA Certificates	6,632,763	161,294	-0-	6,794,057
	$33,741,155	$ 598,367	$ 24,895	$34,314,627

</TABLE>
There were no sales of mortgage-backed securities held-to-maturity for 1996 or 1995. The Company had no mortgage-backed securities held-to-maturity at September 30, 1994.

The following is a summary of the amortized cost and fair value of mortgage-backed securities held-to-maturity at September 30, 1996, by contractual maturity. These contractual maturities do not take into consideration the effects of scheduled repayments or the effects of possible prepayments.

	Amortized Cost	Fair Value
Due in one year or less	$ 2,146,431	$ 2,132,309
Due after one year through five years	3,685,949	3,620,782
Due after five years through ten years	-0-	-0-
Due after ten years	19,116,413	19,630,488
	$ 24,948,793	$ 25,383,579

Information related to sales of mortgage-backed securities held for investment is as follows:

	1994
Sales proceeds	$ 1,764,168
Gross gains	$ -0-
Gross losses	(3,469)
Net gain (loss)	$ (3,469)

East Texas Financial Services, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 5 - Loans Receivable

Loans receivable are summarized as follows:

	1996	1995
First mortgage loans (principally conventional):		
Principal balances:		
Secured by one-to-four family residences ..	$ 42,772,758	$ 34,947,063
Secured by other residential property	701,092	723,532
Secured by nonresidential property	3,458,273	4,387,046
Construction loans	1,805,700	1,878,650
	48,737,823	41,936,291
Less:		
Undisbursed portion of loans	(1,513,956)	(776,979)
Net deferred loan origination fees	(18,514)	(21,503)
Total first mortgage loans	47,205,353	41,137,809
Consumer and other loans:		
Principal balances:		
Loans to depositors, secured by savings ...	499,914	404,264
Commercial	54,305	63,452
Home improvement	454,615	450,547
Total consumer and other loans	1,008,834	918,263
Less allowance for loan losses	(289,120)	(295,800)
	$ 47,925,067	$ 41,760,272

A summary of the changes in the allowance for loan losses is as follows (charge-offs include transfers to allowance for losses on real estate acquired in settlement of loans):

<S>	1996 <C>	1995 <C>	1994 <C>
Balance at beginning of year	$ 295,800	$ 300,000	$ 181,372
Provision charged to income	-0-	-0-	120,623
Charge-offs and recoveries, net ...	(6,680)	(4,200)	(1,995)
Balance at end of year	$ 289,120	$ 295,800	$ 300,000

</TABLE>

The Company does not have any loans which are considered troubled debt restructured loans as defined by SFAS No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructuring.

As of September 30, 1996 and 1995, in the opinion of management, there are no loans which should be considered as impaired as defined by SFAS No. 114, Accounting by Creditors for Impairment of a Loan, and as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosure.

Note 5 - Loans Receivable, continued

At September 30, 1996 and 1995, the Company had discontinued the accrual of interest on nonperforming loans aggregating approximately $450,337 and $293,529, respectively. Net interest income for 1996, 1995, and 1994 would have been higher by $18,130, $13,394, and $15,500, respectively, had interest been accrued at contractual rates on the nonperforming loans. The Company has no commitments to lend additional funds to debtors whose loans are nonperforming.

Certain officers, directors, and employees were indebted to the Association in the aggregate amount of $547,445 and $586,904 as of September 30, 1996 and 1995, respectively. In the opinion of management, these loans were substantially on the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers and did not involve more than a normal risk of collectibility or present any other unfavorable features to the Association. A summary of the activity of loans to directors and executives in excess of $60,000 is as follows:
<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>
Balance, beginning of year	$ 564,264	$ 931,906
New loans	13,375	147,439
Repayment...............................	(47,573)	(605,167)
Other	-0-	90,086
Balance, end of year	$ 530,066	$ 564,264

</TABLE>
Note 6 - Loan Servicing

The principal balances of loans serviced for investors are not included in the consolidated statement of financial condition. Information related to mortgage loans serviced for investors is summarized as follows:
<TABLE>
<CAPTION>

