# SECURITIES AND EXCHANGE COMMISSION

# FORM 10-K405

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

Filing Date: **1997-12-18** | Period of Report: **1997-09-30**
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## FILER

**GREEN STREET FINANCIAL CORP**

CIK:**1005017**| IRS No.: **561951478** | State of Incorp.:**NC** | Fiscal Year End: **0930**
Type: **10-K405** | Act: **34** | File No.: **000-27620** | Film No.: **97740242**
SIC: **6035** Savings institution, federally chartered

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X] Annual report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934

For the fiscal year ended September 30, 1997

[ ] Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____________ to ____________.

Commission File No. 0-27620

GREEN STREET FINANCIAL CORP
(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| North Carolina | 56-1951478 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| 241 Green Street, Fayetteville, North Carolina | 28301-5051 |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant's Telephone Number, Including Area Code: (910) 483-3681

Securities registered under Section 12(b) of the Securities Exchange Act: None

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

Common Stock, no par value
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO .

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the average bid and asked price of the registrant's Common Stock on December 4, 1997, was approximately $71.0 million.

As of December 4, 1997, there were issued and outstanding 4,298,125 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the Fiscal Year ended September 30, 1997. (Parts II, III and IV)
2. Portions of the Proxy Statement for the Annual Meeting of Stockholders for the Fiscal Year ended September 30, 1997. (Part III)

PART I

Item 1. Business

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General

Green Street Financial Corp (the "Company") is a North Carolina corporation organized in December 1995 at the direction of Home Federal Savings and Loan Association (the "Association") to acquire all of the capital stock that the Association issued in its conversion from the mutual to stock form of ownership (the "Conversion"). On April 3, 1996, the Association completed the Conversion and became a wholly owned subsidiary of the Company. The Company is a unitary savings and loan holding company which, under existing laws, generally is not restricted in the types of business activities in which it may engage provided that the Association retains a specified amount of its assets in housing-related investments. The Company conducts no significant business or operations of its own other than holding all of the outstanding stock of the Association, investing the Company's portion of the net proceeds obtained in the conversion, and lending funds to an employee stock ownership plan formed by the Association.

The Association, a federally chartered stock savings association headquartered in Fayetteville, North Carolina, was chartered in 1916 under the name Home Building and Loan Association. The Association is subject to examination and comprehensive regulation by the Office of Thrift Supervision ("OTS") and its deposits have been federally insured by the Savings Association Insurance Fund ("SAIF") and its predecessor, the Federal Savings and Loan Insurance Corporation, since 1935. The Association is a member of and owns capital stock in the FHLB of Atlanta, which is one of the 12 regional banks in the FHLB System.

Competition

The Association's primary market area consists of Cumberland and Robeson Counties, North Carolina and the Association is one of many financial institutions serving its market area. The competition for deposit products comes from other insured financial institutions such as commercial banks, thrift institutions and credit unions in the Association's market area. Deposit competition also includes a number of insurance products sold by local agents and investment products such as mutual funds and other securities sold by local and regional brokers. Loan competition varies depending upon market conditions and comes from other insured financial institutions such as commercial banks, thrift institutions and credit unions.



Lending Activities

Analysis of Loan Portfolio. Set forth below is selected data relating to the composition of the Association's loan portfolio by the type of loan.

<TABLE>
<CAPTION>

| | At September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 1997 | | 1996 | | 1995 | |
| | Amount | Percent | Amount | Percent | Amount | Percent |
| | (Dollars in thousands) | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Type of Loans: | | | | | | |
| Residential 1- to 4-family | $106,084 | 80.57% | $102,011 | 80.82% | $ 94,668 | 79.32% |
| Residential multi-family .. | 7,527 | 5.72 | 5,579 | 4.42 | 5,577 | 4.67 |
| Non-residential real estate | 14,172 | 10.76 | 15,544 | 12.31 | 16,663 | 13.96 |
| Construction ............. | 3,445 | 2.62 | 2,948 | 2.34 | 2,218 | 1.85 |
| Installment account loans . | 434 | .33 | 142 | 0.11 | 229 | 0.20 |
| | 131,662 | 100.00% | 126,224 | 100.00% | 119,355 | 100.00% |
| Less: | | | | | | |
| Unearned fees and discounts | 965 | | 931 | | 900 | |
| Loans in process .......... | 1,496 | | 1,910 | | 1,029 | |
| Allowance for losses ...... | 255 | | 235 | | 225 | |
| | 2,176 | | 3,076 | | 2,154 | |

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| | | | |
|---|---|---|---|
| Total loans receivable, net | $128,946 | $123,148 | $117,201 |

</TABLE>

Loan Maturity Tables

The following table sets forth the estimated maturity of the Association's loan portfolio at September 30, 1997. The table does not include prepayments or scheduled principal repayments. Prepayments and scheduled principal repayments on loans totalled $17.5 million for the year ended September 30, 1997. Adjustable-rate mortgage loans are shown as maturing based on contractual maturities.

| | Due within 1 year | Due after 1 through 5 years | Due after 5 years | Total |
|---|---|---|---|---|
| | (In thousands) | | | |
| Residential 1- to 4-family. | $116 | $2,932 | $103,036 | $106,084 |
| Residential multi-family... | -- | 23 | 7,504 | 7,527 |
| Non-residential real estate | 8 | 1,513 | 12,651 | 14,172 |
| Construction.............. | -- | -- | 3,445 | 3,445 |
| Installment account loans.. | 434 | -- | -- | 434 |
| | $558 | $4,468 | $126,636 | $131,662 |



The following table sets forth the dollar amount of all loans due after September 30, 1998, which have pre-determined interest rates and which have floating or adjustable interest rates.

| | Fixed Rates | Floating or Adjustable Rates | Total |
|---|---|---|---|
| | (In thousands) | | |
| Residential 1- to 4-family... | $68,931 | $37,036 | $105,967 |
| Residential multi-family..... | 1,031 | 6,496 | 7,527 |
| Non-residential real estate.. | 5,446 | 8,719 | 14,165 |
| Construction................. | 3,445 | -- | 3,445 |
| Total...................... | $78,853 | $52,251 | $131,104 |

One- to Four-Family Residential Loans. The Association's primary lending activity consists of the origination of one- to four-family residential mortgage loans secured by property located in the Association's primary market area. The Association generally originates one- to four-family residential mortgage loans in amounts up to 80% of the lesser of the appraised value or selling price of the mortgaged property. With private mortgage insurance obtained for the borrower, the maximum loan to value ratio is increased to 90%. However, when lending amounts of over $240,000, the maximum loan to value ratio is reduced to 70%. The maximum loan amount for such loans is handled on a case by case basis. The Association does not originate loans with initial interest rates which are deeply discounted ("teaser rates"). Mortgage loans originated and held by the Association in its portfolio generally include due-on-sale clauses which provide the Association with the contractual right to deem the loan immediately due and payable in the event that the borrower transfers ownership of the property without the Association's consent. The Association originates and retains both fixed and adjustable-rate mortgage loans.

The Association requires for all adjustable-rate mortgage loans that the borrower qualify at 2% above the interest rate at loan origination. The Association's adjustable-rate loans provide for limitations on annual interest rate adjustments of up to 2% with a maximum adjustment over the term of the loan of 6%. Adjustable-rate loans typically reprice every year, and provide for terms of up to 30 years with most loans having terms of between 15 and 30 years. The Association sets the maximum loan term based on a dollar amount.

Adjustable-rate mortgage loans decrease the risks associated with changes

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in interest rates by more closely reflecting these changes, but involve other risks because as interest rates increase, the underlying payments by the borrower increase, thus increasing the potential for default. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the adjustable-rate mortgage loan documents, thereby potentially limiting their effectiveness during periods of rising interest rates. These risks have not had an adverse effect on the Association.

Non-Residential Loans. The non-residential real estate loan portfolio consists primarily of loans secured by commercial real estate and church property. Loans secured by church real estate, loans secured by rental property and loans secured by commercial property may be made in amounts up to 70% of the appraised value. Non-residential lending entails significant additional risks when compared with one- to four-family residential lending. For example, non-residential loans typically involve larger loan balances to single borrowers or groups of related borrowers, the payment experience on such loans typically is dependent on the successful operation of the project and these risks can be significantly impacted by the cash flow of the borrowers and supply and demand conditions in the market for commercial office, retail and warehouse space.



Multi-Family Residential Loans. The Association makes multi-family loans, including loans on apartment complexes. These loans have a maximum loan to value ratio of 70%. Multi-family loans generally provide higher interest rates than can be obtained from single-family mortgage loans. Multifamily lending, however, entails significant additional risks when compared with one- to four-family residential lending. For example, multi-family loans typically involve larger loan balances to single borrowers or groups of related borrowers, the payment experience on such loans typically is dependent on the successful operation of the real estate project, and these risks can be significantly impacted by supply and demand conditions in the market for multi-family residential units.

Construction Loans. Construction loans are made on a long term basis and are classified as construction/permanent loans. Approximately 90% of the Association's construction loan portfolio are for the construction of single-family residential property and are made to the individuals who will be the owners and occupants upon completion of construction. These construction loans usually require no principal payments during the first 6-12 months, after which the payments are set at an amount that will amortize over the term of the permanent loan. The terms, including interest rate, of single family residential construction loans are the same as those for a loan to purchase or refinance a previously constructed single family residence. The maximum loan to value ratio for other construction loans is dependent on the type of property that will be constructed. The Association also makes construction loans to builders and construction loans on non-residential properties.

Construction lending is generally considered to involve a higher degree of credit risk than long-term financing of residential properties. The Association's risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development and the estimated cost of construction. If the estimate of construction cost and the marketability of the property upon completion of the project prove to be inaccurate, the Association may be compelled to advance additional funds to complete construction. Furthermore, if the estimate of value proves to be inaccurate, the Association may be confronted at or prior to the maturity of the loan, with a property with a value that is insufficient to assure full repayment.

Installment Account Loans. The Association's installment account loans consist of home equity loans secured by second mortgages on single family loans in the Association's market area and savings account loans. Home equity loans generally are limited to 80% of the appraised value of the residence.

Savings account loans are only made when secured by a savings account in the Association (share loans) and generally have rates that adjust with the rate on the underlying account and are typically between two and six percent above the rate on the underlying savings account. Share loans are offered subject to a 90% loan to collateral value limit.

Loan Approval Authority and Underwriting. All loans of up to $125,000 in amount must be approved by one or more loan committees. Loans for amounts over $125,000 must be approved by the Board of Directors of the Association.

Upon receipt of a completed loan application from a prospective borrower, a credit report is generally ordered, income and certain other information is verified and, if necessary, additional financial information is requested. An appraisal of the real estate intended to be used as security for the proposed loan is obtained. Appraisals are obtained from independent fee appraisers. For

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real estate loans the Association requires either title insurance or a title opinion. Borrowers must also obtain fire and casualty insurance (for loans on property located in a flood zone, flood insurance is required) prior to the closing of the loan. For loans where private mortgage insurance is required by the Association, the borrower must also provide an escrow amount for taxes and fire insurance.



Loan Commitments. The Association issues written commitments to prospective borrowers on all approved real estate loans. Generally, the commitment requires acceptance within 30 days of the date of issuance. At September 30, 1997, the Association had $2.1 million of commitments to cover originations and $1.5 million in undisbursed funds for loans in process. Management believes that virtually all of the Association's commitments will be funded.

Loans to One Borrower. Regulations limit loans to one borrower in an amount equal to 15% of unimpaired capital and unimpaired surplus of the Association. The Association is authorized to lend up to an additional 10% of unimpaired capital and unimpaired surplus if the loan is fully secured by readily marketable collateral. Savings associations are authorized to make loans to one borrower, for any purpose, in an amount up to $500,000. The Association's maximum loan to one borrower limit was approximately $6.8 million at September 30, 1997.

At September 30, 1997, the Association's largest amount of loans to one borrower was seven loans aggregating $2.4 million. All of the loans to this borrower are current.

Non-Performing and Problem Assets

Loan Delinquencies. The Association's collection procedures provide that when a mortgage loan is 30 days past due, a notice of nonpayment is sent. If payment is still delinquent after 45 days, the customer will receive a letter and/or telephone call and may receive a visit from a representative of the Association. If the delinquency continues, similar subsequent efforts are made to eliminate the delinquency. If the loan continues in a delinquent status for 60 days past due and no repayment plan is in effect, a notice of right to cure default is mailed to the customer giving 30 additional days to bring the account current before foreclosure is commenced.

Loans are reviewed on a monthly basis and are generally placed on a non-accrual status when the loan becomes more than 90 days delinquent ("non-performing loans") or when, in the opinion of management, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income by the establishment of a reserve for uncollected interest. Such interest, when ultimately collected, is credited to income in the period received.

Non-Performing Assets. The following table sets forth information regarding non-performing loans and real estate owned. As of the dates indicated, the Association had no loans categorized as troubled debt restructuring within the meaning of SFAS 15.

| | At September 30, | | | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| | (Dollars in thousands) | | | | |
| Non-performing loans: | | | | | |
| One- to four-family residential | $173 | $310 | $242 | $292 | $246 |
| Multi-family residential ...... | -- | -- | 77 | -- | -- |
| Non-residential real estate ... | -- | -- | -- | 113 | 134 |
| Construction .................. | -- | -- | -- | -- | -- |
| Installment account loans...... | -- | -- | -- | -- | -- |
| Total non-performing loans ...... | 173 | 310 | 319 | 405 | 380 |
| Real estate owned ............ | -- | 34 | -- | 38 | 94 |
| Total non-performing assets ..... | $173 | $344 | $319 | $443 | $474 |



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Interest income foregone on loans accounted for on a non-accrual basis under the original terms of such loans was immaterial for the year ended September 30, 1997. Amounts actually included in the Association's interest income for non-accrual loans for the year ended September 30, 1997, were likewise immaterial.

Classified Assets. OTS regulations provide for a classification system for problem assets of insured institutions which covers all problem assets. Under this classification system, problem assets of insured institutions are classified 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 insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses 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. Assets may be designated "special mention" because of potential weaknesses that do not currently warrant classification in one of the aforementioned categories.

When an insured institution 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 an insured institution 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 institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OTS, which may order the establishment of additional general or specific loss allowances. A portion of general loss allowances established to cover possible losses related to assets classified as substandard or doubtful may be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses generally do not qualify as regulatory capital.

In accordance with its classification of assets policy, the Association regularly reviews the problem assets in its portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of management's review of its assets, at September 30, 1997, the Association had $173,000 of assets classified as substandard loans.

Foreclosed Real Estate. Real estate acquired by the Association as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until it is sold. Real estate acquired in settlement of loans is initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of cost or fair value, minus estimated cost to sell. No foreclosed real estate was held by the Association at September 30, 1997.

