SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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

JACKSONVILLE BANCORP INC

CIK:**1005507**| IRS No.: **752632781** | State of Incorp.:**DE** | Fiscal Year End: **0930**
Type: **10-K** | Act: **34** | File No.: **000-28070** | Film No.: **96687931**
SIC: **6036** Savings institutions, not federally chartered

Business Address
P O BOX 401
COMMERCE & NECHES STREETS
JACKSONVILLE TX 75766
9035869861

OFFICE OF THRIFT SUPERVISION
WASHINGTON, D.C. 20552

FORM 10-K

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1996

OR

/X/ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to ______________

JACKSONVILLE BANCORP, INC.
(Exact name of registrant as specified in its charter)

TEXAS	75-2632781
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
COMMERCE AND NECHES STREETS JACKSONVILLE, TEXAS	75766
(Address)	(Zip Code)

Registrant's telephone number, including area code: (903) 586-9861

Securities registered pursuant to Section 12(b) of the Act:
NOT APPLICABLE

Securities registered pursuant to Section 12(g) of the Act

COMMON STOCK (PAR VALUE $.01 PER SHARE)
Title of Class

Indicate by check mark whether the Registrant (1) has filed all reports required 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. / /

As of December 23, 1996, the aggregate value of the 2,263,603 shares of Common Stock of the Registrant issued and outstanding on such date, which excludes 172,614 shares held by all directors and officers of the Registrant as a group and 202,048 shares held by Jacksonville Bancorp, Inc. Employee stock Ownership Plan, was approximately $33,105,193. This figure is based on the last known trade price of $14.625 per share of the Registrant's Common Stock.

Number of shares of Common Stock outstanding as of December 23, 1996: 2,638,265

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated.

(1) Portions of the Annual Report to Stockholders for the year ended September 30, 1996 are incorporated into Part II, Items 5 through 8 of this Form 10-K.

(2) Portions of the definitive proxy statement for the 1996 Annual Meeting of Stockholders are incorporated into Part III, Items 10 through 13 of this Form 10-K.

PART I

ITEM 1. BUSINESS.

GENERAL

Jacksonville Bancorp, Inc.'s (the "Company") primary asset is Jacksonville Savings and Loan Association. The business of Jacksonville consists primarily of attracting deposits from the general public and using those and other available sources of funds to originate loans secured by single-family residences located in Cherokee County and surrounding counties in East Texas. To a lesser extent, Jacksonville also originates construction loans, land loans and consumer loans. With limited exceptions, Jacksonville has limited commercial real estate lending activity since 1989 to loans secured by real estate acquired in satisfaction of debts previously contracted or by improvements thereon. In 1994 Jacksonville established a consumer loan department to promote development of this type of lending. In addition, Jacksonville invests in United States government and federal agency securities and government-guaranteed mortgage-backed securities.

MARKET AREA

Jacksonville's market area consists of Cherokee County and surrounding counties in East Texas. The labor force of Cherokee County has evolved from agriculture to manufacturing and service industries. The components of the area's economic base have consisted of manufacturing, mining, agriculture, retail and tourism. Jacksonville is the largest city in Cherokee County and its principle activity is manufacturing. There are 75 manufacturing concerns in Jacksonville. Industries represented are plastic manufacturing and plastic injected molding, oil (reflecting the heritage of East Texas as the center of the Texas oil country), timber, cattle and bedding plant. Slowdowns in the petroleum industry had a material negative impact on the area's economy in the early 1980s which was compounded by defense-related cutbacks. However, the area's economy has improved in recent years due to further entrance of business in the market area and especially in Tyler and Longview. In addition, the area's economic base has diversified into such fields as health services, research and technology.

Major companies in Jacksonville's market area include Baxter Pharmaseal, Astro Air, Zimmerman & Sons, Trane Corporation, Kelly-Springfield, Carrier Air Conditioning, Tyler Pipe Industries, Marathon Le Tourneau, Eastman Kodak, Powell Plant Farm, Texas Department of Corrections, Western Lithography and Wal-Mart (a distribution center). The market area is also served by the University of Texas Hospital, Mother Frances Hospital, Medical Center Hospital and Nan Travis Hospital. These hospitals are also a major source of employment for the market area. Colleges and universities include the University of Texas at Tyler, Stephen F. Austin University, Tyler Junior College, Texas College, Lon Morris College, Jacksonville College, and Trinity Valley Junior College. According to reports from the Bureau of Labor Statistics, as of September 30, 1995, the unemployment rate in Cherokee County and surrounding counties in East Texas was estimated to be 5.8% as compared to 6.2% and the estimated unemployment rate for the United States during these periods was 5.3% and 5.6%, respectively.

LENDING ACTIVITIES

GENERAL. At September 30, 1996, Jacksonville's net loan portfolio totaled $158.0 million representing approximately 72.5 Jacksonville's $217.9 million of total assets at that date. The principal lending activity of Jacksonville is the origination of single-family residential loans. At September 30, 1996, approximately 99% of Jacksonville's single-family residential loan portfolio consisted of conventional loans with the remaining single-family residential loans either insured by the Federal Housing Administration ("FHA") or partially guaranteed by the Department of Veterans Affairs ("VA"). At September 30, 1996, Jacksonville's single-family residential loan portfolio totaled $132.6 million, representing approximately 81.4% of Jacksonville's total loans, before net items, at that date. Jacksonville held $8.6 million in commercial real estate loans at that date, representing 5.3% of total loans, before net items. Of the commercial real estate loans, $3.7 million, or 43.0%, were secured by real estate acquired in satisfaction of debts previously contracted or by improvements on such properties. Other than these commercial real estate loans, Jacksonville has not actively pursued the business of making commercial real estate loans since 1989. The only other significant areas of lending activity by Jacksonville are construction loans, land loans and consumer loans which, as of September 30, 1996, represented $7.0 million, or 4.3%, $4.4 million, or 2.7% and $8.9 million, or 5.4% of Jacksonville's total loan portfolio, before net items.

As a Texas-chartered savings association, Jacksonville has general authority to originate and purchase loans secured by real estate located throughout the United States. Notwithstanding this nationwide lending authority, approximately 99% of all of the mortgage loans in Jacksonville's portfolio are secured by properties located in Cherokee County and surrounding counties in East Texas, reflecting Jacksonville's emphasis on local lending.

Although Jacksonville historically originated loans with lesser dollar balances than were permitted by regulation, current loans-to-one borrower limitations may restrict its ability to do business with certain customers. Since the enactment of FIRREA in 1989, a savings association generally may not make loans to one borrower and related entities in an amount which exceeds 15% of its unimpaired capital and surplus, although loans in an amount equal to an additional 10% of unimpaired capital and surplus may be made to a borrower if the loans are fully secured by readily marketable securities. See "Regulation - Federal Regulation of Savings Associations." At September 30, 1996, Jacksonville's limit on loans-to-one borrower was $5.3 million, and its five largest loans or groups of loans-to-one borrower, including related entities, aggregated $1.7 million. $919,000, $844,000, $654,000 and $578,000. The loan for $1.7 million is to a church. The group of loans totaling $919,000 consists of three loans secured by commercial real estate acquired in satisfaction; the group of loans totaling $844,000 consists of two loans secured by commercial real estate acquired in satisfaction of debts previously contracted; the group of loans totaling $654,000 consists of four construction loans; and the group of loans totalling $578,000 consists of loans secured by commercial and rental properties. All of these loans or groups of loans are secured primarily by residential and nonresidential real estate located in Cherokee County and surrounding counties in East Texas and were performing in accordance with their terms at September 30, 1996.

LOAN PORTFOLIO COMPOSITION. The following table sets forth the composition of Jacksonville's loan portfolio by type of loan at the dates indicated.

<TABLE>
<CAPTION>

	SEPTEMBER 30,					
	1996		1995		1994	
	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)					
MORTGAGE LOANS:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Single-family residential(1)	$132,599	81.4%	$117,853	84.1%	$109,221(2)	86.7%
Multi-family residential	1,268	.8	1,183	.8	735	.6
Commercial	8,604	5.3	8,167	5.8	8,115	6.4
Construction	6,996	4.3	4,312	3.1	1,668	1.3
Land	4,395	2.7	3,754	2.7	3,156	2.5
Total mortgage loans	$153,862	94.5%	$135,269	96.5%	$122,895	97.5%
BUSINESS AND CONSUMER LOANS:						
Commercial business	219	.1	$ 232	.2	$ 198	.2
Consumer loans:						
Secured by deposits	2,290	1.4	1,922	1.4	1,972	1.6
Secured by vehicles	2,961	1.4	960	.6	332	.2
Personal real estate loans	2,686	1.6	1,253	.9	514	.4
Other	922	.6	526	.4	137	.1
Total consumer loans	8,859	5.4	4,661	3.3	2,955	2.3
Total business and consumer loans	$ 9,078	5.5	$4,893	3.5	$ 3,153	2.5
Total loans	162,940	100.0%	$140,162	100.0%	$126,048	100.0%

Less:			
Undisbursed portion of loans in process	2,956	$ 2,230	$ 799
Unearned discounts	89	106	121
Net deferred loan origination fees	761	893	937
Unrealized losses on loans held for sale	--	--	58
Allowance for loan losses	1,100	1,000	1,000
Net loans	$158,034	$135,933	$123,133

</TABLE>

<TABLE>
<CAPTION>

	SEPTEMBER 30,			
	1993		1992	
	Amount	%	Amount	%
	(Dollars in Thousands)			
MORTGAGE LOANS:				
<S>	<C>	<C>	<C>	<C>
Single-family residential(1)	$112,063	86.7%	$112,976	86.3%
Multi-family residential	532	0.4	116	.1
Commercial	9,556	7.4	10,671	8.2
Construction	1,367	1.1	930	.7
Land	2,972	2.3	2,904	2.2
Total mortgage loans	$126,490	97.9%	$127,597	97.5%
BUSINESS AND CONSUMER LOANS:				
Commercial business	$ 234	.2	$ 273	.2%
Consumer loans:				
Secured by deposits	1,840	1.4	2,125	1.6
Secured by vehicles	93	.1	173	.2
Personal real estate loans	568	.4	677	.5
Other	81	--	83	--
Total consumer loans	2,582	1.9	3,058	2.3
Total business and consumer loans	$ 2,816	2.1	$ 3,331	2.5
Total loans	$129,306	100.0%	130,928	100.0%
Less:				
Undisbursed portion of loans in process	$ 1,052		$ 620	
Unearned discounts	169		237	
Net deferred loan origination fees	1,059		1,154	
Unrealized losses on loans held for sale	--		--	
Allowance for loan losses	996		810	
Net loans	$126,030		$128,117	

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(1) Includes first and second liens on single-family residences.

(2) Includes $1.2 million of loans held for sale.

CONTRACTUAL PRINCIPAL REPAYMENTS. The following table sets forth certain information at September 30, 1996 regarding the dollar amount of loans maturing in Jacksonville's portfolio, based on the contractual terms to maturity, before giving effect to net items. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported as due in one year.

<TABLE>

<CAPTION>

	DUE BEFORE 9/30/97	DUE BEFORE 9/30/98	DUE BEFORE 9/30/99	DUE 3-5 YEARS AFTER 9/30/96	DUE 5-10 YEARS AFTER 9/30/96
			(In Thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
Single-family residential(1)	$127	$435	$619	$1,993	$11,564
Multi-family residential	--	--	--	--	116
Commercial	259	--	64	200	1,100
Construction	6,996	--	--	--	--
Land	54	80	88	73	904
Commercial business	--	--	219	--	--
Consumer	2,392	349	776	2,696	1,377
Total	$9,828	$864	$1,766	$4,962	$15,061

</TABLE>
<TABLE>
<CAPTION>

	DUE 10-15 YEARS AFTER 9/30/96	DUE MORE THAN 15 YEARS AFTER [3/31/96]	TOTAL
		(In Thousands)	
<S>	<C>	<C>	<C>
Single-family residential(1)	$65,783	$52,078	$132,599
Multi-family residential	1,010	142	1,268
Commercial	5,921	1,060	8,604
Construction	--	--	6,996
Land	3,078	118	4,395
Commercial business	--	--	219
Consumer	1,138	131	8,859
Total	$76,930	$53,529	$162,940

</TABLE>

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(1) Includes first and second liens on single-family residences.

The following table sets forth the dollar amount of all loans, before net items, due after one year from September 30, 1996 which have fixed interest rates or which have floating or adjustable interest rates.

<TABLE>
<CAPTION>

	FIXED RATES	FLOATING OR ADJUSTABLE-RATES	TOTAL
		(In Thousands)	
<S>	<C>	<C>	<C>
Single-family residential(1)	$48,763	$83,709	$132,472
Multi-family residential	596	672	1,268
Commercial real estate	1,763	6,582	8,345
Construction	--	--	--
Land	1,396	2,945	4,341
Commercial business	169	50	219
Consumer	$6,467	--	6,467
Total	$59,154	$93,958	$153,112

</TABLE>

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(1) Includes first and second liens on single-family residences.

Scheduled contractual amortization of loans does not reflect the actual term of Jacksonville's loan portfolio. The average life of loans is substantially less than their contractual terms because of prepayments and due-on-sale clauses, which give Jacksonville the right to declare a conventional loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage and the loan is not repaid.

ORIGINATIONS, PURCHASES AND SALES OF LOANS. The lending activities of Jacksonville are subject to the written, non-discriminatory, loan underwriting and administration guidelines established by Jacksonville's Board of Directors and management. Loan originations are obtained from a variety of sources, including referrals from real estate brokers, developers, builders, existing customers, newspaper, radio, periodical advertising and walk-in customers. Loan applications are taken by lending personnel, and the loan department supervises the obtaining of credit reports, appraisals and other documentation involved with a loan. Property valuations are generally performed by independent outside appraisers approved by Jacksonville's Board of Directors. Except for certain small second mortgage loans of a minimal amount and personal real estate loans, Jacksonville requires title insurance. Hazard insurance is also required on all improved secured property and flood insurance is required on property located in a flood plain.

Jacksonville's loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan and the adequacy of the value of the property that will secure the loan. A loan application file is first reviewed by Jacksonville's loan department and, except for loans of $50,000 or less, then is submitted for approval to the Loan and Executive Committee or Jacksonville's Board of Directors. With the exception of home improvement, consumer and land loans, the Loan and Executive Committee is

responsible for approving all loans in excess of $50,000. Loans under $50,000 may be approved by two loan officers or by a branch manager and one loan officer. Home improvement, consumer and personal real estate loans over $50,000 must be approved by two officers. Certain loans, because of their amount or because they do not meet one or more specified guidelines, must receive direct approval of the Board of Directors.

Jacksonville originates both fixed- and adjustable-rate residential real estate loans as market conditions dictate. In the current interest rate environment, it follows a policy of selling approximately 95% of its loans secured by first mortgage liens on single-family residences ("residential first mortgage loans") with fixed rates and terms greater than 15 years to third parties while retaining all of its variable-rate loans. When loans are sold to others, except to Federal Home Loan Mortgage Corporation ("FHLMC"), servicing of the loans is usually released to the buyers. At September 30, 1996, $47.2 million in loans were being serviced for others, primarily the FHLMC. See Note 5 to the Consolidated Financial Statements. While Jacksonville has utilized various indices to adjust its adjustable-rate mortgages ("ARMs") portfolio, each index would qualify such loans for securitization under FHLMC guidelines. Adjustable-rate loans are currently indexed to an index of U.S. Treasury obligations whose maturity matches the interest adjustment period for the corresponding loan and have their interest rates readjusted every one to five years. At September 30, 1996, $48.0 million or 36.2% of Jacksonville's total loans, before net items, were fixed-rate single-family residential loans, and $84.6 million or 63.8% of such loans were adjustable-rate single-family residential mortgage loans. Of these adjustable mortgages, $48.4 million, or 57.2%, have interest rates adjustable in one year, and the remainder adjust at periods greater than one year up to five years.

The following table shows total loans originated, purchased, sold and repaid during the periods indicated.

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
LOAN ORIGINATIONS:			
Single-family residential	$45,113	$32,307	$36,983
Multi-family residential	658	200	--
Land	1,159	969	132
Commercial	697	795	551

Construction	11,707	6,730	1,771
Commercial business	--	71	--
Consumer	8,862	4,197	1,983
Total loans originated	68,196	45,269	41,420
Purchases	--	--	--
Total loans originated and purchased	68,196	45,269	41,420
SALES AND LOAN PRINCIPAL REDUCTIONS:			
Loans sold	21,848	13,817	23,694
Loan principal repayments	23,955	19,374	24,083
Total loans sold and principal reductions	45,803	33,191	47,777
Increase (decrease) due to other items, net(1)	(292)	722	3,460
Net increase (decrease) in loan portfolio	$22,101	$12,800	$(2,897)

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(1) Consists of loan foreclosures, extensions and changes in net items.

SINGLE-FAMILY RESIDENTIAL LOANS. The primary lending activity of Jacksonville is the origination of loans secured by first mortgage liens on single-family residences. Jacksonville also offers second mortgage loans on such properties. At September 30, 1996, $132.6 million or 81.4% of Jacksonville's total loan portfolio, before net items, consisted of single-family residential loans.

The loan-to-value ratio, maturity and other provisions of the residential first mortgage loans made by Jacksonville generally have reflected the policy of making less than the maximum loan permissible under applicable regulations, in accordance with sound lending practices, market conditions and underwriting standards established by Jacksonville. All residential first mortgage loans, except those made to facilitate the sale of such dwellings held as real estate owned, are generally underwritten in conformance with current guidelines of the FHLMC. Jacksonville's lending policies on residential first mortgage loans generally limit the maximum loan-to-value ratio to 95% of the lesser of the appraised value or purchase price of the property and generally all residential first mortgage loans in excess of an 80% loan-to-value ratio require private mortgage insurance.

Jacksonville offers fixed-rate residential first mortgage loans with terms of 15 to 30 years. Such loans are amortized on a monthly basis with principal and interest due each month and customarily include "due-on-sale" clauses, which are provisions giving Jacksonville the right to declare a loan immediately due and payable in the event the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid. Jacksonville enforces due-on-sale clauses to the extent permitted under applicable laws. Approximately 99% of Jacksonville's residential first mortgage loan portfolio consists of conventional loans, with the remaining loans either insured by the FHA or partially guaranteed by the VA.

Jacksonville is aware that there are inherent risks in originating fixed-rate residential first mortgage loans for its portfolio, especially during periods of historically low interest rates, but recognizes the need to respond to market demand for fixed-rate loans and to generate income from origination fees for such loans. To address these concerns, in October 1987 Jacksonville began a policy of selling substantially all of the fixed-rate residential first mortgage loans that it originates to a large mortgage banking company with operations throughout the United States. While Jacksonville continues to maintain its loan sales relationship with the mortgage banking company, a substantial majority of its loan sales since July 1993 have been to FHLMC with servicing retained by Jacksonville. Since July 1993, Jacksonville has sold $52.1 million of loans to FHLMC and has retained the servicing on all of these loans. Since that same date, Jacksonville has sold only $22.1 million of loans to the mortgage banking company. During fiscal 1996, Jacksonville sold $21.4 million of loans to FHLMC and $400,000 to the mortgage banking company.

During the year ended September 30, 1996, Jacksonville originated $45.1 million of single-family residential loans of which $34.7 million, or 77.0%, were fixed rate and $10.4 million, or 23.0%, were adjustable rate. Of the fixed-rate single-family residential loans

originated during the period, Jacksonville sold $21.4 million, or 47.5%, to FHLMC. The volume of single-family residential loans originated increased by 39.6% from $32.3 million during fiscal 1995 as compared to $45.1 million during fiscal 1996 and the percentage of sales of such originations increased from 47.1% in fiscal 1995 to 48.3% in fiscal 1996. Jacksonville anticipates that it will continue its policy of selling all or substantially all of its fixed-rate residential first mortgage loan originations with terms of more than 15 years as long as interest rates remain at current levels or lower and will reevaluate this policy if there is a material and prolonged rise in interest rates.

Since November 1980, Jacksonville has been offering adjustable-rate loans in order to decrease the vulnerability of its operations to changes in interest rates. Interest rate adjustment periods range from one to five years. The demand for adjustable-rate loans in Jacksonville's primary market area has been a function of several factors, including the level of interest rates, the expectations of changes in the level of interest rates and the difference between the interest rates offered for fixed-rate loans and adjustable-rate loans. The relative amount of fixed-rate and adjustable-rate residential loans that can be originated at any time is largely determined by the demand for each in a competitive environment. As interest rates have fluctuated since November 1981, the demand for fixed- and adjustable-rate loans has changed as Jacksonville's customers have preferred adjustable rates in a high interest rate environment and fixed-rate loans as interest rates lowered. In order to continue to increase and then to maintain a high percentage of adjustable-rate residential first mortgage loans, Jacksonville has offered various forms of adjustable-rate loans combined with a policy of selling fixed-rate loans from its portfolio. As a result, at September 30, 1996, $84.6 million, or 63.8%, of the single-family residential loans in Jacksonville's loan portfolio, before net items, consisted of adjustable-rate loans.

Jacksonville's residential first mortgage adjustable-rate loans are fully amortizing loans with contractual maturities of up to 30 years. These loans have interest rates which are scheduled to adjust every one, three or five years in accordance with a designated index based upon U.S. Government securities. Jacksonville currently offers a one, three and five-year adjustable mortgage with a 2% cap on the rate adjustment per period and a 4% to 6% cap rate adjustment over the life of the loan, depending on its term. Jacksonville's adjustable-rate residential first mortgage loans are not convertible by their terms into fixed-rate loans, are not assumable, do not contain prepayment penalties and do not produce negative amortization.

Due to the generally lower rates of interest prevailing in recent periods, Jacksonville's ability to originate adjustable-rate residential first mortgage loans has decreased as consumer preference for fixed-rate loans has increased. However, Jacksonville has continued to originate adjustable-rate residential first mortgage loans during this period by offering existing customers the opportunity to refinance fixed-rate loans by modifying such loans into a three or five-year adjustable rate loan with the payment of two points and by originating new five-year adjustable loans without charging points. As a result, even as interest rates have fluctuated in recent years, adjustable rate loans represented 23.0%,

13.6% and 10.6% of Jacksonville's total originations of single-family residential loans during the year ended September 30, 1996, 1995 and 1994, respectively.

Adjustable-rate loans decrease the risks associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. Jacksonville believes that these risks, which have not had a material adverse effect on Jacksonville to date, generally are less than the risks associated with holding fixed-rate loans in an increasing interest rate environment.

The Association also makes home improvement loans which amounted to $2.4 million as of September 30, 1996. These loans are secured by either first or second liens on single-family residences. Second mortgage loans on single-family residences made by Jacksonville are generally secured by properties on which Jacksonville holds the first mortgage lien. Under Texas law, the proceeds of a second mortgage loan must be used for home improvement purposes and the payment of real estate taxes.

COMMERCIAL MORTGAGE LOANS. At September 30, 1996, $8.6 million, or 5.3%, of Jacksonville's total loan portfolio, before net items, consisted of loans secured by existing commercial real estate. Of these commercial mortgage loans, $3.7 million, or 43.0%, represented loans secured by real estate acquired in satisfaction of debts previously contracted or by improvements on such properties. Jacksonville currently originates few commercial mortgage loans. Commercial mortgage loan originations for the years ended September 30, 1996, 1995 and 1994 were, respectively, $697,000, $795,000 and $551,000.

As of September 30, 1996, the commercial mortgage loans in Jacksonville's portfolio not secured by real estate acquired in satisfaction of debts previously contracted or improvements thereon totaled $4.9 million. These loans have terms up to 30 years and have both fixed and adjustable rates. At September 30, 1996, $2.6 million, or 53.1%, of the commercial mortgage loan portfolio not secured by real estate acquired in satisfaction of debts previously contracted consisted of adjustable-rate loans.

The commercial mortgage loans originated since 1989 generally have interest rates that adjust on a periodic basis in accordance with changes in a designated index and have terms that range up to 30 years. Because substantially all commercial mortgage loans originated since 1989 are secured by properties that were formerly real estate owned and by improvements on such properties, Jacksonville's REO Disposition Committee has reviewed each loan with senior management prior to Board of Director approval rather than establishing general guidelines for its staff. Pursuant to a written Classified Assets Reduction Plan adopted by the Board of Directors, individual asset disposition plans are established for each parcel of real estate owned. In order to help establish asking prices for real estate owned, a valuation for each parcel is generally established on an annual basis. The valuation may take the form of an appraisal, brokers opinion, letter appraisal, or similar

document. Where appraisals are obtained, they generally are performed by an independent appraiser designated by Jacksonville and are reviewed by management. In originating commercial mortgage loans, Jacksonville considers the quality of the property, the credit of the borrower, cash flow of the project, location of the real estate and the quality of management involved with the property.