	September 30,		
<S>	1996 <C>	1995 <C>	1994 <C>
Principal balance	$40,111,101	$37,235,123	$37,518,742
Custodial escrow balance	$ 1,232,078	$ 1,424,705	$ 1,449,791

</TABLE>

The following is an analysis of the changes in loan servicing rights capitalized:
<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>
Balance, beginning of year	$ 41,473	$ -0-
Addition	93,990	42,646
Amortization	(15,618)	(1,173)

Balance, end of year	$ 119,845	$ 41,473

</TABLE>

East Texas Financial Services, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 7 - Accrued Interest Receivable

Accrued interest receivable is summarized as follows:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>
Investment securities	$ 400,254	$ 485,828
Mortgage-backed securities	244,552	308,710
Loans receivable	303,981	275,182
Allowanace for or uncollectible interest	(18,130)	(13,394)
	$ 930,657	$ 1,056,326

</TABLE>

Note 8 - Foreclosed Real Estate

The Company has acquired various properties through loan foreclosures. The properties are summarized as follows:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995
Residential property	$ -0-	$ 90,000
Less allowance for losses	-0-	-0-
	$ -0-	$ 90,000

</TABLE>

There was no activity in the allowance for real estate losses during 1996, 1995, and 1994.

East Texas Financial Services, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 9 - Premises and Equipment

Premises and equipment are summarized as follows:

<TABLE>
<CAPTION>

<S>	Estimated Useful Lives <C>	1996 <C>	1995 <C>
Land - main location	----	$ 91,503	$ 91,503
Office building - main location	10-30 years	622,592	611,818
Furniture, fixtures, and equipment main location	5-15 years	295,736	341,354
Autos	5 years	38,864	38,864
Land - branch	----	157,500	157,500
Office building - branch	10-30 years	192,689	192,688
Furniture, fixtures, and equipment - branch	5-15 years	62,067	64,452
Land - loan agency	----	33,500	33,500
Office building - loan agency	39 years	121,500	121,500
		1,615,951	1,653,179
Less accumulated depreciation		(645,767)	(632,214)
		$ 970,184	$1,020,965

</TABLE>

Note 10 - Other Assets

Other assets are summarized below:

<TABLE>

<CAPTION>

<S>	1996	1995
Funds due from sales of loans	$302,525	$353,675
Prepaid expenses	104,734	102,945
Other	9,557	4,452
	$416,816	$461,072

</TABLE>

Note 11 - Deposits

The aggregate amount of accounts with a minimum denomination of $100,000 were approximately $27,273,394 and $26,343,645 at September 30, 1996 and 1995.

At September 30, 1996, scheduled maturities of certificates of deposit are as follows:

<TABLE>
<CAPTION>

<S>	<C>
1997	$ 55,285,454
1998	13,423,053
1999	4,792,971
2000	3,714,389
2001	440,133
Thereafter	15,666
	$ 77,671,666

</TABLE>

Interest expense on deposits is summarized as follows:

<TABLE>
<CAPTION>

<S>	1996	1995	1994
Demand deposits	$ -0-	$ -0-	$ -0-
Savings and NOW deposits	331,326	323,474	364,410
Time deposits	4,180,608	3,969,885	3,430,108
	$ 4,511,934	$ 4,293,359	$ 3,794,518

</TABLE>

Note 12 - Pension Plan

The Company has a qualified, noncontributory defined benefit retirement plan covering substantially all of its employees. Benefits are based on years of service and the employee's highest average rate of earnings for the five consecutive years during the last ten full years before retirement. The benefits are reduced by a specified percentage of the employee's social security benefits. An employee becomes fully vested upon completion of five years of qualifying service. It is the policy of the Company to fund the maximum amount that can be deducted for federal income tax purposes.