Allowances for Loan Losses. It is management's policy to provide for losses on unidentified loans in its loan portfolio. A provision for loan losses is charged to operations based on management's evaluation of the potential losses that may be incurred in the Association's loan portfolio. Such evaluation, which includes a review of all loans of which full collectibility of interest and principal may not be reasonably assured, considers the Association's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions.



The following table sets forth the allocation of the allowance by category, which management believes can be allocated only on an approximate basis. The allocation of the allowance to each category is not necessarily indicative of future loss and does not restrict the use of the allowance to absorb losses in any category.

<TABLE>
<CAPTION>

| At September 30, | | |
| --- | --- | --- |
| 1997 | 1996 | 1995 |

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| | Amount of Allowance | % of Loans in Each Category to Total Loans | Amount of Allowance | % of Loans in Each Category to Total Loans | Amount of Allowance | % of Loans in Each Category to Total Loans |
|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | | |
| Residential one- to four-family. | $ 93 | 80.57% | $ 85 | 80.82% | $ 89 | 79.53% |
| Residential multi-family ....... | 47 | 5.72 | 29 | 4.42 | 32 | 4.67 |
| Non-residential real estate .... | 91 | 10.76 | 102 | 12.31 | 93 | 13.96 |
| Construction ................... | 24 | 2.62 | 19 | 2.34 | 11 | 1.65 |
| Installment loans .............. | -- | .33 | -- | .11 | -- | .19 |
| Total allowance for loan losses. | $255 | 100.00% | $235 | 100.00% | $225 | 100.00% |

</TABLE>

The following table sets forth information with respect to the Association's allowance for loan losses at the dates and for the periods indicated:

<TABLE>
<CAPTION>

| | Year ended September 30, 1997 | 1996 | 1995 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Allowance balances (at beginning of period)...... | $ 235 | $ 225 | $ 225 |
| Provision (credit) for loan losses: | | | |
| One- to four-family residential .............. | 8 | (4) | 2 |
| Multi-family residential ..................... | 18 | (3) | (12) |
| Non-residential real estate .................. | (11) | 9 | 9 |
| Construction ................................. | 5 | 8 | 1 |
| Installment loans ............................ | -- | -- | -- |
| Net (charge-offs) recoveries: | | | |
| One- to four-family .......................... | -- | -- | -- |
| Multi-family ................................. | -- | -- | -- |
| Non-residential real estate .................. | -- | -- | -- |
| Construction ................................. | -- | -- | -- |
| Installment loans ............................ | -- | -- | -- |
| Allowance balance (at end of period) ........... | $ 255 | $ 235 | $ 225 |
| Allowance for loan losses as a percent of total loans outstanding ................... | 0.19% | 0.19% | 0.19% |

</TABLE>



Investment Activities

General. The Association is required under federal regulations to maintain a minimum amount of liquid assets which may be invested in specified short-term securities and certain other investments and has generally maintained a liquidity portfolio well in excess of regulatory requirements. Liquidity levels may be increased or decreased depending upon the yields on investment alternatives and upon management's judgment as to the attractiveness of the yields then available in relation to other opportunities and its expectation of future yield levels, as well as management's projections as to the short-term demand for funds to be used in the Association's loan origination and other activities.

Investment Portfolio. The following table sets forth the carrying value of the Company's and the Association's investment securities, interest-earning deposits, federal funds sold and nonmarketable equity investments at the dates indicated. At September 30, 1997, the market value of the investment securities that are held-to-maturity was $13.6 million.

| | At September 30, 1997 | 1996 | 1995 |
|---|---|---|---|
| | (In thousands) | | |
| Investment securities: | | | |

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| | | | |
|---|---|---|---|
| U.S. Treasury securities ........ | $13,500 | $ 2,999 | $ 2,993 |
| U.S. Agency securities .......... | -- | 12,000 | -- |
| Total investment securities ... | 13,500 | 14,999 | 2,993 |
| Interest earning deposits ....... | 29,414 | 33,108 | 27,472 |
| Federal Funds sold ............. | 3,118 | 2,125 | 538 |
| Federal Home Loan Bank stock .... | 1,127 | 1,127 | 1,127 |
| Central Service Corporation stock | 44 | 44 | 44 |
| Total .......................... | $47,203 | $51,403 | $32,174 |



The following table sets forth information regarding the scheduled maturities, carrying value and weighted average yields for the Association's investment securities at September 30, 1997.

<TABLE>
<CAPTION>

As of September 30, 1997

| | One Year or Less | | After One Through Five Years | | After Five Through Ten Years | | After Ten Years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying Value | Weighted Average Yield | Carrying Value | Weighted Average Yield | Carrying Value | Weighted Average Yield | Carrying Value | Weighted Average Yield | Carrying Value | Weighted Average Yield |
| | (Dollars in thousands) | | | | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| U.S. Treasury securities... | $ -- | --% | $10,500 | 6.89% | $3,000 | 7.07% | $ -- | --% | $13,500 | 6.93% |
| U.S. Agency securities..... | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Interest earning deposits | 29,414 | 5.45% | -- | -- | -- | -- | -- | -- | 29,414 | 5.45% |
| Federal Funds sold......... | 3,118 | 5.32% | -- | -- | -- | -- | -- | -- | 3,118 | 5.32% |
| Federal Home Loan Bank stock (1)................ | -- | -- | -- | -- | -- | -- | 1,127 | 7.29% | 1,127 | 7.29% |
| Central Service Corporation stock(1)................ | -- | -- | -- | -- | -- | -- | 44 | | 44 | -- |
| Total.................... | $32,532 | 5.44% | $10,500 | 6.89% | $3,000 | 7.07% | $1,171 | 7.29% | $47,203 | 5.91% |

</TABLE>

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(1) Nonmarketable equity security; substantially all required to be maintained and assumed to mature in periods greater than 10 years.



Sources of Funds

General. Deposits are the major external source of the Association's funds for lending and other investment purposes. The Association derives funds from amortization and prepayment of loans and, to a much lesser extent, maturities of investment securities, borrowings, mortgage-backed securities and operations. Scheduled loan principal repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and market conditions.

Deposits. Consumer and commercial deposits are attracted principally from within the Association's primary market area through the offering of a selection of deposit instruments including regular savings accounts, money market accounts, and term certificate accounts. The Association also offers IRA accounts. Deposit account terms vary according to the minimum balance required, the time period the funds must remain on deposit, and the interest rate, among other factors. At September 30, 1997, the Association had no brokered accounts.

Certificates of Deposit. The following table indicates the amount of the Association's certificates of deposit of $100,000 or more by time remaining

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until maturity as of September 30, 1997.

| Maturity Period | Certificates of Deposits (In thousands) |
|---|---|
| Within three months | $2,350 |
| Three through six months | 2,692 |
| Six through twelve months | 2,798 |
| Over twelve months | 2,117 |
| | $9,957 |

Borrowings

The Association may obtain advances from the FHLB of Atlanta to supplement its supply of lendable funds. Advances from the FHLB of Atlanta are typically secured by a pledge of the Association's stock in the FHLB of Atlanta and a portion of the Association's first mortgage loans and certain other assets. Each FHLB credit program has its own interest rate, which may be fixed or variable, and range of maturities. The Association, if the need arises, may also access the discount window of the Board of Governors of the Federal Reserve System ("Federal Reserve Board") to supplement its supply of lendable funds and to meet deposit withdrawal requirements. At September 30, 1997, the Association had no borrowings from the FHLB of Atlanta.

Employees

At September 30, 1997, the Association had 28 full-time and 4 part-time employees. None of the Association's employees are represented by a collective bargaining group. The Association believes that its relationship with its employees is good.



Regulation

Set forth below is a brief description of certain laws which related to the regulation of the Company and the Association. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

Company Regulation

General. 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, should such subsidiaries be formed, which also permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings association. This regulation and oversight is intended primarily for the protection of the depositors of the Association and not for the benefit of stockholders of the Company.

Qualified Thrift Lender Test. As a unitary savings and loan holding company, the Company generally is not subject to activity restrictions, provided the Association satisfies the Qualified Thrift Lender ("QTL") test. If the 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 the Association or any other SAIF-insured savings association) would become subject to restrictions applicable to bank holding companies unless such other associations each also qualify as a QTL and were acquired in a supervisory acquisition. See "- Regulation of the Association - Qualified Thrift Lender Test."

Regulation of the Association

General. As a federally chartered, SAIF-insured savings association, the Association is subject to extensive regulation by the OTS and the FDIC. Lending activities and other investments must comply with various federal statutory and regulatory requirements. The Association is also subject to certain reserve requirements promulgated by the Federal Reserve Board.

The OTS, in conjunction with the FDIC, regularly examines the Association

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and prepares reports for the consideration of the Association's Board of Directors on any deficiencies that are found in the Association's operations. The Association's relationship with its depositors and borrowers is also regulated to a great extent by federal and state law, especially in such matters as the ownership of savings accounts and the form and content of the Association's mortgage documents.

The Association must file reports with the OTS and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other savings institutions. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the SAIF and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

Under separate proposed legislation, Congress is considering the elimination of the federal thrift charter and the separate federal regulation of thrifts. As a result, the Association might have to convert to a different financial institution charter and be regulated under federal law as a bank, including being



subject to the more restrictive activity limitations imposed on national banks. The Association cannot predict the impact of its conversion to, or regulation as, a bank until the legislation requiring such change is enacted.

Insurance of Deposit Accounts. The Association's deposit accounts are insured by the SAIF to a maximum of $100,000 for each insured member (as defined by law and regulation). Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the institution's primary regulator. The FDIC may also prohibit an insured depository institution from engaging in any activity the FDIC determines poses a serious threat to the SAIF.

The FDIC charges an annual assessment for the insurance of deposits based on the risk a particular institution poses to its deposit insurance fund, depending upon the institution's risk classification. This risk classification is based on an institution's capital group and supervisory subgroup assignment. In addition, the FDIC is authorized to increase deposit insurance rates on a semi-annual basis if it determines that such action is necessary to cause the balance in the SAIF to reach the designated reserve ratio of 1.25% of SAIF-insured deposits within a reasonable period of time. The FDIC may impose special assessments on SAIF members to repay amounts borrowed from the U.S. Treasury or for any other reason deemed necessary by the FDIC. Prior to September 30, 1996, savings associations paid within a range of .23% to .31% of domestic deposits and the SAIF was substantially underfunded. By comparison, at September 30, 1996, members of the Bank Insurance Fund ("BIF"), predominantly commercial banks, were required to pay substantially lower, or virtually no, federal deposit insurance premiums.

Effective September 30, 1996, federal law was revised to mandate a one-time special assessment on SAIF members such as the Association of approximately .657% of deposits held on March 31, 1995. The Association recorded a $792,868 pre-tax expense for this assessment at September 30, 1996. Beginning January 1, 1997, deposit insurance assessments for SAIF members were reduced to approximately .064% of deposits on an annual basis; this rate may continue through the end of 1999. During this same period, BIF members are expected to be annually assessed approximately .013% of deposits. Thereafter, assessments for BIF and SAIF members should be the same and the SAIF and BIF may be merged. It is expected that these continuing assessments for both SAIF and BIF members will be used to repay outstanding Financing Corporation bond obligations. As a result of these changes, beginning January 1, 1997, the rate of deposit insurance assessed the Association substantially declined.

Regulatory Capital Requirements. OTS capital regulations require savings institutions to meet three capital standards: (1) tangible capital equal to 1.5% of total adjusted assets, (2) a leverage ratio (core capital) equal to at least 3% of total adjusted assets, and (3) a risk-based capital requirement equal to 8.0% of total risk-weighted assets. The Association met these capital standards at September 30, 1997.

Dividend and Other Capital Distribution Limitations. OTS regulations require the Association to give the OTS 30 days advance notice of any proposed declaration of dividends to the Company, and the OTS has the authority under its

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supervisory powers to prohibit the payment of dividends to the Company.



OTS regulations impose limitations upon all capital distributions by savings institutions, such as cash dividends, payments to repurchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger and other distributions charged against capital. The rule establishes three tiers of institutions, based primarily on an institution's capital level. An institution that exceeds all fully phased-in capital requirements before and after a proposed capital distribution ("Tier 1 institution") and has not been advised by the OTS that it is in need of more than the normal supervision can, after prior notice but without the approval of the OTS, make capital distributions during a calendar year equal to the greater of (i) 100% of its net income to date during the calendar year plus the amount that would reduce by one-half its "surplus capital ratio" (the excess capital over its fully phased-in capital requirements) at the beginning of the calendar year, or (ii) 75% of its net income over the most recent four quarter period. Any additional capital distributions require prior regulatory approval. As of September 30, 1997, the Association was a Tier 1 institution. In the event the Association's capital fell below its fully phased-in requirement or the OTS notified it that it was in need of more than normal supervision, the Association's ability to make capital distributions could be restricted. In addition, the OTS could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the OTS determines that such distribution would constitute an unsafe or unsound practice.

Qualified Thrift Lender Test. Savings institutions must meet a QTL test. If the Association maintains an appropriate level of Qualified Thrift Investments (primarily residential mortgages and related investments, including certain mortgage-related securities) ("QTIs") and otherwise qualifies as a QTL, it will continue to enjoy full borrowing privileges from the FHLB of Atlanta. The required percentage of QTIs is 65% of portfolio assets (defined as all assets minus intangible assets, property used by the institution in conducting its business and liquid assets equal to 20% of total assets). Certain assets are subject to a percentage limitation of 20% of portfolio assets. In addition, savings associations may include shares of stock of the FHLBs, FNMA and FHLMC as qualifying QTIs. As of September 30, 1997, the Association was in compliance with its QTL requirement with 88% of its assets invested in QTIs.

Federal Home Loan Bank System. The Association is a member of the FHLB of Atlanta, 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.

As a member, the Association is required to purchase and maintain stock in the FHLB of Atlanta in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year.

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) and non-personal time deposits. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy the liquidity requirements that are imposed by the OTS. At September 30, 1997, the Association was in compliance with these Federal Reserve Board requirements.



Executive Officers of the Company Who Are Not Directors

| Name and Title | Age as of September 30, 1997 |
|---|---|
| Allen Lloyd<br>Secretary | 44 |
| Jerry L. Robertson | 55 |

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| | | |
|---|---|---|
| Vice President and Treasurer | | |
| Anthony Strickland<br>Vice President | 51 | |

Allen Lloyd has been the Secretary of the Association since 1983 and has held the same position with the Company since December 1995.

Jerry L. Robertson has been Vice President and Treasurer of the Association since 1983 and has held the same position with the Company since December 1995.

Anthony Strickland has been Vice President of the Association since 1982 and has held the same position with the Company since December 1995. Mr. Strickland became an executive officer on April 3, 1997.

## Item 2. Properties

The Association operates from its main office, two full service branch offices and one loan office.

## Item 3. Legal Proceedings

There are various claims and lawsuits in which the Company or the Association are periodically involved, such as claims to enforce liens, condemnation proceedings on properties in which the Association holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the Association's business. In the opinion of management, no material loss is expected from any of such pending claims or lawsuits.