As of September 30, 1996, there were two commercial mortgage loans secured by former real estate owned properties with principal balances, including funds utilized for improvements by the borrower on such properties, in excess of $400,000. These loans were performing in accordance with their terms at September 30, 1996.

Commercial mortgage lending is generally considered to involve a higher degree of risk than single-family residential lending. Such lending typically involves large loan balances concentrated in a single borrower or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties is typically dependent on the successful operation of the related real estate project and thus may be subject to a greater extent to adverse conditions in the real estate market or in the economy generally.

CONSTRUCTION LOAN. At September 30, 1996, construction loans totaled $7.0 million or 4.3% of the total loan portfolio, before net items.

Jacksonville makes construction loans to individuals for the construction of their residences. Recently, it expanded its construction lending activities to include lending to developers for the construction of single-family residences. Because Jacksonville views construction loans as involving greater risk than permanent single-family residential loans, it applies stricter underwriting standards to them. Primarily as a result of increased lending to developers, construction loan originations increased during the year ended September 30, 1996 to $11.7 million from $6.7 million during fiscal 1995. This increase also reflects increased construction activity in Jacksonville's market area.

Construction lending is generally limited to Jacksonville's primary lending area, within 100 miles of Jacksonville's home office or within 25 miles of each branch office. Construction loans are generally only made to existing customers and to developers who have a sound financial and operational reputation in the market area. The loans to individuals are structured to be converted to permanent loans at the end of the construction phase, which typically is six months but may be extended for 30- or 60-day periods for good reason. Construction loans have rates and terms which generally match the non-construction loans then offered by Jacksonville except that during the construction phase the borrower normally only pays interest on the loan. Funds are released periodically pursuant to a construction-completion schedule and only after an on-site inspection by an employee of Jacksonville. Jacksonville generally attempts to mitigate the risks associated with construction lending by, among other things, lending primarily in its market area and using low loan-to-value ratios in the underwriting process. The maximum loan to value ratio is 80%. Construction financing also is generally considered to involve a higher degree of risk

of loss than long-term financing on improved, owner-occupied real estate because of the uncertainties of construction, including the possibility of costs exceeding the initial estimates.

LAND LOANS. As of September 30, 1996, land loans totaled $4.4 million or 2.7% of the total loan portfolio, before net items. As of that date, Jacksonville had 153 land loans in its loan portfolio, over 90% of which were utilized for ranching, agricultural or residential purposes. Jacksonville does not make land loans for speculative purposes. With limited exceptions, Jacksonville's underwriting guidelines require land loans to have a loan-to-land value ratio of 80% and a term of 20 years or less. The average balance of Jacksonville's land loans, as of September 30, 1996, was approximately $29,000.

CONSUMER LOANS. At September 30, 1996, consumer loans totaled $8.9 million or 5.4% of the total loan portfolio, before net items, and consisted primarily of loans secured by deposits, loans secured by vehicles and personal real estate loans. Loans secured by deposits total $2.3 million at September 30, 1996. A loan secured by a deposit at Jacksonville is structured to have a term that ends on the same date as the maturity date of the certificate securing it or if secured by a statement savings account has a one-year term with a hold on withdrawals that would result in the balance being lower than the loan balance. Typically these loans require quarterly payments of interest only. Jacksonville also makes loans to individuals for future homesites and for additional property adjacent to their existing residence. Although under Texas law such loans may have a term of up to 20 years, the average term of Jacksonville's personal real estate loans was was substantially less than 20 years as of September 30, 1996. All of these loans are secured by the purchased land, but because these loans are typically for $10,000 or less they are not underwritten in the same manner as the Association's other mortgage loans. Jacksonville relies on the general creditworthiness of the borrower rather than the value of the collateral and as such does not require a property appraisal or title policy. At September 30, 1996, the Association had 220 personal real estate loans with an average balance of $12,000. Jacksonville's vehicle loan portfolio totalled $3.0 million at September 30, 1996. A substantial majority of Jacksonville's vehicle loans are for new vehicles but it also offers loans for vehicles up to four years old. The Association does not purchase vehicle loans from dealers. The term for vehicle loans is typically six months to five years with monthly payments of principal and interest. These loans are typically made to Jacksonville customers of long standing.

MULTI-FAMILY AND COMMERCIAL BUSINESS LOANS. At September 30, 1996, $1.3 million, or 0.8%, and $219,000, or 0.1%, of Jacksonville's total loan portfolio, before net items, consisted of multi-family loans and commercial business loans, respectively. While Jacksonville has the authority, up to applicable limitations, to engage in the business of making both multi-family and commercial business loans, its policy has been to confine its primary lending activities to other types of lending. Of the ten multi-family loans in Jacksonville's loan portfolio as of September 30, 1996, the largest loan had a principal amount of $391,000 which represented 30.1% of the multi-family loan portfolio. As of September 30, 1996, the commercial business loan portfolio consisted of two loans, the larger of which was a $122,000 loan to a retail grocery store secured by its inventory.

LOAN ORIGINATION AND OTHER FEES. In addition to interest earned on loans, Jacksonville receives loan origination fees or "points" for originating loans. Loan points are a percentage of the principal amount of the mortgage loan and are charged to the borrower in connection with the origination of the loan.

In accordance with SFAS No. 91, which deals with the accounting for non-refundable fees and costs associated with originating or acquiring loans, Jacksonville's loan origination fees and certain related direct loan origination costs are offset, and the resulting net amount is deferred and amortized as interest income over the contractual life of the related loans as an adjustment to the yield of such loans, adjusted for estimated prepayments based on Jacksonville's historical prepayment experience. At September 30, 1996, Jacksonville had $760,000 of loan fees which had been deferred and are being recognized as income over the estimated maturities of the related loans. See Note 5 to the Consolidated Financial Statements.

Loan fees received are accounted for substantially in accordance with FASB Statement No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." Loan fees and certain direct loan origination costs are deferred, and the net fee is recognized as an adjustment to interest income over the contractual life of the loans. Jacksonville has not deferred direct costs related to short-term loans for which no origination fees are charged. Management considers this departure to be immaterial considering the short-term nature of these loans. Commitment fees and costs relating to commitments whose likelihood of exercise is remote are recognized over the commitment period on a straight-line basis. If the commitments subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise is recognized over the life of the loan as an adjustment of yield. See Note 2 to the Consolidated Financial Statements.

ASSET QUALITY

DELINQUENT LOANS. The following table sets forth information concerning delinquent loans at September 30, 1996, in dollar amount and as a percentage of Jacksonville's total loan portfolio, before net items. The amounts presented represent the total outstanding principal balances of the related loans, rather than the actual payment amounts which are past due.

<TABLE>
<CAPTION>

	SINGLE-FAMILY RESIDENTIAL		MULTI-FAMILY RESIDENTIAL		COMMERCIAL	
	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
Loans delinquent for:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
30-59 days	$2,464	1.5%	$ --	--%	$ 468	.29%
60-89 days	709	.43	--	--	13	.01
90 days and over	465	.29	--	--	--	--
Total delinquent loans	$3,638	2.23%	$ --	--%	$ 481	.30%

</TABLE>
<TABLE>
<CAPTION>

	CONSTRUCTION		LAND		CONSUMER		TOTAL	
	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
Loans delinquent for:								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
30-59 days	$ --	--%	$ --	--%	$ 40	.02%	$2,972	1.82%
60-89 days	--	--	--	--	9	---	731	.44
90 days and over	--	--	320	.20	29	.02	814	.51
Total delinquent loans	$ --	--%	$ 320	.20%	$ 78	.04%	$4,517	2.77%

</TABLE>

NON-PERFORMING ASSETS. All loans are reviewed on a regular basis and are placed on a non-accrual status when, in the opinion of management, the collection of additional interest is deemed insufficient to warrant further accrual. Jacksonville does not accrue interest on loans past due 90 days or more except when the estimated value of the collateral and collection efforts were deemed sufficient to ensure full recovery. Uncollectible interest on loans that are contractually past due is charged off or an allowance is established based on management's periodic evaluation. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is restored or until management accepts a payment that results in a cure of the 90-day delinquency. In such cases, the loan is returned to accrual status.

REAL ESTATE OWNED. REO is real property acquired by Jacksonville through foreclosure, deed in lieu of foreclosure, or through an exchange of foreclosed real estate. It is typically a poor or nonearning asset, and its acquisition in limited amounts is generally regarded as an unavoidable result of normal business operations. However, the holding of abnormally large amounts of REO for extensive periods of time can adversely affect earnings. As a result of adverse economic conditions that existed in Jacksonville's market area during the 1980s, Jacksonville, like most financial institutions in its market area, acquired an inordinately large amount of REO consisting primarily of commercial real estate and, to a lesser degree, single-family residential property.

As the economy has improved in its market area in recent years, Jacksonville has attempted to reduce gradually its outstanding REO each year by following a policy of prudent management and market monitoring. The details of this policy are embodied in Jacksonville's Real Estate Owned Policy adopted by the Board of Directors in September 1990. The primary objectives of the REO Policy are to: (1) establish procedures for the handling and disposition of REO; (2) ensure that REO has been properly accounted for on the institution's books; (3) set forth Jacksonville's philosophy for the management of repossessed property; (4) provide for the periodic revaluation of real estate owned; and (5) provide guidelines for the accounting of the sale of REO. These objectives are monitored by the REO Disposition Committee. See "Management - Board Meetings and Committees of the Board of Directors."

REO is recorded at the lower of unpaid principal balance of the loan plus acquisition costs or fair value, as determined by an appraisal of the property obtained at acquisition. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding the property are expensed. Valuations are periodically performed by management and an allowance for losses is established by a charge to operations if the carrying value of a property exceeds its estimated net realizable value. Jacksonville develops an asset plan for each parcel of REO that it holds for more than six months. The plan includes specific marketing strategies, a consideration of necessary improvements and an estimate of the expected holding period and asking price. As a result of the general

improvement in economic conditions in Jacksonville's market area and through the implementation of the REO Policy, Jacksonville's REO amounted to $2.5 million, $2.1 million and $1.1 million as of September 30, 1994, 1995 and 1996 respectively.

Generally, a transfer of REO is recognized by Jacksonville as a sale for accounting purposes upon consummation of the transaction unless Jacksonville retains some type of continuing involvement in the property without a transfer of the risks and rewards of ownership to the buyer or, under some circumstances, if it has financed the sale of the REO. In the latter case, in order for a sale to be recognized, a buyer must, among other things, demonstrate his commitment to the property by making adequate initial and continuing investments. The percentage of sales price viewed as an adequate initial investment level varies with the type of loan, but a generally acceptable percentage of the sales price is between 10% to 25% for commercial real estate and 5% for a single-family primary residence. REO sales financed by Jacksonville in which a buyer's initial investment is less than what is considered an adequate initial investment level under the REO Policy are carried on Jacksonville's books as REO sold by the deposit method until the buyer has an adequate level of equity. As of September 30, 1996, Jacksonville has $941,000 of REO sold by the deposit method.

The following table sets forth the amounts and categories of Jacksonville's non-performing assets at the dates indicated.

<TABLE>
<CAPTION>

	SEPTEMBER 30,				
	1996	1995	1994	1993	1992
	(Dollars in Thousands)				
Non-accruing loans:					
Single-family residential(1)	$ 465	$ 534	$ 163	$ 399	$ 976
Multi-family residential	--	--	--	--	--
Commercial	--	3	10	4	33
Construction	--	--	--	--	--
Land	321	26	420	388	--
Commercial business	--	--	--	--	--
Consumer	29	--	8	6	43
Total non-accruing loans	815	563	601	797	1,052
Accruing loans 90 days or more delinquent	--	--	--	--	--
Total non-performing loans	815	563	601	797	1,052
Real estate owned(2)	1,051	2,052	2,549	4,623	7,227
Total non-performing assets	$1,866	$2,615	$3,150	$5,420	$8,279
Troubled debt restructurings	$ 387	$ 391	$ 395	$ 406	$ 419
Total non-performing loans and troubled debt restructurings as a percentage of total net loans	.76%	.70%	.81%	.95%	1.15%
Total non-performing assets and troubled debt restructurings as a percentage of total assets	1.03%	1.51%	1.90%	3.07%	4.53%

</TABLE>

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(1) Includes first and second liens on single-family residences.

(2) Includes real estate acquired by foreclosure, by deed in lieu of foreclosure and deemed in-substance foreclosure net of specified reserves.

At September 30, 1996, management was not aware of any additional loans with possible credit problems which caused it to have doubts as to the ability of the borrowers to comply with present loan repayment terms and which in management's view may result in the future inclusion of such items in the non-performing asset categories.

The interest income that would have been recorded during fiscal 1996, 1995 and 1994 if Jacksonville's non-accruing loans at the end of such periods had been current in accordance with their terms during such periods were approximately $52,000, $89,000 and $63,000, respectively. Jacksonville has not committed to lend additional funds to debtors whose loans have been modified. See Note 5 to the Consolidated Financial Statements. During the year ended September 30, 1996, no interest income was actually recorded on any loans after they were placed on non-accrual status.

CLASSIFIED ASSETS. Federal regulations require that each insured savings association classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, federal examiners have authority to identify problem assets and, if appropriate, classify them. There are three classifications for problem assets: "substandard," "doubtful" and "loss." Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. Another category designated "special mention" also must be established and maintained for assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification as substandard, doubtful or loss. Assets classified as substandard or doubtful require the institution to establish general allowances for loan losses. If an asset or portion thereof is classified loss, the insured institution must either establish specific allowances for loan losses in the amount of 100% of the portion of the asset classified loss, or charge-off such amount. General loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses do not qualify as regulatory capital. Federal examiners may disagree with an insured institution's classifications and amounts reserved.

Jacksonville's classified assets at September 30, 1996 consisted of $20,000 of assets classified as special mention, $3.2 million of assets classified as substandard, and $0 classified as loss. All of the assets classified special mention were single-family residential loans. Of assets classified substandard, $900,000, or 27.7%, were non residential real estate parcels acquired as real estate owned, $1.6 million, or 51.1%, were single-family residential loans, $400,000, or 13.6%, were commercial real estate and land loans, and $200,000 or 6.5%, were single-family residences acquired as real estate owned.

The following table sets forth the Association's classified assets at the dates indicated.

<TABLE>
<CAPTION>

	SEPTEMBER 30,		
	1996	1995	1994
		(In thousands)	
<S>	<C>	<C>	<C>
Classification:			
Special mention	$ 20	$ 41	$ 38
Substandard	3,213	3,333	4,152
Doubtful	--	--	--
Loss(1)	--	--	--
Total classified assets	$3,233	$3,374	$4,190

</TABLE>

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(1) Excludes foreclosed real estate that has been fully reserved.

Allowance for Loan Losses. It is management's policy to maintain an allowance for estimated losses on loans based upon an assessment of past loan loss experience, known and inherent risks in the portfolio adverse situations that may affect the borrower's ability to repay and current economic conditions. Although management believes that it uses the best information available to make such determinations, future adjustments to allowances may be necessary, and net earnings could be significantly affected, if circumstances differ substantially from the assumptions used in making the initial determinations. Currently, the allowance for loan losses is formally reevaluated on a quarterly basis.

At September 30, 1996, Jacksonville's allowance for loan losses amounted to $1.1 million compared to $1.0 million at September 30, 1995.

The following table sets forth an analysis of Jacksonville's allowance for loan losses during the periods indicated.

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,				
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Total net loans outstanding	$158,034	$135,933	$123,133	$126,030	$128,107
Average loans outstanding	$145,021	$128,623	$122,051	$127,845	$129,968
Balance at beginning of period	$ 1,000	$ 1,000	$ 996	$ 810	$ 724
Charge-offs(1)	--	(57)	(24)	(155)	(311)
Recoveries(1)	--	32	10	16	13
Net charge-offs	1,000	(25)	(14)	(139)	(298)
Provision for losses on loans	100	25	18	325	384
Balance at end of period	$ 1,100	$ 1,000	$ 1,000	$ 996	$ 810
Allowance for loan losses as a percent of total net loans outstanding	.70%	.74%	.81%	.79%	.63%
Ratio of net charge-offs to average loans outstanding	--%	.02%	.01%	.11%	.23%

</TABLE>

----

(1) Charge-offs and recoveries for all periods presented consist principally of single-family residential loans.

The following table presents the allocation of the allowance for loan losses to the total amount of loans in each category listed at the dates indicated.

<TABLE>
<CAPTION>

	SEPTEMBER 30,					
	1996		1995		1994	
	AMOUNT	% OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	% OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	% OF LOANS IN EACH CATEGORY TO TOTAL LOANS
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Mortgage loans	$1,025	93.18%	$ 894	96.5%	$ 900	97.5%
Commercial business loans	20	1.82	30	.2	42	.2
Consumer loans	55	5.00	76	3.3	58	2.3
Total allowance for loan losses	$1,100	100.0%	$1,000	100.0%	$1,000	100.0%

</TABLE>
<TABLE>
<CAPTION>

	SEPTEMBER 30,			
	1993		1992	
	AMOUNT	% OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	% OF LOANS IN EACH CATEGORY TO TOTAL LOANS
	(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>
Mortgage loans	$ 927	97.9%	$ 750	97.5%

Commercial business loans	--	.2	--	.2
Consumer loans	69	1.9	60	2.3
Total allowance for loan losses	$ 996	100.0%	$ 810	100.0%

</TABLE>

MORTGAGE-BACKED SECURITIES

Jacksonville has invested in a portfolio of mortgage-backed securities which are insured or guaranteed by the FHLMC or the GNMA. Mortgage-backed securities increase the quality of Jacksonville's assets by virtue of the guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of Jacksonville. In addition, at September 30, 1996, $5.7 million of Jacksonville's mortgage-backed securities consist of pools of adjustable-rate mortgages. Mortgage-backed securities of this type serve to reduce the interest rate risk associated with changes in interest rates.

The following table sets forth the activity in Jacksonville's mortgage-backed securities portfolio during the periods indicated.

<TABLE>
<CAPTION>

	1996	1995	1994
		(Dollars in Thousands)	
<S>	<C>	<C>	<C>
Mortgage-backed securities at beginning of period	$ 3,442	$2,995	$4,214
Purchases	10,927	1,002	--
Sales	--	--	--
Repayments	(2,262)	(555)	(1,219)
Mortgage-backed securities at end of period	$12,107	$ 3,442	$ 2,995
Weighted average yield at end of period	7.06%	7.33%	7.69%

</TABLE>

At September 30, 1996, Jacksonville's mortgage-backed securities had a book value and estimated market value of $12.1 million and $12.1 million, respectively. Of the $12.1 million portfolio, $2.0 million was scheduled to mature in five years or less and $7.1 million was scheduled to mature after ten years. Due prepayments of the underlying loans, the actual maturities of mortgage-backed securities generally are substantially less than the scheduled maturities.

The $2.0 million of mortgage-backed securities which were scheduled to mature in five years or less at September 30, 1996 qualify for regulatory liquidity and have fixed interest rates. The remaining $10.1 million of mortgage-backed securities at such date consisted of $4.4 million of fixed-rate and $5.7 million of adjustable-rate securities. Of Jacksonville's total investment in mortgage-backed securities at September 30, 1996, $7.3 million consisted of FNMA certificates, $1.3 million consisted of GNMA certificates and $3.5 million consisted of FHLMC certificates. See Note 4 to the Consolidated Financial Statements for additional information.

INVESTMENT ACTIVITIES

Jacksonville's investment securities portfolio is managed in accordance with a written Investment Policy adopted by the Board of Directors and administered by the Investment Committee which consists of one outside Director, the President and the Senior Vice President. The members of the Investment Committee are: Dr. Joe Tollett, Charles Broadway and Bill W. Taylor. There is no investment limit for investments in U.S. Treasury obligations and FHLB obligations having maturities of ten years or less and in other U.S. federal agency or federally sponsored agency obligations, including, but not limited to FHLMC, FNMA, GNMA and the Student Loan Marketing Association, municipal obligations rated AAA, A, A or BBB or issued by a public housing agency and backed by the full faith and credit of the U.S. government having maturities of 30 years or less. In addition, there are no investment limits on bankers acceptances of 12 months or less and federal funds of 360 days or less. Up to $100,000 per bank may be invested in commercial bank certificates of deposit with maturities up to one year. Other investments must be approved by the Board of Directors. At September 30, 1996, Jacksonville had U.S. Treasury notes and U.S. Government agency held-to-maturity securities with an amortized cost of $26.4 million and an estimated market value of $26.4 million. See note 3 to the Consolidated Financial Statement for further information. At September 30, 1996, Jacksonville held U.S. government securities as available-for-sale with an amortized cost of $7.5 million and an estimated market value of $7.4 million.

The following table sets forth Jacksonville's investment securities at the dates indicated.

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996	1995	1994
		(In thousands)	
<S>	<C>	<C>	<C>
Available for sale(1):			
U.S. agency securities	$ 7,359	$ 6,408	$ 4,206
Total available for sale	7,359	6,408	4,206
Held to maturity(1):			
Mortgage-backed securities:			
FNMA Certificates	7,270	--	--
FHLMC certificates	3,553	1,921	1,193
GNMA certificates	1,284	1,521	1,802
U.S. Treasury notes	8,980	12,492	17,204
U.S. agency securities	17,467	24,008	23,482
Total held to maturity	38,554	39,942	43,681
Total investment securities	$45,913	$46,350	$47,887

</TABLE>

----

(1) Securities classified as available for sale were carried at fair value at September 30, 1996, 1995 and 1994. Securities classified as held-to-maturity were carried at historical cost at all respective dates.

At September 30, 1996, $9.0 million or 19.6% of investment securities held by Jacksonville were scheduled to mature in one year or less and had a weighted average yield of 6.61%. Of the remaining investment securities, $16.9 million was scheduled to mature after one year through five years.

The following table sets forth certain information regarding the maturities of Jacksonville's investment securities at September 30, 1996.

<TABLE>
<CAPTION>

	CONTRACTUALLY MATURING			
	WEIGHTED	WEIGHTED	WEIGHTED	WEIGHTED

	UNDER 1 YEAR	AVERAGE RATE	1-5 YEARS	AVERAGE RATE	6-10 YEARS	AVERAGE RATE	OVER 10 YEARS	AVERAGE RATE
					(Dollars in Thousands)			
HELD TO MATURITY								
U.S. Treasury notes and bills	$ 4,001	6.09%	$ 4,979	5.30%	$ --	--%	$ --	--%
U.S. agency securities	5,004	7.03	12,463	5.68	--	--	--	--
Total	$ 9,005		$17,442		$ --		$ --	--
AVAILABLE FOR SALE								
U.S. Treasury notes and bills	--	--	--	--	--	--	--	--
U.S. agency securities	--	--	4,492	6.10	3,000	7.67	--	--
Total	$ --		$ 4,492		$ 3,000		$ --	
Unrealized loss on securities available for sale								
Total								

	TOTAL AMOUNT	TOTAL YIELD
	(Dollars in Thousands)	
HELD TO MATURITY		
U.S. Treasury notes and bills	$ 8,980	5.65%
U.S. agency securities	17,467	6.07
Total	$26,447	
AVAILABLE FOR SALE		
U.S. Treasury notes and bills	--	--
U.S. agency securities	7,492	6.73
Total	$ 7,492	
Unrealized loss on securities available for sale	133	
Total	$33,806	

INTEREST-BEARING DEPOSITS

As of September 30, 1996 Jacksonville also had demand deposit accounts in the FHLB of Dallas of $2.4 million as compared to $5.8 million as of September 30, 1995. In order to comply with a policy adopted by its Board of Directors, Jacksonville's deposits in FDIC-insured institutions are limited to $100,000 per bank in certificates of deposit with a maximum maturity of one year. As of September 30, 1996, Jacksonville had no certificates of deposit.

SOURCES OF FUNDS

GENERAL. Deposits are the primary source of Jacksonville's funds for lending and other investment purposes. In addition to deposits, Jacksonville derives funds from loan principal repayments. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources. They may also be used on a longer term basis for general business purposes.

DEPOSITS. Jacksonville's deposits are attracted principally from within Jacksonville's primary market area through the offering of a broad selection of deposit instruments, including demand and NOW accounts, money market accounts, passbook savings accounts, and term certificate accounts. Included among these deposit products are individual retirement account certificates of approximately $19.4 million at September 30, 1996.

Deposit account terms vary, with the principal differences being the minimum balance required, the time periods the funds must remain on deposit and the interest rate.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established by Jacksonville on a periodic basis. Determination of rates and terms are predicated on funds acquisition and liquidity requirements, rates paid by competitors, growth goals and federal regulations.

Jacksonville does not advertise for deposits outside its local market area or utilize the services of deposit brokers.