Note 12 - Pension Plan, continued

The following table sets forth the plan's funded status and amounts recognized in the Company's statements of financial condition at September 30:

<TABLE>
<CAPTION>

<S>	1996	1995	1994
Actuarial present value of benefit obligations:			
Accumulated benefit obligation:			
Vested	$ 1,247,505	$ 1,292,908	$ 1,245,908
Nonvested	91,899	106,373	76,127
	$ 1,339,404	$ 1,399,281	$ 1,322,035
Projected benefit obligation for service rendered to date	$(1,856,303)	$(1,996,728)	$(1,832,175)
Plan assets at fair value, primarily certificates of deposit and U.S.			

government securities	1,907,532	1,787,739	1,677,057
Plan assets in excess (shortfall) of benefit obligation	51,229	(208,989)	(155,118)
Unrecorded net loss from past experience different from that assumed and effects of changes in assumptions	210,557	494,174	525,192
Prior service cost not yet recognized in periodic pension cost	116,140	123,499	130,858
Unrecognized net assets at 10-1-88 being recognized over 20.658 years	(417,450)	(450,430)	(483,410)
(Accrued) prepaid pension cost	$ (39,524)	$ (41,746)	$ 17,522

A summary of the components of income follows:
<CAPTION>

<S>	<C>	<C>	<C>
Service cost-benefits earned during the year	$ 125,062	$ 122,048	$ 100,578
Interest cost on projected benefit obligation	133,210	125,199	116,254
Actual return on plan assets	(93,592)	(146,118)	(95,057)
Net asset gain (loss) deferred for later recognition	(31,484)	28,485	(19,112)
Amortization of unrecognized net asset	(32,980)	(32,980)	(32,980)
Amortization of prior service cost	7,359	7,359	7,359
Amortization of loss	14,487	19,026	18,638
Net periodic pension cost	$ 122,062	$ 123,019	$ 95,680

</TABLE>

East Texas Financial Services, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 12 - Pension Plan, continued

Assumptions used in the accounting for the pension plan were as follows:
<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>	1994 <C>
Weighted average discount rate	7.00%	7.00%	7.00%
Rate of increase in future compensation levels	5.00%	5.00%	5.00%
Expected long-term rate of return on assets	7.00%	7.00%	6.00%

</TABLE>
The Company contributed $124,284 and $63,751 to the plan in 1996 and 1995, respectively. There was no contribution during 1994 due to over funding in prior years.

Note 13 - Income Taxes

The Company files its consolidated federal income tax return on a fiscal year basis. If certain conditions are met in determining taxable income, the Company is allowed a special bad debt deduction based on a percentage of taxable income (presently 8%) or on specified experience formulas. Because of statutory limitations, no special bad debt deduction was allowed for the years ended September 30, 1996, 1995, and 1994.

The components of the provision for income taxes are as follows:
<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>	1994 <C>
Current (benefit)	$ 458,435	$ 700,654	$(483,980)
Deferred (benefit)	(193,299)	(149,677)	63,422
	$ 265,136	$ 550,977	$(420,558)

</TABLE>

Total income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 34 percent to income before income taxes and cumulative effect of change in accounting for income taxes as a result of the following:

	1996	1995	1994
Expected income tax (benefit) expense at statutory tax rate of 34%	$ 245,828	$ 551,414	$(401,046)
Unrealized loss on loans held for sale	-0-	50,096	(43,719)
Tax bad debt deduction based on a percentage of taxable income	-0-	-0-	12,147
Other	19,308	(50,533)	12,060
	$ 265,136	$ 550,977	$(420,558)
Effective tax rate	37%	34%	(36%)

Note 13 - Income Taxes, continued

Deferred tax assets and liabilities included in the statement of financial condition at September 30 consist of the following:

	1996	1995
Deferred tax assets:		
SAIF assessment	$ 219,538	$ -0-
Allowance for loan losses	62,829	62,829
Deferred compensation	19,798	6,595
Accrued expenses	-0-	17,953
Other	6,178	6,973
	308,343	94,350
Deferred tax liabilities:		
FHLB stock	(65,586)	(46,852)
Mortgage servicing rights	(40,747)	(14,101)
Depreciable assets	(32,030)	(32,506)
Unrealized loss on loans held for sale	(24,401)	(35,302)
Pension liability	(14,754)	(28,063)
	(177,518)	(156,824)
Net deferred tax asset (liability)	$ 130,825	$ (62,474)

No valuation allowance for deferred tax assets was recorded as of September 30, 1996 and 1995, as management believes that the amounts representing future deferred tax benefits will more likely than not be recognized since the Company is expected to have sufficient taxable income of an appropriate character within the carryback and carryforward period as permitted by the tax law to allow for utilization of the future deductible amounts.