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

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year.

# PART II

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

The information contained under the section captioned "Common Stock Information" in the Company's Annual Report to Stockholders for the fiscal year ended September 30, 1997 (the "Annual Report"), is incorporated herein by reference. In addition, there are 4,298,125 shares of Common Stock outstanding which were held by approximately 2,450 holders on September 30, 1997.



## Item 6. Selected Financial Data

The information contained in the section captioned "Green Street Financial Corp Selected Financial Data" in the Annual Report is incorporated herein by reference.

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

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

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

See pages 11 and 12 of Management's Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report.

## Item 8. Financial Statements and Supplementary Data

The Registrant's financial statements listed under Item 14 are incorporated herein by reference.

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

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information contained under the sections captioned "Section 16(a) Beneficial Ownership Reporting Compliance" and "I - Information with Respect to Nominees for Director, Directors Continuing in Office, and Executive Officers - Election of Directors" and " - Biographical Information" in the 1997 Proxy Statement are incorporated herein by reference.

Item 11. Executive Compensation

The information contained in the section captioned "Director and Executive Officer Compensation" in the 1997 Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the first chart in the section captioned "I - Information with Respect to Nominees for Director, Directors Continuing in Office, and Executive Officers" in the 1997 Proxy Statement.



(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the first chart in the section captioned "I - Information with Respect to Nominees for Director, Directors Continuing in Office, and Executive Officers" in the 1997 Proxy Statement.

(c) Management of the Registrant knows of no arrangements, including any pledge by any person of securities of the Registrant, the operation of which may at a subsequent date result in a change in control of the Registrant.

Item 13. Certain Relationships and Related Transactions

The information required by this item is incorporated herein by reference to the section captioned "Certain Relationships and Related Transactions" in the 1997 Proxy Statement.

PART IV

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

(a) Listed below are all financial statements and exhibits filed as part of this report.

1. The consolidated balance sheets of Green Street Financial Corp and subsidiary as of September 30, 1997 and 1996, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three year period ended September 30, 1997, together with the related notes and the independent auditors' report of McGladrey & Pullen, LLP, independent certified public accountants.

2. Schedules omitted as they are not applicable.

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3. Exhibits

The following Exhibits are filed as part of this report:

- 3(i) Articles of Incorporation of Green Street Financial Corp *
- 3(ii) Bylaws of Green Street Financial Corp *
- 10.1 Form of Employment Agreement with H.D. Reaves, Jr., Jerry Robertson and Allen Lloyd *
- 10.6 1996 Stock Option Plan **
- 10.7 Restricted Stock Plan and Trust Agreement **
- 13 Annual Report to Stockholders for the fiscal year ended September 30, 1997
- 21 Subsidiaries of the Registrant (See Item 1 - Business - General)
- 27 Financial Data Schedule ***

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* Incorporated by reference to the registration statement on Form S-1 (File No. 33-80485) declared effective by the SEC on February 12, 1996.

** Incorporated by reference to the proxy statement for the special meeting of stockholders on October 17, 1996 and filed with the SEC on September 6, 1996.

*** Only included in electronic filing.

(b) No reports were filed under cover of Form 8-K during the fourth quarter.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized as of December 18, 1997.

GREEN STREET FINANCIAL CORP

By: /s/ H.D. Reaves, Jr.
H. D. Reaves, Jr.
President, Chief Executive Officer and Director
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of December 18, 1997.

| | |
|---|---|
| /s/ H.D. Reaves, Jr.<br>H. D. Reaves, Jr.<br>President, Chief Executive Officer and Director<br>(Principal Executive Officer) | /s/ John C. Pate<br>John C. Pate<br>Senior Vice President and Director<br>(Principal Financial Officer) |
| /s/ Robert O. McCoy, Jr.<br>Robert O. McCoy, Jr.<br>Chairman of the Board and Director | /s/ Jerry Robertson<br>Jerry Robertson<br>Vice President and Treasurer<br>(Principal Accounting Officer) |
| Norwood E. Bryan, Jr.<br>Director | /s/ Henry G. Hutaff, Sr.<br>Henry G. Hutaff, Sr.<br>Vice Chairman of the Board and Director |
| /s/ Joseph H. Hollinshed<br>Joseph H. Hollinshed<br>Director | /s/ John M. Grantham<br>John M. Grantham<br>Senior Vice President and Director |

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/s/ Robert G. Ray
------------------------------------
Robert G. Ray
Director

/s/ Henry W. Holt
------------------------------------
Henry W. Holt
Director

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EXHIBIT 13

CONTENTS

<TABLE>
<CAPTION>



</TABLE>

SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

| | September 30, | | | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Financial Condition Data: | (Dollars in Thousands, Except Per Share Amounts) | | | | |
| Total assets | $ 177,962 | $ 176,217 | $ 151,028 | $ 150,077 | $ 163,069 |
| Investments (1) | 47,203 | 51,403 | 32,174 | 43,605 | 51,749 |
| Loans receivable, net | 128,946 | 123,148 | 117,201 | 105,094 | 109,499 |
| Savings deposits | 112,642 | 111,385 | 127,483 | 128,334 | 143,220 |
| Stockholders' equity (2) | 62,946 | 62,180 | 22,230 | 20,453 | 18,643 |
| Book value per share | 14.64 | 14.47 | -- | -- | -- |

| | Years Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| Operating Data: | (Dollars in Thousands, Except Per Share Amounts) | | | | |
| Interest and dividend income | $ 13,017 | $ 12,583 | $ 11,124 | $ 10,325 | $ 11,351 |
| Interest expense | 5,377 | 6,232 | 6,119 | 5,489 | 6,557 |
| Net interest income | 7,640 | 6,351 | 5,005 | 4,836 | 4,794 |
| Provision for loan losses | 20 | 10 | -- | 19 | 52 |
| Noninterest income | 104 | 128 | 106 | 145 | 133 |
| Noninterest expense (3) | 3,231 | 3,300 | 2,344 | 2,117 | 2,020 |
| Income before income taxes | 4,493 | 3,169 | 2,767 | 2,845 | 2,855 |
| Income tax expense | 1,716 | 1,099 | 990 | 1,035 | 1,030 |
| Net income | $ 2,777 | $ 2,070 | $ 1,777 | $ 1,810 | $ 1,825 |

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| | | | | | |
|---|---|---|---|---|---|
| Earnings per share (2) (4) | $ 0.67 | $ 0.28 | $ -- | $ -- | $ -- |
| Dividends per share (5) | 0.57 | 0.35 | -- | -- | -- |
| Selected Other Data: | | | | | |
| Return on average assets | 1.58% | 1.22% | 1.21% | 1.16% | 1.12% |
| Return on average equity | 4.41% | 4.93% | 8.29% | 9.23% | 10.24% |
| Interest rate spread | 2.60% | 2.50% | 2.66% | 2.58% | 2.48% |
| Net interest margin | 4.40% | 3.78% | 3.42% | 3.11% | 2.99% |
| Dividend payout ratio | 85% | 125% | -- | -- | -- |
| Average equity to average assets | 36% | 24.76% | 14.57% | 12.52% | 10.98% |
| Nonperforming loans to total loans (6) | 0.13% | .25% | .27% | .39% | .35% |

</TABLE>

(1) Includes interest earning deposits, federal funds, and investment securities.
(2) On April 3, 1996, Home Federal Savings and Loan Association converted from a federally chartered mutual savings association to a federally chartered stock savings association and became a wholly owned subsidiary of Green Street Financial Corp.
(3) Includes nonrecurring insurance assessment of $792,868 during 1996.
(4) Earnings per share is based on earnings from April 3, 1996 to September 30, 1996 divided by the weighted average common stock equivalent number of shares outstanding during that period. See Note 1 to the consolidated financial statements.
(5) Dividends per share is based on dividends paid or declared on total outstanding shares.
(6) Nonperforming loans is comprised of loans delinquent 90 days or more.



## Report to Stockholders

Effective April 3, 1996, Home Federal Savings & Loan ("Home Federal") converted from mutual to stock ownership and became the wholly-owned subsidiary of Green Street Financial Corp, a holding company which was formed in connection with the conversion.

This second annual report of Green Street Financial Corp reflects the financial results of the Holding Company and Home Federal on a consolidated basis for the year ended September 30, 1997. Earnings for the year ended September 30, 1997 were $2.8 million and represent an increase of $.7 million over 1996. Earnings in 1996 were negatively impacted by federal legislation to recapitalize the Savings Association Insurance Fund ("SAIF"), signed into law on September 30, 1996. Green Street Financial Corp declared dividends of $2.5 million, or $0.57 per share in the year ended September 30, 1997.

On behalf of the Board of Directors and employees, I wish to thank you for your support and confidence. The trust that you have placed in us through your investment is gratifying, and we pledge our efforts to enhance the value of your stock through the safe and sound operation of the Corporation.

Sincerely,

/s/ H.D. Reaves, Jr.
H. D. Reaves, Jr.
President



GREEN STREET FINANCIAL CORP AND SUBSIDIARY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### General

Green Street Financial Corp (the "Corporation") was incorporated under the laws of the State of North Carolina for the purpose of becoming the savings and loan holding company of Home Federal Savings and Loan (the "Association" or "Home Federal") in connection with the Association's conversion from a federally

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chartered mutual savings and loan association to a federally chartered stock savings and loan association, pursuant to its Plan of Conversion. The Corporation was organized in December 1995 to acquire all of the common stock of Home Federal upon its conversion to stock form. A subscription and community offering of the Corporation's shares closed on April 3, 1996, at which time the Corporation acquired all of the shares of the Association and commenced operations.

In accordance with the Plan of Conversion, the Corporation issued common stock of $42,981,250 (including $2,600,000 in shares purchased by the ESOP), and received proceeds of $39,126,861, net of conversion costs. The Corporation transferred $20,863,430 of the net proceeds to Home Federal for the purchase of all of the capital stock of the Association.

The Corporation has no operations and conducts no business of its own other than owning Home Federal, investing its portion of the net proceeds received in the Conversion, and lending funds to the Employee Stock Ownership Plan (the "ESOP") which was formed in connection with the Conversion. The principal business of the Association is accepting deposits from the general public and using those deposits and other sources of funds to make loans secured by real estate and other forms of collateral located in the Association's primary market area of Cumberland and Robeson counties in North Carolina.

Home Federal's results of operations depend primarily on its net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. The Association's operations are also affected by noninterest income, such as miscellaneous income from loans, customer deposit account service charges, and other sources of revenue. The Association's principal operating expenses, aside from interest expense, consist of compensation and associated benefits, federal deposit insurance premiums, occupancy costs, advertising, and other general and administrative expenses.

The following discussion and analysis is intended to assist readers in understanding the results of operations in 1997, 1996 and 1995, and changes in financial position for the years ended September 30, 1997 and 1996, respectively.





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## Comparison of Financial Condition at September 30, 1997 and 1996

Total consolidated assets increased by $1.8 million during 1997, from $176.2 million at September 30, 1996 to $178.0 million at September 30, 1997. The increase resulted primarily from savings growth of $1.3 million.

Loans receivable increased by approximately $5.8 million during 1997 to $128.9 million at September 30, 1997. The markets in which the Association operates have experienced consistent growth in recent years, and although diversification of the economic base continues to occur, the local economies remain substantially dependent on the large military installations situated in the Association's lending markets.

Savings deposits increased by approximately $1.3 million during 1997 and totaled $112.6 million at September 30, 1997. The Association increased interest rates on savings accounts during the year in order to increase deposits.

The Corporation had no outstanding borrowings during 1997 or 1996. However, the Association has borrowing capacity through the Federal Home Loan Bank of Atlanta.

The Corporation's return on average assets was 1.58% and 1.22%, and its return on average equity was 4.41% and 4.93%, for 1997 and 1996, respectively. The return on average assets in 1996 would have been 1.55% had the Association not been required to expense the special SAIF assessment during 1996. The decline in the return on average equity for 1996 and 1997 from 8.29% in 1995, was due primarily to the substantial increase in equity caused by the infusion of the stock offering proceeds. The passage of the "Deposit Insurance Funds Act of 1996" was undertaken to recapitalize the SAIF insurance fund of the FDIC and required a one time assessment to the Association of 65.7 basis points of its assessable deposit base as of March 31, 1995. The expense recorded for this special assessment amounted to $792,868 (See Note 6 to the consolidated financial statements).

The Association is required to meet certain capital requirements as established by the OTS. At September 30, 1997, the Association's capital was significantly in excess of regulatory capital requirements (See Note 15 to the consolidated financial statements).

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GREEN STREET FINANCIAL CORP AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Comparison of Operating Results for 1997, 1996 and 1995

Net Income

Net income for the years ended September 30, 1997, 1996 and 1995 was $2.8 million, $2.1 million and $1.8 million, respectively. Net income in 1996 would have been approximately $500,000 higher than the earnings reported without the expense associated with the special assessment that occurred as a result of the Federal legislation to recapitalize the Savings Association Insurance Fund ("SAIF"). Earnings on the invested proceeds from the stock offering had a significant positive impact on net interest income and net income during 1997 and 1996.

Net Interest Income

Net interest income represents the difference between income derived from interest-earning assets and interest expense incurred on interest-bearing liabilities. Net interest income is affected by both (i) the difference between the rates of interest earned on interest-earning assets and the rates paid on interest-bearing liabilities ("interest rate spread") and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities outstanding during the period. See the table on page 13 which details the average balances, yields and costs of interest earning assets and interest bearing liabilities and the rate/volume table on page 14 which explains the changes in interest income, interest expense, and net interest income attributable to changes in volume and interest rates during 1997, 1996 and 1995.

Net interest income increased by $1,289,371 or 20.3% to $7,640,101 for the year ended September 30, 1997 from $6,350,730 reported in 1996. Net interest income amounted to $5,005,008 in 1995. The increase in net interest income during 1997 was attributable to an increase in the average balance of interest earning assets and a decline in interest paid on deposits. Net interest income increased by $1,345,722 from 1995 to 1996 primarily due to a $21.7 million increase in the average balance of interest earning assets as a result of the stock issuance.

Interest Income

Total interest income increased to $13,017,519 for 1997 from $12,582,992 in 1996, an increase of $434,527 or 3.5%. The increase during 1997 was attributable to an increase in the average balance of interest earning assets over the previous year. The increase in interest income during 1996 was attributable to a $21.7 million increase in the average balance of interest earning assets due to the proceeds received from the stock issuance. The Association's overall yield on interest earning assets increased slightly during 1997, from 7.48% in 1996 to 7.50% in 1997. The Association's overall yield on interest earning assets declined slightly during 1996, from 7.59% in 1995 to 7.48% in 1996.





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Interest Expense

Total interest expense decreased to $5,377,418 in 1997 from $6,232,262 in 1996, a decrease of $854,844 or 13.7%. The Association's average balance of deposits decreased substantially in 1997 from 1996 and had a material impact on the decrease in interest expense. Home Federal's cost of funds was 4.91% in 1997 as compared to 4.98% in 1996.