The following table sets forth the dollar amount of deposits in the various types of deposit programs offered by Jacksonville at the dates indicated.
<TABLE>
<CAPTION>

	SEPTEMBER 30,					
	1996		1995		1994	
	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Certificate accounts:						
2.00 - 4.00%	$3,973	2.28%	$ 14,428	8.30%	$ 98,332	61.71%
4.01 - 6.00%	96,387	55.30	82,012	47.17	13,666	8.59
6.01 - 8.00%	31,581	18.11	36,147	20.79	8	--
8.01 - 10.00%	139	.08	132	.08	--	--
Total certificate accounts	$132,080	75.77%	$132,719	76.34%	$112,006	70.30%
Transaction accounts:						
Passbook savings	$11,424	6.55%	$ 10,765	6.20%	$ 11,063	6.94%
Money market	17,648	10.12	17,930	10.32	24,720	15.51
Demand and NOW Accounts	13,176	7.56	12,397	7.14	11,554	7.25
Total transaction accounts	$42,248	24.23%	$ 41,092	23.66%	$ 47,337	29.70%
Total deposits	$174,328	100.00%	$173,811	100.00%	$159,343	100.00%

</TABLE>

The following table sets forth the savings activities of Jacksonville during the periods indicated.
<TABLE>
<CAPTION>

	1996	1995	1994
		(In Thousands)	
<S>	<C>	<C>	<C>
Net increase (decrease) before interest credited	(4,111)	10,889	(17,736)
Interest credited	4,628	3,579	2,768
Net increase (decrease) in deposits	$ 517	$ 14,468	$(14,968)

</TABLE>

The following table shows the interest rate and maturity information for Jacksonville's certificates of deposit at September 30, 1996

<TABLE>
<CAPTION>

	MATURITY DATE				
INTEREST RATE	ONE YEAR OR LESS	OVER 1-2 YEARS	OVER 2-3 YEARS	OVER 3 YEARS	TOTAL
			(In Thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
2.00 - 4.00%	$3,973	$ --	$ --	$ --	$ 3,973
4.01 - 6.00%	90,918	5,469	--	--	96,387
6.01 - 8.00%	31,513	68	--	--	31,581
8.01 - 10.00%	139	--	--	--	139
	$126,543	$ 5,537	$ --	$ --	$132,080

</TABLE>

The following table sets forth the maturities of Jacksonville's certificates of deposit having principal amounts of $100,000 or more at September 30, 1996.

<TABLE>
<CAPTION>

CERTIFICATES OF DEPOSIT MATURING IN QUARTER ENDING:	(In thousands)
<S>	<C>
December 31, 1996	$ 4,061
March 31, 1997	2,860
June 30, 1997	1,250
September 30, 1997	5,779
After September 30, 1997	3,221
Total certificates of deposit with balances of $100,000 or more	$17,171

</TABLE>

The following table sets forth the maximum month-end balance and average balance of Jacksonville's FHLB advances during the periods indicated. See also, Note 9 to the Consolidated Financial Statements.

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1996	1995	1994
		(Dollars in Thousands)	
<S>	<C>	<C>	<C>
Maximum balance	$4,000	$ 7,000	$ 4,000
Average balance	1,098	2,750	115
Weighted average interest rate of FHLB advances	5.71%	5.52%	5.27%

</TABLE>

The following table sets forth certain information as to Jacksonville's long-term (terms to maturity in excess of 90 days) and short-term (terms to maturity of 90 days or less) FHLB advances at the dates indicated.

<TABLE>
<CAPTION>

	SEPTEMBER 30,		
	1996	1995	1994

	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
FHLB long-term advances	$2,000	$ --	$ 4,000
Weighted average interest rate	5.71%	--%	5.15%
FHLB short-term advances	$ --	$ --	$ --
Weighted average interest rate	--%	--%	--%

</TABLE>

BORROWINGS. While Jacksonville has not frequently borrowed from the FHLB of Dallas, it may obtain advances from the FHLB of Dallas upon the security of the common stock it owns in that bank and certain of its residential mortgage loans, provided certain standards related to creditworthiness have been met. Such advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities. Such advances are generally available to meet seasonal and other withdrawals of deposit accounts and to permit increased lending. See "Regulation - Federal Regulation of Savings Associations - Federal Home Loan Bank System." At September 30, 1996, Jacksonville had $2 million advances from the FHLB of Dallas.

The Company's ESOP also borrowed funds for the purchase of shares of the Association Common Stock issued in connection with the MHC Reorganization. As of September 30, 1996, the outstanding balance of that loan was $1.5 million.

SUBSIDIARIES. Jacksonville currently owns 100% of the capital stock of J. S. & L. Corporation ("JS&L") which was established in December 1979. JS&L is self sufficient due to income from $79,000 in investments, interest from residential notes receivable and rental income. Its main activity is the servicing of purchased residential first and second lien notes. The portfolio includes 35 loans ranging in size from $2,500 to $145,000, most of which were purchased at a discount. For most of the second lien notes purchased, Jacksonville holds the first lien note. For the years ended September 30, 1996 and September 30, 1995, JS&L earned $34,800 and $34,900, respectively. JS&L now makes investments in investments permissible for Jacksonville, rents houses and office space, and originates and buys first and second liens. JS&L purchases first and second lien notes pursuant to a written mortgage loan underwriting policy adopted by JS&L's board of directors. Total investment in JS&L

at September 30, 1996 was $210,000. Total capital of JS&L at September 30, 1996 was $810,000 and, as of that date, JS&L has no outstanding indebtedness to Jacksonville.

EMPLOYEES. Jacksonville and its subsidiary had 69 full-time employees and one part-time employee at September 30, 1996. None of these employees is represented by a collective bargaining agent, and Jacksonville believes that it enjoys good relations with its personnel.

REGULATION

Set forth below is a brief description of those laws and regulations which, together with the descriptions of laws and regulations contained elsewhere herein, are deemed material to an investor's understanding of the extent to which the Company and the Association are regulated. The description of the laws and regulations hereunder and elsewhere herein does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

THE COMPANY

GENERAL. The Company, as a savings and loan holding company within the meaning of the Home Owners' Loan Act ("HOLA"), will be required to register with the OTS and will be subject to OTS regulations, examinations, supervision and reporting requirements. As a subsidiary of a savings and loan holding company, the Association will be subject to certain restrictions in its dealings with the Company and affiliates thereof.

ACTIVITIES RESTRICTIONS. There are generally no restrictions on the activities of a savings and loan holding company which holds only one subsidiary savings institution. However, if the Director of the OTS determines that there is reasonable cause to believe that the continuation by a savings and loan holding company of an activity constitutes a serious risk to the financial safety, soundness or stability of its subsidiary savings institution, the Director may impose such restrictions as deemed necessary to address such risk, including limiting (i) payment of dividends by the savings institution; (ii) transactions between the savings institution and its affiliates; and (iii) any activities of the savings institution that might create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings institution. Notwithstanding the above rules as to permissible business activities of unitary savings and loan holding companies, if the savings institution subsidiary of such a holding company fails to meet a qualified thrift lender ("QTL") test, then such unitary holding company also shall become subject to the activities restrictions applicable to multiple savings and loan holding companies and, unless the savings institution requalifies as a QTL within one year thereafter, shall register as, and become subject to the restrictions applicable to, a bank holding company. See "- The Association - Qualified Thrift Lender Test."

If the Company were to acquire control of another savings institution, other than through merger or other business combination with the Association, the Company would

thereupon become a multiple savings and loan holding company. Except where such acquisition is pursuant to the authority to approve emergency thrift acquisitions and where each subsidiary savings institution meets the QTL test, as set forth below, the activities of the Company and any of its subsidiaries (other than the Association or other subsidiary savings institutions) would thereafter be subject to further restrictions. Among other things, no multiple savings and loan holding company or subsidiary thereof which is not a savings institution shall commence or continue for a limited period of time after becoming a multiple savings and loan holding company or subsidiary thereof any business activity, upon prior notice to, and no objection by the OTS, other than: (i) furnishing or performing management services for a subsidiary savings institution; (ii) conducting an insurance agency or escrow business; (iii) holding, managing, or liquidating assets owned by or acquired from a subsidiary savings institution; (iv) holding or managing properties used or occupied by a subsidiary savings institution; (v) acting as trustee under deeds of trust; (vi) those activities authorized by regulation as of March 5, 1987 to be engaged in by multiple savings and loan holding companies; or (vii) unless the Director of the OTS by regulation prohibits or limits such activities for savings and loan holding companies, those activities authorized by the Federal Reserve Board as permissible for bank holding companies. Those activities described in (vii) above also must be approved by the Director of the OTS prior to being engaged in by a multiple savings and loan holding company.

LIMITATIONS ON TRANSACTIONS WITH AFFILIATES. Transactions between savings institutions and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a savings institution is any company or entity which controls, is controlled by or is under common control with the savings institution. In a holding company context, the parent holding company of a savings institution (such as the Company) and any companies which are controlled by such parent holding company are affiliates of the savings institution. Generally, Sections 23A and 23B (i) limit the extent to which the savings institution or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar other types of transactions. In addition to the restrictions imposed by Sections 23A and 23B, no savings institution may (i) loan or otherwise extend credit to an affiliate, except for any affiliate which engages only in activities which are permissible for bank holding companies, or (ii) purchase or invest in any stocks, bonds, debentures, notes or similar obligations of any affiliate, except for affiliates which are subsidiaries of the savings institution.

In addition, Sections 22(h) and (g) of the Federal Reserve Act places restrictions on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of a savings institution, and certain affiliated interests of either, may not exceed, together with all other

outstanding loans to such person and affiliated interests, the institution's loans to one borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus). Section 22(h) permits loans to directors, executive officers and principal stockholders made pursuant to a benefit or compensation program that is widely available to employees of a subject savings association provided that no preference is given to any officer, director, or principal shareholder or related interest thereto over any other employee. In addition, the aggregate amount of extensions of credit by a savings institution to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. At September 30, 1996, the Association was in compliance with the above restrictions.

RESTRICTIONS ON ACQUISITIONS. Except under limited circumstances, savings and loan holding companies are prohibited from acquiring, without prior approval of the Director of the OTS, (i) control of any other savings institution or savings and loan holding company or substantially all the assets thereof or (ii) more than 5% of the voting shares of a savings institution or holding company thereof which is not a subsidiary. Except with the prior approval of the Director of the OTS, no director or officer of a savings and loan holding company or person owning or controlling by proxy or otherwise more than 25% of such company's stock, may acquire control of any savings institution, other than a subsidiary savings institution, or of any other savings and loan holding company.

The Director of the OTS may only approve acquisitions resulting in the formation of a multiple savings and loan holding company which controls savings institutions in more than one state if (i) the multiple savings and loan holding company involved controls a savings institution which operated a home or branch office located in the state of the institution to be acquired as of March 5, 1987; (ii) the acquiror is authorized to acquire control of the savings institution pursuant to the emergency acquisition provisions of the Federal Deposit Insurance Act ("FDIA"); or (iii) the statutes of the state in which the institution to be acquired is located specifically permit institutions to be acquired by the state-chartered institutions or savings and loan holding companies located in the state where the acquiring entity is located (or by a holding company that controls such state-chartered savings institutions).

The Bank Holding Company Act of 1956 specifically authorizes the Federal Reserve Board to approve an application by a bank holding company to acquire control of a savings institution. A bank holding company that controls a savings institution is also authorized to merge or consolidate the assets and liabilities of the savings institution with, or transfer assets and liabilities to, any subsidiary bank which is a member of the BIF with the approval of the appropriate federal banking agency and the Federal Reserve Board. As a result of these provisions, there have been a number of acquisitions of savings institutions by bank holding companies in recent years.

FEDERAL SECURITIES LAWS. The Company has filed with the Securities and Exchange Commission ("SEC") a registration statement under the Securities Act of 1933, as amended

(the "Securities Act"), for the registration of the Common Stock to be issued pursuant to the Conversion. Upon completion of the Conversion and Reorganization, the Company's Common Stock will be registered with the SEC under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company will then be subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

The registration under the Securities Act of shares of the Common Stock to be issued in the Conversion and Reorganization does not cover the resale of such shares. Shares of the Common Stock purchased by persons who are not affiliates of the Company may be sold without registration. Shares purchased by an affiliate of the Company will be subject to the resale restrictions of Rule 144 under the Securities Act. If the Company meets the current public information requirements of Rule 144 under the Securities Act, each affiliate of the Company who complies with the other conditions of Rule 144 (including those that require the affiliate's sale to be aggregated with those of certain other persons) would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of (i) 1% of the outstanding shares of the Company or (ii) the average weekly volume of trading in such shares during the preceding four calendar weeks.

THE ASSOCIATION

GENERAL. The OTS has extensive authority over the operations of savings institutions. As part of this authority, savings institutions are required to file periodic reports with the OTS and are subject to periodic examinations by the OTS and the FDIC. The investment and lending authority of savings institutions are prescribed by federal laws and regulations, and such institutions are prohibited from engaging in any activities not permitted by such laws and regulations. Those laws and regulations generally are applicable to all federally chartered savings institutions and to certain state-chartered savings institutions. Such regulation and supervision is primarily intended for the protection of depositors.

The OTS has broad enforcement authority over all savings institutions, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS.

INSURANCE OF ACCOUNTS. The deposits of the Association are insured to the maximum extent permitted by the SAIF, which is administered by the FDIC, and are backed by the full faith and credit of the U.S. Government. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority

to initiate enforcement actions against savings institutions, after giving the OTS an opportunity to take such action.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Association, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. There are no pending proceedings to terminate the deposit insurance of the Association.

Both the SAIF and the Bank Insurance Fund ("BIF"), the federal deposit insurance fund that covers the deposits of state and national banks and certain state savings banks, are required by law to attain and thereafter maintain a reserve ration of 1.25% of insured deposits. The BIF has achieved the required reserve rate, and as a result, the FDIC reduced the average deposit insurance premium paid by BIF-insured banks to a level substantially below the average premium paid by savings institutions. Banking legislation was enacted September 30, 1996 to eliminate the premium differential between SAIFinsured institutions and BIF-insured institutions. The legislation provides that all insured depository institutions with SAIF-assessable deposits as of March 31, 1995 pay a special one-time assessment to recapitalize the SAIF. Pursuant to this legislation, the FDIC promulgated a rule that established the special assessment necessary to recapitalize the SAIF at 65.7 basis points of SAIF-assessable deposits held by effected institutions as of March 31, 1995. Based upon its level of SAIF deposits as of March 31, 1995, the Association will pay a special assessment of approximately $1.1 million. The assessment was accrued in the quarter ended September 30, 1996.

Another component of the SAIF recapitalization plan provides for the merger of the SAIF and the BIF on January 1, 1999, if no insured depository institution is a savings association on that date. If the Association is required to convert to a bank charter, the Company would become a bank holding company which would subject it to the more restrictive activity limits imposed on bank holding companies unless special grandfather provisions are included in applicable legislation or regulation. As of September 30, 1996, the Company has no investments or activities that would be adversely affected if it were required to become a bank holding company.

REGULATORY CAPITAL REQUIREMENTS. Federally insured savings institutions are required to maintain minimum levels of regulatory capital established by the OTS. These standards generally must be as stringent as the comparable capital requirements imposed on national

banks. The OTS also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

Current OTS capital standards require savings institutions to satisfy three different capital requirements. Under these standards, savings institutions must maintain "tangible" capital equal to at least 1.5% of adjusted total assets, "core" capital equal to at least 3% of adjusted total assets and "total" capital (a combination of core and "supplementary" capital) equal to at least 8.0% of "risk-weighted" assets. For purposes of the regulation, core capital generally consists of common equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries, certain nonwithdrawable accounts and pledged deposits and "qualifying supervisory goodwill." Tangible capital is given the same definition as core capital but does not include qualifying supervisory goodwill and is reduced by the amount of all the savings institution's intangible assets, with only a limited exception for purchased mortgage servicing rights. The Association had no goodwill or other intangible assets at September 30, 1996. Both core and tangible capital are further reduced by an amount equal to a savings institution's debt and equity investments in subsidiaries engaged in activities not permissible to national banks (other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies). These adjustments do not affect the Association's regulatory capital. Supplementary capital generally consists of hybrid capital instruments; perpetual preferred stock which is not eligible to be included as core capital; subordinated debt and intermediate-term preferred stock; and general allowances for loan losses up to a maximum of 1.25% of risk-weighted assets.

In determining compliance with the risk-based capital requirement, a savings institution is allowed to include both core capital and supplementary capital in its total capital, provided that the amount of supplementary capital included does not exceed the savings institution's core capital. In determining the required amount of risk-based capital, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights assigned by the OTS for principal categories of assets are (i) 0% for cash and securities issued by the U.S. Government or unconditionally backed by the full faith and credit of the U.S. Government; (ii) 20% for securities (other than equity securities) issued by U.S. Government-sponsored agencies and mortgage-backed securities issued by, or fully guaranteed as to principal and interest by, the FNMA or the FHLMC, except for those classes with residual characteristics or stripped mortgage-related securities; (iii) 50% for prudently underwritten permanent oneto four-family first lien mortgage loans not more than 90 days delinquent and having a loan-to-value ratio of not more than 80% at origination unless insured to such ratio by an insurer approved by the FNMA or the FHLMC, qualifying residential bridge loans made directly for the construction of one- to four-family residences and qualifying multi-family residential loans; and (iv) 100% for all other loans and investments, including consumer loans, commercial loans, and single-family residential real estate loans more than 90 days delinquent, and for repossessed assets.

In August 1993, the OTS adopted a final rule incorporating an interest-rate risk component into the risk-based capital regulation. Under the rule, an institution with a greater than "normal" level of interest rate risk is subject to a deduction of its interest rate risk component from total capital for purposes of calculating its risk-based capital. As a result, such an institution is required to maintain additional capital in order to comply with the risk-based capital requirement. An institution with a greater than "normal" interest rate risk is defined as an institution that would suffer a loss of net portfolio value exceeding 2.0% of the estimated economic value of its assets in the event of a 200 basis point increase or decrease (with certain minor exceptions) in interest rates. The interest rate risk component is calculated, on a quarterly basis, as one-half of the difference between an institution's measured interest rate risk and 2.0%, multiplied by the economic value of its assets. The rule also authorizes the Director of the OTS, or his designee, to waive or defer an institution's interest rate risk component on a case-by-case basis. The final rule was effective as of January 1, 1994, subject however to a three quarter "lag" time between the reporting date of the data used to calculate an institution's interest rate risk and the effective date of each quarter's interest rate risk component. Thus, an institution with greater than "normal" risk was not subject to any deduction from total capital until October 1, 1994 (based on the calculation of the interest rate risk component using data as of December 31, 1993). If the interest rate risk component had been in effect as of June 30, 1996, Jacksonville would not have been required to make a deduction from its regulatory capital.

At September 30, 1996, the Association exceeded all of its regulatory capital requirements. The following table sets forth the Association's compliance with applicable regulatory capital requirements at September 30, 1996.

	HISTORICAL REGULATORY CAPITAL AT SEPTEMBER 30, 1996(1)	
	AMOUNT	% OF ASSETS
	(Dollars in Thousands)	
Tangible(2):		
Required Minimum	$ 3,248	1.50%
Capital Amount	28,526	13.17
Excess	25,278	11.67
Core(2)(3):		
Required Minimum	6,496	3.00
Capital Amount	28,526	13.17
Excess	22,030	10.17
Risk-based(4)(5):		
Required Minimum	8,872	8.00
Capital Amount	29,626	26.71
Excess	20,754	18.71

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(1) Tangible and core capital are computed as a percentage of adjusted total assets of $216.5 million. Risk-based capital is computed as a percentage of adjusted risk-weighted assets of $110.9 million.

A savings institution which is not in capital compliance or which is otherwise deemed to require more than normal supervision is subject to restrictions on its ability to grow pursuant to OTS Regulatory Bulletin 3a-1. In addition, a provision of HOLA generally provides that the Director of OTS must restrict the asset growth of savings institutions not in regulatory capital compliance, subject to a limited exception for growth not exceeding interest credited.

A savings institution which is not in capital compliance is also automatically subject to the following: (i) new directors and senior executive officers and employment contracts for senior executive officers must be approved by the OTS in advance; (ii) the savings institution may not accept or renew any brokered deposits; (iii) the savings institution is subject to higher OTS assessments as a capital-deficient institution; and (iv) the savings institution may not make any capital distributions without prior written approval.

Any savings institution that fails any of the capital requirements is subject to possible enforcement actions by the OTS or the FDIC. Such actions could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations, termination of federal deposit insurance and the appointment of a conservator or receiver. The OTS' capital regulation provides that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions.

PROMPT CORRECTIVE ACTION. Under Section 38 of the FDIA, as added by the FDICIA, each federal banking agency was required to implement a system of prompt corrective action for institutions which it regulates. The federal banking agencies, including the OTS, adopted substantially similar regulations to implement Section 38 of the FDIA. Under the regulations, an institution is deemed to be (i) "well capitalized" if it has total risk-based capital of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a Tier 1 leverage capital ratio of 5.0% or more and is not subject to any order or final capital directive to meet and maintain a specific capital level for any capital measure, (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more and a Tier 1 leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized," (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0% or a Tier 1 leverage capital ratio that is less than 4.0% (3.0% under certain circumstances), (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a Tier 1 leverage capital ratio that is less than 3.0%, and (v) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Section 38 of the FDIA and the regulations promulgated thereunder also specify circumstances under which a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized).

An institution generally must file a written capital restoration plan which meets specified requirements with an appropriate federal banking agency within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. A federal banking agency must provide the institution with written notice of approval or disapproval within 60 days after receiving a capital restoration plan, subject to extensions by the agency.

An institution which is required to submit a capital restoration plan must concurrently submit a performance guaranty by each company that controls the institution. Such guaranty shall be limited to the lesser of (i) an amount equal to 5.0% of the institution's total assets at the time the institution was notified or deemed to have notice that it was undercapitalized or (ii) the amount necessary to restore the relevant capital measures of the institution to the

levels required for the institution to be classified as adequately capitalized. Such a guarantee shall expire after the federal banking agency notifies the institution that it has remained adequately capitalized for each of four consecutive calendar quarters. An institution which fails to submit a written capital restoration plan within the requisite period, including any required performance guarantee(s), or fails in any material respect to implement a capital restoration plan, shall be subject to the restrictions in Section 38 of the FDIA which are applicable to significantly undercapitalized institutions.

Immediately upon becoming undercapitalized, an institution shall become subject to the provisions of Section 38 of the FDIA (i) restricting payment of capital distributions and management fees, (ii) requiring that the appropriate federal banking agency monitor the condition of the institution and its efforts to restore its capital, (iii) requiring submission of a capital restoration plan, (iv) restricting the growth of the institution's assets and (v) requiring prior approval of certain expansion proposals. The appropriate federal banking agency for an undercapitalized institution also may take any number of discretionary supervisory actions if the agency determines that any of these actions is necessary to resolve the problems of the institution at the least possible long-term cost to the deposit insurance fund, subject in certain cases to specified procedures. These discretionary supervisory actions include requiring the institution to raise additional capital; restricting transactions with affiliates; restricting interest rates paid by the institution on deposits; requiring replacement of senior executive officers and directors; restricting the activities of the institution and its affiliates; requiring divestiture of the institution or the sale of the institution to a willing purchaser; and any other supervisory action that the agency deems appropriate. These and additional mandatory and permissive supervisory actions may be taken with respect to significantly undercapitalized and critically undercapitalized institutions.

At September 30, 1996, the Association was deemed a "well capitalized" institution for purposes of the above regulations and as such was not subject to the above mentioned restrictions.

SAFETY AND SOUNDNESS. On November 18, 1993, a joint notice of proposed rulemaking was issued by the OTS, the FDIC, the Office of the Comptroller of the Currency and the Federal Reserve Board (collectively, the "agencies") concerning standards for safety and soundness required to be prescribed by regulation pursuant to Section 39 of the FDIA. In general, the standards relate to (1) operational and managerial matters; (2) asset quality and earnings; and (3) compensation. The operational and managerial standards cover (a) internal controls and information systems, (b) internal audit system, (c) loan documentation, (d) credit underwriting, (e) interest rate risk exposure, (f) asset growth, and (g) compensation, fees and benefits. Under the proposed asset quality and earnings standards, the Association would be required to maintain (1) a maximum ratio of classified assets (assets classified substandard, doubtful and to the extent that related losses have not been recognized, assets classified loss) to total capital of 1.0, and (2) minimum earnings sufficient to absorb losses without impairing capital. The last ratio concerning market value

to book value was determined by the agencies not to be feasible. Finally, the proposed compensation standard states that compensation will be considered excessive if it is unreasonable or disproportionate to the services actually performed by the individual being compensated. If an insured depository institution or its holding company fail to meet any of the standards promulgated by regulation, then such institution or company will be required to submit a plan within 30 days to the FDIC specifying the steps it will take to correct the deficiency. In the event that an institution or company fails to submit or fails in any material respect to implement a compliance plan within the time allowed by the agency, Section 39 of the FDIA provides that the FDIC must order the institution or company to correct the deficiency and may (1) restrict asset growth; (2) require the institution or company to increase its ratio of tangible equity to assets; (3) restrict the rates of interest that the institution or company may pay; or (4) take any other action that would better carry out the purpose of prompt corrective action. The Association believes that it will be in compliance with each of the standards if they are adopted as proposed.