Retained earnings at September 30, 1996 and 1995, includes approximately $2,692,722, for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately $915,525 at September 30, 1996 and 1995.

Note 14 - Stock Option and Incentive Plan

The 1995 Stock Option and Incentive Plan (the "Stock Option Plan") provides for awards in the form of stock options, stock appreciation rights, limited stock appreciation rights, and restricted stock.

Options to purchase shares of common stock of the Company may be granted to selected directors, officers, and key employees. The number of shares of common stock reserved for issuance under the stock option plan was equal to $121,519 or 10% of the total number of common shares issued pursuant to the conversion. The option exercise price cannot be less than the fair market value of the underlying common stock as of the date of the option grant and the maximum option term cannot exceed ten years. Awards vest at a rate of 20% per year

Note 14 - Stock Option and Incentive Plan, continued

beginning at the date of the grant. The Company plans to use treasury stock for the exercise of options. The following is a summary of changes in options outstanding:
<TABLE>
<CAPTION>

<S>	<C>
Options outstanding	
Balance, September 30, 1994	-0-
Granted at $14.125 per share	103,441
Exercised, forfeited and expired	-0-

Balance, September 30, 1995	103,411
Granted	-0-
Exercised at $14.125 per share	(2,090)
Forfeited and expired	-0-

Balance, September 30, 1996	101,321
	=======
Options exercisable at year end under stock option plan	18,594
	=======
Shares available for future grants	18,108
	=======

</TABLE>
Stock appreciation rights ("SARs") may be granted under the Option and Incentive Plan giving the participant the right to receive the excess of the market value of the shares on the date exercised over the exercise price. Upon exercise, the participant will receive either cash or shares as determined by the Company. Limited SARs may be granted which are exercisable only for a limited period of time in the event of a tender or exchange offer for shares of Holding Corp. stock. Payment upon exercise of a limited SAR shall be in cash. No SARs or limited SARs have been granted.

Restricted stock may also be granted under the Option and Incentive Plan, subject to forfeiture if the participant fails to remain in the continuous service of the Company. The time period for such restriction may be removed or accelerated at the Company's discretion.

Note 15 - Employee Stock Ownership Plan (ESOP)

In conjunction with the stock conversion, the Company established an ESOP for eligible employees. Employees with at least one year of employment and who have attained the age of twenty-one are eligible to participate. The ESOP borrowed funds in the amount of $972,080 from the Company to purchase 97,215 common shares issued in the conversion. Collateral for the loan is the common stock purchased by the ESOP. The ESOP loan is payable in quarterly principal payments of $24,302 over a ten year period plus interest at an annual rate of 7.93%. In accordance with generally accepted accounting principles, the unpaid balance of

the ESOP loan on the Association's books and the related receivable on the Holding Corp.'s books have been eliminated in the consolidated statement of financial condition. The cost of shares not committed to be released and unallocated shares is reported as a reduction of stockholders' equity. Shares are released to participant's accounts under the shares allocated method.

The Company intends to make annual contributions to the ESOP in an amount to be determined annually by the Board of Directors, but not less than the amount

required to pay any currently maturing obligations under loans made to the ESOP. The Company will not make contributions if such contributions would cause the Company to violate its regulatory capital requirements.

Company contributions to the ESOP and shares released from the suspense account in an amount proportional to the repayment of the ESOP loan will be allocated among ESOP participants on the basis of compensation in the year of allocation. Benefits generally become 100% vested after five years of credited service.

Prior to the completion of five years of credited service, a participant who terminates employment for reasons other than death, retirement (or normal retirement), or disability will not receive any benefit under the ESOP. Forfeitures will be reallocated among the remaining participating employees, in the same proportion as contributions. Benefits may be payable in the form of stock or cash upon termination of employment.