Provision For Loan Losses

The Association's provision for loan losses amounted to approximately $20,000, $10,000 and $-0- for the years ended September 30, 1997, 1996 and 1995, respectively. The provision, which is charged to operations, and the resulting loan loss allowances are amounts Home Federal's management believes will be adequate to absorb losses on existing loans that may become uncollectible. Loans

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are charged-off against the allowance when management believes that collectibility is unlikely. An evaluation to increase the provision and resulting allowances is based on factors, such as changes in the nature and volume of the loan portfolio, overall portfolio quality, and current economic conditions.

The Association's level of nonperforming loans, defined as loans past due 90 days or more, is relatively insignificant as a percentage of total loans outstanding and amounted to .13%, .25%, and .27% at September 30, 1997, 1996 and 1995, respectively. Home Federal had no loans charged-off during the three-year period ended September 30, 1997.

Noninterest Income

Noninterest income amounted to $103,983, $127,943 and $105,906 in 1997, 1996 and 1995, respectively. Noninterest income consists primarily of service charges and fees associated with the Association's loan and savings accounts as well as income from insurance commissions and rental of office space.

Noninterest Expense

Noninterest expense consists primarily of operating expenses for compensation and associated benefits, occupancy, federal insurance premiums and operating assessments, advertising costs, and data processing charges as well as expenses associated with general administration. Noninterest expenses amounted to $3,231,172, $3,300,001 and $2,343,505 in 1997, 1996 and 1995, respectively. During 1996, the Association accrued and expensed $792,868 for a special assessment required to recapitalize the SAIF of the FDIC. Without such charge, noninterest expense for 1996 would have been $2,507,133, or approximately 7.0% higher than in 1995.





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Noninterest Expense (Continued)

Compensation and employee benefits increased by $821,441 during 1997 from $1,458,435 in 1996 to $2,279,876 in 1997. The primary cause for the increase was the expense associated with forming the Restricted Stock Plan ("RSP") during 1997. Compensation and employee benefits increased by $94,303 during 1996 from $1,364,132 in 1995 primarily as a result of forming the ESOP during 1996. Deposit insurance, excluding the special assessment in 1996, fluctuates with the level of deposits outstanding during the periods. Occupancy, advertising and data processing charges did not change significantly during the three year period ended September 30, 1997. Increases in other general administrative expense during 1997 and 1996 were attributable to various costs associated with operating as a public company. It is expected that noninterest expense will remain above pre-conversion levels as a result of benefit plans and other costs associated with operating as a public company. Expected reductions in deposit insurance premiums are anticipated to only partially offset these expected higher costs.

In 1996, the FDIC imposed a special assessment on all institutions with SAIF-assessable deposits in the amount necessary to recapitalize the SAIF. As implemented by the FDIC, institutions with SAIF-assessable deposits paid a special assessment, subject to adjustment. The Corporation charged $792,868 against pretax earnings for the quarter ended September 30, 1996 for this assessment.

Income Taxes

The Corporation's effective income tax rate was 38.20%, 34.68% and 35.79% in 1997, 1996, and 1995, respectively. The differences in rates were due to changes in the components of permanent tax differences. (See Note 14 to the consolidated financial statements.)

## Impact of Inflation and Changing Prices

The consolidated financial statements and accompanying footnotes have been prepared in accordance with generally accepted accounting principles ("GAAP"), which require the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The assets and liabilities of the Corporation are primarily monetary in nature and changes in interest rates have a greater impact on the Corporation's performance than do the effects of inflation.



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## Future Reporting Requirements

The Financial Accounting Standards Board has issued SFAS No. 128, Earnings Per Share and SFAS No. 130, Reporting Comprehensive Income both of which the Association has not been required to adopt as of September 30, 1997.

SFAS No. 128, Earnings Per Share, which will be in effect for the Association's quarterly reporting beginning December 31, 1997, establishes standards for computing and presenting earnings per share ("EPS") and applies to entities with publicly held common stock or potential common stock. The Statement simplifies the standards for computing earnings per share previously found in APB Opinion No. 15, Earnings per Share, and makes them comparable to international EPS standards. It replaces the presentation of primary EPS with a presentation of basic EPS. It also requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the diluted EPS computation. It is not expected that this statement will materially effect the calculation of the Corporation's earnings per share.

SFAS No. 130, Reporting Comprehensive Income, establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. The Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Statement does not require a specific format for that financial statement but requires that an enterprise display an amount representing total comprehensive income for the period in that financial statement. The Statement requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. It is not expected that this statement will materially effect the presentation of the Corporation's comprehensive income.

## Special Note Regarding Forward-Looking Statements

Statements herein regarding estimated future expense levels and other matters may constitute forward-looking statements under the federal securities laws. Such statements are subject to certain risks and uncertainties. Undue reliance should not be placed on this information. These estimates are based on the current expectations of management, which may change in the future due to a large number of potential events, including unanticipated future developments.





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## Capital Resources and Liquidity

During 1997, Green Street Financial Corp paid a regular quarterly dividend of $.10 a share on January 22, 1997 and April 23, 1997, a regular quarterly dividend of $.11 a share on July 23, 1997 and declared a regular quarterly and a special dividend of $.11 and $.15 a share, respectively, on September 30, 1997 to be paid on October 22, 1997 to stockholders of record as of October 10, 1997. Although the Corporation anticipates that it will continue to declare cash dividends on a regular basis, the Board of Directors will continue to review its policy on the payment of dividends on an ongoing basis, and such payment will be subject to future earnings, cash flows, capital needs, and regulatory restrictions.

The objective of the Corporation's liquidity management is to ensure the availability of sufficient cash flows to meet all financial commitments and to capitalize on opportunities to enhance stockholders' value. More specifically, liquidity ensures that adequate funds are available to meet deposit withdrawals, fund loan and capital expenditure commitments, maintain reserve requirements, pay operating expenses and dividends to stockholders, and other institutional commitments. Funds are primarily provided through financial resources from operating activities, expansion of the deposit base, the maturity of investments, or the ability to raise equity capital.

During the year ended September 30, 1997, cash and cash equivalents, a

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significant source of liquidity, decreased by approximately $2.4 million. Cash and cash equivalents increased by $6.8 million during 1996. Cash flow resulting from internal operating activities provided increases of $2.6 million and $2.5 million in cash during the years ended September 30, 1997 and 1996, respectively. Deposits increased by $1.3 million during 1997. For 1996, financing activities provided sources of funds for asset growth and liquidity. For the year ended September 30, 1996, deposits decreased by $16.1 million but proceeds from the stock offering provided an additional $39.1 million of cash. The proceeds from the stock offering were used primarily to fund investment and loan growth as well as enable the Association to fund deposit outflows. The Association's ability to generate deposits has historically been sufficient to fund its loan demand and provide for adequate liquidity without the need to access other forms of credit availability. The recent stock offering will also enhance the Association's ability to grow, and lessen to some extent its reliance on its deposit base for financing its operations. In addition, the Association has a readily available source of credit through its borrowing capacity at the Federal Home Loan Bank of Atlanta.

Cash provided by operating and financing activities is used to originate new loans to customers, to maintain liquid investment portfolios, and to meet short term liquidity requirements. During 1997 and 1996, loans outstanding increased by $5.8 million and $6.2 million, respectively. During 1997 and 1996, the Corporation purchased investment securities amounting to $27.0 million and $12.0 million, respectively.

As a federally chartered savings association, Home Federal must maintain a daily average balance of liquid assets equal to at least 5% of withdrawable deposits and short-term borrowings. The Association's liquidity ratio at September 30, 1997, as computed under OTS regulations, was considerably in excess of such requirements. Given its excess liquidity and its ability to borrow from the Federal Home Loan Bank, the Association believes that it will have sufficient funds available to meet anticipated future loan commitments, unexpected deposit withdrawals, and other cash requirements.





## Asset/Liability Management

Home Federal's asset/liability management, or its management of interest rate risk, is focused primarily on evaluating and managing the Association's net interest income given various risk criteria. Factors beyond the Association's control, such as market interest rates and competition, may also have an impact on the Association's interest income and interest expense. In the absence of other factors, the Association's overall yield on interest-earning assets will increase as will its cost of funds on its interest-bearing liabilities when market rates increase over an extended period of time. Inversely, the Association's yields and cost of funds will decrease when market rates decline. The Association is able to manage these swings to some extent by attempting to control the maturity or rate adjustments of its interest-earning assets and interest-bearing liabilities over given periods of time.

In order to encourage savings associations to reduce their interest rate risk, the OTS adopted a rule incorporating an interest rate risk ("IRR") component into the risk-based capital rules. However, this rule is not yet in effect. The IRR component is a dollar amount that will be deducted from total capital for the purpose of calculating an institution's risk-based capital requirement and is measured in terms of the sensitivity of its net portfolio value ("NPV") to changes in interest rates. NPV is the difference between incoming and outgoing discounted cash flows from assets, liabilities, and off-balance sheet contracts. An institution's IRR is measured as the change to its NPV as a result of a hypothetical 200 basis point ("bp") change in market interest rates. A resulting change in NPV of more than 2% of the estimated present value of total assets ("PV") will require the institution to deduct from its capital 50% of that excess change. The rules provide that the OTS will calculate the IRR component quarterly for each institution. The following table presents the Association's NPV at September 30, 1997, as calculated by the OTS, based on quarterly information voluntarily provided to the OTS by the Association. Certain assumptions utilized by the OTS in assessing the interest rate risk of savings associations were employed in preparing the table. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the market values of certain assets under the various interest rate scenarios. It was also assumed that delinquency rates will not change as a result of changes in interest rates although there can be no assurance that this will be the case. Even if interest rates change in the designated amounts, there can be no assurance that the Association's assets and liabilities would perform as set forth below.

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As a result, certain shortcomings are inherent in the following NPV table because the data reflects hypothetical changes in NPV based upon assumptions used by the OTS to evaluate the Association as well as other institutions. However, based on the data below, net interest income should decline with instantaneous increases in interest rates while net interest income should increase with instantaneous declines in interest rates. Generally during periods of increasing interest rates, the Association's interest rate sensitive liabilities would reprice faster than its interest rate sensitive assets causing a decline in the Association's interest rate spread and margin. This would result from an increase in the Association's cost of funds that would not be immediately offset by an increase in its yield on earning assets. An increase in the cost of funds without an equivalent increase in the yield on earning assets would tend to reduce net interest income. In times of decreasing interest rates, fixed rate assets could increase in value and the lag in repricing of interest rate sensitive assets could be expected to have a positive effect on the Association's net interest income.





Asset/Liability Management (Continued)

<TABLE>
<CAPTION>

| | Net Portfolio Value | | | NPV as a % of PV of Assets | |
|---|---|---|---|---|---|
| Change in Rates | $ Amount | $ Change (1) | % Change (2) | NPV Ratio (3) | Change (4) |
| <S> | <C> | <C> | <C> | <C> | <C> |
| +400 bp | 35,123 | (13,662) | -28 % | 23.95 % | -607 bp |
| +300 bp | 38,653 | (10,131) | -21 % | 25.65 % | -437 bp |
| +200 bp | 42,227 | (6,558) | -13 % | 27.27 % | -275 bp |
| +100 bp | 45,693 | (3,091) | -6 % | 28.76 % | -126 bp |
| 0 bp | 48,784 | -- | -- | 30.02 % | -- |
| -100 bp | 50,924 | 2,140 | +4 % | 30.82 % | + 80 bp |
| -200 bp | 52,360 | 3,576 | +7 % | 31.30 % | +128 bp |
| -300 bp | 54,009 | 5,225 | +11 % | 31.85 % | +183 bp |
| -400 bp | 56,125 | 7,341 | +15 % | 32.58 % | +256 bp |

</TABLE>

(1) Represents the excess (deficiency) of the estimated NPV assuming the indicated change in interest rates minus the estimated NPV assuming no change in interest rates.
(2) Calculated as the amount of change in the estimated NPV divided by the estimated NPV assuming no change in interest rates.
(3) Calculated as the estimated NPV divided by present value of total assets.
(4) Calculated as the excess (deficiency) of the NPV ratio assuming the indicated change in interest rates over the estimated NPV ratio assuming no change in interest rates.

At September 30, 1997, a change in interest rates of a positive 200 basis points would have resulted in a 275 basis point decrease in NPV as a percentage of the present value of the Association's total assets. Utilizing the OTS IRR measurement described above, at September 30, 1997 the Association would have been considered by the OTS to have been subject to "above normal" IRR. However the Association is substantially in excess of its required risk-based capital requirement at September 30, 1997 and would continue to be so even if the IRR component rule was implemented by the OTS.

In order to minimize the potential effects of adverse material and prolonged increases or decreases in market interest rates on the Association's operations, management has implemented an asset/liability program designed to improve the Association's interest rate sensitivity. The program emphasizes the origination of adjustable rate loans, which are held in the portfolio, the investment of excess cash in short or intermediate term interest earning assets, and the solicitation of passbook or transaction deposit accounts which are less sensitive to changes in interest rates and can be repriced rapidly.



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MARKET RISK ANALYSIS
September 30, 1997

<TABLE>
<CAPTION>

| | Expected Maturity Date | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Year Ended September 30, | | | | | | | |
| | 1998 | 1999 | 2000 | 2001 | 2002 | Thereafter | Total | Fair Value |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Assets: | | | | | | | | |
| Loans - fixed: | | | | | | | | |
| Balance | $ 538,865 | $ 210,586 | $ 500,189 | $ 576,298 | $1,950,162 | $75,656,918 | $79,433,018 | $79,678,266 |
| Interest rate | 10.34% | 9.33% | 9.01% | 9.75% | 8.95% | 8.43% | 8.70% | -- |
| Loans - variable: | | | | | | | | |
| Balance | 51,677,634 | 551,100 | -- | -- | -- | -- | 52,228,734 | 52,228,734 |
| Interest rate | 7.24% | 7.18% | -- | -- | -- | -- | 7.20% | -- |
| Investments (1): | | | | | | | | |
| Balance | 33,087,640 | -- | -- | 1,500,000 | 9,000,000 | 3,000,000 | 46,587,640 | 46,642,956 |
| Interest rate | 5.65% | -- | -- | 7.20% | 6.84% | 7.07% | 6.02% | -- |
| Liabilities: | | | | | | | | |
| Deposits (2): | | | | | | | | |
| Balance | 27,249,725 | -- | -- | -- | -- | -- | 27,249,725 | 27,249,725 |
| Interest rate | 3.52% | -- | -- | -- | -- | -- | 3.52% | -- |
| Deposits - certificates: | | | | | | | | |
| Balance | 64,154,344 | 9,818,585 | 4,312,547 | 7,039,871 | 66,821 | -- | 85,392,168 | 85,439,000 |
| Interest rate | 5.60% | 5.94% | 5.98% | 6.00% | 8.00% | -- | 5.70% | -- |

</TABLE>

(1) Includes deposits, federal funds, and held to maturity investment securities.
(2) Includes Passbook Accounts, NOW Accounts, Super NOW Accounts, Money Market Funds and accrued interest.