LIQUIDITY REQUIREMENTS. All savings institutions are required to maintain an average daily balance of liquid assets equal to a certain percentage of the sum of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. The liquidity requirement may vary from time to time (between 4% and 10%) depending upon economic conditions and savings flows of all savings institutions. At the present time, the required minimum liquid asset ratio is 5%. At September 30, 1996, the Association's liquidity ratio was 20.07%.

CAPITAL DISTRIBUTIONS. OTS regulations govern capital distributions by savings institutions, which include cash dividends, stock redemptions or repurchases, cash-out mergers, interest payments on certain convertible debt and other transactions charged to the capital account of a savings institution to make capital distributions. Generally, the regulation creates a safe harbor for specified levels of capital distributions from institutions meeting at least their minimum capital requirements, so long as such institutions notify the OTS and receive no objection to the distribution from the OTS. Savings institutions and distributions that do not qualify for the safe harbor are required to obtain prior OTS approval before making any capital distributions.

Generally, a savings institution that before and after the proposed distribution meets or exceeds its fully phased-in capital requirements (Tier 1 institutions) may make capital distributions during any calendar year equal to the higher of (i) 100% of net income for the calendar year-to-date plus 50% of its "surplus capital ratio" at the beginning of the calendar year or (ii) 75% of net income over the most recent four-quarter period. The "surplus capital ratio" is defined to mean the percentage by which the institution's ratio of total capital to assets exceeds the ratio of its fully phased-in capital requirement to assets. "Fully phased-in capital requirement" is defined to mean an institution's capital requirement under the statutory and regulatory standards applicable on December 31, 1994, as modified to reflect any applicable individual minimum capital requirement imposed upon the institution. Failure to meet fully phased-in or minimum capital requirements will result in further

restrictions on capital distributions, including possible prohibition without explicit OTS approval. See "- Regulatory Capital Requirements."

Tier 2 institutions, which are institutions that before and after the proposed distribution meet or exceed their minimum capital requirements, may make capital distributions up to 75% of their net income over the most recent four quarter period.

In order to make distributions under these safe harbors, Tier 1 and Tier 2 institutions must submit 30 days written notice to the OTS prior to making the distribution. The OTS may object to the distribution during that 30-day period based on safety and soundness concerns. In addition, a Tier 1 institution deemed to be in need of more than normal supervision by the OTS may be downgraded to a Tier 2 or Tier 3 institution as a result of such a determination.

At September 30, 1996, the Association was a Tier 1 institution for purposes of this regulation.

LOANS TO ONE BORROWER. OTS regulations impose limitations on the aggregate amount of loans that a savings institution can make to any one borrower, including related entities, that follows the national bank standard. The regulations generally do not permit loans-to-one borrower to exceed the greater of $500,000 or 15% of unimpaired capital and surplus. Loans in an amount equal to an additional 10% of unimpaired capital and surplus also may be made to a borrower if the loans are fully secured by readily marketable securities. For information about the largest borrowers from the Association, see "Business of Community - Lending Activities - General."

QUALIFIED THRIFT LENDER TEST. All savings institutions are required to meet a QTL test set forth in Section 10(m) of the HOLA and regulations of the OTS thereunder to avoid certain restrictions on their operations. A savings institution that does not meet the QTL test set forth in the HOLA and implementing regulations must either convert to a bank charter or comply with the following restrictions on its operations: (i) the institution may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for a national bank; (ii) the branching powers of the institution shall be restricted to those of a national bank; (iii) the institution shall not be eligible to obtain any advances from its FHLB; and (iv) payment of dividends by the institution shall be subject to the rules regarding payment of dividends by a national bank. Upon the expiration of three years from the date the savings institution ceases to be a QTL, it must cease any activity and not retain any investment not permissible for a national bank and immediately repay any outstanding FHLB advances (subject to safety and soundness considerations).

Currently, the QTL test requires that 65% of an institution's "portfolio assets" (as defined) consist of certain housing and consumer-related assets on a monthly average basis in nine out of every 12 months. Assets that qualify without limit for inclusion as part of the

65% requirement are loans made to purchase, refinance, construct, improve or repair domestic residential housing and manufactured housing; home equity loans; mortgage-backed securities (where the mortgages are secured by domestic residential housing or manufactured housing); stock issued by the FHLB of Dallas; loans for educational purposes, loans to small businesses and loans made through credit cards or credit card related accounts; and direct or indirect obligations of the FDIC. In addition, the following assets, among others, may be included in meeting the test subject to an overall limit of 20% of the savings institution's portfolio assets: 50% of residential mortgage loans originated and sold within 90 days of origination; 100% of consumer and educational loans (other than loans for personal, family or personal purposes included in the unlimited category); and stock issued by the FHLMC or the FNMA. Portfolio assets consist of total assets minus the sum of (i) goodwill and other intangible assets, (ii) property used by the savings institution to conduct its business, and (iii) liquid assets up to 20% of the institution's total assets. At September 30, 1996, the qualified thrift investments of the Association were approximately 93.5% of its portfolio assets.

ACCOUNTING REQUIREMENTS. FIRREA requires the OTS to establish accounting standards to be applicable to all savings institutions for purposes of complying with regulations, except to the extent otherwise specified in the capital standards. Such standards must incorporate GAAP to the same degree as is prescribed by the federal banking agencies for banks or may be more stringent than such requirements.

Effective October 2, 1992, the OTS amended a number of its accounting regulations and reporting requirements to adopt the following standards: (i) regulatory reports will incorporate GAAP when GAAP is used by federal banking agencies; (ii) savings institution transactions, financial condition and regulatory capital must be reported and disclosed in accordance with OTS regulatory reporting requirements that will be at least as stringent as for national banks; and (iii) the Director of the OTS may prescribe regulatory reporting requirements more stringent than GAAP whenever the Director determines that such requirements are necessary to ensure the safe and sound reporting and operation of savings institutions.

Effective February 10, 1992, the OTS adopted a statement of policy ("Statement") set forth in TB 52 concerning (i) procedures to be used in the selection of a securities dealer, (ii) the need to document and implement prudent policies and strategies for securities, whether held for investment, trading or for sale, and to establish systems and internal controls to ensure that securities activities are consistent with the financial institution's policies and strategies, (iii) securities trading and sales practices that may be unsuitable in connection with securities held in an investment portfolio, (iv) high-risk mortgage securities that are not suitable for investment portfolio holdings for financial institutions, and (v) disproportionately large holdings of long-term, zero-coupon bonds that may constitute an imprudent investment practice. The Statement applies to investment securities, high-yield, corporate debt securities, loans, mortgage-backed securities and derivative securities, and provides guidance concerning the proper classification of and accounting for securities held

for investment, sale and trading. Securities held for investment, sale or trading may be differentiated based upon an institution's desire to earn an interest yield (held for investment), to realize a holding gain from assets held for indefinite periods of time (held for sale), or to earn a dealer's spread between the bid and asked prices (held for trading). Depository institution investment portfolios are maintained to provide earnings consistent with the safety factors of quality, maturity, marketability and risk diversification. Securities that are purchased to accomplish these objectives may be reported at their amortized cost only when the depository institution has both the intent and ability to hold the assets for long-term investment purposes. Securities held for investment purposes may be accounted for at amortized cost, securities held for sale are to be accounted for at the lower of cost or market, and securities held for trading are to be accounted for at market. The Association believes that its investment activities have been and will continue to be conducted in accordance with the requirements of OTS policies and GAAP.

FEDERAL HOME LOAN BANK SYSTEM. The Association is a member of the FHLB of Dallas, which is one of 12 regional FHLBs that administers the home financing credit function of savings institutions. 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 Dallas 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. At September 30, 1996, the Association had $1.7 million in FHLB stock, which was in compliance with this requirement.

As a result of FIRREA, the FHLBs are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and lowand moderate-income housing projects. These contributions have adversely affected the level of FHLB dividends paid and could continue to do so in the future. These contributions also could have an adverse effect on the value of FHLB stock in the future. For each of the years ended September 30, 1995 and 1996, dividends paid by the FHLB of Dallas to the Association amounted to $102,000.

FEDERAL RESERVE SYSTEM. The Federal Reserve Board requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. The percentages are subject to adjustment by the Federal Reserve Board. At September 30, 1996, the Association met its reserve requirement. Because required reserves must be maintained in the form of vault cash or a non-interest-bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce an institution's earning assets.

TEXAS REGULATION

As a Texas-chartered savings and loan association, Jacksonville also is subject to regulation and supervision by the Department. Jacksonville is required to file periodic reports with and is subject to periodic examinations by the Department. The lending and investment authority of Jacksonville is prescribed by Texas laws and regulations, as well as applicable federal laws and regulations, and Jacksonville is prohibited from engaging in any activities not permitted by such laws and regulations.

Jacksonville is required by Texas law and regulations to comply with certain reserve and capital requirements. Texas associations are required to comply with the following capital requirements (which may be waived by the Texas Commissioner upon written application):

AS OF:	MINIMUM NET WORTH AS A PERCENTAGE OF TOTAL LIABILITIES
December 31, 1992	4.75%
December 31, 1993	5.00%
December 31, 1994	5.25%
December 31, 1995	5.50%
December 31, 1996	5.75%
December 31, 1997	6.00%

In lieu of meeting these requirements, a Texas association may meet the net worth requirements required of institutions whose accounts are insured by the successor to the Federal Savings and Loan Insurance Corporation, the SAIF administered by the FDIC. At September 30, 1996, Jacksonville met the Texas net worth and reserve requirements.

Texas law and regulations also restrict the lending and investment authority of Texaschartered savings institutions. Such laws and regulations generally restrict the amount a Texas-chartered savings and loan association can lend to any one borrower to an amount which, in the aggregate, cannot exceed the greater of (i) $75,000 or (ii) the association's net worth.

In addition, Texas law restricts the ability of Texas-chartered savings and loan associations to invest in, among other things, (i) commercial real estate loans up to 90% of the appraised value of the security property, or, if the loan is for the purchase of the property, the purchase price, if less than 90% of the appraised value; (ii) unimproved real estate up to 90% of the appraised value of the security property, or, if the loan is for the purchase of the property, the purchase price, if less than the appraised value; (iii) personal property loans up to 95% of the appraised or market value of the security property, or, if the loan is for the purchase of the property, the purchase price if less than 95% of the appraised or market value; (iv) oil and gas loans on proven reserves of oil and gas and other minerals in place and before they have been extracted from the ground up to 90% of the

value of the proven reserves that act as security, or on producing oil and gas properties and an assignment of the proceeds of the sale of the portion of the total production attributable to the interest securing the loan, but no such loan may exceed three times the annualized net revenue accruing to the interest securing the loan at the time it is made; (v) home improvement loans up to 95% of the appraised value of the security property (inclusive of the unpaid balance of any prior liens on the home); (vi) real estate investments to 100% of the association's net worth, which investment may be held not more than five years unless such time period is extended by the Texas Commissioner; (vii) stock or obligations of any corporation or agency of the United States or Texas that assists in furthering or facilitating the association's purposes or power, provided that securities may not be carried on the books of the association at greater than its actual cost.

The sum of an association's aggregate direct investments in subsidiary corporations may not exceed 10% of an association's total assets without prior approval of the Commissioner. Jacksonville's investment in JS&L is within these limitations.

The investment authority of Texas-chartered savings and loan associations is broader in many respects than that of federally chartered savings and loan associations. However, since the enactment of FIRREA, state-chartered savings and loan associations, such as Jacksonville, are generally prohibited from acquiring or retaining any equity investment, other than certain investments in service corporations, of a type or in an amount that is not permitted for a federally chartered savings and loan association. This prohibition applies to equity investments in real estate, investments in equity securities and any other investment or transaction that is in substance an equity investment, even if the transaction is nominally a loan or other permissible transaction. At September 30, 1996, Jacksonville had no investments subject to the foregoing prohibition.

Furthermore, effective January 1, 1990, a state-chartered savings and loan association may not engage as principal in any activity not permitted for federal associations unless the FDIC has determined that such activity would pose no significant risk to the affected deposit insurance fund and the association is in compliance with the fully phased-in capital standards prescribed under FIRREA. When certain activities are permissible for a federal association, the state association may engage in the activity in a higher amount if the FDIC has not determined that such activity would pose a significant risk of loss to the affected deposit insurance fund and the association meets the fully phased-in capital requirements. This increased investment authority does not apply to investments in nonresidential real estate loans. At September 30, 1996, Jacksonville had no investments which were affected by the foregoing limitations.

ITEM 2. PROPERTIES.

At September 30, 1996, Jacksonville conducted its business from its main office at Commerce & Neches Streets, Jacksonville, Texas, and four full-service branches in Cherokee

County and surrounding counties. In addition, Jacksonville has a deposit office in Rusk, Texas that does not originate loans.

Set forth below is certain information with respect to the office and other properties of Jacksonville at September 30, 1996.

<TABLE>
<CAPTION>

DESCRIPTION/ ADDRESS	LEASED/ OWNED	NET BOOK VALUE OF PROPERTY (In Thousands)	DEPOSITS
<S>	<C>	<C>	<C>
Main Office Commerce and Neches Streets Jacksonville, Texas	Owned	501	66,900
Branch Office 1015 North Church Street Palestine, Texas	Owned	585	55,200
Deposit Office 107 East Fourth Street Rusk, Texas	Owned	64	13,000
Branch Office 1412 Judson Road Longview, Texas	Owned	448	13,300
Branch Office 617 South Palestine Street Athens, Texas	Owned	465	16,200
Branch Office 5620 Old Bullard Road Tyler, Texas	Owned	1,193	9,700

</TABLE>

In addition to the above offices, Jacksonville owns two other properties: (1) Lots in Spring Park South Estates No. 3, Jacksonville, Texas; (2) Lots in Spring Park South Estates No. 2, Jacksonville, Texas (net book value of both properties: $1.00).

ITEM 3. LEGAL PROCEEDINGS.

Jacksonville is involved in routine legal proceedings occurring in the ordinary course of business which, in the aggregate, are believed by management to be immaterial to the financial condition of Jacksonville.

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

On October 22, 1996, the Company held a special meeting of stockholders at which stockholders approved the 1996 Stock Option Plan and the 1996 Management Recognition Plan.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The information required herein is incorporated by reference from page 36 of the Company's 1996 Annual Report to Stockholders, which is included herein as Exhibit 13 ("Annual Report").

ITEM 6. SELECTED FINANCIAL DATA.

The information required herein is incorporated by reference from page 1 of the Company's 1996 Annual Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required herein is incorporated by reference from pages 2 to 6 of the Company's 1996 Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information required herein is incorporated by reference from pages 13 to 35 of the Company's 1996 Annual Report.

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 required herein is incorporated by reference from pages 3 to 10 of the Company's definitive proxy statement, dated January 2, 1997, ("Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION.

The information required herein is incorporated by reference from pages 8 to 11 of the Company's Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required herein is incorporated by reference from pages 2 and 3 of the Company's Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required herein is incorporated by reference from the Company's Proxy Statement.

PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES AND REPORTS ON

FORM 8-K.

(a) Documents filed as part of this Report

(1) The following financial statements are incorporated by reference from Item 8 hereof (see Exhibit 13 attached hereto):

Independent Auditor's Report

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

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

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

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

Notes to Consolidated Financial Statements

(2) All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are omitted because of the absence of conditions under which they are required or because the required information is included in the financial statements and related notes thereto.

(3) The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

No.	Exhibits	Page
3.1	Charter	*
3.2	Bylaws	*
4.1	Specimen Common Stock Certificate	*
10.1(a)	1994 Stock Incentive Plan	**
10.1(b)	1994 Directors' Stock Option Plan	**
10.1(c)	1994 Management Recognition Plan	E-1
10.1(d)	1996 Management Recognition Plan	E-11
10.1(e)	1996 Stock Option Plan	**
10.1(f)	Employee Stock Ownership Plan	*
13	Annual Report to Stockholders and Notice of Annual Meetings of Shareholders and Proxy Statement	E-21
23	Consents of Independent Auditors	E-72

*Incorporated herein by reference to the Registrant's Registration Statement No. 33-81015 on Form S-1.

**Incorporated herein by reference to the Registrant's Registration Statement No. 333-18031 on Form S-8.

(b) Reports on Form 8-K during the quarter ended September 30, 1996:

1. On October 18, 1996, the Company filed a current report on Form 8-K reporting the special FDIC deposit insurance assessment.

2. On October 23, 1996, the Company filed a current report on Form 8-K reporting the commencement of

stock purchases for the 1996 Management Recognition Plan.

3. On November 14, 1996, the Company filed a current report on Form 8-K reporting the commencement of the repurchase of 5% of its outstanding common stock.

4. On December 16, 1996, the Company filed a current report on Form 8-K reporting the declaration of a $0.125 per share dividend.

5. On December 20, 1996, the Company filed a current report on Form 8-K reporting its yearend September 30, 1996 earnings.

(c) See (a)(3) above for all exhibits filed herewith and the Exhibit Index.

(d) There are no other financial statements and financial statement schedules which were excluded from Item 8 which are required to be included herein.

SIGNATURES

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

JACKSONVILLE BANCORP, INC.

December 23, 1996

By:/s/ Charles Broadway

Charles Broadway
Chief Executive Officer

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

/s/ Charles Broadway Charles Broadway, Director and Chief Executive Officer (Principal Executive Officer)	December 23, 1996
/s/ W.G. Brown W. G. Brown, Chairman	December 23, 1996
/s/ Ray W. Beall Ray W. Beall, Director	December 23, 1996

/s/ Jerry M. Chancellor Jerry M. Chancellor, Director and President	December 23, 1996
/s/ Dr. Joe Tollett Dr. Joe Tollet, Director	December 23, 1996

/s/ Bill W. Taylor	December 23, 1996
Bill W. Taylor, Director and Executive Vice President (Principal Financial and Accounting Officer)	

EXHIBIT 10.1(c)

JACKSONVILLE SAVINGS AND LOAN ASSOCIATION
1994 MANAGEMENT RECOGNITION
PLAN AND TRUST AGREEMENT

ARTICLE I
ESTABLISHMENT OF THE PLAN AND TRUST

1.01 Jacksonville Savings and Loan Association (the "Company") hereby establishes a Management Recognition Plan (the "Plan") and Trust (the "Trust") upon the terms and conditions hereinafter stated in this Management Recognition Plan and Trust Agreement (the "Agreement").

1.02 The Trustees hereby accept this Trust and agree to hold the Trust assets existing on the date of this Agreement and all additions and accretions thereto upon the terms and conditions hereinafter stated.

ARTICLE II
PURPOSE OF THE PLAN

2.01 The purpose of the Plan is to retain personnel of experience and ability in key positions by providing such key employees of the Company and any Subsidiaries with a proprietary interest in the Company as compensation for their contributions to the Company and any Subsidiaries and as an incentive to make such contributions in the future.

ARTICLE III
DEFINITIONS

The following words and phrases when used in this Agreement with an initial capital letter, unless the context clearly indicates otherwise, shall have the meanings set forth below. Wherever appropriate, the masculine pronouns shall include the feminine pronouns and the singular shall include the plural.

3.01 "Beneficiary" means the person or persons designated by a Recipient to receive any benefits payable under the Plan in the event of such Recipient's death. Such person or persons shall be designated in writing on forms provided for this purpose by the Committee and may be changed from time to time by similar written notice to the Committee. In the absence of a written designation, the Beneficiary shall be the Recipient's surviving spouse, if any, or if none, his estate.

3.02 "Board" means the Board of Directors of the Company.

3.03 "Code" means the Internal Revenue Code of 1986, as amended.

3.04 "Committee" means the committee appointed by the Board pursuant to Article IV hereof.

3.05 "Common Stock" means shares of the common stock, $.01 par value per share, of the Company.

3.06 "Disability" means any physical or mental impairment which qualifies an Employee for disability benefits under the applicable long-term disability plan maintained by the Company or any Subsidiary or, if no such plan applies, which would qualify such Employee for disability benefits under the Federal Social Security System.

3.07 "Effective Date" means the hour and day upon which Common Stock is initially sold by the Company in the Offering.

3.08 "Employee" means any person who is employed by the Company or any Subsidiary, including officers or other employees who may be directors of the Company.

3.09 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

3.10 "Offering" means the offering of Common Stock to the public pursuant to the Plan of Stock Issuance adopted by the Company following the reorganization of First Federal Savings and Loan into the mutual holding company form of organization.

3.11 "Plan Shares" or "Shares" means shares of Common Stock held in the Trust which may be distributed to a Recipient pursuant to the Plan.

3.12 "Plan Share Award" or "Award" means a right granted under this Plan to receive a distribution of Plan Shares upon completion of the service requirements described in Article VII.

3.13 "Recipient" means an Employee who receives a Plan Share Award under the Plan.

3.14 "Retirement" means a termination of employment upon or after attainment of age sixty-five (65) or such earlier age as may be specified in a Recipient's Plan Share Award.

3.15 "Subsidiary" means any subsidiaries of the Company which, with the consent of the Board, agree to participate in this Plan.

3.16 "Trustee" means those persons (normally, members of the Committee) nominated by the Committee and approved by the Board pursuant to Sections 4.01 and 4.02 to hold legal title to the Plan assets for the purposes set forth herein.

ARTICLE IV
ADMINISTRATION OF THE PLAN

4.01 ROLE OF THE COMMITTEE. The Plan shall be administered and interpreted by the Committee, which shall consist of two or more members of the Board, none of whom shall be an officer or employee of the Company and each of whom shall be a "disinterested person" within the meaning of Rule 16b-3 under the Exchange Act. The Committee shall have all of the powers allocated to it in this and other Sections of the Plan. The interpretation and construction by the Committee of any provisions of the Plan or of any Plan Share Award granted hereunder shall be final and binding. The Committee shall act by vote or written consent of a majority of its members. Subject to the express provisions and limitations of the Plan, the Committee may adopt such rules, regulations and procedures as it deems appropriate for the conduct of its affairs. The Committee shall report its actions and decisions with respect to the Plan to the Board at appropriate times, but in no event less than one time per calendar year. The Committee shall recommend to the Board one or more individuals (normally, from among its members) to act as Trustees in accordance with the provisions of this Plan and Trust and the terms of Article VIII hereof.

4.02 ROLE OF THE BOARD. The members of the Committee and the Trustee or Trustees shall be appointed or approved by, and will serve at the pleasure of, the Board. The Board may in its discretion from time to time remove members from, or add members to, the Committee, and may remove, replace or add Trustees, provided that any directors who are selected as members of the Committee shall not be officers or employees of the Company and shall be "disinterested persons" within the meaning of Rule 16b-3 promulgated under the Exchange Act.

4.03 LIMITATION ON LIABILITY. No member of the Board or the Committee shall be liable for any determination made in good faith with respect to the Plan or any Plan Shares or Plan Share Awards granted under it. If a member of the Board or the Committee is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of anything done or not done by him in such capacity under or with respect to the Plan, the Company shall, subject to the requirements of applicable laws and regulations, indemnify such member against all liabilities and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in the best interests of the Company and any Subsidiaries and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

4.04 COMPLIANCE WITH LAWS AND REGULATIONS. All awards granted hereunder shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency or stockholders as may be required.

ARTICLE V
CONTRIBUTIONS

5.01 AMOUNT AND TIMING OF CONTRIBUTIONS. The Board shall determine the amount (or the method of computing the amount) and timing of any contributions by the Company and any Subsidiaries to the Trust established under this Plan. Such amounts may be paid in cash or in shares of Common Stock and shall be paid to the Trust at the designated time of contribution. No contributions by Employees shall be permitted.

5.02 INVESTMENT OF TRUST ASSETS; NUMBER OF PLAN SHARES. Subject to Section 8.02 hereof, the Trustees shall invest all of the Trust's assets primarily in Common Stock. The aggregate number of Plan Shares initially available for distribution pursuant to this Plan, subject to adjustment as provided in Section 9.01 hereof, shall be equal to 1 1/2% of the shares of Common Stock which are issued by the Company in the Offering, which shares shall be purchased by the Trust in such Offering with funds contributed by the Company. Subsequent to consummation of the Offering, the Trust may purchase from the Company additional shares of Common Stock for distribution pursuant to this Plan.