The American Institute of Certified Public Accountants issued Statement of Position 93-6 (SOP 93-6), Employers' Accounting for Employee Stock Ownership Plans, in November 1994. The Company adopted this statement for the year ended September 30, 1995. The adoption of SOP 93-6 did not have a significant effect on the Company's financial statements.

ESOP compensation expense for the years ended September 30, 1996 and 1995, totaled $182,013 and $118,419 respectively. The fair value of unearned ESOP shares at September 30, 1996 and 1995, totaled $1,182,976 and $1,366,294 respectively. Following is a summary of ESOP shares at September 30:

	1996	1995
Shares allocated	20,894	9,067
Shares committed to be released	0	0
Unearned	76,321	88,148
Total	97,215	97,215

Note 16 - Recognition and Retention (RRP)

On July 26, 1995, the stockholders approved the Company's formation of a RRP which was authorized to award 4%, or 48,608 shares, of the total shares of common stock issued in the conversion. On July 26, 1995, the RRP awarded 41,197 shares of common stock to directors and employees in key management positions in order to provide them with a proprietary interest in the Company in a manner designed to encourage such employees to remain with the Company.

Unearned compensation of $581,908, representing the shares' fair market value of $14.125 per share at the date of award, will be charged to income on a straight-line basis over the five year vesting period as the Company's directors and employees perform the related future services. The unamortized balance, which is comparable to deferred compensation, is reflected as a reduction of stockholders' equity. The Company recognized $116,382 and $19,397 as compensation and benefits expense relating to this plan for the years ended September 30, 1996 and 1995.

Note 17 - Financial Instruments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit risk and interest-rate risk in excess of the amount recognized in the consolidated statements of financial condition.

Note 17 - Financial Instruments, continued

The exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and condition obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount and nature of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter-party. Such collateral includes primary real estate.

SFAS 107 does not permit financial institutions to take into account the value of long-term relationships with depositors, commonly known as core deposit intangibles, when estimating the fair value of deposit liabilities. These intangibles are considered to be separate intangible assets that are not financial instruments. Nonetheless, financial institutions' core deposits have typically traded at premiums to their book values under both historical and current market conditions.

Likewise, SFAS 107 does not permit financial institutions to take into account the value of the cash flows and income stream derived from its portfolio of loans serviced for others. See Note 6 to the consolidated financial statements for information related to the portfolio of residential mortgage loans serviced for others.

The Company has not been required to perform on any financial guarantee during the past two years. The Company has not incurred any losses on its commitments in either 1996 or 1995.

The estimated fair values of the Company's financial instruments were as follows at:

<TABLE>
<CAPTION>

	September 30, 1996	
	Carrying Amount	Fair Value
<S>	<C>	<C>
Financial assets:		
Cash and cash equivalents	$ 5,699,647	$ 5,699,647
Interest-earning time deposits	1,663,573	1,661,800
Securities held-to-maturity	30,138,744	30,114,685
Mortgage-backed securities held-to-maturity ...	24,948,793	25,383,579
Loans receivable, net	47,925,067	48,453,000
Accrued interest receivable	930,657	930,657
Federal Home Loan Bank stock	948,500	948,500
Financial liabilities:		
Deposit liabilities	91,661,131	93,080,000
Advances from borrowers for taxes and insurance	917,222	917,222

</TABLE>

The carrying amounts in the preceding table are included in the statement of financial condition under the applicable captions. The contract or notional amounts of the Company's financial instruments with off-balance-sheet risk are disclosed in Note 19.

East Texas Financial Services, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 18 - Significant Group Concentration of Credit Risk

The Company invests a portion of its cash in deposit accounts with various financial institutions in amounts which may exceed the insured amount of $100,000. The Company has not experienced any losses on these investments which typically are payable on demand. The Company performs ongoing evaluations of the financial institutions in which it invests deposits and periodically assesses its credit risk with respect to these accounts.

At September 30, 1996 and 1995, the Company had $4,994,869 and $5,633,006, respectively, on deposit with the Federal Home Loan Bank of Dallas, and $1,031,510 and $1,005,914, respectively, on deposit with Nations Bank of Texas.