Average Balances, Interest, Yields and Costs

The following table sets forth certain information relating to the Corporation's average balance sheet and reflects the average yield on assets and average cost of liabilities at and for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented. Average balances are derived from month-end balances. Management does not believe that the use of month-end balances instead of daily average balances has caused a material difference in the information presented.

<TABLE>
<CAPTION>

| | At September 30, 1997 | | Year Ended September 30, 1997 | | | 1996 | | | 1995 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actual Balance | Average Yield\Cost | Average Balance | Interest | Average Yield/Cost | Average Balance | Interest | Average Yield/Cost | Average Balance | Interest | Average Yield/Cost |
| | | | | | | (Dollars in Thousands) | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Assets: | | | | | | | | | | | |
| Interest earning assets: | | | | | | | | | | | |
| Interest-bearing deposits | $ 32,533 | 5.65% | $ 33,447 | $ 1,838 | 5.50% | $ 40,508 | $ 2,206 | 5.45% | $ 30,850 | $ 1,766 | 5.72% |
| Investments, at cost | 14,671 | 6.66% | 14,545 | 977 | 6.72% | 6,656 | 480 | 7.21% | 3,416 | 249 | 7.29% |
| Loans receivable | 128,946 | 7.91% | 125,520 | 10,202 | 8.13% | 121,024 | 9,897 | 8.18% | 112,201 | 9,109 | 8.12% |
| Total interest-earning assets | 176,150 | 7.39% | 173,512 | $13,017 | 7.50% | 168,188 | $12,583 | 7.48% | 146,467 | $11,124 | 7.59% |
| Non-interest-earning assets | 1,812 | | 1,628 | | | 1,322 | | | 701 | | |

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| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total | $177,962 | | $175,140 | | | $169,510 | | | $147,168 | | |
| Liabilities and retained earnings: | | | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | | | |
| Passbook accounts | $ 12,991 | 3.33% | $ 14,237 | $ 432 | 3.03% | $ 20,068 | $ 548 | 2.73% | $ 15,870 | $ 576 | 3.63% |
| MMDA accounts | 14,225 | 3.99% | 14,175 | 567 | 4.00% | 14,344 | 583 | 4.06% | 14,845 | 622 | 4.19% |
| Certificates of deposit | 85,392 | 5.13% | 81,205 | 4,378 | 5.39% | 90,779 | 5,101 | 5.62% | 93,281 | 4,921 | 5.28% |
| Total interest-bearing liabilities | 112,608 | 4.77% | 109,617 | $ 5,377 | 4.91% | 125,191 | $ 6,232 | 4.98% | 123,996 | $ 6,119 | 4.93% |
| Non-interest-bearing liabilities | 2,408 | | 2,476 | | | 2,354 | | | 1,727 | | |
| Stockholders' Equity | 62,946 | | 63,047 | | | 41,965 | | | 21,445 | | |
| Total | $177,962 | | $175,140 | | | $169,510 | | | $147,168 | | |
| Net interest income and interest rate spread (1) | | 2.61% | | $ 7,640 | 2.60% | | $ 6,351 | 2.50% | | $ 5,005 | 2.66% |
| Net yield on interest-earning assets (2) | | 4.34% | | | 4.40% | | | 3.78% | | | 3.42% |
| Ratio of interest-earning assets to interest-bearing liabilities | | 156.43% | | | 158.29% | | | 134.35% | | | 118.12% |

</TABLE>

(1) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(2) Net yield on interest-earning assets represents net interest income divided by average interest-earning assets.



Rate/Volume Analysis

The following table analyzes the dollar amount of changes in interest income and interest expense for major components of the Corporation's interest earning assets and interest bearing liabilities. The table distinguishes between (1) changes in net interest income attributable to volume (changes in volume multiplied by the prior period's interest rate), (ii) changes in net interest income attributable to rate (changes in interest rates multiplied by the prior period's volume), and (iii) mixed changes (changes in volume multiplied by changes in rates).

<TABLE>
<CAPTION>

| | Year Ended September 30, 1997 vs. 1996 | | | | Year Ended September 30, 1996 vs. 1995 | | | |
|---|---|---|---|---|---|---|---|---|
| | Increase (Decrease) Attributable to | | | | Increase (Decrease) Attributable to | | | |
| | Volume | Rate | Rate/ Volume | Net | Volume | Rate | Rate/ Volume | Net |
| | (Dollars in Thousands) | | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Interest income on: | | | | | | | | |
| Interest earning deposits | $ (385) | $ 20 | $ (3) | $ (368) | $ 553 | $ (86) | $ (27) | $ 440 |
| Investments, at cost | 569 | (33) | (39) | 497 | 236 | (3) | (2) | 231 |
| Loan receivable | 368 | (60) | (2) | 305 | 716 | 66 | 6 | 788 |
| Total interest income on interest-earning assets | 552 | (73) | (45) | 434 | 1,505 | (23) | (23) | 1,459 |
| Interest expense on: | | | | | | | | |
| Passbook accounts | (159) | 61 | (18) | (116) | 152 | (143) | (37) | (28) |
| MMDA accounts | (7) | (9) | 0 | (16) | (21) | (19) | 1 | (39) |
| Certificates of deposit | (538) | (207) | 22 | (723) | (132) | 321) | (9) | 180 |

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| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total interest expense on interest-bearing liabilities | (704) | (155) | 4 | (855) | (1) | 159 | (45) | 113 |
| Increase (decrease) in net interest income | $ 1,256 | $ 82 | $ (49) | $ 1,289 | $ 1,506 | $ (182) | $ 22 | $ 1,346 |

</TABLE>



[LOGO]

MCGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Green Street Financial Corp
Fayetteville, North Carolina

We have audited the accompanying consolidated statements of financial condition of Green Street Financial Corp and subsidiary as of September 30, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three year period ended September 30, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Green Street Financial Corp and subsidiary as of September 30, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three year period ended September 30, 1997, in conformity with generally accepted accounting principles.

/s/ McGladrey & Pullen, LLP

Raleigh, North Carolina
October 23, 1997



GREEN STREET FINANCIAL CORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
September 30, 1997 and 1996

<TABLE>
<CAPTION>

| ASSETS | 1997 | 1996 |
|---|---|---|
| <S> | <C> | <C> |
| Cash and short-term cash investments: | | |
| Interest-bearing | $ 29,414,597 | $ 33,107,849 |
| Noninterest-bearing | 555,043 | 249,345 |
| Federal funds sold | 3,118,000 | 2,124,712 |
| Investment securities: (Note 2) | | |
| Held to maturity | 13,500,000 | 14,999,179 |
| Nonmarketable equity securities | 1,170,889 | 1,170,889 |

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| | | |
|---|---|---|
| Loans receivable, net (Note 3) | 128,945,951 | 123,147,779 |
| Accrued interest receivable, investments | 222,716 | 255,566 |
| Real estate acquired in settlement of loans | -- | 34,425 |
| Property and equipment, net (Note 4) | 306,794 | 330,260 |
| Prepaid expenses and other assets (Note 12) | 727,688 | 675,084 |
| Deferred tax assets (Note 14) | -- | 122,000 |
| Total assets | $ 177,961,678 | $ 176,217,088 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits (Note 5) | $ 112,641,893 | $ 111,385,386 |
| Advance payments by borrowers for taxes and insurance | 250,662 | 179,444 |
| Accrued expenses and other liabilities | 348,080 | 174,607 |
| Special SAIF assessment (Note 6) | -- | 792,868 |
| Dividends payable | 1,117,513 | 1,074,531 |
| Deferred compensation (Note 7) | 387,847 | 405,233 |
| Deferred income taxes (Note 14) | 27,000 | -- |
| Income taxes payable | 243,000 | 25,000 |
| Total liabilities | 115,015,995 | 114,037,069 |
| Commitments and contingencies (Notes 8, 10, 11 and 16) | | |
| Stockholders' Equity (Note 15): | | |
| Preferred stock, authorized 1,000,000 shares; none issued | -- | -- |
| Common stock, no par value, authorized 10,000,000 shares; issued and outstanding 4,298,125 shares | -- | -- |
| Additional paid-in capital | 41,816,239 | 41,767,226 |
| Note receivable, ESOP (Note 9) | (2,210,000) | (2,470,000) |
| Retained earnings, substantially restricted (Note 15) | 23,339,444 | 22,882,793 |
| | 62,945,683 | 62,180,019 |
| | $ 177,961,678 | $ 176,217,088 |

</TABLE>

See Notes to Consolidated Financial Statements



GREEN STREET FINANCIAL CORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
Years Ended September 30, 1997, 1996 and 1995

<TABLE>
<CAPTION>

| <S> | 1997 <C> | 1996 <C> | 1995 <C> |
|---|---|---|---|
| Interest and dividend income: | | | |
| Loans | $10,202,266 | $ 9,897,134 | $ 9,108,701 |
| Short-term cash investments | 1,837,998 | 2,206,230 | 1,766,248 |
| Investment securities | 977,255 | 479,628 | 248,652 |
| Total interest income | 13,017,519 | 12,582,992 | 11,123,601 |
| Interest on deposits (Note 5) | 5,377,418 | 6,232,262 | 6,118,593 |
| Net interest income | 7,640,101 | 6,350,730 | 5,005,008 |
| Provision for loan losses (Note 3) | 20,000 | 10,073 | -- |
| Net interest income after provision for loan losses | 7,620,101 | 6,340,657 | 5,005,008 |
| Noninterest income: | | | |
| Service charges and fees | 30,447 | 52,595 | 43,119 |
| Other | 73,536 | 75,348 | 62,787 |
| | 103,983 | 127,943 | 105,906 |
| Noninterest expense: | | | |
| Compensation and benefits (Notes 8, 9,10 and 11) | 2,279,876 | 1,458,435 | 1,364,132 |
| Deposit insurance | 155,132 | 334,329 | 336,479 |
| Special SAIF assessment (Note 6) | -- | 792,868 | -- |
| Occupancy expenses | 146,610 | 161,807 | 155,249 |
| Advertising | 161,431 | 137,558 | 159,632 |
| Data processing expense | 91,234 | 97,384 | 93,235 |
| Other | 396,889 | 317,620 | 234,778 |

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| | 1997 | 1996 | 1995 |
|---|---|---|---|
| | 3,231,172 | 3,300,001 | 2,343,505 |
| Income before income taxes | 4,492,912 | 3,168,599 | 2,767,409 |
| Income taxes (credits) (Note 14): | | | |
| Current | 1,567,265 | 1,348,953 | 971,403 |
| Deferred | 149,000 | (250,000) | 19,000 |
| | 1,716,265 | 1,098,953 | 990,403 |
| Net income | $ 2,776,647 | $ 2,069,646 | $ 1,777,006 |
| Earnings per share (Note 1) | $ 0.67 | $ 0.28 | $ -- |
| Weighted average common and common equivalent shares outstanding | 4,116,271 | 4,051,125 | -- |
| Cash dividends per share | $ 0.57 | $ 0.35 | $ -- |

</TABLE>

See Notes to Consolidated Financial Statements



GREEN STREET FINANCIAL CORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended September 30, 1997, 1996 and 1995

<TABLE>
<CAPTION>

| <S> | Additional Paid-in Capital <C> | Note Receivable ESOP <C> | Retained Earnings <C> | Total <C> |
|---|---|---|---|---|
| Balance at September 30, 1994 | $ -- | $ -- | $ 20,453,385 | $ 20,453,385 |
| Net income | -- | -- | 1,777,006 | 1,777,006 |
| Balance at September 30, 1995 | -- | -- | 22,230,391 | 22,230,391 |
| Net income | -- | -- | 2,069,646 | 2,069,646 |
| Net proceeds from issuance of common stock common stock (Note 15) | 39,126,861 | -- | -- | 39,126,861 |
| Purchase of common stock by the ESOP (Note 9) | 2,600,000 | (2,600,000) | -- | -- |
| Repayment of ESOP note | -- | 130,000 | -- | 130,000 |
| ESOP contribution (Note 9) | 40,365 | -- | -- | 40,365 |
| Cash dividends | -- | -- | (1,417,244) | (1,417,244) |
| Balance at September 30, 1996 | 41,767,226 | (2,470,000) | 22,882,793 | 62,180,019 |
| Net income | -- | -- | 2,776,647 | 2,776,647 |
| Repayment of ESOP note | -- | 260,000 | -- | 260,000 |
| ESOP contribution (Note 9) | 182,325 | -- | -- | 182,325 |
| Cash dividends | -- | -- | (2,319,996) | (2,319,996) |
| RSP awards in excess of grant price (Note 10 ) | (133,312) | -- | -- | (133,312) |
| Balance at September 30, 1997 | $ 41,816,239 | $(2,210,000) | $ 23,339,444 | $ 62,945,683 |

</TABLE>

See Notes to Consolidated Financial Statements.