ARTICLE VI
ELIGIBILITY; ALLOCATIONS

6.01 ELIGIBILITY. (a) Plan Share Awards may be made to such Employees as may be selected by the Committee. In selecting those Employees to whom Plan

Share Awards may be granted and the number of Shares covered by such Awards, the Committee shall consider the position and responsibilities of the eligible Employees, the value of their services to the Company and any Subsidiaries, and any other factors the Committee may deem relevant, including operating results, asset quality and supervisory concerns. The Committee may but shall not be required to request the written recommendation of the Chief Executive Officer of the Company other than with respect to Plan Share Awards to be granted to him.

6.02 FORM OF ALLOCATION. As promptly as practicable after a determination is made pursuant to Section 6.01 that a Plan Share Award is to be issued, the Committee shall notify the Recipient in writing of the grant of the Award, the number of Plan Shares covered by the Award, and the terms upon which the Plan Shares subject to the Award shall be distributed to the Employee. Such terms shall be reflected in a written agreement with the Employee. The date on which the Committee so notifies the Recipient shall be considered the date of grant of the Plan Share Award. The Committee shall maintain records as to all grants of Plan Share Awards under the Plan.

6.03 ALLOCATIONS NOT REQUIRED TO ANY SPECIFIC EMPLOYEE. Notwithstanding anything to the contrary in Section 6.01 hereof, no Employee shall have any right or entitlement to receive a Plan Share Award hereunder, such Awards being at the total discretion of the Committee.

ARTICLE VII
EARNING AND DISTRIBUTION OF PLAN SHARES; VOTING RIGHTS

7.01 EARNING PLAN SHARES; FORFEITURES.

(a) GENERAL RULES. Unless the Committee shall specifically state to the contrary at the time a Plan Share Award is granted, Plan Shares subject to an Award shall be earned by a Recipient at the rate of one-third of the aggregate number of Shares covered by the Award as of each January 1 following the date of grant of the Award. If the employment of a Recipient is terminated prior to the third (3rd) January 1 following the date of grant of a Plan Share Award for any reason (except as specifically provided in subsections (b), (c) and (d) below), the Recipient shall forfeit the right to any Shares subject to the Award which have not theretofore been earned.

In determining the number of Plan Shares which are to be earned, fractional Shares shall be rounded down to the nearest whole number, provided that such fractional Shares shall be aggregated and distributed on the third (3rd) January 1 following the date of grant.

(b) EXCEPTION FOR TERMINATIONS DUE TO DEATH, DISABILITY AND RETIREMENT. Notwithstanding the general rule contained in Section 7.01(a), all Plan Shares subject to a Plan Share Award held by a Recipient whose employment with the Company or any Subsidiary terminates due to death, Disability or Retirement, shall be deemed earned as of the Recipient's last day of employment with the Company or any Subsidiary and shall be distributed as soon as practicable thereafter; provided, however, that no Awards shall be distributed prior to six months from the date of grant of the Plan Share Award.

(c) EXCEPTION FOR TERMINATIONS AFTER A CHANGE IN CONTROL. Notwithstanding the general rule contained in Section 7.01(a), all Plan Shares subject to a Plan Share Award held by a Recipient shall be deemed to be earned in the event of a "change in control of the Company". A "change in control of the Company" is defined as a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Exchange Act, or any successor thereto, whether or not the Company in fact is required to comply with Regulation 14A thereunder, except that "a change in control of the Company" shall not include any corporate reorganization of the Company undertaken in conjunction with the conversion of First Federal Mutual Holding Company, the parent mutual holding company of the Company, from the mutual to the stock form.

(d) REVOCATION FOR MISCONDUCT. Notwithstanding anything hereinafter to the contrary, the Board may by resolution immediately revoke, rescind and terminate any Plan Share Award, or portion thereof, previously awarded under this Plan, to the extent Plan Shares have not been distributed hereunder to the Recipient, whether or not yet earned, in the case of an Employee who is discharged from the employ of the Company or any Subsidiary for cause (as hereinafter defined). Termination of employment shall be deemed to be for cause if the Employee has been convicted of a felony by a court of competent jurisdiction or has been adjudged by a court of competent jurisdiction to be liable for gross negligence or misconduct in the performance of his duties to the Company or any Subsidiary.

7.02 DISTRIBUTION OF DIVIDENDS. Any cash dividends or stock dividends declared in respect of each Plan Share held by the Trust will be paid by the Trust, as soon as practicable after the Trust's receipt thereof, to the Recipient on whose behalf such Plan Share is then held by the Trust.

7.03 DISTRIBUTION OF PLAN SHARES.

(a) TIMING OF DISTRIBUTIONS: GENERAL RULE. Plan Shares shall be distributed to a Recipient or his Beneficiary, as the case may be, as soon as practicable after they have been earned, provided, however, that no Plan Shares shall be distributed to a Recipient or Beneficiary pursuant to a Plan Share Award within six months from the date on which that Plan Share Award was granted to such person.

(b) FORM OF DISTRIBUTIONS. All Plan Shares, together with any Shares representing stock dividends, shall be distributed in the form of Common Stock. One share of Common Stock shall be given for each Plan Share earned and distributable. Payments representing cash dividends shall be made in cash.

(c) WITHHOLDING. The Trustees may withhold from any cash payment or Common Stock distribution made under this Plan sufficient amounts to cover any applicable withholding and employment taxes, and if the amount of a cash payment is insufficient, the Trustees may require the Recipient or Beneficiary to pay to the Trustees the amount required to be withheld as a condition of delivering the Plan Shares. The Trustees shall pay over to the Company or any Subsidiary which employs or employed such Recipient any such amount withheld from or paid by the Recipient or Beneficiary.

(d) RESTRICTIONS ON SELLING OF PLAN SHARES. Plan Share Awards may not be sold, assigned, pledged or otherwise disposed of prior to the time that they are earned and distributed pursuant to the terms of this plan. Following distribution, the Committee may require the Recipient or his Beneficiary, as the case may be, to agree not to sell or otherwise dispose of his distributed Plan Shares except in accordance with all then applicable Federal and state securities laws, and the Committee may cause a legend to be placed on the stock certificate(s) representing the distributed Plan Shares in order to restrict

the transfer of the distributed Plan Shares for such period of time or under such circumstances as the Committee, upon the advice of counsel, may deem appropriate.

7.04 VOTING OF PLAN SHARES. After a Plan Share Award has been made, the Recipient shall be entitled to direct the Trustees as to the voting of the Plan Shares which are covered by the Plan Share Award and which have not yet been earned and distributed to him pursuant to Section 7.03, subject to rules and procedures adopted by the Committee for this purpose. All shares of Common Stock held by the Trust as to which Recipients have not directed the voting shall be voted by the Trustees as the Committee in its discretion shall direct.

ARTICLE VIII
TRUST

8.01 TRUST. The Trustees shall receive, hold, administer, invest and make distributions and disbursements from the Trust in accordance with the provisions of the Plan and Trust and the applicable directions, rules, regulations, procedures and policies established by the Committee pursuant to the Plan.

8.02 MANAGEMENT OF TRUST. It is the intent of this Plan and Trust that the Trustees shall have complete authority and discretion with respect to the arrangement, control and investment of the Trust, and that the Trustees shall invest all assets of the Trust in Common Stock to the fullest extent practicable, except (i) to the extent that the Trustees determine that the holding of monies in cash or cash equivalents is necessary to meet the obligations of the Trust and (ii) contributions to the Trust by the Company prior to the Offering may be temporarily invested in such interest-bearing account or accounts as the Trustees shall determine to be appropriate. In performing their duties, the Trustees shall have the power to do all things and execute such instruments as may be deemed necessary or proper, including the following powers:

(a) To invest up to one hundred percent (100%) of all Trust assets in Common Stock without regard to any law now or hereafter in force limiting investments for trustees or other fiduciaries. The investment authorized herein may constitute the only investment of the Trust, and in making such investment, the Trustees are authorized to purchase Common Stock from the Company or from any other source, and such Common Stock so purchased may be outstanding, newly issued, or treasury shares.

(b) To invest any Trust assets not otherwise invested in accordance with (a) above, in such deposit accounts, and certificates of deposit, obligations of the United States Government or its agencies or such other investments as shall be considered the equivalent of cash.

(c) To sell, exchange or otherwise dispose of any property at any time held or acquired by the Trust.

(d) To cause stocks, bonds or other securities to be registered in the name of a nominee, without the addition of words indicating that such security is an asset of the Trust (but accurate records shall be maintained showing that such security is an asset of the Trust).

(e) To hold cash without interest in such amounts as may in the opinion of the Trustees be reasonable for the proper operation of the Plan and Trust.

(f) To employ brokers, agents, custodians, consultants and accountants.

(g) To hire counsel to render advice with respect to their rights, duties and obligations hereunder, and such other legal services or representation as they may deem desirable.

(h) To hold funds and securities representing the amounts to be distributed to a Recipient or his Beneficiary as a consequence of a dispute as to the disposition thereof, whether in a segregated account or held in common with other assets of the Trust.

Notwithstanding anything herein contained to the contrary, the Trustees shall not be required to make any inventory, appraisal or settlement or report to any court, or to secure any order of court for the exercise of any power herein contained, or give bond.

8.03 RECORDS AND ACCOUNTS. The Trustees shall maintain accurate and detailed records and accounts of all transactions of the Trust, which shall be available at all reasonable times for inspection by any legally entitled person or entity to the extent required by applicable law, or any other person determined by the Committee.

8.04 EXPENSES. All costs and expenses incurred in the operation and administration of this Plan shall be borne by the Company.

8.05 INDEMNIFICATION. Subject to the requirements of applicable laws and regulations, the Company shall indemnify, defend and hold the Trustees harmless against all claims, expenses and liabilities arising out of or related to the exercise of the Trustees' powers and the discharge of their duties hereunder, unless the same shall be due to their gross negligence or willful misconduct.

ARTICLE IX
MISCELLANEOUS

9.01 ADJUSTMENTS FOR CAPITAL CHANGES. The aggregate number of Plan Shares available for distribution pursuant to the Plan Share Awards and the number of Shares to which any Plan Share Award relates shall be proportionately adjusted for any increase or decrease in the total number of outstanding shares of Common Stock issued subsequent to the effective date of the Plan resulting from any split, subdivision or consolidation of shares or other capital adjustment, or other increase or decrease in such shares effected without receipt or payment of consideration by the Company.

9.02 AMENDMENT AND TERMINATION OF PLAN. The Board may, by resolution, at any time amend or terminate the Plan. However, upon termination of the Plan, all Plan Share Awards will be distributed to the Recipients regardless of whether or not such Plan Share Awards had otherwise been earned under the service requirements set forth in Article VII; provided, however, that no Awards shall be distributed prior to six months from the date of grant of the Plan Share Award.

9.03 NONTRANSFERABLE. Plan Share Awards and rights to Plan Shares shall not be transferable by a Recipient, and during the lifetime of the Recipient, Plan Shares may only be earned by and paid to a Recipient who was notified in writing of an Award by the Committee pursuant to Section 6.02. No Recipient or Beneficiary shall have any right in or claim to any assets of the Plan or Trust, nor shall the Company or any Subsidiary be subject to any claim for benefits hereunder.

9.04 EMPLOYMENT RIGHTS. Neither the Plan nor any grant of a Plan Share Award or Plan Shares hereunder nor any action taken by the Trustees, the Committee or the Board in connection with the Plan shall create any right on the part of any Employee to continue in the employ of the Company or any Subsidiary.

9.05 VOTING AND DIVIDEND RIGHTS. No Recipient shall have any voting or dividend rights or other rights of a stockholder in respect of any Plan Shares covered by a Plan Share Award, except as expressly provided in Sections 7.02 and 7.04 above, prior to the time said Plan Shares are actually earned and distributed to him.

9.06 GOVERNING LAW. The Plan and Trust shall be governed by the laws of the State of Texas.

9.07 EFFECTIVE DATE. This Plan shall be effective as of the Effective Date, and Awards may be granted hereunder as of or after the Effective Date and as long as the Plan remains in effect.

9.08 TERM OF PLAN. This Plan shall remain in effect until the earlier of (1) ten (10) years from the Effective Date, (2) termination by the Board, or (3) the distribution to Recipients and Beneficiaries of all assets of the Trust.

9.09 TAX STATUS OF TRUST. It is intended that the trust established hereby be treated as a Grantor Trust of the Company under the provisions of Section 671 et seq. of the Code, as the same may be amended from time to time.

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IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officers and the corporate seal to be affixed and duly attested, and the initial Trustees of the Trust established pursuant hereto have duly and validly executed this Agreement, all on this 31st day of March 1994.

JACKSONVILLE SAVINGS AND LOAN ASSOCIATION

By: ----------------------------

Charles Broadway
President and Director

ATTEST:

Jaunice Friday
Secretary

W.G. Brown

Frank H. Brown

Dr. Joe Tollett

EXHIBIT 10.1(d)

JACKSONVILLE BANCORP, INC.
1996 MANAGEMENT RECOGNITION PLAN AND TRUST AGREEMENT

ARTICLE I
ESTABLISHMENT OF THE PLAN AND TRUST

1.01 Jacksonville Bancorp, Inc. (the "Corporation") hereby establishes a Management Recognition Plan (the "Plan") and Trust (the "Trust") upon the terms and conditions hereinafter stated in this 1996 Management Recognition Plan and Trust Agreement (the "Agreement").

1.02 The Trustee hereby accepts this Trust and agrees to hold the Trust assets existing on the date of this Agreement and all additions and accretions thereto upon the terms and conditions hereinafter stated.

ARTICLE II
PURPOSE OF THE PLAN

2.01 The purpose of the Plan is to retain personnel of experience and ability in key positions by providing Employees and Non-Employee Directors of the Corporation and of Jacksonville Savings and Loan Association (the "Association") with a proprietary interest in the Corporation as compensation for their contributions to the Corporation, the Association, and any other Subsidiaries and as an incentive to make such contributions in the future.

ARTICLE III
DEFINITIONS

The following words and phrases when used in this Agreement with an initial capital letter, unless the context clearly indicates otherwise, shall have the meanings set forth below. Wherever appropriate, the masculine pronouns shall include the feminine pronouns and the singular shall include the plural.

3.01 "Association" means Jacksonville Savings and Loan Association, the wholly owned subsidiary of the Corporation.

3.02 "Beneficiary" means the person or persons designated by a Recipient to receive any benefits payable under the Plan in the event of such Recipient's death. Such person or persons shall be designated in writing on forms provided for this purpose by the Committee and may be changed from time to time by similar written notice to the Committee. In the absence of a written designation, the Beneficiary shall be the Recipient's surviving spouse, if any, or if none, his estate.

3.03 "Board" means the Board of Directors of the Corporation.

3.04 "Code" means the Internal Revenue Code of 1986, as amended.

3.05 "Committee" means the committee appointed by the Board pursuant to Article IV hereof.

3.06 "Common Stock" means shares of the common stock, $0.01 par value per share, of the Corporation.

3.07 "Disability" means any physical or mental impairment which qualifies an Employee for disability benefits under the applicable long-term disability plan maintained by the Corporation or any Subsidiary or, if no such plan applies, which would qualify such Employee for disability benefits under the Federal Social Security System.

3.08 "Effective Date" means the day upon which the Board adopts this Plan.

3.09 "Employee" means any person who is employed by the Corporation, the Association, or any Subsidiary, or is an officer of the Corporation, the Association, or any Subsidiary, including officers or other employees who may be directors of the Corporation.

3.10 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

3.11 "Non-Employee Director" means a member of the Board on the Effective Date who is not an Employee other than Robert F. Brown.

3.12 "OTS" means the Office of Thrift Supervision.

3.13 "Plan Shares" or "Shares" means shares of Common Stock held in the Trust which may be distributed to a Recipient pursuant to the Plan.

3.14 "Plan Share Award" or "Award" means a right granted under this Plan to receive a distribution of Plan Shares upon completion of the service requirements described in Article VII.

3.15 "Recipient" means an Employee or Non-Employee Director who receives a Plan Share Award under the Plan.

3.16 "Retirement" means a termination of employment which constitutes a "retirement" under any applicable qualified pension benefit plan maintained by the Company or a Subsidiary Company, or, if no such plan is applicable, which would constitute "retirement" under any qualified pension benefit plan maintained by the Company or a Subsidiary Company, if such individual were a participant in such plan.

3.17 "Subsidiary" means Jacksonville Savings and Loan Association and any other subsidiaries of the Corporation or the Association which, with the consent of the Board, agree to participate in this Plan.

3.18 "Trustee" means such firm, entity or persons and approved by the Board of Directors to hold legal title to the Plan for the purposes set forth herein.

ARTICLE IV
ADMINISTRATION OF THE PLAN

4.01 ROLE OF THE COMMITTEE. The Plan shall be administered and interpreted by the Committee, which shall consist of two or more members of the Board, each of whom shall be a Non-Employee Director. The Committee shall have all of the powers allocated to it in this and other Sections of the Plan. The interpretation and construction by the Committee of any provisions of the Plan or of any Plan Share Award granted hereunder shall be final and binding in the absence of action by the Board of Directors. The Committee shall act by vote or written consent of a majority of its members. Subject to the express provisions and limitations of the Plan, the Committee may adopt such rules, regulations and procedures as it deems appropriate for the conduct of its affairs. The Committee shall report its actions and decisions with respect to the Plan to the Board at appropriate times, but in no event less than one time per calendar year.

4.02 ROLE OF THE BOARD. The members of the Committee and the Trustee shall be appointed or approved by, and will serve at the pleasure of, the Board. The Board may in its discretion from time to time remove members from, or add members to, the Committee, and may remove or replace the Trustee, provided that any directors who are selected as members of the Committee shall be Non-Employee Directors.

4.03 LIMITATION ON LIABILITY. No member of the Board or the Committee shall be liable for any determination made in good faith with respect to the Plan or any Plan Shares or Plan Share Awards granted under it. If a member of the Board or the Committee is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of anything done or not done by him in such capacity under or with respect to the Plan, the Corporation shall, subject to the requirements of applicable laws and regulations, indemnify such member against all liabilities and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in the best interests of the Corporation and any Subsidiaries and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

4.04 COMPLIANCE WITH LAWS AND REGULATIONS. All Awards granted hereunder shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency or stockholders as may be required.

ARTICLE V
CONTRIBUTIONS

5.01 AMOUNT AND TIMING OF CONTRIBUTIONS. The Board shall determine the amount (or the method of computing the amount) and timing of any contributions by the Corporation and any Subsidiaries to the Trust established under this Plan. Such amounts may be paid in cash or in shares of Common Stock and shall be paid to the Trust at the designated time of contribution. No contributions by Employees or Directors shall be permitted.

5.02 INVESTMENT OF TRUST ASSETS; NUMBER OF PLAN SHARES. Subject to Section 8.02 hereof, the Trustee shall invest all of the Trust's assets primarily in Common Stock. The aggregate number of Plan Shares available for distribution pursuant to this Plan shall be 64,736 shares of Common Stock, which shares shall be purchased from the Corporation and/or from stockholders thereof by the Trust with funds contributed by the Corporation. During the time this Plan remains in effect, Awards to each Employee and each NonEmployee Director shall not exceed 25% and 5% of the shares of Common Stock available under the Plan, respectively.

ARTICLE VI
ELIGIBILITY; ALLOCATIONS

6.01 AWARDS TO NON-EMPLOYEE DIRECTORS. Plan Share Awards equal to 9,708 shares shall be made to Non-Employee Directors.

(a) INITIAL ALLOCATION. A Plan Share Award shall be allocated to each NonEmployee Director as of the day on which the Plan is approved by stockholders of the Corporation. Specifically, each Non-Employee Director shall receive an initial Plan Share Award of 3,236 shares of Common Stock.

6.02 AWARDS TO EMPLOYEES. Plan Share Awards may be made to such Employees as may be selected by the Board of Directors or the Committee. In selecting those Employees to whom Plan Share Awards may be granted and the number of Shares covered by such Awards, the Board of Directors or the Committee shall consider the duties, responsibilities and performance of each respective Employee, his present and potential contributions to the growth and success of the Corporation, his salary and such other factors as shall be deemed relevant to accomplishing the purposes of the Plan. The Board of Directors or the Committee may but shall not be required to request the written recommendation of the Chief Executive Officer of the Corporation other than with respect to Plan Share Awards to be granted to him.

6.03 FORM OF ALLOCATION. As promptly as practicable after a determination is made pursuant to Sections 6.01 or 6.02 that a Plan Share Award is to be issued, the Board of Directors or the Board of Directors or the Committee shall notify the Recipient in writing

of the grant of the Award, the number of Plan Shares covered by the Award, and the terms upon which the Plan Shares subject to the Award shall be distributed to the Recipient. The date on which the Board of Directors or the Committee so notifies the Recipient shall be considered the date of grant of the Plan Share Award. The Board of Directors or the Committee shall maintain records as to all grants of Plan Share Awards under the Plan.

6.04 ALLOCATIONS NOT REQUIRED TO ANY SPECIFIC EMPLOYEE. Notwithstanding anything to the contrary in Section 6.02 hereof, no Employee shall have any right or entitlement to receive a Plan Share Award hereunder, such Awards being at the total discretion of the Board of Directors or the Committee.

ARTICLE VII
EARNING AND DISTRIBUTION OF PLAN SHARES; VOTING RIGHTS

7.01 EARNING PLAN SHARES; FORFEITURES.

(a) GENERAL RULES. Subject to the terms hereof, Plan Share Awards shall be earned by a Recipient at the rate of twenty percent (20%) of the aggregate number of Shares covered by the Award as of each anniversary of the date of grant of the Award. If the employment of an Employee or service as a Non-Employee Director is terminated prior to the fifth (5th) annual anniversary of the date of grant of a Plan Share Award for any reason other than for death, Retirement or Disability, the Recipient shall forfeit the right to any Shares subject to the Award which have not theretofore been earned. In the event of a forfeiture of the right to any Shares subject to an Award, such forfeited Shares shall become available for allocation pursuant to Section 6.02 hereof as if no Award had been previously granted with respect to such Shares. No fractional shares shall be distributed pursuant to this Plan.

(b) EXCEPTION FOR TERMINATIONS DUE TO DEATH OR DISABILITY. Notwithstanding the general rule contained in Section 7.01(a), all Plan Shares subject to a Plan Share Award held by a Recipient whose employment or service with the Corporation or any Subsidiary terminates due to death or Disability shall be deemed earned as of the Recipient's last day of employment with the Corporation or any Subsidiary and shall be distributed as soon as practicable thereafter; provided, however, that Awards shall be distributed in accordance with Section 7.03(a).

(c) REVOCATION FOR MISCONDUCT. Notwithstanding anything hereinafter to the contrary, the Board may by resolution immediately revoke, rescind and terminate any Plan Share Award, or portion thereof, previously awarded under this Plan, to the extent Plan Shares have not been distributed hereunder to the Recipient, whether or not yet earned, in the case of an Employee who is discharged from the employ of the Corporation or any Subsidiary for cause (as hereinafter defined). Termination for cause shall mean termination because of the Employee's personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful

violation of any law, rule, or regulation (other than traffic violations or similar offenses) or final cease-and-desist order. Plan Share Awards granted to a Non-Employee Director who is removed for cause pursuant to the Corporation's Certificate of Incorporation or Bylaws shall terminate as of the effective date of such removal.

7.02 DISTRIBUTION OF DIVIDENDS. Any cash dividends or stock dividends declared in respect of each unvested Plan Share Award will be held by the Trust for the benefit of the Recipient on whose behalf such Plan Share Award is then held by the Trust and such dividends, including any interest thereon, will be paid out proportionately by the Trust to the Recipient thereof as soon as practicable after the Plan Share Awards become earned. Any cash dividends or stock dividends declared in respect of each vested Plan Share held by the Trust will be paid by the Trust, as soon as practicable after the Trust's receipt thereof, to the Recipient on whose behalf such Plan Share is then held by the Trust.

7.03 DISTRIBUTION OF PLAN SHARES.

(a) TIMING OF DISTRIBUTIONS: General Rule. Plan Shares shall be distributed to the Recipient or his Beneficiary, as the case may be, as soon as practicable after they have been earned, provided, however, that no Plan Shares shall be distributed to the Recipient or Beneficiary pursuant to a Plan Share Award within six months from the date on which that Plan Share Award was granted to such person.

(b) FORM OF DISTRIBUTIONS. All Plan Shares, together with any Shares representing stock dividends, shall be distributed in the form of Common Stock. One share of Common Stock shall be given for each Plan Share earned and distributable. Payments representing cash dividends shall be made in cash.