The Company grants real estate and consumer loans to customers primarily in Tyler, Texas and surrounding area of East Texas. The Company's loan portfolio is substantially (97%) secured by real estate, and its ability to fully collect its loans is dependent upon the real estate market in this region. The Company typically requires collateral sufficient in value to cover the principal amount of the loan. Such collateral is evidenced by mortgages on property held and readily accessible to the Company.

Note 19 - Commitments and Contingencies

In the ordinary course of business, the Company has various outstanding commitments and contingent liabilities that are not reflected in the accompanying financial statements.

The Company had outstanding commitments to originate loans as follows:

<TABLE>
<CAPTION>

	September 30, 1996			September 30, 1995		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
First mortgage	$1,883,475	$ 464,150	$2,347,625	$ 518,300	$1,823,549	$2,341,849
Consumer and other loans	-0-	-0-	-0-	-0-	-0-	-0-
	$1,883,475	$ 464,150	$2,347,625	$ 518,300	$1,823,549	$2,341,849

==========   ==========   ==========   ==========   ==========   ==========
</TABLE>

Note 20 - Regulatory Matters

The Association is subject to various regulatory 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 Association's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Association must meet specific capital guidelines that involve quantitative

measures of the Association's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Association's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Management believes, as of September 30, 1996, that the Association meets all capital adequacy requirements to which it is subject.

Note 20 - Regulatory Matters, continued

As of September 30, 1996, the most recent notification from the Office of Thrift supervision categorized the Association as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Association must maintain minimum regulatory tangible capital equal to 1.5% of adjusted total assets, a minimum 5% core/leverage capital ratio, a minimum 6% Tier 1 risk-based ratio, and a minimum 10% total risk- based capital to be considered well capitalized. There are no conditions or events since that notification that management believes have changed the institution's category.
<TABLE>
<CAPTION>

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
As of September 30, 1996:						
Total Risk-Based Capital (to Risk-Weighted Assets)	$17,754	44.2%	$ 3,211	8.0%	$ 4,014	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$17,465	43.5%	$ 1,605	4.0%	$ 2,408	6.0%
Tier 1 Capital (to Adjusted Total Assets)	$17,465	15.3%	$ 4,569	4.0%	$ 5,712	5.0%
Tangible Capital (to Adjusted Total Assets)	$17,465	15.3%	$ 1,714	1.5%	$ 1,714	1.5%
As of September 30, 1995:						
Total Risk-Based Capital (to Risk-Weighted Assets)	$17,155	43.4%	$ 3,160	8.0%	$ 3,950	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$16,860	42.7%	$ 1,580	4.0%	$ 2,370	6.0%
Tier 1 Capital (to Adjusted Total Assets)	$16,860	14.4%	$ 4,683	4.0%	$ 5,854	5.0%
Tangible Capital (to Adjusted Total Assets)	$16,860	14.4%	$ 1,756	1.5%	$ 1,756	1.5%

</TABLE>

As of September 30, 1996, legislation was enacted requiring a one-time assessment on savings institutions for SAIF premiums, based on SAIF insured deposits as of March 31, 1995. In accordance with the Financial Accounting Standards Board's Emerging Issues Task Force, the Company's assessment of $645,701 was accrued and is included in accrued expenses and other liabilities as of September 30, 1996.

Note 21 - Compensated Absences

Employees of the Company are entitled to paid vacation after one year of employment. The vacation time does not vest; therefore, no accrual for vacation was recorded due to the immateriality. Sick leave is not accrued because it does not vest. The costs of these compensated absences are recognized when paid.