GREEN STREET FINANCIAL CORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 1997, 1996 and 1995

<TABLE>
<CAPTION>

| | 1997 | 1996 | 1995 |
|---|---|---|---|

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| <S> | <C> | <C> | <C> |
|---|---|---|---|
| Cash Flows From Operating Activities | | | |
| Net income | $ 2,776,647 | $ 2,069,646 | $ 1,777,006 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 36,504 | 42,428 | 42,137 |
| Deferred income taxes | 149,000 | (250,000) | 19,000 |
| Accretion of investment discounts | (821) | (5,741) | -- |
| Net gain on disposal of real estate acquired in settlement of loans | (12,354) | (22,104) | (1,220) |
| Provision for loan losses | 20,000 | 10,073 | -- |
| ESOP contribution expense credited to additional paid-in capital | 182,325 | 40,365 | -- |
| Increase (decrease) in reserve for uncollected interest | (10,850) | 2,529 | (16,975) |
| Increase (decrease) in deferred compensation | (17,386) | (5,782) | 14,222 |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in: | | | |
| Prepaid expenses and other assets | (52,604) | (80,283) | (60,427) |
| Refundable income taxes | -- | 12,000 | (12,000) |
| Accrued interest receivable | 32,850 | (138,655) | (56,911) |
| Increase (decrease) in: | | | |
| Accrued expenses and other liabilities | 40,161 | 35,603 | 100,674 |
| Accrued special SAIF assessment | (792,868) | 792,868 | -- |
| Income taxes payable | 218,000 | 25,000 | (12,500) |
| Net cash provided by operating activities | 2,568,604 | 2,527,947 | 1,793,006 |
| Cash Flows From Investing Activities | | | |
| Purchase of held to maturity investment securities | (27,000,000) | (12,000,000) | (2,993,438) |
| Proceeds from maturity of held to maturity investment securities | 28,500,000 | -- | -- |
| Net increase in loans receivable | (5,807,322) | (6,174,422) | (12,130,078) |
| Proceeds from sale of real estate acquired in settlement of loans | 46,779 | 203,013 | 79,158 |
| Purchase of equipment | (13,038) | (20,436) | (15,709) |
| Net cash used in investing activities | (4,273,581) | (17,991,845) | (15,060,067) |

</TABLE>

(Continued)



GREEN STREET FINANCIAL CORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years Ended September 30, 1997, 1996 and 1995

<TABLE>
<CAPTION>

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Cash Flows From Financing Activities | | | |
| Net increase (decrease) in deposits | $ 1,256,507 | $(16,097,559) | $ (850,916) |
| Decrease in advance payments by borrowers for taxes and insurance | 71,218 | (457,085) | (96,688) |
| Net proceeds received from issuance of common stock | -- | 39,126,861 | -- |
| Principal repayments received on ESOP note | 260,000 | 130,000 | -- |
| Cash dividends paid | (2,277,014) | (404,463) | -- |
| Net cash provided by (used in) financing activities | (689,289) | 22,297,754 | (947,604) |
| Net increase (decrease) in cash and cash equivalents | (2,394,266) | 6,833,856 | (14,214,665) |
| Cash and cash equivalents: | | | |
| Beginning | 35,481,906 | 28,648,050 | 42,862,715 |
| Ending | $ 33,087,640 | $ 35,481,906 | $ 28,648,050 |
| Cash and cash equivalents: | | | |
| Cash and short-term investments: | | | |
| Interest-bearing | $ 29,414,597 | $ 33,107,849 | $ 27,472,071 |
| Noninterest-bearing | 555,043 | 249,345 | 638,210 |
| Federal funds sold | 3,118,000 | 2,124,712 | 537,769 |

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| | | | |
|---|---|---|---|
| | $ 33,087,640 | $ 35,481,906 | $ 28,648,050 |
| Supplemental Disclosure of Cash Flow Information | | | |
| Cash payments for: | | | |
| Interest | $ 5,374,888 | $ 6,239,628 | $ 6,144,260 |
| Income taxes | $ 1,349,265 | $ 1,147,800 | $ 997,000 |
| Supplemental Disclosure of Noncash Investing and Financing Activities | | | |
| Transfer from loans to real estate acquired in settlement of loans | $ -- | $ 215,334 | $ 40,190 |
| Dividends declared and accrued | $1,117,513 | $ 1,074,531 | $ -- |
| Stock issued in exchange for note receivable from ESOP | $ -- | $ 2,600,000 | $ -- |

</TABLE>

See Notes to Consolidated Financial Statements.



GREEN STREET FINANCIAL CORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies

Conversion and organization of holding corporation: On April 3, 1996, pursuant to a Plan of Conversion which was approved by its members and regulators, Home Federal Savings and Loan Association ("Home Federal" or the "Association") converted from a federally chartered mutual savings and loan association to a federally chartered stock savings and loan association, and became a wholly-owned subsidiary of Green Street Financial Corp (the "Corporation"). The Corporation was formed in December 1995 to acquire all of the common stock of the Association upon its conversion to stock form. The Corporation has no operations and conducts no business of its own other than owning Home Federal, investing its portion of the net proceeds received in the Conversion, and lending funds to the Employee Stock Ownership Plan (the "ESOP") which was formed in connection with the Conversion.

Nature of business: The Association is a federally chartered operating savings and loan association primarily engaged in the business of obtaining deposits and providing mortgage credit to the general public. The Association's business is conducted primarily in Fayetteville, North Carolina in Cumberland County. The Association's primary regulator is the Office of Thrift Supervision ("OTS") and its deposits are insured by the Savings Association Insurance Fund ("SAIF") of the FDIC.

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

Outlined below are the accounting and reporting policies considered significant by the Corporation:

Principles of consolidation: The consolidated financial statements for the years ended September 30, 1997 and 1996 include the accounts of Green Street Financial Corp and its wholly-owned subsidiary, Home Federal Savings and Loan Association. Green Street Financial Corp was capitalized on April 3, 1996; therefore, the consolidated financial statements include the operations of the Corporation for periods subsequent to April 3, 1996. The financial statements for the year ended September 30, 1995 present only the accounts and operations of Home Federal. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and cash equivalents: For purposes of reporting cash flows, the Corporation considers cash on hand and amounts due from depository institutions, interest-bearing deposits, and federal funds sold to be cash equivalents. At times, the Corporation maintains deposits in correspondent banks in amounts that may be in excess of the FDIC insurance limit.

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GREEN STREET FINANCIAL CORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 1. Nature of Business and Significant Accounting Policies (Continued)

Investment securities: The Association accounts for its investments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115 Accounting for Certain Investments in Debt and Equity Securities. Accordingly, equity securities, which are nonmarketable, do not require classification under SFAS No. 115 and continue to be carried at cost. Securities classified as held to maturity are those debt securities the Corporation has both the intent and the ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for amortization of premiums or accretion of discounts, computed by a method which approximates the interest method over their contractual lives. The Corporation currently has no securities which are classified as available for sale or trading. Gain or loss on sale of securities is recognized when realized and is based upon the specific-identification method.

Loans receivable: Loans receivable are stated at unpaid principal balances, less allowances for loan losses, the undisbursed portion of loans in process, and net deferred loan origination fees and discounts. The loan portfolio consists principally of long-term conventional loans collateralized by first deeds of trust on single-family residences, other residential property and nonresidential property.

Loan fees and discounts: The Association receives fees for originating and servicing loans. The Association defers all origination fees less certain direct costs as an adjustment to yield of the related loans and amortizes such fees into income, using the interest method, over the economic life of the related loans, estimated to be twelve years.

Allowance for loan losses: Provisions for loan losses are charged to operations based on the Association's evaluation of potential losses in its loan portfolio. Losses are charged against the allowance when collectibility is unlikely. The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible based upon evaluations of the collectibility of loans, and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay. While management uses the best information available to make evaluations, future adjustments may be necessary, if economic or other conditions differ substantially from the assumptions used.

The Association follows SFAS No. 114, Accounting by Creditors for Impairment of a Loan as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures. SFAS No. 114, as amended, requires that the Association establish specific loan loss allowances on impaired loans if it is doubtful that all principal and interest due according to the loan terms will be collected. The adoption of SFAS No. 114 did not have an effect on the Association's reporting for impaired loans since the Association had no loans outstanding during the year ended September 30, 1997 which it considers to be impaired. Therefore, there is no specific allowance for impaired loans at September 30, 1997.

Interest income: Interest on loans is recognized over the term of the loans and is calculated primarily using the simple-interest method on principal amounts outstanding. Accrual of interest is generally stopped when the loan becomes 90 days past due. Interest on these loans is recognized only when actually paid by the borrower.



GREEN STREET FINANCIAL CORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 1. Nature of Business and Significant Accounting Policies (Continued)

Property, equipment and depreciation: Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the various classes of assets.

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Real estate acquired in settlement of loans: Real estate acquired in settlement of loans is initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of cost or fair value, minus estimated cost to sell. Costs relating to the development and improvement of the property are capitalized, while holding costs of the property are charged to expense in the period incurred. At September 30, 1997, the Association did not hold any such real estate.

Advance payments by borrowers for taxes and insurance: The Association requires certain borrowers to make monthly payments, in addition to principal and interest, in order to accumulate funds from which the Association can pay the borrowers' property taxes and insurance premiums.

Income taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Earnings per share: The earnings per share computation for 1996 is based on net income earned from the date of Conversion, April 3, 1996, divided by the weighted average number of common and common equivalent shares outstanding from the date of Conversion to the end of the 1996 fiscal year. Subsequently, earnings per share is computed by dividing net income by the weighted average number of common and common equivalent shares outstanding for the year. The computations exclude shares which are unallocated under the employee stock ownership plan.

Fair value of financial instruments: The estimated fair values required under SFAS No. 107, Disclosures About Fair Value of Financial Instruments, have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates. Accordingly, the estimates for the fair value of the Corporation's financial instruments are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

The fair value estimates are based on pertinent information available to management as of September 30, 1997 and 1996, respectively. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates, and therefore, current estimates of fair value may differ significantly from the amounts presented herein. The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:





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Note 1. Nature of Business and Significant Accounting Policies (Continued)

Cash and short term cash investments / federal funds sold / accrued interest receivable: The carrying amounts reported in the statement of financial condition for cash and short-term cash investments, for federal funds sold, and for accrued interest receivable approximates those assets' fair values.

Investment securities: Investment securities consists of US Treasury and agency obligations, Federal Home Loan Bank stock and Central Service Corporation stock. The fair values of the US Treasury and agency obligations are determined based on quoted market values. No ready market exists for the equity securities, and they have no quoted market value. For disclosure purposes, such securities are assumed to have a fair value which is equal to its cost or redemption value.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value for remaining loans has been estimated by discounting the projected future cash flows at September 30, 1997 and 1996, using the rate on those dates at which similar loans would be made to borrowers with similar credit ratings and for similar maturities or repricing periods. The discount rate used has been adjusted by an estimated credit risk factor to approximate

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the adjustment that would be applied in the marketplace for any nonperforming loans. Certain prepayment assumptions have also been made depending upon the original contractual lives of the loans.

Deposits: The fair value of deposits with no stated maturities, including transaction accounts and passbook savings accounts is estimated to be equal to the amount payable on demand as of September 30, 1997 and 1996. The fair value of certificates of deposit is based upon the discounted value of future contractual cash flows. The discount rate is estimated using the rates offered on September 30, 1997 and 1996 for deposits of similar remaining maturities.

Off-balance-sheet commitments: Because the Association's commitments, which consist entirely of loan commitments, are either short-term in nature or subject to immediate repricing, no fair value has been assigned to these off-balance-sheet items.

Future Reporting Requirements: The Financial Accounting Standards Board has issued SFAS No. 128, Earnings Per Share and SFAS No. 130, Reporting Comprehensive Income both of which the Association has not been required to adopt as of September 30, 1997.

SFAS No. 128, Earnings per Share, which will be in effect for the Association's quarterly reporting beginning December 31, 1997, establishes standards for computing and presenting earnings per share ("EPS") and applies to entities with publicly held common stock or potential common stock. The Statement simplifies the standards for computing earnings per share previously found in APB Opinion No. 15, Earnings per Share, and makes them comparable to international EPS standards. It replaces the presentation of primary EPS with a presentation of basic EPS. It also requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the diluted EPS computation. It is not expected that this statement will materially effect the calculation of the Corporation's earnings per share.





Note 1. Nature of Business and Significant Accounting Policies (Continued)

SFAS No. 130, Reporting Comprehensive Income, establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. The Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Statement does not require a specific format for that financial statement but requires that an enterprise display an amount representing total comprehensive income for the period in that financial statement. The Statement requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. It is not expected that this statement will materially affect the presentation of the Corporation's comprehensive income.





Note 2. Investment Securities

The amortized cost and estimated market value of investment securities are as follows at September 30, 1997 and 1996:

<TABLE>
<CAPTION>

| | 1997 | | |
|---|---|---|---|
| | Gross | Gross | Estimated |

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| | Amortized Cost | Unrealized Gains | Unrealized Losses | Market Value |
|---|---|---|---|---|
| Held to maturity: | | | | |
| Debt securities: | | | | |
| US Agency obligations | $ 13,500,000 | $ 55,316 | $ -- | $13,555,316 |
| Nonmarketable equity securities: | | | | |
| Federal Home Loan Bank Stock | 1,126,400 | -- | -- | 1,126,400 |
| Central Service Corporation Stock | 44,489 | -- | -- | 44,489 |
| | 1,170,889 | -- | -- | 1,170,889 |
| | $ 14,670,889 | $ 55,316 | $ -- | $14,726,205 |

| | 1996 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
| Held to maturity: | | | | |
| Debt securities: | | | | |
| US Treasury obligations | $ 2,999,179 | $ 16,760 | $ -- | $ 3,015,939 |
| US Agency obligations | 12,000,000 | 22,974 | -- | 12,022,974 |
| | 14,999,179 | 39,734 | -- | 15,038,913 |
| Nonmarketable equity securities: | | | | |
| Federal Home Loan Bank Stock | 1,126,400 | -- | -- | 1,126,400 |
| Central Service Corporation Stock | 44,489 | -- | -- | 44,489 |
| | 1,170,889 | -- | -- | 1,170,889 |
| | $16,170,068 | $ 39,734 | $ -- | $16,209,802 |

The Association, as a member of the Federal Home Loan Bank system, is required to maintain an investment in capital stock of the Federal Home Loan Bank in an amount equal to the greater of one percent of its outstanding residential mortgage loans or one-twentieth of its outstanding advances. No ready market exists for the stock, and it has no quoted market value. For disclosure purposes, such stock is assumed to have a market value equal to its cost. The Central Service Corporation stock is also of limited marketability and is assumed to have a market value equal to its cost.





Note 2. Investment Securities (Continued)

The amortized cost and estimated fair value of debt securities in the "held to maturity" category at September 30, 1997 by contractual maturity are as shown below. The Corporation has no debt securities classified as "available for sale" at September 30, 1997.

| | 1997 | |
|---|---|---|
| | Amortized Cost | Estimated Market Value |
| Held to maturity: | | |
| Due in one year through five years | $10,500,000 | $10,551,566 |
| Due after five years | 3,000,000 | 3,003,750 |

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| | | |
|---|---|---|
| | $13,500,000 | $13,555,316 |

</TABLE>

There were no sales of investment securities during 1997, 1996 or 1995.

Note 3. Loans Receivable

Loans receivable consist of the following:

<TABLE>
<CAPTION>

| | 1997 | 1996 |
|---|---|---|
| Mortgage loans: | | |
| Residential one-to-four family | $106,083,836 | $102,011,126 |
| Residential multifamily | 7,527,305 | 5,578,541 |
| Nonresidential real estate | 14,172,176 | 15,544,319 |
| Residential construction | 3,444,852 | 2,947,667 |
| Installment loans | 433,583 | 141,868 |
| | 131,661,752 | 126,223,521 |
| Less: | | |
| Allowance for loan losses | 254,763 | 234,763 |
| Unamortized loan fees | 964,726 | 930,788 |
| Undisbursed portion of loans in process | 1,496,312 | 1,910,191 |
| | 2,715,801 | 3,075,742 |
| | $128,945,951 | $123,147,779 |
| Weighted average yield on loans receivable | 8.13% | 8.18% |

</TABLE>





Note 3. Loans Receivable (Continued)

The following sets forth information regarding the Association's allowance for loan losses:

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Balance, beginning | $234,763 | $224,690 | $224,690 |
| Provisions charged to income | 20,000 | -- | 10,073 |
| Charge-offs | -- | -- | -- |
| Balance, ending | $254,763 | $234,763 | $224,690 |

The Association places loans on nonaccrual status when a loan is contractually more than 90 days delinquent by establishing reserves for uncollected interest. When uncollected interest is subsequently received, the reserve is reduced and the interest is recorded as income. At September 30, 1997, 1996, and 1995 the Association had loans totaling $173,336, $309,666, and $318,737, respectively, which were contractually delinquent 90 days or more. Interest income on these loans, which would have been recognized had the loans amortized as scheduled, has been decreased by $2,776, $13,626, and $11,098 for the years ended September 30, 1997, 1996 and 1995.