(c) WITHHOLDING. The Trustee may withhold from any cash payment or Common Stock distribution made under this Plan sufficient amounts to cover any applicable withholding and employment taxes, and if the amount of a cash payment is insufficient, the Trustee may require the Recipient or Beneficiary to pay to the Trustee the amount required to be withheld as a condition of delivering the Plan Shares. The Trustee shall pay over to the Corporation or any Subsidiary which employs or employed such Recipient any such amount withheld from or paid by the Recipient or Beneficiary.

(d) RESTRICTIONS ON SELLING OF PLAN SHARES. Plan Share Awards may not be sold, assigned, pledged or otherwise disposed of prior to the time that they are earned and distributed pursuant to the terms of this Plan. Following distribution, the Board of the Directors or the Committee may require the Recipient or his Beneficiary, as the case may be, to agree not to sell or otherwise dispose of his distributed Plan Shares except in accordance with all then applicable Federal and state securities laws, and the Board of Directors or the Committee may cause a legend to be placed on the stock certificate(s) representing the distributed Plan Shares in order to restrict the transfer of the distributed Plan Shares for such period of time or under such circumstances as the Board of Directors or the Committee, upon the advice of counsel, may deem appropriate.

7.04 VOTING OF PLAN SHARES. All Plan Shares which have not yet been earned and allocated shall be voted by the Trustee in its sole discretion.

ARTICLE VIII
TRUST

8.01 TRUST. The Trustee shall receive, hold, administer, invest and make distributions and disbursements from the Trust in accordance with the provisions of the Plan and Trust and the applicable directions, rules, regulations, procedures and policies established by the Committee pursuant to the Plan.

8.02 MANAGEMENT OF TRUST. It is the intent of this Plan and Trust that the Trustee shall have complete authority and discretion with respect to the arrangement, control and investment of the Trust, and that the Trustee shall invest all assets of the Trust in Common Stock to the fullest extent practicable, except to the extent that the Trustee determine that the holding of monies in cash or cash equivalents is necessary to meet the obligations of the Trust. In performing their duties, the Trustee shall have the power to do all things and execute such instruments as may be deemed necessary or proper, including the following powers:

(a) To invest up to one hundred percent (100%) of all Trust assets in Common Stock without regard to any law now or hereafter in force limiting investments for trustees or other fiduciaries. The investment authorized herein may constitute the only investment of the Trust, and in making such investment, the Trustee are authorized to purchase Common Stock from the Corporation or from any other source, and such Common Stock so purchased may be outstanding, newly issued, or treasury shares.

(b) To invest any Trust assets not otherwise invested in accordance with (a) above, in such deposit accounts, and certificates of deposit, obligations of the United States Government or its agencies or such other investments as shall be considered the equivalent of cash.

(c) To sell, exchange or otherwise dispose of any property at any time held or acquired by the Trust.

(d) To cause stocks, bonds or other securities to be registered in the name of a nominee, without the addition of words indicating that such security is an asset of the Trust (but accurate records shall be maintained showing that such security is an asset of the Trust).

(e) To hold cash without interest in such amounts as may in the opinion of the Trustee be reasonable for the proper operation of the Plan and Trust.

(f) To employ brokers, agents, custodians, consultants and accountants.

(g) To hire counsel to render advice with respect to their rights, duties and obligations hereunder, and such other legal services or representation as they may deem desirable.

(h) To hold funds and securities representing the amounts to be distributed to a Recipient or his Beneficiary as a consequence of a dispute as to the disposition thereof, whether in a segregated account or held in common with other assets of the Trust.

Notwithstanding anything herein contained to the contrary, the Trustee shall not be required to make any inventory, appraisal or settlement or report to any court, or to secure any order of court for the exercise of any power herein contained, or give bond.

8.03 RECORDS AND ACCOUNTS. The Trustee shall maintain accurate and detailed records and accounts of all transactions of the Trust, which shall be available at all reasonable times for inspection by any legally entitled person or entity to the extent required by applicable law, or any other person determined by the Board of Directors or the Committee.

8.04 EXPENSES. All costs and expenses incurred in the operation and administration of this Plan shall be borne by the Corporation.

8.05 INDEMNIFICATION. Subject to the requirements of applicable laws and regulations, the Corporation shall indemnify, defend and hold the Trustee harmless against all claims, expenses and liabilities arising out of or related to the exercise of the Trustee's powers and the discharge of their duties hereunder, unless the same shall be due to their gross negligence or willful misconduct.

ARTICLE IX
MISCELLANEOUS

9.01 ADJUSTMENTS FOR CAPITAL CHANGES. The aggregate number of Plan Shares available for distribution pursuant to the Plan Share Awards and the number of Shares to which any Plan Share Award relates shall be proportionately adjusted for any increase or decrease in the total number of outstanding shares of Common Stock issued subsequent to the effective date of the Plan resulting from any split, subdivision or consolidation of shares or other capital adjustment, or other increase or decrease in such shares effected without receipt or payment of consideration by the Corporation.

9.02 AMENDMENT AND TERMINATION OF PLAN. The Board may, by resolution, at any time amend or terminate the Plan, subject to regulations of the OTS and any required stockholder approval or any stockholder approval which the Board may deem to be advisable for any reason, such as for the purpose of obtaining or retaining any statutory or regulatory benefits under tax, securities or other laws or satisfying any applicable stock exchange listing requirements. The Board may not, without the consent of the Recipient,

alter or impair his Plan Share Award except as specifically authorized herein. Upon termination of the Plan, the Recipient's Plan Share Awards shall be distributed to the Recipient in accordance with the terms of Article VII hereof.

9.03 NONTRANSFERABLE. Plan Share Awards and rights to Plan Shares shall not be transferable by a Recipient, and during the lifetime of the Recipient, Plan Shares may only be earned by and paid to a Recipient who was notified in writing of an Award by the Committee pursuant to Section 6.03. No Recipient or Beneficiary shall have any right in or claim to any assets of the Plan or Trust, nor shall the Corporation or any Subsidiary be subject to any claim for benefits hereunder.

9.04 EMPLOYMENT OR SERVICE RIGHTS. Neither the Plan nor any grant of a Plan Share Award or Plan Shares hereunder nor any action taken by the Trustee, the Committee or the Board in connection with the Plan shall create any right on the part of any Employee or Non-Employee Director to continue in such capacity.

9.05 VOTING AND DIVIDEND RIGHTS. No Recipient shall have any voting or dividend rights or other rights of a stockholder in respect of any Plan Shares covered by a Plan Share Award, except as expressly provided in Sections 7.02 and 7.04 above, prior to the time said Plan Shares are actually earned and distributed to him.

9.06 GOVERNING LAW. To the extent not governed by Federal law, the Plan and Trust shall be governed by the laws of the State of Texas.

9.07 EFFECTIVE DATE. This Plan shall be effective as of the Effective Date, and Awards may be granted hereunder as of or after the Effective Date and as long as the Plan remains in effect. Notwithstanding the foregoing or anything to the contrary in this Plan, the implementation of this Plan and any Awards granted pursuant hereto are subject to the non-objection of the OTS and approval of the Corporation's stockholders.

9.08 TERM OF PLAN. This Plan shall remain in effect until the earlier of (1) ten (10) years from the Effective Date, (2) termination by the Board, or (3) the distribution to Recipients and Beneficiaries of all assets of the Trust.

9.09 TAX STATUS OF TRUST. It is intended that the trust established hereby be treated as a Grantor Trust of the Corporation under the provisions of Section 671 et seq. of the Code, as the same may be amended from time to time.

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed by its duly authorized officers and the corporate seal to be affixed and duly attested, and the initial Trustee of the Trust established pursuant hereto have duly and validly executed this Agreement, all on this 22nd day of October 1996.

JACKSONVILLE BANCORP, INC.

By:

Charles Broadway
President

ATTEST:

By:

Sandra Thompson
Secretary

TRUSTEES:

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[JACKSONVILLE BANCORP LOGO]

1996 ANNUAL REPORT

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Dear Stockholder:

On behalf of our employees, officers and directors, I take great pleasure in presenting the first annual report of Jacksonville Bancorp, Inc.

1996 was a significant year for your company, one that was filled with changes and accomplishments. The most visible change obviously was our second step conversion on March 29, 1996 from the mutual holding company ownership to a full stock company. With that second step conversion came the formation of Jacksonville Bancorp, Inc., which is the parent company for Jacksonville Savings and Loan Association. We were very gratified by the response of our stock offering in which we sold almost 1.62 million shares of stock at $10.00 per share. We also were pleased to convert each existing share of Jacksonville Savings and Loan stock held by the public into 1.41785 shares of Jacksonville Bancorp, Inc. stock. As a result of the offering there are now 2,664,265 shares of Jacksonville Bancorp, Inc. stock held by the public. At September 30, 1996 the book value of our stock was $13.29 per share.

During this fiscal year Jacksonville Savings and Loan Association:

- successfully completed and opened a new loan annex complex at our Palestine, Texas branch location.

- experienced a record amount in total loan originations of almost $68.2 million in primarily single family residential loan, construction loans and consumer loans.

- made a decision to close the loan originations office in Nacogdoches, Texas after careful consideration and study.

- saw legislation to provide for thrifts to pay a one-time assessment of $4.7 billion to recapitalize SAIF of which Jacksonville paid a total of $1.1 million.

After the special SAIF premium was expensed, profit for the year amount to $1.58 million or $.62 per share. This is an increase of $190,969 over fiscal year 1995. With lower insurance premiums, the association expects to recoup the $1.1 million in special assessment in approximately 3.5 years.

We want to acknowledge our appreciation to our retiring chief executive officer, Charles Broadway, for his forty-one years of service and dedication to our institution. Although he is retiring at the end of December 1996, we will continue to depend on his expertise and experience as he continues to serve on our Board and Loan Committee.

The financial industry is a rapidly changing business and will be challenging in 1996. With the additional capital generated through the second step conversion we expect to meet these challenges by continuing to produce more loans as well as look at possible diversification of business activities, in order to maximize the return to you, our stockholders.

From our directors, our officers and staff we wish you a very prosperous New Year.

Sincerely,

Jerry Chancellor
President
Jacksonville Bancorp, Inc.

SELECTED CONSOLIDATED FINANCIAL DATA
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

The following selected consolidated financial and other data of the Company does not purport to be complete and is qualified in its entirety by reference to the more detailed financial information contained elsewhere herein.

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	SEPTEMBER 30,				
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
SELECTED FINANCIAL CONDITION AND OTHER DATA:					
Total assets	$217,856	$199,251	$187,021	$189,572	$191,809
Cash and cash equivalents	5,193	8,051	7,003	7,637	9,162
Investment securities	33,805	42,907	44,892	41,348	36,030
Mortgage-backed securities, net	12,107	3,442	2,995	4,214	5,441
Loans receivable, net	158,034	135,933	123,133	126,030	128,107
Foreclosed real estate, net	1,051	2,052	2,549	4,623	7,227
Deposits	174,328	173,811	159,343	174,311	178,851
Borrowings	2,000	358	4,461	--	--
Stockholders' equity	35,431	20,331	18,989	10,873	8,795
Full-service offices	5	5	4	4	4

</TABLE>

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,				
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
SELECTED OPERATING DATA:					
Total interest income	$15,394	$13,232	$12,895	$14,586	$15,695
Total interest expense	8,453	7,127	5,623	6,951	9,475
Net interest income	6,941	6,105	7,272	7,635	6,220
Provision for losses on loans	100	25	18	325	384
Net interest income after provision for losses on loans	6,841	6,080	7,254	7,310	5,836
Noninterest income	1,290	927	970	938	1,058
Noninterest expense	5,846	5,045	4,638	4,564	3,702
Income before income taxes	2,284	1,962	3,586	3,684	3,192
Income taxes	704	573	1,184	1,606	1,093
Net income	$ 1,580	$ 1,389	$ 2,402	$ 2,078	$ 2,099
Earnings per share	$ .64	$ .56	$ .43	$ --	$ --
Net income (loss)	55.60%	29.47%	19.92%	--%	--%

</TABLE>

<TABLE>
<CAPTION>

	AT OR FOR THE YEAR ENDED SEPTEMBER 30,				
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
SELECTED OPERATING RATIOS(1):					
Return on average assets	.76%	.73%	1.28%	1.09%	1.12%
Return on average equity	6.13	7.06	16.57	21.03	27.10

Average equity to average assets	12.41	10.37	7.73	5.18	4.12
Equity to assets at end of period	16.27	10.20	10.15	5.74	4.59
Interest rate spread(2)	2.99	3.08	3.95	4.33	3.81
Net interest margin(2)	3.50	3.40	4.12	4.31	3.64
Non-performing loans and troubled debt restructurings to total loans at end of period(3)	.76	.70	.81	.95	1.15
Non-performing assets and troubled debt restructurings to total assets at end of period(3)	1.03	1.51	1.90	3.07	4.53
Average interest-earning assets to average interest-bearing liabilities	111.92	107.81	105.28	99.4	97.0
Net interest income after provision for loan losses to total noninterest expense	117.01	120.52	156.40	160.16	157.64
Noninterest expense to average total assets	2.82	2.67	2.47	2.39	1.97

</TABLE>

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(1) With the exception of end of period ratios, all ratios are based on average monthly balances during the periods and are annualized where appropriate.

(2) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate on interest-bearing liabilities. Net interest margin represents net interest income as a percentage of average interest-earning assets.

(3) Non-performing loans consist of non-accrual loans and accruing loans that are contractually past due 90 days or more, non-performing assets consist of non-performing loans and real estate acquired by foreclosure, deed in lieu thereof or deemed insubstance foreclosure and troubled debt restructurings consist of restructured debt in accordance with Statement of Financial Accounting Standards No. 15.

(4) Earnings per share amounts for prior years have been restated to give effect to the exchange ratio of 1.41785 in connection with the Reorganization effective March 29, 1996.

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

GENERAL

Jacksonville Bancorp, Inc. (the "Company"), through Jacksonville Savings and Loan Association ("Jacksonville"), its wholly owned subsidiary, is primarily engaged in attracting deposits from the general public and using those and other available sources of funds to originate loans secured by single-family residences located in Cherokee County and surrounding counties in East Texas. To a lesser extent, Jacksonville also originates construction loans, land loans and consumer loans. It also has a significant amount of investments in mortgage-backed securities and United States Government and federal agency obligations.

The profitability of Jacksonville depends primarily on its net interest income, which is the difference between interest and dividend income on interest-earning assets, principally loans, mortgage-backed securities and investment securities, and interest expense on interest-bearing deposits and borrowings. Jacksonville's net earnings also is dependent, to a lesser extent, on the level of its noninterest income (including servicing fees and other fees) and its noninterest expenses, such as compensation and benefits, occupancy and equipment insurance premiums, and miscellaneous other expenses, as well as federal income tax expense.

ASSET AND LIABILITY MANAGEMENT

The ability to maximize net interest income is largely dependent upon the achievement of a positive interest rate spread that can be sustained during fluctuations in prevailing interest rates. Interest rate-sensitivity is a measure of the difference between amounts of interest-earning assets and interest-bearing liabilities which either reprice or mature within a given period of time. The difference, or the interest rate repricing "gap," provides an indication of the extent to which an institution's interest rate spread will be affected by changes in interest rates. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities, and is considered negative when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive assets. Generally, during a period of rising interest rates, a negative gap within shorter maturities would adversely affect net interest income, while a positive gap within shorter maturities would result in an increase in net interest income, and during a period of falling interest rates, a negative gap within shorter maturities would result in an increase in net interest income while a positive gap within shorter maturities would have the opposite effect.

The lending activities of savings associations have historically emphasized long-term, fixed-rate loans secured by single-family residences, and the primary source of funds of such institutions has been deposits. The deposit accounts of savings associations generally bear interest rates that reflect market rates and largely mature or are subject to repricing within a short period of time. This factor, in combination with substantial investments in long-term, fixed-rate loans, has historically caused the income earned by savings associations on their loan portfolios to adjust more slowly to changes in interest rates than their cost of funds.

Jacksonville originates both fixed- and variable-rate residential real estate loans as market conditions dictate. Prior to November 1980, Jacksonville, like virtually all savings associations, originated only fixed-rate loans and held them in portfolio until maturity. As a result of the problems caused by holding fixed-rate loans in a rapidly increasing interest-rate environment, changes in regulations to allow for variable-rate loans and consumer demand for such loans during periods of high interest rates, in the 1980s Jacksonville began to transform its portfolio into loan products the interest rates of which adjust periodically. As a result, Jacksonville's loan portfolio, as of September 30, 1996 consisted of 63.8% of adjustable or floating rate loans. In order to meet its customers' demand for fixed-rate loans during periods of lower interest rates, until 1994 Jacksonville followed a policy of selling to third parties a high percentage of the fixed-rate loans it originated while retaining its variable-rate loans. The mixture of originations for sale and originations for portfolio varies depending on the general mix of interest-earning assets Jacksonville then currently holds in its portfolio and other factors such as market fees for loan sales and the overall interest-rate environment. As interest rates declined in late 1991, Jacksonville originated an increasingly higher percentage of fixed-rate residential first

mortgage loans and continued to sell approximately 90% of such loans upon origination. Since 1994, it has been Jacksonville's policy to retain fixed-rate residential first mortgage loans with terms of 15 years or less.

Notwithstanding the foregoing, however, because Jacksonville's interest-bearing liabilities which mature or reprice within short periods substantially exceed its earning assets with similar characteristics, material and prolonged increases in interest rates generally would adversely affect net interest income, while material and prolonged decreases in interest rates generally, but to a lesser extent because of their historically low levels, would have the opposite effect. Presented below, as of September 30, 1996, the most recent available, is an analysis of Jacksonville's IRR as measured by changes in NPV and NII for instantaneous and sustained parallel shifts of 100 basis points in market interest rates. The table also contains the policy that the Board of Directors deems advisable in the event of various changes in interest rates. Such limits have been established with consideration of the impact of various rate changes and Jacksonville's current strong capital position.

NET PORTFOLIO VALUE

<TABLE>
<CAPTION>

CHANGE IN INTEREST RATES (BASIS POINTS)	ESTIMATED NPV	ESTIMATED NPV AS A PERCENTAGE OF ASSETS	AMOUNT OF CHANGE	PERCENT	POLICY
	(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
+400	$20,935	9.7%	$ (14,639)	(41%)	(100%)
+300	24,946	16.1	(10,628)	(30)	(75)
+200	28,861	13.3	(6,713)	(19)	(50)
+100	32,502	15.0	(3,072)	(9)	(25)
--	35,574	16.4	--	--	--
-100	37,786	17.5	2,212	6	25
-200	39,044	18.0	3,470	10	50
-300	40,357	18.6	4,783	13	75
-400	42,302	19.5	6,728	19	100

</TABLE>

The OTS uses the above NPV calculation to monitor institutions' IRR. The OTS has promulgated regulations regarding a required adjustment to an institution's risk-based capital based on IRR. The application of the OTS' methodology quantifies IRR as the change in the NPV which results from a theoretical 200 basis point increase or decrease in market interest rates. If the NPV from either calculation would decrease by more than 2% of the present value of the institution's assets, the institution must deduct 50% of the amount of the decrease in excess of such 2% in the calculation of risk-based capital. The IRR regulations were originally effective as of January 1, 1994, subject to a two quarter "lag" time between the reporting date of the data used to calculate an institution's interest rate risk and the effective date of each quarter's interest rate risk component. However, in October 1994 and March 1995 the Director of the OTS indicated that it would waive the capital deductions for institutions with a greater than "normal" risk until the OTS publishes an appeals process, which the OTS expects will occur shortly. At September 30, 1996, 2% of the present value of Jacksonville's assets was approximately $4.3 million. Because the IRR of a 200 basis point increase in market interest rates (which was greater than a 200 basis point decrease) was $6.7 million, Jacksonville's September 30, 1996 Interest Risk Capital component would have been $1.2 million (50% of the approximate $2.4 million difference). At September 30, 1996, Jacksonville would not have been required to make a deduction from its capital because the lowest of the three prior quarters' component is a negative number. However, because Jacksonville has retained more of its fixed-rate loans in recent periods, it is likely that if the regulation is implemented that Jacksonville will be required to make a deduction from its capital in future periods in determining its risk-based capital requirement.

CHANGES IN FINANCIAL CONDITION

At September 30, 1996, Jacksonville's assets totaled $217.9 million, as compared to $199.3 million at September 30, 1995. Total assets increased $18.6 million, or 9.3%, from September 30, 1995 to September 30, 1996 and was principally funded by the $14.0 million of net proceeds from the Stock Offering. The increase in

total assets during fiscal 1996 was principally the result of a $22.1 million or 16.3% increase in loans receivable, net from $135.9 million at September 30, 1995 to $158.0 million at September 30, 1996. The increase resulted from an increase in single-family residential loans of $14.7 million or 12.5%, an increase in construction loans of $2.7 million or 62.2% and an increase in consumer loans secured by vehicles of $2.0 million or 208% during the period. A $10.1 million, or 27.5%, decrease in investment securities held to maturity was partially offset by a $8.7 million increase in mortgage-backed securities held to maturity. These adjustments in Jacksonville's investment portfolio are the result of the use of funds from maturing investments to fund single family residential, construction and consumer loans.

At September 30, 1995, Jacksonville's assets totaled $199.3 million, as compared to $187.0 million at September 30, 1994. Total assets increased $12.3 million, or 6.5%, from September 30, 1994 to September 30, 1995. The increase in total assets during fiscal 1995 was principally the result of a $12.8 million or 10.4% increase in loans receivable, net from $123.1 million at September 30, 1994 to $135.9 million at September 30, 1995 as a result principally of an increase in single-family residential loans of $8.6 million or 7.9%, and an increase in construction loans of $2.6 million or 159% during the period. A $4.2 million, or 10.3%, decrease in investment securities held to maturity was partially offset by a $1.2 million increase in interest bearing deposits and a $2.2 million increase in investment securities available for sale. These adjustments were made in Jacksonville's investment portfolio in order to provide greater flexibility to Jacksonville to react to changes in interest rates.

During the year ended September 30, 1996, total liabilities increased $3.6 million or 2.0% to $182.1 million. This increase was primarily the result of $2 million of Federal Home Loan Bank advances and a $1.1 million SAIF special assessment. Jacksonville had no such advances outstanding as of September 30, 1995 and the SAIF special assessment was a one-time event. These increases were partially offset by the repayment of the $358,000 ESOP note.

During the year ended September 30, 1995, total liabilities increased $11.0 million or 6.6% to $178.5 million. This increase was primarily the result of an increase of $14.5 million or 9.1% in deposits plus $620,000 or 22.9% increase in advances from borrowers for taxes and insurance. These increases were partially offset by a decrease of $4.0 million in advances from the FHLB of Dallas. The increase in deposits was primarily due to an increase in deposit rates we well as the full operation of the Tyler branch office.

AVERAGE BALANCES, NET INTEREST INCOME AND YIELDS EARNED AND RATES PAID

The following table presents for the periods indicated the total dollar amount of interest from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollar and rates, and the net interest margin. The table does not reflect any effect of income taxes. All average balances are based on month-end balances. Management believes that the use of average monthly balances is representative of its operations.

<TABLE>
<CAPTION>

SEPTEMBER 30, 1996	1996	1995	1994

	YIELD/ RATE	AVERAGE BALANCE	INTEREST	YIELD/ RATE	AVERAGE BALANCE	INTEREST	YIELD/ RATE	AVERAGE BALANCE	INTEREST	YIELD/ RATE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
INTEREST-EARNING ASSETS:										
Loans receivable...	8.24%	$145,021	$ 12,169	8.39%	$128,623	$ 10,337	8.04%	$122,051	$ 9,909	8.12%
Mortgage-backed securities...	7.06	9,561	700	7.32	3,106	249	8.02	3,486	310	8.89
Investment securities...	6.05	37,109	2,170	5.85	41,753	2,290	5.48	45,733	2,494	5.45
Other interest-earning assets(2)...	5.88	6,446	355	5.51	6,227	356	5.72	5,357	182	3.40
Total interest-earning assets...		198,137	$ 15,394	7.77%	179,709	$ 13,232	7.36%	176,627	$ 12,895	7.30%
Non-interest-earning assets...		9,565			10,074			10,925		
Total assets...		$207,702			$189,783			$187,552		
INTEREST-BEARING LIABILITIES:										
Deposits...	4.71%	$176,062	$ 8,390	4.77%	$163,729	$ 6,924	4.23%	$167,652	$ 5,617	3.35%
Borrowings...	5.71	1,098	63	6.49	2,956	203	6.87	115	6	5.27
Total interest-bearing liabilities...		177,160	$ 8,453	4.78	166,685	$ 7,127	4.28	167,767	$ 5,623	3.35
Non-interest-bearing liabilities...		4,761			3,414			5,290		
Total liabilities...		181,921			170,099			173,057		
Stockholder's Equity...		25,781			19,684			14,495		
Total liabilities and stockholders' equity...		$207,702			$189,783			$187,552		
Net interest income; interest rate spread...			$ 6,941	2.99%		$ 6,105	3.08%		$ 7,272	3.95%
Net interest margin(3)...				3.50%			3.40%			4.12%
Average interest-earning assets to average interest-bearing liabilities...				111.92%			107.81%			105.28%

</TABLE>

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(1) Annualized.