East Texas Financial Services, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 22 - Interest and Dividends on Investment Securities

The following categories of interest income on investment securities are as follows:

	1996	1995	1994
Federal Home Loan Bank stock Dividends	$ 55,329	$ 54,235	$ 34,253
Securities held-to-maturity Taxable interest income	2,074,033	1,963,467	1,331,535
	$2,129,362	$2,017,702	$1,365,788

East Texas Financial Services, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 23 - Other Noninterest Income and Expense

Other noninterest income and expense amounts are summarized as follows:

	1996	1995	1994
Other noninterest income:			
Loan late charges	$ 25,825	$ 25,802	$ 25,127
Bank service charges and fees	22,503	20,943	26,382
Other	11,828	9,915	4,743
	$ 60,156	$ 56,660	$ 56,252
Other noninterest expense:			
Advertising and promotion	$ 36,983	$ 28,541	$ 31,593
Data processing	86,716	89,033	86,850
Professional fees	80,434	67,090	42,988
Supervisory examination	36,435	36,327	36,207
Printing, postage, stationery, and supplies	43,829	49,913	54,561
Telephone	18,884	18,839	15,495
Insurance and bond premiums	61,261	59,575	41,904
Loan servicing expenses	20,686	21,325	9,046
Franchise taxes	94,304	82,492	30,451
Other	106,535	82,535	81,024
	$586,067	$535,670	$430,119

East Texas Financial Services, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 24 - Condensed Parent Company Only Financial Statements

The following condensed statements of financial condition as of September 30, 1996 and 1995, and related condensed statements of income and statements of cash flows for the years ended September 30, 1996 and 1995, should be read in conjunction with the consolidated financial statements and the related notes.

STATEMENT OF FINANCIAL CONDITION	1996	1995
Assets:		
Cash	$ 2,021,050	$ 4,812,891
Note receivable - ESOP Trust	801,966	899,174
Investment in the Association	18,041,989	17,424,744
Receivable from subsidiary	78,834	47,142
Prepaid expenses	5,196	-0-

Total assets	$ 20,949,035	$ 23,183,951
Liabilities:		
Other liabilities	$ 18,422	$ 37,557
Stockholders' Equity:		
Common stock	12,564	12,564
Additional paid-in capital	12,112,516	12,048,774
Retained earnings	12,811,881	12,529,044
Treasury stock	(2,797,013)	-0-
Unearned ESOP shares	(763,206)	(881,477)
Deferred compensation - RRP shares	(446,129)	(562,511)
Total stockholders' equity	20,930,613	23,146,394
Total liabilities and stockholders' equity .	$ 20,949,035	$ 23,183,951

</TABLE>

East Texas Financial Services, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 24 - Condensed Parent Company Only Financial Statements, continued

<TABLE>
<CAPTION>

STATEMENT OF INCOME	1996	1995
<S>	<C>	<C>
Income:		
Equity in earnings of Association	$ 498,973	$ 1,098,006
Interest income	69,700	54,843
Total income	568,673	1,152,849
Expenses:		
Franchise tax expense	55,405	52,852
Professional fees	44,858	26,129
Other	31,705	16,885
Total expenses	131,968	95,866
Income before federal income taxes	436,705	1,056,983
Federal income taxes (benefit)	(21,171)	(13,846)
Net income	$ 457,876	$ 1,070,829

</TABLE>

East Texas Financial Services, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 24 - Condensed Parent Company Only Financial Statements, continued

<TABLE>
<CAPTION>

STATEMENT OF CASH FLOWS	1996	1995
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 457,876	$ 1,070,829
Equity in earnings of the Association	(498,973)	(1,098,006)
Increase in prepaid expenses	(5,196)	-0-
Increase (decrease) in other liabilities	(19,136)	37,557
Net cash provided (used) by operating activities	(65,429)	10,380
Cash flows from investing activities:		
Purchase of common stock of the Association	-0-	(5,750,000)
ESOP loan origination	-0-	(972,080)
ESOP loan repayment	97,208	72,906
Increase in receivable from subsidiary	(31,692)	-0-

Net cash provided (used) by investing activities	65,516	(6,649,174)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	180,124	11,451,685
Purchase of treasury stock at cost	(2,831,237)	-0-
Sale of treasury stock for exercise of stock options ...	29,522	-0-
Dividends paid	(170,337)	-0-
Net cash provided (used) by financing activities	(2,791,928)	11,451,685
Net increase (decrease) in cash and cash equivalents	(2,791,841)	4,812,891
Cash and cash equivalents at beginning of year	4,812,891	-0-
Cash and cash equivalents at end of year	$ 2,021,050	$ 4,812,891
Supplemental cash flow information:		
Income tax paid	$ -0-	$ 1,399
Receivable from subsidiary for ESOP RRP shares issued	$ 63,742	$ 47,142

</TABLE>

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East Texas Financial Services, Inc. and Subsidiary

Corporate Directory

East Texas Financial Services, Inc.