Officers and directors, including their families and companies of which they are principal owners, are considered to be related parties. These related parties were loan customers of, and had other transactions with the Association in the ordinary course of business.

Aggregate loan transactions with related parties were as follows:

September 30, September 30,

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| | 1997 | 1996 |
|---|---|---|
| Beginning balance | $ 146,874 | $ 161,253 |
| New loans | 367,000 | -- |
| Repayments | (82,372) | (14,379) |
| Ending balance | $ 431,502 | $ 146,874 |
| Maximum balance during the year | $ 442,668 | $ 161,253 |





## Note 29. Property and Equipment

Property and equipment are summarized as follows:

| | 1997 | 1996 |
|---|---|---|
| Land | $ 150,972 | $ 150,972 |
| Buildings | 722,506 | 717,851 |
| Furniture and equipment | 264,266 | 279,560 |
| | 1,137,744 | 1,148,383 |
| Accumulated depreciation | (830,950) | (818,123) |
| | $ 306,794 | $ 330,260 |

Depreciation expense was $36,504, $42,428 and $42,137 for the years ended September 30, 1997, 1996 and 1995, respectively.

## Note 29. Deposits

Deposits consist of the following:

| | 1997 | 1996 |
|---|---|---|
| Passbook accounts, 3.00% (2.75% in 1996) | $ 12,991,011 | $ 14,679,647 |
| NOW accounts, 2.75% (2.50% in 1996) | 132,743 | 132,220 |
| Super NOW accounts, 4.00% (4.00% in 1996) | 107,637 | 127,806 |
| Money market accounts, 4.00% (4.00% in 1996) | 13,984,393 | 13,163,166 |
| | 27,215,784 | 28,102,839 |
| Certificates: | | |
| 3.00% and below | 1,507,374 | 1,462,652 |
| 3.01% - 5.00% | 2,310,535 | 29,080,510 |
| 5.01% - 7.00% | 80,782,589 | 52,301,109 |
| 7.01% and above | 791,670 | 406,865 |
| | 85,392,168 | 83,251,136 |
| Accrued interest on deposits | 33,941 | 31,411 |
| | $112,641,893 | $111,385,386 |
| Weighted average cost of funds | 4.91% | 4.98% |





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Note 5. Deposits (Continued)

Certificate accounts are summarized by maturity at September 30, 1997 as follows:

<TABLE>
<CAPTION>

| <S> | 1998 | 1999 | 2000 | Thereafter | Total |
|---|---|---|---|---|---|
| 3.00% and below | $ 1,062,192 | $ 353,819 | $ 91,363 | $ -- | $ 1,507,374 |
| 3.01% - 5.00% | 2,310,535 | -- | -- | -- | 2,310,535 |
| 5.01% - 7.00% | 60,528,082 | 9,205,862 | 4,041,890 | 7,006,755 | 80,782,589 |
| 7.01% and above | 253,535 | 258,904 | 179,294 | 99,937 | 791,670 |
| | $64,154,344 | $ 9,818,585 | $ 4,312,547 | $ 7,106,692 | $85,392,168 |

</TABLE>

The aggregate amount of certificates of deposit included in the table above with a minimum denomination of $100,000 is shown below:

| Maturity | Amount |
|---|---|
| Less than 3 months | $ 2,350,191 |
| 4 to 12 months | 5,490,170 |
| More than 12 months | 2,116,545 |
| | $ 9,956,906 |

Note 6. Special SAIF Assessment

On September 30, 1996, the "Deposit Insurance Funds Act of 1996" was signed into law. The legislation included a special assessment to recapitalize the SAIF insurance fund up to its statutory goal of 1.25% of insured deposits. The assessment was equal to approximately 65.7 basis points of the SAIF assessable deposit base as of March 31, 1995. Although the assessment was paid during the three month period ended December 31, 1996, the Association was required to accrue and expense such cost as of September 30, 1996. The expense recorded for the special assessment amounted to $792,868.

Note 7. Deferred Compensation

The Association has a deferred compensation plan for its directors whereby in return for deferring directors fees for five years, the directors will be paid specified amounts during a five or ten year period following the date that the director becomes 65 years of age. The Association has purchased life insurance policies with the Association named as beneficiary to fund the benefits. Total expense related to the Plan was approximately $40,000, $64,000, and $43,000 for 1997, 1996 and 1995, respectively.





Note 8. Employment Agreements

During 1997 and 1996, the Association entered into employment agreements with four key executive officers to ensure a stable and competent management base. The agreements provide for a three-year term, but upon each anniversary, the agreements, upon approval by the Board of Directors, may extend so that the remaining term shall be three years. The agreements provide for benefits as spelled out in the contract and cannot be terminated by the Board of Directors, except for cause, without prejudicing the officer's right to receive vested rights, including compensation, for the remaining term of the agreements. In the event of a change in control of the Association and termination of the officers, as defined in the agreement, the officers will receive a lump sum equal to 2.99 times their average salary paid during the prior five years.

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Note 9. Employee Stock Ownership Plan

The Association has established an employee stock ownership plan ("ESOP") to benefit substantially all employees. The ESOP originally purchased 260,000 shares of common stock in the Conversion with proceeds received from a loan from the Corporation.

The Corporation's note receivable is to be repaid based upon one principal installment of $65,000 on June 30, 1996, nine principal installments of $260,000 on June 30th of each year through June 2005, and one final principal installment of $195,000 on March 31, 2006. Interest is based upon prime, which will be adjusted and paid quarterly. The note may be prepaid without penalty. During 1997 and 1996 the ESOP made principal payments of $260,000 and $130,000, respectively. The unallocated shares of stock held by the ESOP are pledged as collateral for the debt. The ESOP is funded by contributions made by the Association in amounts sufficient to retire the debt. At September 30, 1997 and 1996, the outstanding balance of the note receivable is $2,210,000 and $2,470,000, respectively, and is presented as a reduction of stockholders' equity.

Shares released as the debt is repaid and earnings from the common stock held by the ESOP are allocated among participants on the basis of compensation in the year of allocation. Benefits become 100% vested after five years of credited service. Forfeitures of nonvested benefits will be reallocated among remaining participating employees in the same proportion as contributions.

Dividends on unallocated shares may be used by the ESOP to repay the debt to the Corporation and are not reported as dividends in the financial statements. Dividends on allocated or committed to be allocated shares are credited to the accounts of the participants and reported as dividends in the financial statements.

Expense of $442,325 and $170,365 during 1997 and 1996, respectively, has been incurred in connection with the ESOP. The expense includes, in addition to the cash contribution necessary to fund the ESOP, $182,325 and $40,365, which represents the difference between the fair market value of the shares which have been released or committed to be released to participants, and the cost of these shares to the ESOP for 1997 and 1996, respectively. The Association has credited this amount to paid-in capital.





Note 9. Employee Stock Ownership Plan (Continued)

At September 30, 1997 and 1996, 39,000 and 13,000 shares held by the ESOP have been released or committed to be released to the plan's participants. The fair value of the unallocated shares amounted to approximately $4.5 million and $3.8 million at September 30, 1997 and 1996, respectively.

Note 10. Restricted Stock Plan

The Restricted Stock Plan ("RSP") authorizes, and the Association has granted 171,925 shares of common stock to directors and key employees, which will vest evenly over a 5 year period commencing in October, 1997. At the present time, the Association intends to provide funds to the restricted stock plan trust fund in order for the trust to acquire common stock in open market purchases. At September 30, 1997, there were 34,393 shares awarded pursuant to the restricted stock plan, which were subsequently vested, resulting in an expense of approximately $530,000.

Note 11. Stock Option Plan

The Corporation has a Stock Option Plan providing for the grant of 429,812 stock options to directors and key employees.

A summary of the status of the Stock Option Plan at September 30, 1997 is as follows:

| | 1997 | |
|---|---|---|
| Options | Shares | Weighted Average Exercise Price |

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| | | |
|---|---|---|
| Outstanding at beginning of year | -- | $ -- |
| Granted | 429,812 | 14.94 |
| Exercised | -- | -- |
| Forfeited | -- | -- |
| Outstanding at end of year | 429,812 | $ 14.94 |

The options were granted in October, 1996 and become exercisable at the rate of 20% annually for five years during such periods of service as an employee, director or Director Emeritus. The options expire after ten years. The exercise price is equal to the market value of the stock at the date of the grant. There were no exercisable options as of September 30, 1997.





Note 11. Stock Option Plan (Continued)

Grants of options under the plan are accounted for following Accounting Principles Board (APB) Opinion No. 25 and related interpretations. Accordingly, no compensation cost has been recorded. In 1995, the Financial Accounting Standards Board issued Standard No. 123, which requires disclosures concerning the fair value of options and encourages accounting recognition for options using the fair value method. The Association has elected to apply the disclosure-only provisions of the Statement. However, had compensation cost been recorded based on the fair value of awards at the grant date ($3.92 per share), the pro forma impact on the Association's net income and net income per common share would have been approximately $210,000 or $.05 per share for 1997.

The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions for 1997: dividend rate of 3.22%; risk-free interest rates of 5.88%; expected lives of 7 years; and price volatility of 19.1%.

Note 12. Pension Plan

The Association has a defined benefit pension plan covering substantially all of its employees who qualify under length of service and other requirements. Under the plan, retirement benefits are based on years of service and average earnings. The policy is to fund an amount allowable for federal income tax purposes. The plan assets consist primarily of savings deposits maintained at the Association and common stock of the Corporation. The following table sets forth the plan's funded status at September 30, 1997 and 1996 and the amounts recognized in the consolidated statement of financial condition at September 30, 1997 and 1996:

<TABLE>
<CAPTION>

| <S> | 1997 <C> | 1996 <C> |
|---|---|---|
| Actuarial present value of benefit obligation: | | |
| Vested | $ (895,418) | $ (768,452) |
| Nonvested | (1,877) | (1,259) |
| Accumulated benefit obligation | (897,295) | (769,711) |
| Effect of projected future compensation levels | (379,435) | (418,626) |
| Projected benefit obligation | (1,276,730) | (1,188,337) |
| Market value of plan assets | 1,211,444 | 1,032,524 |
| Projected benefit obligation in excess of plan assets | (65,286) | (155,813) |
| Unrecognized net transition assets | (17,764) | (20,301) |
| Unrecognized prior service cost | (60,579) | (65,239) |
| Unrecognized loss | 334,889 | 386,509 |
| Prepaid pension asset included in other assets | $ 191,260 | $ 145,156 |

</TABLE>



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Note 12. Pension Plan (Continued)

The components of pension costs charged to expense for 1997, 1996 and 1995 consisted of the following:

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Service cost for benefits earned during period | $ 57,422 | $ 53,280 | $ 68,270 |
| Interest cost on projected benefit obligation | 80,243 | 86,620 | 92,539 |
| Return on plan assets | (82,045) | (69,639) | (67,936) |
| Net amortization and deferral | 9,690 | 13,754 | 19,669 |
| Net periodic pension cost | $ 65,310 | $ 84,015 | $ 112,542 |

In determining the projected benefit obligation at September 30, 1997 and 1996, the weighted average discount rate and expected long-term rate of return on plan assets was 8%, and 7%, respectively. The assumed rate of increase in future compensation levels was 4.0% in 1997 and 4.5% in 1996 and 1995 in determining net periodic cost for all periods presented.

Note 13. Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Corporation's financial instruments at September 30, 1997 and 1996. See Note 1 for a description of the Corporation's accounting policies and the limitations of its disclosures in reporting on the fair value of its financial instruments.

| | 1997 | | 1996 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and short-term cash investments | $ 29,969,640 | $ 29,969,640 | $ 33,357,194 | $ 33,357,194 |
| Federal funds sold | 3,118,000 | 3,118,000 | 2,124,712 | 2,124,712 |
| Investment securities held to maturity | 13,500,000 | 13,555,316 | 14,999,179 | 15,038,913 |
| Nonmarketable equity securities | 1,170,889 | 1,170,889 | 1,170,889 | 1,170,889 |
| Loans receivable | 128,945,951 | 131,907,000 | 123,147,779 | 123,927,553 |
| Accrued interest receivable | 222,716 | 222,716 | 255,566 | 255,566 |
| Financial liabilities: | | | | |
| Deposits | 112,641,893 | 112,688,725 | 111,385,386 | 111,598,386 |



Note 14. Income Taxes

Under the Internal Revenue Code, the Association is allowed a special bad debt deduction related to additions to tax bad debt reserves established for the purpose of absorbing losses. Through 1996, the provisions of the Code permitted the Association to deduct from taxable income an allowance for bad debts based on 8% of taxable income before such deduction or actual loss experience. The Association was unable to take a bad debt deduction in 1997, 1996 and 1995 due to limitations imposed by the Code. In addition, legislation passed in 1996 eliminated the percentage of taxable income method as an option for computing bad debt deductions in all future years. The Association will still be permitted to take deductions for bad debts, but will be required to compute such deductions using an experience method.

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The Association will also have to recapture its tax bad debt reserves which have accumulated since 1987 amounting to approximately $1,078,000 over a six year period. The tax associated with the recaptured reserves is approximately $388,000. The recapture was scheduled to begin with the Association's 1997 tax year, but can be delayed for 1998 if the Association originates a certain level of residential mortgage loans over the next two years. Deferred income taxes have been previously established for the taxes associated with the recaptured reserves and the ultimate payment of the taxes will not result in a charge to earnings.

At September 30, 1997, retained earnings contain certain historical additions to bad debt reserves for income tax purposes of $3,631,000 for which no deferred taxes have been provided, because the Association does not intend to use these reserves for purposes other than to absorb losses. If amounts which qualified as bad debt deductions are used for purposes other than to absorb bad debt losses or adjustments arising from the carryback of net operating losses, income taxes may be imposed at the then existing rates. The approximate amount of unrecognized tax liability associated with these historical additions is $1,307,000. In the future, if the Association does not meet the income tax requirements necessary to permit the deduction of an allowance for bad debts, the Association's effective tax rate would be increased to the maximum percent under existing law.