(2) Consists primarily of interest-bearing deposits.

(3) Net interest margin is net interest income divided by average interest-earning assets.

RATE/VOLUME ANALYSIS

The following table describes the extent to which changes in interest rates and changes in volume of interest-related assets and liabilities have affected Jacksonville's interest income and expense during the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (change in volume multiplied by prior year rate), (ii) changes in rate (change in rate multiplied by prior year volume), and (iii) total change in rate and volume. The combined effect of changes in both rate and volume has been allocated proportionately to the change due to rate and the change due to volume.

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,								
	1996 VS. 1995			1995 VS. 1994			1994 VS. 1993		
	INCREASE (DECREASE) DUE TO		TOTAL INCREASE	INCREASE (DECREASE) DUE TO		TOTAL INCREASE	INCREASE (DECREASE) DUE TO		TOTAL INCREASE
	RATE	VOLUME	(DECREASE)	RATE	VOLUME	(DECREASE)	RATE	VOLUME	(DECREASE)
	(DOLLARS IN THOUSANDS)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
INTEREST-EARNING ASSETS:									
Loans......................	$466	$1,366	$1,832	$ (98)	$ 526	$ 428	$(1,241)	$(513)	$ (1,754)
Mortgage-backed securities.............	(22)	473	451	(29)	(32)	(61)	27	(77)	(50)
Investment securities......	147	(267)	(120)	14	(218)	(204)	(221)	332	111
Other interest-earning assets..................	(13)	12	(1)	140	34	174	(6)	8	2
Total interest-earning assets................	$578	$1,584	$2,162	$ 27	$ 310	$ 337	$(1,441)	$(250)	$ (1,691)
INTEREST-BEARING LIABILITIES:									
Deposits...................	$922	$ 544	$1,466	$1,441	$ (134)	$ 1,307	$ (938)	$(396)	$ (1,334)
Other Borrowings...........	(11)	(129)	(140)	3	194	197	3	3	6
Total interest-bearing liabilities...........	$911	$ 415	$1,326	$1,444	$ 60	$ 1,504	$ (935)	$(393)	$ (1,328)
Increase (decrease) in net interest income.........			$ 836			$ (1,167)			$ (363)

</TABLE>

COMPARISON OF RESULTS OF OPERATIONS

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

GENERAL. Jacksonville had net earnings of $1.6 million for the year ended September 30, 1996 as compared to $1.4 million for the year ended September 30, 1995. During fiscal 1996, Jacksonville's net interest income increased by $836,000 and its noninterest income increased by $362,000 while the provision for losses on loans increased $75,000. Noninterest expense increased by $802,000, primarily as a result of the SAIF special assessment. Without the SAIF special assessment, Jacksonville's net earnings would have been $2.3 million for fiscal 1996, an increase of $700,000 or 44.7% as compared to the net earnings for fiscal 1996.

The $900,000 increase in net earnings for fiscal 1996, as calculated without the SAIF special assessment, was primarily the result of an increase in the average balance of interest-earning assets of $18.4 million or 10.3%. The amount of such assets increased primarily as a result of the deployment of the $14.0 million of proceeds from the Stock Offering into loans receivable and mortgage backed securities. The amount of the increased earnings was enhanced by generally higher interest rates during the period in which the loans were originated which resulted in the average yield on Jacksonville's interest-earning assets increasing by 41 basis points from 7.36% in fiscal 1995 to 7.77% in fiscal 1996. The positive impact on earnings resulting from the increase in average balance of and average yield on Jacksonville's interest-earning assets was partially offset by the 50 basis point increase in the average rate paid on interest-bearing liabilities from 4.28% in fiscal 1995 to 4.78% in fiscal 1996. The increase in average interest-earning assets, however, more than offset the change in the interest rate spread from 3.08% in fiscal 1995 to 2.99% in fiscal 1996.

NET INTEREST INCOME. Net interest income increased by $836,000, or 13.7%, for the year ended September 30, 1996 compared to the year ended September 30, 1995. This increase was due primarily to a $2.2 million, or 16.3%, increase in interest income partially offset by a $1.3 million or 18.6% increase interest expense.

The $2.2 million increase in total interest income was the result of increases in interest on loans receivable of $1.8 million or 17.7%, and interest on mortgage-backed securities of $451,000 or 180.9%, offset by a decrease in interest income of $120,000, or 5.2% from investment securities. The increase in interest income from loans receivable was due primarily to a $16.4 million, or 12.7%, increase in the average balance of Jacksonville's loan portfolio. The increase in interest income from mortgage-backed securities reflects an increase in average balance from $3.1 million in fiscal 1995 to $9.6 million in fiscal 1996 partially offset by a decline in average yield from 8.02% to 7.32% in the respective periods. The decrease in interest income from investment securities reflects primarily a decrease in average balance from $41.8 million to $37.1 million, or 11.1%. The decrease in the average balance of securities reflects a shift in portfolio mix by management of Jacksonville as funds from maturing investment securities were used to purchase mortgage-backed securities and to fund new mortgage loans. The average yield on loans originated and retained by Jacksonville during fiscal 1996 was 8.26%.

The $1.3 million increase in total interest expense from $7.1 million for the year ended September 30, 1995, to $8.5 million for the year ended September 30, 1996, was primarily due to an increase in the average rate paid on deposits from 4.23% in fiscal 1995 to 4.77% in fiscal 1996. The 54 basis point increase rates paid on deposits resulted from a general increase in market rates of interest.

As a result of the foregoing, Jacksonville's net interest income increased by $836,000 or 13.7%, during fiscal 1996 compared to fiscal 1995. Jacksonville's net interest rate spread was 2.99% for the year ended September 30, 1996 as compared to 3.08% in fiscal 1995.

PROVISION FOR LOSSES ON LOANS. Jacksonville's provision for loan losses was $100,000 for the year ended September 30, 1996 compared to $25,000 for the year ended September 30, 1995. Provisions for losses on loans are charged to earnings to bring the total allowance to a level deemed appropriate by management based on historical experience, the volume and type of lending conducted by Jacksonville, industry standards, the amount of non-performing assets, general economic conditions, particularly as they relate to Jacksonville's market area, and other factors related to the collectability of Jacksonville's loan portfolio. Upon consideration

of such factors, Jacksonville determined that $100,000 in provisions for losses on loans were appropriate in 1996. During fiscal 1996 Jacksonville had no chargeoffs or recoveries. Jacksonville's allowance for losses amounted to $1.1 million at September 30, 1996 as compared to $1.0 million at September 30, 1995.

NON-INTEREST INCOME. Noninterest income amounted to $1.3 million for the year ended September 30, 1996 compared to $928,000 in fiscal 1995. The $362,000 increase was due primarily to $230,000 in income from loan servicing rights compared to no income from such rights in fiscal 1995, an increase in fees and deposit service charges of $140,000 and an increase in income from real estate operations, net, of $9,000, partially offset by a decrease of $17,000 in other noninterest income. The income from servicing rights is the result of Jacksonville's adoption of Financial Accounting Standards Board ("FASB") No. 122 which requires the recognition of income from loans sold at the time of sale. The increase in income from fees and deposit service charges reflects an increase in loan originations and an increase in service charges on deposits.

NON-INTEREST EXPENSE. Noninterest expense amounted to $5.8 million for the year ended September 30, 1996 compared to $5.0 million during fiscal 1995. The primary reason for the $802,000, or 15.9% increase in noninterest expense during fiscal 1996 was the $1.1 million SAIF special assessment which was partially offset by a $102,000 reversal of a provision for real estate losses compared to a $16,000 provision in fiscal 1995 and a $173,000 decrease in other non-interest expenses. The SAIF special assessment resulted from legislation enacted into law on September 30, 1996 which, among other things recapitalized the SAIF through the special assessment. Pursuant to regulatory provisions recently promulgated by the Federal Deposit Insurance Corporation, the recapitalization will result in a substantial reduction of deposit insurance premiums for most SAIF members.

INCOME TAXES. Income tax expense amounted to $704,000 during the year ended September 30, 1996, compared to $573,000 in fiscal 1995. The changes in such amounts primarily reflect differences in gross income levels of Jacksonville. See Note 11 to Consolidated Financial Statements.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 1995 AND 1994

GENERAL. Jacksonville had net earnings of $1.4 million for the year ended September 30, 1995, compared to net earnings of $2.4 million for fiscal 1994. Net interest income decreased $1.2 million while the provision for losses on loans increased $7,000. Noninterest income decreased $43,000. Noninterest expense increased by $407,000.

The $1.0 million or 42.2% decrease in net earnings for fiscal 1995 was primarily the result of interest-rate fluctuation during the period. A significant portion of Jacksonville's interest-bearing liabilities matured or repriced during the fiscal year resulting in an increase in the average interest expense of 93 basis points (with 1.0% equalling 100 basis points). During the same period, the average yield on interest-earning assets, which consist primarily of adjustable rate mortgage loans with adjustment dates ranging from one to five years, only increased by six basis points. The resulting change in the interest rate spread from 3.95% to 3.08% combined with the increased noninterest expense and the decreased noninterest income were the primary reasons for the significant decline in net earnings.

NET INTEREST INCOME. Net interest income decreased by $1.2 million, or 16.0%, for the year ended September 30, 1995 compared to the year ended September 30, 1994. This decrease was due primarily to a $1.5 million, or 26.7%, increase in interest expense primarily from interest expenses on deposits.

Total interest income increased $337,000, or 2.6%, for the year ended September 30, 1995 as compared to the year ended September 30, 1994. The increase was the result of increases in interest on loans receivable of $428,000, or 4.3%, and interest on funds on deposit of $174,000, offset by decreases in interest income of $204,000, or 19.7% from investment securities and a decrease of $61,000, or 8.2% from mortgage-backed securities. The increase in interest income from loans receivable was due primarily to a $6.6 million, or 5.4%, increase in the average balance of Jacksonville's loan portfolio. The decrease in interest income from mortgage-backed securities reflects a decrease in average balance from $3.5 million in fiscal 1994 to $3.1 million in fiscal 1995 and a decline in average yield from 8.89% to 8.02% in the respective periods. The decrease in interest income from investment securities reflects primarily a decrease in average balance from

$45.7 million to $41.8 million, or 8.7%. The decrease in the average balance of securities reflects a shift in portfolio mix by management of Jacksonville as funds from maturing investment securities were used to fund new mortgage loans. The average yield on loans originated and retained by Jacksonville during fiscal 1995 was 8.28%.

Interest expense increased by $1.5 million for the year ended September 30, 1995 compared to fiscal 1994. This increase from $5.6 million for the year ended September 30, 1994, to $7.1 million for the year ended September 30, 1995, was primarily due to an increase in average interest rates on deposits from 3.35% to 4.23%. The substantial increase in interest expense was due to an increase in market interest rates. In order to maintain a substantial portion of its existing deposit base, Jacksonville followed a policy of offering the prevailing market rate on accounts that matured or repriced during the period. Jacksonville also attempted to establish a presence in the deposit market of its new Tyler branch office by offering interest rates for new deposits at or above levels offered by its competition.

As a result of the foregoing, Jacksonville's net interest income decreased by $1.2 million, or 16.0%, during fiscal 1995 compared to fiscal 1994. Jacksonville's net interest rate spread was 3.08% for the year ended September 30, 1995 as compared to 3.95% in fiscal 1994.

PROVISION FOR LOSSES ON LOANS. Jacksonville's provision for loan losses was $25,000 for the year ended September 30, 1995 compared to $18,000 for the year ended September 30, 1994. Provisions for losses on loans are charged to earnings to bring the total allowance to a level deemed appropriate by management based on historical experience, the volume and type of lending conducted by Jacksonville, industry standards, the amount of non-performing assets, general economic conditions, particularly as they relate to Jacksonville's market area, and other factors related to the collectibility of Jacksonville's loan portfolio. Upon consideration of such factors, Jacksonville determined that $25,000 in provisions for losses on loans were appropriate in 1995. The fiscal 1995 provisions offset the net chargeoffs of $25,000 for fiscal 1995. Jacksonville's allowance for losses amounted to $1.0 million at both September 30, 1995 and 1994.

NON-INTEREST INCOME. Noninterest income amounted to $928,000 for the year ended September 30, 1995 compared to $970,000 in 1994. The $42,000 decrease was due to a decrease in income from real estate operations, net, of $220,000, partially offset by an increase in fees and deposit service charges of $178,000. The decrease in income from real estate operations reflects a reduction in real estate owned that was income producing property from $2.5 million at September 30, 1994 to $2.1 million at September 30, 1995.

NON-INTEREST EXPENSE. Noninterest expense amounted to $5.0 million for the year ended September 30, 1995 compared to $4.6 million during fiscal 1994. The primary reason for the $407,000, or 8.8% increase in noninterest expense during fiscal 1995 was a $255,000, or 9.3% increase in compensation and benefit expense, a $54,000 or 15.4% increase in occupancy and equipment expense, and a $198,000 increase in other expense partially offset by a $63,000 decrease in insurance expense in fiscal 1995 compared to fiscal 1994.

The increase in compensation and benefit expense is primarily the result of an increase of $88,000 in the expenses associated with the ESOP and 1994 MRP and a $147,000 expense associated with the cost of additional personnel employed to staff the Tyler branch office and the Nacogdoches origination office. The increase in occupation and equipment expense was primarily the result of costs incurred in connection with the operation of those same two new offices. The other non-interest expense increase consisted of (i) several expenses related to operation within a mutual holding company organization including a state franchise tax increase of $66,000 resulting from the capitalization of the MHC combined with increased capital and earnings and stock service expense of $45,000, and (ii) miscellaneous expense associated with the addition of the two offices and the increased volume of loans including increased advertising expense of $50,000.

INCOME TAXES. Income tax expense amounted to $573,000 during the year ended September 30, 1995, compared to $1.2 million in fiscal 1994. The changes in such amounts primarily reflect differences in gross income levels of Jacksonville. See Note 10 to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Jacksonville is required under applicable federal regulations to maintain specified levels of "liquid" investments in qualifying types of United States Government, federal agency and other investments having maturities of five years or less. Current OTS regulations require that a savings association maintain liquid assets of not less than 5% of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less, of which short-term liquid assets must consist of not less than 1%. Monetary penalties may be imposed for failure to meet applicable liquidity requirements. At September 30, 1996, Jacksonville's liquidity exceeded the minimum liquidity requirement, as measured for regulatory purposes.

Cash was generated by Jacksonville's operating activities of $3.0 million and $1.9 million during the years ended September 30, 1996 and 1995, respectively, primarily as a result of net earnings of $1.6 million and $1.4 million, respectively. The adjustments to reconcile net earnings to net cash provided by operations during the periods presented consisted primarily of the provision for losses on loans, depreciation and amortization expense, amortization of deferred loan origination fees and increases or decreases in other assets and other liabilities. The primary investing activity of Jacksonville is lending, which is funded with cash provided from operations and financing activities, as well as proceeds from amortization and prepayments on existing loans and proceeds from maturities of investment securities and mortgage-backed securities. During the year ended September 30, 1996, Jacksonville's investing activities used cash of $21.6 million principally as a result of net loan originations of $21.8 million. During the year ended September 30, 1995, Jacksonville's investing activities provided cash flow of $11.5 million principally as a result of net loan originations of $14.5 million partially offset by net proceeds from maturities of investment securities of $2.1 million. Jacksonville's financing activities generated cash of $15.6 million during the year ended September 30, 1996 as a result of a $14.0 million net proceeds from the sale of common stock offset by net repayments of $2.0 million of FHLB advances. During the year ended September 30, 1995, Jacksonville's financing activities generated cash of $10.7 million as a result of a net increase in deposits of $14.5 million offset by net prepayments of $4.0 million in FHLB advances. For additional information about cash flows from Jacksonville operating, financing and investing activities, see the Consolidated Statements of Cash Flows included in the Consolidated Financial Statements.

At September 30, 1996, Jacksonville had $5.4 million of outstanding commitments to originate residential real estate loans and no commitments to purchase investment securities. At the same date, the total amount of certificates of deposit which are scheduled to mature by September 30, 1997 are $126.5 million. Jacksonville believes that it has adequate resources to fund commitments as they arise and that it can adjust the rate on savings certificates to retain deposits in changing interest rate environments. If Jacksonville requires funds beyond its internal funding capabilities, advances from the FHLB of Dallas are available as an additional source of funds.

Jacksonville is required to maintain specified amounts of capital pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") and regulations promulgated by the OTS thereunder. The capital standards generally require the maintenance of regulatory capital sufficient to meet a tangible capital requirement, a core capital requirement and a risk-based capital requirement. At September 30, 1996, Jacksonville's tangible and core capital totaled $28.5 million or 13.17% of adjusted total assets, which exceeded the respective minimum requirements at that date by approximately $25.3 million and $22.0 million, respectively, or 11.67% and 10.17% of adjusted total assets, respectively. Jacksonville's risk-based capital totaled $29.6 million at September 30, 1996, or 26.7% of risk-weighted assets, which exceeded the current requirement of 8% of risk-weighted assets by approximately $20.8 million of risk-weighted assets. See "Regulation -- The Association -- Regulatory Capital Requirements."

ACCOUNTING REQUIREMENTS

In May 1993, the Financial Accounting Standards Board ("FASB") issued Statement No. 114, "Accounting by Creditors for Impairment of a Loan," which was later amended by Statement No. 118, "Accounting by Creditors for Impairment of Loan -- Income Recognition and Disclosures." The Association

adopted the new standards effective October 1, 1995, and the implementation did not have a material adverse effect on the Association's financial condition or results of operations.

In March 1995, the FASB issued Statement No. 121 ("SFAS No. 121"), entitled "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 121 requires that long-lived assets, certain identifiable intangibles, and goodwill related to those assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 121 is effective for financial statements for fiscal years beginning after December 15, 1995. The Association adopted the provisions of SFAS No. 121 effective October 1, 1996 and it did not have a material adverse effect on financial condition or results of operations.

In May 1995 the FASB issued Statement of Financial Accounting Standards No. 122 ("SFAS No. 122") entitled "Accounting for Mortgage Servicing Rights." This statement eliminates the accounting distinction between rights to service mortgage loans for others that are acquired through loan origination activities and those acquired through purchase transactions. The provisions of SFAS No. 122 must be applied prospectively in fiscal years beginning after December 15, 1995. Jacksonville adopted the provisions of SFAS No. 122, effective October 1, 1995.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," establishing financial accounting and reporting standards for stock-based employee compensation plans. SFAS No. 123 encourages all entities to adopt a new method of accounting to measure compensation cost of all employee stock compensation plans based on the estimated fair value of the award at the date it is granted. Companies are, however, allowed to continue to measure compensation cost for those plans using the intrinsic value based method of accounting, which generally does not result in compensation expense recognition for most plans. Companies that elect to remain with the existing accounting are required to disclose in a footnote to the financial statements pro forma net income and, if presented, earnings per share, as if SFAS No. 123 had been adopted. The accounting requirements of SFAS No. 123 are effective for transactions entered into in fiscal years that begin after December 15, 1995; however, companies are required to disclose information for awards granted in their first fiscal year beginning after December 15, 1994.

AICPA Statement of Accounting Position 94-6 was issued in December 1994 and requires disclosures beyond those now required or generally made in financial statements about risks and uncertainties existing at the date of those financial statements related to (1) nature of operations, (2) use of estimates in the preparation of financial statements, (3) certain significant estimates, and (4) current vulnerability due to certain concentrations. This Statement is effective for fiscal years ending after December 15, 1995. Management believes the Association's financial statements include these required disclosures.

IMPACT OF INFLATION AND CHANGING PRICES

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

Unlike most industrial companies, virtually all of Jacksonville's assets and liabilities are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than does the effect of inflation.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Jacksonville Bancorp, Inc.

We have audited the accompanying consolidated statements of financial condition of Jacksonville Bancorp, Inc. and subsidiaries as of September 30, 1996 and 1995, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three year period ended September 30, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

HENRY & PETERS, P.C.

Tyler, Texas
November 20, 1996

JACKSONVILLE BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
SEPTEMBER 30, 1996 AND 1995

ASSETS

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>
ASSETS		
Cash on hand and in banks	$ 2,777,737	$ 2,248,481
Interest-bearing deposits	2,415,678	5,802,983
Investment securities:		
Held-to-maturity, approximate fair market value of $26,378,089 and $36,391,229, respectively	26,446,748	36,499,177
Available-for-sale, carried at fair value	7,358,750	6,408,250
Mortgage-backed certificates:		
Held-to-maturity, approximate fair market value of $12,107,707 and $3,480,855, respectively	12,107,184	3,441,684
Loans receivable, net	158,034,126	135,932,935
Accrued interest receivable	1,633,042	1,448,348
Foreclosed real estate, net	1,051,033	2,052,287
Premises and equipment, net	3,256,065	2,908,723
Stock in Federal Home Loan Bank of Dallas, at cost	1,739,900	1,636,200
Mortgage servicing rights	231,541	--
Federal income taxes receivable	584,787	628,162
Prepaid expenses and other assets	219,453	244,162
Total assets	$217,856,044	$199,251,392
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$174,327,887	$173,810,946
ESOP Note Payable	--	358,309
Advance from Federal Home Loan Bank	2,000,000	--
Advances from borrowers for taxes and insurance	3,518,198	3,326,583
SAIF special assessment payable	1,070,478	--
Accrued expenses and other liabilities	1,149,898	986,636
Total liabilities	182,066,461	178,482,474
DEFERRED INCOME		
Gain on sale of real estate owned	358,915	438,052
COMMITMENTS AND CONTINGENCIES		

STOCKHOLDERS' EQUITY		
Preferred stock, no par value, 5,000,000 shares authorized; none issued	--	--
Common stock, $.01 par value, 25,000,000 shares authorized; 2,664,265 and 2,651,025 shares issued and outstanding, respectively	26,643	26,510
Additional paid-in capital	22,297,343	6,901,244
Retained earnings, substantially restricted	14,746,925	13,943,851
Less:		
Shares acquired by Employee Stock Ownership Plan	(1,528,219)	(358,309)
Shares acquired by Management Recognition Plan	(24,375)	(121,875)
Net unrealized loss on securities available-for-sale, net of income taxes of $45,152 and $31,195, respectively	(87,649)	(60,555)
Total stockholders' equity	35,430,668	20,330,866
Total liabilities and stockholders' equity	$217,856,044	$199,251,392

</TABLE>

See accompanying notes to consolidated financial statements.

JACKSONVILLE BANCORP, INC.

CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>	1994 <C>
INTEREST INCOME			
Loans receivable	$12,169,431	$10,337,486	$ 9,909,303
Mortgage-backed securities	700,215	249,244	310,323
Investment securities	2,170,435	2,289,539	2,493,693
Other	354,197	355,540	181,986
Total interest income	15,394,278	13,231,809	12,895,305
INTEREST EXPENSE			
Deposits	8,390,643	6,924,045	5,617,244
Interest on borrowings	62,749	202,941	6,208
Total interest expense	8,453,392	7,126,986	5,623,452
Net interest income	6,940,886	6,104,823	7,271,853
PROVISION FOR LOSSES ON LOANS	100,000	25,197	18,319
Net interest income after provision for losses on loans	6,840,886	6,079,626	7,253,534
NONINTEREST INCOME			
Fees and deposit service charges	906,612	767,202	589,481
Real estate operations, net	84,309	75,095	295,464
Other	68,245	85,299	85,248
Mortgage servicing rights	230,491	--	--
Total noninterest income	1,289,657	927,596	970,193
NONINTEREST EXPENSE			
Compensation and benefits	2,977,991	3,005,431	2,749,875
Occupancy and equipment	442,633	406,933	352,569
Insurance expense	447,528	433,967	496,683
Provisions for real estate losses	(102,142)	16,136	54,284
Other	1,010,016	1,182,539	984,514
SAIF special assessment	1,070,478	--	--
Total noninterest expense	5,846,504	5,045,006	4,637,925
INCOME BEFORE TAXES ON INCOME	2,284,039	1,962,216	3,585,802
TAXES ON INCOME			
Current	623,000	556,146	1,170,799
Deferred	81,000	17,000	13,000
Total income tax expense	704,000	573,146	1,183,799
Net earnings	$ 1,580,039	$ 1,389,070	$ 2,402,003
Earnings per share	$ .64	$ .56	$ .43
Average number of shares outstanding	2,483,708	2,460,765	2,449,383

</TABLE>

See accompanying notes to consolidated financial statements.