Board of Directors*

<S>	<C>	<C>	<C>
Jack W. Flock Chairman of the Board Of Counsel to Ramey & Flock, P. C.	Gerald W. Free President and Chief Executive Officer of the Association	Jim M. Vaughn, M.D. Retired Physician Investments	James W. Fair Real Estate Investment Oil and Gas Interests
L. Lee Kidd Oil and Gas Interests	M. Earl Davis Vice President Compliance and Marketing of the Association	Charles R. Halstead Geologist Oil and Gas Interests	H. H. Richardson, Jr. President H. H. Richardson, Jr. Construction Company

Officers

Gerald W. Free President and Chief Executive Officer	Derrell W. Chapman Vice President and Chief Operating and Financial Officer	Sandra J. Allen Corporate Secretary

First Federal Savings and Loan Association of Tyler

Officers

Gerald W. Free President and Chief Executive Officer	Derrell W. Chapman Vice President and Chief Operating and Financial Officer	Joe C. Hobson Sr. Vice President Mortgage Lending	Sandra J. Allen Corporate Secretary
William L. Wilson Treasurer and Controller	M. Earl Davis Vice President Compliance and Marketing	Elizabeth G. Taylor Vice President and Loan Officer	Marcia R. Shelton Assistant Secretary and Loan Officer
Earlene Cool Assistant Treasurer			

* Directors of the Company also serve as directors of the Association

</TABLE>

Shareholder
Reference

Executive Offices

1200 South Beckham Avenue
Tyler, Texas 75701

Legal Counsel
Silver, Freedman and Taff, L.L.P.
1100 New York Avenue, N.W.
Washington, D.C. 20005-3934

Transfer Agent
Registrar and Transfer Company
10 Commerce Drive
Cranford, N.J. 07016

Independent Auditors
Bryant and Welborn, L.L.P.
601 Chase Drive
Tyler, Texas 75701

Investor Relations
Shareholders, analysts and others seeking information
about East Texas Financial Services, Inc., are invited to contact:

Gerald W. Free, President and CEO
or
Derrell W. Chapman, Vice President and COO, CFO
at (903) 593-1767
(903) 593-1094 (Fax)

Copies of the Company's earnings releases and other
financial publications, including the annual report on
Form 10-KSB filed with the Securities
and Exchange Commission, are
available upon request.

Annual Meeting of Shareholders
January 22, 1997, at 2:00 p.m.
Company Offices
1200 South Beckham Avenue
Tyler, Texas

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

<TABLE>
<CAPTION>

Parent	Subsidiary	Percentage of Ownership	State of Incorporation or Organization
<S>	<C>	<C>	<C>
East Texas Financial Services, Inc.	First Federal Savings and Loan Association of Tyler	100%	United States

The financial statements of the Registrant are consolidated with its subsidiary.
</TABLE>

Exhibit 23

[GRAPHIC-LOGO] CPA
BRYANT & WELBORN, L.L.P
Certified Public Accountants
601 Chase Drive, Tyler, Texas 75701
Tel. (903) 561-4041 Fax (903) 561-4048

Leon Welborn, C.P.A.
Leah Weatherly, C.P.A.
Jerry Garrett, C.P.A.

Board of Directors
East Texas Financial Services, Inc.
1200 S. Beckham
Tyler, Texas 75701

Members of the Board:

We consent to the incorporation by reference in this Registration Statement on Form S-8 of East Texas Financial Services, Inc. (the "Company") of our report on the financial statements included in the Company's Annual Report on Form 10-KSB for the year ended September 30, 1996, filed pursuant to the Securities Exchange Act of 1934, as amended.

/s/ Bryant & Welborn L.L.P.

Bryant & Welborn L.L.P.

Tyler, Texas
December 26, 1996

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