Note 14. Income Taxes (Continued)
Deferred income taxes consist of the following:

| | 1997 | 1996 |
|---|---|---|
| Deferred tax assets: | | |
| Deferred loan fees | $ 95,000 | $119,000 |
| Deferred compensation | 152,000 | 159,000 |
| Deferred RSP compensation | 208,000 | -- |
| Allowance for loan losses | 88,000 | 88,000 |
| SAIF Assessment | -- | 310,000 |
| Total deferred tax assets | 543,000 | 676,000 |
| Deferred tax liabilities: | | |
| Excess accumulated tax depreciation | 25,000 | 27,000 |
| Federal Home Loan Bank stock basis | 96,000 | 96,000 |
| Excess pension plan contribution | 61,000 | 43,000 |
| Tax bad debt reserves | 388,000 | 388,000 |
| Total deferred tax liabilities | 570,000 | 554,000 |
| Net deferred tax assets (liabilities) | $(27,000) | $122,000 |

Federal income tax expense was different from the amount computed by applying the federal income tax rate of approximately 34% to income before taxes. The reasons for the differences were as follows for the years ended September 30, 1997, 1996 and 1995:

<TABLE>
<CAPTION>

| <S> | 1997 <C> | 1996 <C> | 1995 <C> |
|---|---|---|---|
| Income tax at the federal statutory rate | 34.00 % | 34.00 % | 34.00 % |
| State income taxes, net of federal benefit | 1.89 | 2.15 | 1.63 |
| Other | 2.31 | (1.47) | 0.16 |
| | 38.20 % | 34.68 % | 35.79 % |

</TABLE>



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Note 15. Stockholders' Equity

On April 3, 1996, Green Street Financial Corp completed and closed its stock offering. Gross proceeds from the sale of 4,038,125 shares (excluding the 260,000 shares purchased by the ESOP) amounted to $40,381,250 and were reduced by conversion costs of $1,254,389. The Corporation paid $20,863,430 for all the common stock of the Association, and retained the remaining net proceeds.

Concurrent with the Conversion, the Association established a liquidation account in an amount equal to its net worth as reflected in its latest statement of financial condition used in its final offering circular. The liquidation account will be maintained for the benefit of eligible deposit account holders and supplemental eligible deposit account holders who continue to maintain their deposit accounts in the Association after the Conversion. Only in the event of a complete liquidation will eligible deposit account holders and supplemental eligible deposit account holders be entitled to receive a liquidation distribution from the liquidation account in the amount of the then current adjusted sub-account balance for deposit accounts then held before any liquidation distribution may be made with respect to common stockholders.

Subject to applicable law, the Board of Directors of Home Federal and Green Street Financial Corp may each provide for the payment of dividends. Future declarations of cash dividends, if any, by the Corporation may depend upon dividend payments by the Association to the Corporation. Subject to regulations promulgated by the Office of Thrift Supervisor ("OTS"), the Association will not be permitted to pay dividends on its common stock if its stockholders' equity would be reduced below the amount required for the liquidation account or its capital requirement.

In addition, as a Tier I institution, or an institution that meets all of its fully phased-in capital requirements, Home Federal may pay a cash dividend to Green Street Financial Corp with notification, but without prior OTS approval, during a calendar year an amount not to exceed the greater of (i) 100% of the Association's net income to date during the calendar year plus the amount that would reduce by one-half its surplus capital ratio at the beginning of the calendar year, or (ii) 75% of its net income over the most recent four quarter period. During 1997 and 1996, the Association paid $1,718,574 and $629,819 in dividends to Green Street Financial Corp, respectively.

The Corporation's Board of Directors has approved a stock repurchase program which will allow the Corporation to repurchase up to 5% of its outstanding common stock through April 4, 1998.





Note 15. Stockholders' Equity (Continued)

The Office of Thrift Supervision promulgates capital regulations which require the Association to meet three separate capital standards; tangible capital of at least 1.5% of total assets, core capital of at least 3.0% of total assets and a risk-based capital requirement currently set at 8.0% of risk-weighted assets. At September 30, 1997 the Association met and exceeded all of the capital requirements as shown below:

<TABLE>
<CAPTION>

| | September 30, 1997 | | |
|---|---|---|---|
| | Tangible Capital Requirement | Core Capital Requirement | Risk-Based Capital Requirement |
| <S> | <C> | <C> | <C> |
| Stockholders' equity (GAAP) | $ 62,945,683 | $ 62,945,683 | $ 62,945,683 |
| Equity of Green Street Financial Corp | (18,297,934) | (18,297,934) | (18,297,934) |
| General loan loss allowance | -- | -- | 254,763 |
| Regulatory capital | 44,647,749 | 44,647,749 | 44,902,512 |
| Minimum capital requirement | 2,380,065 | 4,760,131 | 6,300,815 |

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| | | | |
|---|---|---|---|
| Excess regulatory capital | $ 42,267,684 | $ 39,887,618 | $ 38,601,697 |
| Home Federal's assets at September 30, 1997 | $ 158,671,031 | $ 158,671,031 | $ -- |
| Risk-weighted assets at September 30, 1997 | -- | -- | 78,760,186 |
| Capital as a percentage of assets: | | | |
| Actual | 28.14% | 28.14% | 57.01% |
| Required | 1.50% | 3.00% | 8.00% |
| Excess | 26.64% | 25.14% | 49.01% |

</TABLE>

Under the OTS prompt corrective action regulations, a savings association is considered to be well capitalized if its ratio of total capital to risk-weighted assets is at least 10%, its ratio of core capital to risk-weighted assets is at least 6.0%, and its ratio of core capital to total average assets is at least 5.0%. The Association meets all of the above requirements and is considered to be well capitalized under the prompt corrective action regulations.

Note 16. Concentration of Credit Risk and Off-Balance-Sheet Risk

The Association originates single-family residential loans generally within its primary lending areas of Cumberland and Robeson Counties of North Carolina. The Association's policies require such loans to be made at no greater than 80% loan-to-value unless private mortgage insurance is obtained. In this instance, the loan-to-value ratio cannot exceed 90%. The loans are secured by the underlying properties.



Note 16. Concentration of Credit Risk and Off-Balance-Sheet Risk (Continued)

The Association is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contractual amounts of the instruments reflect the extent of involvement the Association has in the particular class of financial instruments.

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

In addition to the undisbursed portion of loans in process, the Association had outstanding loan origination commitments of $2,137,000 and $1,613,900 at September 30, 1997 and 1996, respectively, primarily for the origination of fixed rate loans.

The Association evaluates each customer's credit worthiness on a case-by-case basis. 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. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained if deemed necessary by the Association upon extension of credit, is based on management's credit evaluation of the customer. At a minimum, the collateral held is the underlying real estate.





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Note 17. Parent Corporation Financial Data

The following is a summary of the condensed financial statements of Green Street Financial Corp as of and for the year ended September 30, 1997 and 1996:

Condensed Balance Sheets
September 30, 1997 and 1996

<TABLE>
<CAPTION>

| <S> | 1997 <C> | 1996 <C> |
|---|---|---|
| Assets: | | |
| Cash and short-term cash investments | $ 19,203,612 | $ 15,912,643 |
| Accounts receivable, other | 217,035 | 87,100 |
| Accrued interest receivable | -- | 25,732 |
| Investment securities; held to maturity, at cost | -- | 3,000,000 |
| Investment in Home Federal | 44,647,749 | 44,229,075 |
| | $ 64,068,396 | $ 63,254,550 |
| Liabilities and Stockholders' Equity: | | |
| Liabilities: | | |
| Dividends payable | $ 1,117,513 | $ 1,074,531 |
| Taxes payable | 5,200 | -- |
| | 1,122,713 | 1,074,531 |
| Stockholders' equity: | | |
| Common stock, no par value, 10,000,000 shares authorized, issued and outstanding 4,298,125 shares | -- | -- |
| Additional paid-in capital | 64,973,891 | 64,924,878 |
| Note Receivable - ESOP | (2,210,000) | (2,470,000) |
| Retained earnings (deficit) | 181,792 | (274,859) |
| | 62,945,683 | 62,180,019 |
| | $ 64,068,396 | $ 63,254,550 |

</TABLE>

Condensed Statements of Income
For the Year Ended September 30, 1997 and the Period
From April 3, 1996 to September 30, 1996

<TABLE>
<CAPTION>

| <S> | 1997 <C> | 1996 <C> |
|---|---|---|
| Interest income | $ 1,215,158 | $ 575,914 |
| Equity in earnings of Home Federal | 2,088,235 | 797,447 |
| Administrative expense | (165,124) | (47,376) |
| Income tax expense | (361,622) | (183,600) |
| Net income | $ 2,776,647 | $ 1,142,385 |

</TABLE>



Note 17. Parent Corporation Financial Data (Continued)

Condensed Statements of Cash Flows
For the Year Ended September 30, 1997 and the Period
From April 3, 1996 to September 30, 1996

<TABLE>
<CAPTION>

| | 1997 | 1996 |
|---|---|---|

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| | | |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net income | $ 2,776,647 | $ 1,142,385 |
| Noncash income items: | | |
| Equity in earnings of Home Federal | (2,088,235) | (797,447) |
| Change in assets and liabilities: | | |
| Increase (decrease) in accrued interest receivable | 25,732 | (25,732) |
| Increase in accounts receivable, other | (129,935) | (25,350) |
| Increase in income taxes payable | 5,200 | -- |
| Net cash provided by operating activities | 589,409 | 293,856 |
| Cash Flows from Investing Activities: | | |
| Proceeds from maturity of investments | 6,000,000 | -- |
| Purchase of investments | (3,000,000) | (3,000,000) |
| Upstream dividend from Home Federal | 1,718,574 | 629,819 |
| Initial investment in Home Federal | -- | (20,863,430) |
| Net cash provided by (used in) investing activities | 4,718,574 | (23,233,611) |
| Cash Flows from Financing Activities: | | |
| Payments received on note receivable from ESOP | 260,000 | 130,000 |
| Proceeds received from common stock offering | -- | 39,126,861 |
| Payment of dividends | (2,277,014) | (404,463) |
| Net cash provided by (used in) financing activities | (2,017,014) | 38,852,398 |
| Net increase in cash | 3,290,969 | 15,912,643 |
| Cash, beginning | 15,912,643 | -- |
| Cash, ending | $ 19,203,612 | $ 15,912,643 |
| Supplemental Disclosure of Noncash Financing Activities: | | |
| Dividends declared and accrued | $ 1,117,513 | $ 1,074,531 |

</TABLE>



## COMMON STOCK INFORMATION

The table below reflects the stock trading and dividend payment frequency of the Corporation for each quarter completed in the period April 3, 1996 through June 30, 1997. The Corporation's common stock is quoted on the Nasdaq National Market under the symbol "GSFC". For further information regarding the Corporation's dividend policy, please refer to Note 15 of the Notes to Consolidated Financial Statements. Stock price reflects bid prices between broker-dealers, prior to any markups, markdowns or commissions.

| | Dividends | | Stock Price | |
|---|---|---|---|---|
| | Regular | Special | High | Low |
| 1997: | | | | |
| First Quarter | $ 0.10 | $ -- | $ 16 1/8 | $ 14 3/4 |
| Second Quarter | 0.10 | -- | 19 | 15 1/4 |
| Third Quarter | 0.11 | -- | 18 1/8 | 17 |
| Fourth Quarter | 0.11 | 0.15 | 21 1/4 | 17 1/8 |
| 1996: | | | | |
| Third Quarter | $ 0.10 | $ -- | $ 13 1/8 | 12 |
| Fourth Quarter | 0.10 | 0.15 | 15 5/8 | 12 3/8 |

## QUARTERLY RESULTS OF OPERATIONS

<TABLE>
<CAPTION>

| | Quarter Ended | | | |
|---|---|---|---|---|
| | December 31 | March 31 | June 30 | September 30 |
| 1997: | | | | |
| Interest income | $ 3,255,678 | $ 3,204,976 | $ 3,247,834 | $ 3,309,031 |

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| | | | | |
|---|---|---|---|---|
| Interest expense | 1,368,773 | 1,311,896 | 1,315,246 | 1,381,503 |
| Net interest income | 1,886,905 | 1,893,080 | 1,932,588 | 1,927,528 |
| Net income | 639,991 | 685,887 | 728,044 | 722,725 |
| Earnings per common share | 0.16 | 0.17 | 0.17 | 0.17 |
| 1996: | | | | |
| Interest income | $ 2,960,299 | $ 3,023,700 | $ 3,332,159 | $ 3,266,834 |
| Interest expense | 1,734,447 | 1,701,529 | 1,430,706 | 1,365,580 |
| Net interest income | 1,225,852 | 1,322,171 | 1,901,453 | 1,901,254 |
| Net income | 427,983 | 499,278 | 792,401 | 349,984 |
| Earnings per common share (1) | N/A | N/A | 0.19 | 0.09 |

</TABLE>

(1) Earnings per share are not applicable for periods prior to April 3, 1996, the date of conversion of Home Federal Savings and Loan Association from a federally chartered mutual savings and loan association to a federally chartered stock savings and loan association and when it became a wholly-owned subsidiary of Green Street Financial Corp.



CORPORATE INFORMATION

EXECUTIVE OFFICERS:

<TABLE>
<CAPTION>

<S> <C> <C>

| | | |
|---|---|---|
| H.D. Reaves, Jr.<br>President | John C. Pate<br>Senior Vice President | John M. Grantham<br>Senior Vice President |
| Jerry L. Robertson<br>Vice President/Treasurer | Anthony R. Strickland<br>Vice President | Allen Lloyd<br>Secretary |

DIRECTORS:

| | | |
|---|---|---|
| R.O. McCoy, Jr. Chairman<br>Realtor, McLean Real Estate | H.D. Reaves, Jr.<br>Executive Officer | John C. Pate<br>Executive Officer |
| Norwood E. Bryan, Jr.<br>President, Bryan Pontiac-Cadillac Co. | John M. Grantham<br>Executive Officer | Joseph H. Hollinshed<br>Co-owner, Cape Fear Building Supply |
| Henry Hutaff<br>Executive, Coca-Cola Bottling Co. | Henry Holt<br>President, Holt Oil Co. | Robert G. Ray, Esq.<br>President, Rose, Ray & O'Connor P.A. |

Stock Transfer Agent
American Stock Transfer & Trust Co.
40 Wall Street 46th Floor
New York, New York 10005

Special Legal Counsel
Malizia, Spidi, Sloane & Fisch, P.C.
1301 K Street NW
Washington, DC 20005

Local Legal Counsel
Rose, Ray & O'Connor P.A.
214 Mason Street
Fayetteville, N.C. 28301

Independent Auditors
McGladrey & Pullen, LLP
2418 Blue Ridge Road
Raleigh, N.C. 27605

Annual Meeting
The 1998 annual meeting of stockholders of Green Street Financial Corp will be held at 5:15 pm on January 28, 1998 at the Corporation's corporate office at 241 Green Street, Fayetteville, N.C.

Form 10-K
A copy of Form 10-K as filed with the Securities and Exchange Commission will be furnished without charge to the Corporation's stockholders upon written request to Green Street Financial Corp, PO Box 1540, Fayetteville, N.C. 28302

Corporate Office
241 Green Street
Fayetteville, N.C. 28301

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