JACKSONVILLE SAVINGS AND LOAN ASSOCIATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994

<TABLE>
<CAPTION>

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNVESTED SHARES HELD BY ESOP	UNVESTED SHARES HELD BY MRP	UNREALIZED LOSS ON SECURITIES AVAILABLE FOR SALE	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at September 30, 1993......................	$ --	$ --	$ --	$ --	$ --	$10,872,730	$ 10,872,730
Issuance of 2,649,607 shares of common stock on March 31, 1994 in connection with Reorganization.........	26,496	6,880,380	(511,870)	(292,500)	--	--	6,102,506
Contribution of capital to Mutual Holding Company................	--	--	--	--	--	(100,000)	(100,000)
ESOP shares released.....	--	--	51,187	--	--	--	51,187
Accrual of Management recognition plan awards.................	--	--	--	65,000	--	--	65,000
Dividends declared.......	--	--	--	--	--	(210,600)	(210,600)
Net unrealized loss on securities available-for-sale..............	--	--	--	--	(194,125)	--	(194,125)
Net earnings............	--	--	--	--	--	2,402,003	2,402,003
Balance at September 30, 1994......................	26,496	6,880,380	(460,683)	(227,500)	(194,125)	12,964,133	18,988,701
ESOP shares released.....	--	10,878	102,374	--	--	--	113,252
Accrual of Management recognition plan awards.................	--	--	--	105,625	--	--	105,625
Dividends declared.......	--	--	--	--	--	(409,352)	(409,352)
Change in net unrealized loss on securities available-for-sale.....	--	--	--	--	133,570	--	133,570
Shares issued under stock option plan...........	14	9,986	--	--	--	--	10,000
Net earnings............	--	--	--	--	--	1,389,070	1,389,070
Balance at September 30, 1995......................	26,510	6,901,244	(358,309)	(121,875)	(60,555)	13,943,851	20,330,866
Shares issued under stock option plan...........	78	54,762	--	--	--	--	54,840
ESOP shares released.....	--	20,480	124,820	--	--	--	145,300
Accrual of management recognition plan awards.................	--	--	--	97,500	--	--	97,500
Cancellation of shares held by Jacksonville Federal Mutual Holding Company................	(16,128)	16,128	--	--	--	--	--
Proceeds from issuance of 1,618,409 shares of Jacksonville Bancorp, Inc. common stock on March 29, 1996, net of 140 fractional shares acquired, and net of offering expense of $863,178..............	16,183	15,304,729	(1,294,730)	--	--	--	14,026,182
Return of capital from Jacksonville Federal Mutual Holding Company................	--	--	--	--	--	100,000	100,000
Change in net unrealized loss on securities available-for-sale.....	--	--	--	--	(27,094)	--	(27,094)
Dividends declared.......	--	--	--	--	--	(876,965)	(876,965)
Net earnings............	--	--	--	--	--	1,580,039	1,580,039

Balance at September 30, 1996	$ 26,643	$22,297,343	$(1,528,219)	$ (24,375)	$(87,649)	$14,746,925	$ 35,430,668

</TABLE>

See accompanying notes to consolidated financial statements.

JACKSONVILLE BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>	1994 <C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,580,039	$ 1,389,070	$ 2,402,003
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	187,119	179,385	136,034
Amortization/Accretion of securities	148,300	121,942	243,569
Provision for losses on loans and losses on real estate	(2,142)	41,333	72,603
Loans originated for sale	(21,848,000)	(13,817,000)	(24,854,000)
Loans sold	21,848,000	13,817,000	23,694,000
Net loss on sale of other real estate	162,422	255,948	658,973
Accrual of MRP awards	97,500	105,625	65,000
Release of ESOP shares	85,217	10,878	--
Change in assets and liabilities:			
Decrease (Increase) in prepaid expenses and other assets	24,709	(111,127)	321,984
Decrease (Increase) in federal income taxes receivable	57,332	76,955	(106,199)
Increase SAIF assessment payable	1,070,478	--	--
Increase in accrued expenses and other liabilities	163,262	33,717	274,749
Decrease in deferred income	(79,137)	(131,534)	(400,166)
Increase in mortgage servicing rights	(231,541)	--	--
(Increase) Decrease in accrued interest receivable	(184,694)	(73,520)	80,394
Net cash provided by operating activities	3,078,864	1,898,672	2,588,944
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on maturity of investment securities	23,409,535	15,542,656	14,843,862
Purchase of investment securities	(14,474,405)	(13,474,300)	(18,918,671)
Net principal payments (originations) on loans	(21,825,762)	(14,450,731)	2,950,270
Proceeds from sale of foreclosed real estate	565,545	1,849,871	2,449,530
Purchase of mortgage-backed securities	(10,926,796)	(1,001,897)	--
Principal paydowns on mortgage-backed securities	2,238,744	551,483	1,212,557
Capital expenditures	(534,461)	(463,056)	(1,004,933)
Purchase of stock in FHLB Dallas	(103,700)	(92,800)	(57,800)
Contribution of capital to mutual holding company	--	--	(100,000)
Return of capital from mutual holding company	100,000	--	--
Net cash (used in) provided by investing activities	(21,551,300)	(11,538,774)	1,374,815
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposits	516,941	14,467,835	(14,968,332)
Net increase (decrease) in advance payments by borrowers for property taxes and insurance	191,615	620,477	(33,973)
Advances from FHLB	4,000,000	--	4,000,000
Payment of FHLB advance	(2,000,000)	(4,000,000)	--
Proceeds from sale of common stock	14,026,182	--	6,614,376
Proceeds from exercise of stock options	54,840	10,000	--
Payment of ESOP loan	(298,226)	--	--
Dividends paid	(876,965)	(409,352)	(210,600)
Net cash provided by (used in) financing activities	15,614,387	10,688,960	(4,598,529)
Net (decrease) increase in cash and cash equivalents	(2,858,049)	1,048,858	(634,770)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,051,464	7,002,606	7,637,376
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,193,415	$ 8,051,464	$ 7,002,606

</TABLE>

See accompanying notes to consolidated financial statements.

JACKSONVILLE BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- BASIS OF PRESENTATION AND REORGANIZATION

The accompanying consolidated financial statements include the accounts of Jacksonville Bancorp, Inc. (Company) and its wholly-owned subsidiaries Jacksonville IHC, Inc. (IHC) and Jacksonville Savings and Loan Association (Association) and its wholly-owned subsidiary JS&L Corporation (JS&L). The Company, through its principal subsidiary, the Association, is primarily engaged in attracting deposits from the general public and using those and other available sources of funds to originate loans secured by single-family residences located in the East Texas area. To a lesser extent, the Association also originates construction loans, land loans, and consumer loans. IHC's main activity is holding an intercompany loan receivable from the Association in connection with the Association's employee stock ownership plan. JS&L's main activity is the servicing of purchased residential mortgage notes receivable. All significant intercompany transactions and balances are eliminated in consolidation.

On March 29, 1996, the Association and Jacksonville Federal Mutual Holding Company (Mutual Holding Company) completed a second step conversion (Reorganization). As part of the Reorganization, Jacksonville Bancorp, was formed as a first-tier wholly-owned subsidiary of the Association. The Mutual Holding Company was converted to an interim federal stock savings association and simultaneously merged with and into the Association. At that point, the Mutual Holding Company ceased to exist and 1,137,500 shares, or 60.8%, of the outstanding Association's common stock owned by the Mutual Holding Company was cancelled. A second interim savings and loan association (Interim) which was formed by Jacksonville Bancorp solely for the Reorganization was then merged with and into the Association. As a result of the merger of Interim with and into the Association, the Association became a wholly-owned subsidiary of Jacksonville Bancorp. Pursuant to an exchange ratio of 1.41785 shares for each share of the Association common stock, the 737,734 outstanding public shares of the Association were exchanged for approximately 1,045,996 shares of Jacksonville Bancorp. The exchange ratio insured that the public stockholders of the Association maintained a 39.2% ownership interest in Jacksonville Bancorp. Concurrent with the Reorganization, Jacksonville Bancorp sold 1,618,409 additional shares to members of the Mutual Holding Company, employees of the Association, and the public at a price of $10.00 per share. Reorganization and offering costs of approximately $863,000 resulted in net proceeds from the offering of approximately 14,026,000.

Each depositor of the Association as of the effective date of the Conversion will have upon liquidation of the Association a right to their pro rata interest in a liquidation account established pursuant to regulations for the benefit of such depositors. The Association maintains records to ensure such rights will receive statutory priority as required. The reorganization was accounted for as a change in corporate form with the historic basis of accounting for the Association unchanged.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment and Mortgage-Backed Securities

The Association classifies and accounts for debt and equity securities as follows:

Held-to-Maturity

Debt and equity securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the level interest yield method over the estimated remaining term of the underlying security.

Available-for-Sale

Debt and equity securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as available-for-sale. These assets are carried at market value. Market value is determined using published quotes as of the close of business. Unrealized gains and losses are excluded from earnings and reported net of tax as a separate component of retained earnings until realized.

Trading Securities

Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at market value, with unrealized gains and losses included in earnings.

Premises and Equipment

Land is carried at cost. Building, leasehold improvements, and furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture, fixtures and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is being amortized using the straight-line method over the terms of the related leases.

Federal Income Taxes

The Company and its subsidiaries plan to file a consolidated Federal income tax return. The tax provision or benefit is based on income or loss reported for financial statement purposes, and differs from amounts currently payable or refundable because certain revenues and expenses are recognized for financial reporting purposes differently than they are recognized for tax reporting purposes. The cumulative effects of any temporary differences are reflected as deferred income taxes using the liability method (see Note 11).

Loans Receivable

Loans receivable are stated at unpaid principal balances, less the allowance for loan losses, and net deferred loan origination fees and discounts. Discounts on loans are recognized over the lives of the loans using the interest method.

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on 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. Currently, the allowance for loan losses is formally reevaluated on a quarterly basis.

Uncollectible interest on loans that are contractually past due is chargedoff or an allowance is established based on management's periodic evaluation. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized by charges to earnings.

Loan Origination and Commitment Fees and Related Costs

Loan fees received are accounted for substantially in accordance with FASB Statement No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases". Loan fees and certain direct loan origination costs are deferred, and the net fee is recognized as an adjustment to interest income over the contractual life of the loans. Commitment fees and costs relating to commitments whose likelihood of exercise is remote are recognized over the commitment period on a straight-line basis. If the commitment is subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise is recognized over the life of the loan as an adjustment of yield.

Foreclosed Real Estate

Real estate properties acquired through loan foreclosure are initially recorded at the lower of cost (loan balance) or fair value, less estimated costs of disposition, at the date of foreclosure. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding property are expensed.

Valuations are periodically performed by management, and an allowance for losses is established by a charge to operations if the carrying value of a property exceeds its estimated net realizable value. Currently, all major foreclosed real estate properties are formally reevaluated on a quarterly basis to determine the adequacy of the allowance for losses.

Gains on sale of foreclosed real estate are accounted for in accordance with Statement of Financial Accounting Standards No. 66. When the borrower's initial cash down payment does not meet the minimum requirements, the gain on sale is deferred and recorded on the installment basis until such time as sufficient principal payments are received to meet the minimum down payment requirements. Losses on sale of foreclosed real estate are recognized at the date of sale.

Use of Estimates

The preparation of financial consolidated 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.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

Earnings Per Share

Earnings per share have been calculated by dividing net income by the weighted average number of shares of common stock outstanding for the year. The effect of shares issuable under stock options has been accounted for using the treasury stock method. As discussed in Note 14, the Association accounts for the 202,048 shares issued to its Employee Stock Ownership Plans (ESOP) (72,575 exchange shares and 129,473 newly issued shares) in accordance with Statement of Position 93-6. As a result, shares controlled by the ESOP are not considered in the weighted average number of shares of common stock outstanding until the shares are committed for allocation to an employee's individual account. All per share amounts and outstanding shares previously reported for the Association have been adjusted to reflect the Reorganization using the exchange ratio of 1.41785 and adjusted for additional shares acquired by the ESOP. While the

number of outstanding shares has been restated for all periods to reflect the Reorganization, earnings on the proceeds from the Reorganization are reflected only in the third and fourth quarters of 1996. For the year ended September 30, 1994, earnings per share was calculated by dividing net income since April 1, 1994, the date of the reorganization, by the weighted average number of common shares outstanding. The Association reported net income of $1,057,003 in the period from April 1 to September 30, 1994.

In October 1995, the Financial Accounting Standards Board issued Statement No. 123, "Accounting for Stock-Based Compensation." This statement requires either; (a) recognition of compensation cost in earnings for stock-based compensation plans based upon the fair value of stock options; or (b) pro forma disclosures of what earnings and per share amounts would have been had the fair value method been used for expense recognition. Management is continuing to evaluate the impact of this statement and plans to present pro forma disclosures in future financial statements.

Mortgage Servicing Rights

Effective October 1, 1995 with the adoption of Financial Accounting Standards No. 122 (SFAS No. 122) entitled "Accounting for Mortgage Servicing Rights", the cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the estimated fair value of those rights. Fair values are estimated using discounted cash flows based on current market interest rates and market data regarding sales of mortgage servicing rights. The Association sells predominately single-family first mortgage loans with simple risk characteristics and uses a single stratum for purposes of measuring impairment. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights exceed their fair value.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Cash Flows

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. A summary of cash and cash equivalents follows:

<TABLE>
<CAPTION>

	SEPTEMBER 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Cash on hand and in banks	$2,777,737	$2,248,481	$2,380,049
Interest bearing deposits	2,415,678	5,802,983	4,622,557
Cash and cash equivalents	$5,193,415	$8,051,464	$7,002,606
Supplemental disclosure:			
Cash paid for:			
Interest	$8,439,688	$7,103,637	$5,628,000
Income taxes	$ 500,000	$ 565,000	$1,290,000
Non-cash operating activities:			
Change in deferred taxes on net unrealized gains and losses on securities available-for-sale	$ 13,957	$ (64,809)	$ 100,004
Non-cash investing activities:			
Change in net unrealized gains and losses on securities available-for-sale	$ (41,051)	$ 202,379	$ (294,129)
Transfer from loans to real estate acquired through foreclosure	$ 410,000	$ 958,000	$1,008,000
Loans made relating to sale of foreclosed real estate	$1,308,536	$1,502,600	$1,641,330
Non-cash financing activities:			
Reduction of ESOP obligation recorded as compensation	$ --	$ 102,374	$ --

</TABLE>

NOTE 3 -- INVESTMENT SECURITIES

The amortized cost and estimated market values of investments in debt securities are as follows as of September 30, 1996:

<TABLE>
<CAPTION>

	AVAILABLE-FOR-SALE			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	ESTIMATED MARKET VALUE
<S>	<C>	<C>	<C>	<C>
U.S. Agency securities	$7,491,551	$ --	$ 132,801	$7,358,750

</TABLE>

<TABLE>
<CAPTION>

	HELD-TO-MATURITY			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	ESTIMATED MARKET VALUE
<S>	<C>	<C>	<C>	<C>
U.S. Treasury notes....................	$ 8,979,850	$ 7,329	$ 44,514	$ 8,942,665
U.S. Agency securities.................	17,466,898	70,623	102,097	17,435,424
	$26,446,748	$ 77,952	$ 146,611	$26,378,089

</TABLE>

The amortized cost and estimated market values of investments in debt securities are as follows as of September 30, 1995:

<TABLE>
<CAPTION>

	AVAILABLE-FOR-SALE			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	ESTIMATED MARKET VALUE
<S>	<C>	<C>	<C>	<C>
U.S. Agency securities..................	$6,500,000	$2,000	$ 93,750	$6,408,250

</TABLE>

<TABLE>
<CAPTION>

	HELD-TO-MATURITY			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	ESTIMATED MARKET VALUE
<S>	<C>	<C>	<C>	<C>
U.S. Treasury notes....................	$12,491,643	$ 46,666	$ 26,400	$12,511,909
U.S. Agency securities.................	24,007,534	55,616	183,830	23,879,320
	$36,499,177	$ 102,282	$ 210,230	$36,391,229

</TABLE>

The scheduled maturities of securities at September 30, 1996 were as follows:

<TABLE>
<CAPTION>

	HELD-TO-MATURITY SECURITIES		AVAILABLE-FOR-SALE SECURITIES	
	AMORTIZED COST	ESTIMATED MARKET VALUE	AMORTIZED COST	ESTIMATED MARKET VALUE
<S>	<C>	<C>	<C>	<C>
Due in one year or less.............	$ 9,004,738	$ 9,069,918	$ --	$ --
Due from one to five years..........	12,442,010	17,308,171	4,491,775	4,431,250
Due from six to ten years...........	--	--	2,999,776	2,927,500
	$26,446,748	$26,378,089	$7,491,551	$7,358,750

</TABLE>

NOTE 3 -- INVESTMENT SECURITIES -- (CONTINUED)

The scheduled maturities of securities at September 30, 1995 were as follows:

<TABLE>
<CAPTION>

	HELD-TO-MATURITY SECURITIES		AVAILABLE-FOR-SALE SECURITIES	

	AMORTIZED COST	ESTIMATED MARKET VALUE	AMORTIZED COST	ESTIMATED MARKET VALUE
Due in one year or less	$15,010,157	$14,986,791	$ --	$ --
Due from one to five years	21,489,020	21,404,438	3,500,000	3,426,250
Due from five to ten years	--	--	3,000,000	2,982,000
	$36,499,177	$36,391,229	$6,500,000	$6,408,250

NOTE 4 -- MORTGAGE-BACKED SECURITIES

The amortized cost and estimated market values of mortgage-backed securities are summarized as follows:

SEPTEMBER 30, 1996	HELD-TO-MATURITY			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	ESTIMATED MARKET VALUE
GNMA certificates	$ 1,283,657	$ 41,817	$ 33,256	$ 1,292,218
FHLMC certificates	3,553,077	21,408	37,966	3,536,519
FNMA certificates	7,270,450	9,923	1,403	7,278,970
	$12,107,184	$ 73,148	$ 72,625	$12,107,707

SEPTEMBER 30, 1995	HELD-TO-MATURITY			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	ESTIMATED MARKET VALUE
GNMA certificates	$1,521,150	$ 40,387	$ 9,491	$1,552,046
FHLMC certificates	1,920,534	23,278	15,003	1,928,809
	$3,441,684	$ 63,665	$ 24,494	$3,480,855

NOTE 5 -- LOANS RECEIVABLE

Loans receivable are summarized as follows:

	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995
Mortgage loans (principally conventional):		
Single family residential	$132,599,211	$117,852,980
Multi-family residential	1,268,331	1,183,246
Commercial	8,604,174	8,166,799
Construction	6,996,272	4,311,600
Land	4,394,732	3,753,936
	153,862,720	135,268,561
Business and Consumer loans:		
Commercial business	218,984	232,234
Consumer:		
Secured by deposits	2,289,873	1,921,602
Secured by vehicles	2,961,000	960,000
Personal real estate loans	2,685,808	1,253,477
Other	921,535	525,680
	9,077,200	4,892,993

Total loans	162,939,920	140,161,554
Less:		
Undisbursed portion of loans in process	(2,956,166)	(2,229,575)
Unearned discounts	(89,217)	(105,860)
Net deferred loan-origination fees	(760,411)	(893,184)
Allowance for loan losses	(1,100,000)	(1,000,000)
Net loans	$158,034,126	$135,932,935

</TABLE>

The Association at September 30, 1996 had mortgage loan commitments outstanding substantially all of which are at rates to be determined at closing (rates range from 7.25% to 9.00%) as follows:

<TABLE>

<S>	<C>
Variable-rate	$ 586,922
Fixed-rate	4,785,563
	$5,372,485

</TABLE>

The Association had committed to sell a substantial portion of fixed-rate loans when funded.

Activity in the allowance for loan losses is summarized as follows:

<TABLE>
<CAPTION>

	SEPTEMBER 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Balance at beginning of period	$1,000,000	$1,000,087	$ 996,480
Provision charged to income	100,000	25,197	18,319
Charge-offs	--	(56,962)	(23,865)
Recoveries	--	31,678	9,153
Balance at end of period	$1,100,000	$1,000,000	$1,000,087

</TABLE>

NOTE 5 -- LOANS RECEIVABLE -- (CONTINUED)

At September 30, 1996 and 1995, the Association did not have any material loans which are impaired as defined by FASB Statement No. 114, as amended by FASB Statement No. 118. However, the Association did have non-accrual loans, for which FASB Statement No. 114 does not apply, of $815,000 and $563,000 at September 30, 1996 and 1995, respectively. The Association is not committed to lend additional funds to debtors whose loans have been modified.

Loans to officers and directors totaled $361,000 and $531,000 at September 30, 1996 and 1995, respectively.

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans is summarized as follows:

<TABLE>
<CAPTION>

	SEPTEMBER 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Mortgage loans underlying FHLMC pass-through securities	$47,171,302	$31,096,293	$19,587,287

</TABLE>

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $1,125,000 and $861,000 at September 30, 1996 and 1995, respectively.

NOTE 6 -- REAL ESTATE

An analysis of the activity in the allowance for losses in real estate acquired in settlement of loans follows:

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Balance at beginning of period..................	$2,050,507	$2,229,666	$2,799,504
Provisions for losses......................	(102,142)	16,136	54,284
Charge-offs................................	(256,838)	(195,295)	(744,356)
Recoveries.................................	--	--	120,234
Balance at end of period........................	$1,691,527	$2,050,507	$2,229,666

</TABLE>

For regulatory reporting purposes the above amounts are reported as "specific" reserves and are allocated to specific properties. The Association carries its "general valuation allowance" as an allowance for loan losses (see Note 5).

NOTE 7 -- ACCRUED INTEREST RECEIVABLE

Accrued interest receivable is summarized as follows:

<TABLE>
<CAPTION>

	SEPTEMBER 30,	
	1996	1995
<S>	<C>	<C>
Investment securities................................	$ 548,638	$ 593,747
Mortgage-backed securities...........................	82,575	27,352
Loans receivable.....................................	1,001,829	827,249
	$1,633,042	$1,448,348

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 8 -- PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

<TABLE>
<CAPTION>

	SEPTEMBER 30,		ESTIMATED
	1996	1995	USEFUL LIVES
<S>	<C>	<C>	<C>
Land...	$ 466,718	$ 466,718	--
Building and improvements......................	3,252,841	2,761,684	5 to 40 years
Furniture, fixtures and equipment..............	1,773,837	1,730,531	3 to 15 years
	5,493,396	4,958,933	
Less accumulated depreciation.............	2,237,329	2,050,210	
	$3,256,067	$2,908,723	

</TABLE>

NOTE 9 -- DEPOSITS

Deposits are summarized as follows:

<TABLE>
<CAPTION>

	1996		1995	
	AMOUNT	PERCENT	AMOUNT	PERCENT
<S>	<C>	<C>	<C>	<C>
Demand and NOW Accounts..................	$ 13,176,028	7.56	$ 12,396,447	7.14
Money market.............................	17,648,483	10.12	17,929,682	10.32

Passbook savings.........................	11,423,531	6.55	10,765,387	6.20
	42,248,042	24.23	41,091,516	23.66
Certificates of deposit:				
2% to 3%...........................	--	--	--	--
3% to 4%...........................	3,973,491	2.28	14,427,572	8.30
4% to 5%...........................	46,339,139	26.58	38,928,883	22.40
5% to 6%...........................	50,047,745	28.72	43,083,404	24.77
6% to 7%...........................	31,368,135	17.99	35,915,162	20.65
7% to 8%...........................	212,336	.12	232,219	.14
8% to 9%...........................	138,999	.08	132,190	.08
	132,079,845	75.77	132,719,430	76.34
	$174,327,887	100.00	$173,810,946	100.00

</TABLE>

The aggregate amount of short-term jumbo certificates of deposit with a minimum denomination of $100,000 was approximately $17,171,000 and $16,228,000 at September 30, 1996 and 1995, respectively.

Scheduled maturities of certificates of deposit are as follows:

<TABLE>
<CAPTION>

	1996		1995	
TERM TO MATURITY	AMOUNT	PERCENT	AMOUNT	PERCENT
<S>	<C>	<C>	<C>	<C>
Within 12 months.........................	$126,542,420	95.81	$123,972,678	93.41
13 to 24 months..........................	5,537,425	4.19	8,680,887	6.54
25 to 36 months..........................	--	--	65,865	.05
Greater than 36 months...................	--	--	--	--
	$132,079,845	100.00	$132,719,430	100.00

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 9 -- DEPOSITS -- (CONTINUED)

Interest expense on deposits is summarized as follows:

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Money Market................................	$ 579,466	$ 642,044
Passbook savings............................	338,728	328,008
NOW...	205,815	239,489
Certificates of deposit.....................	7,266,634	5,714,504
	$8,390,643	$6,924,045

</TABLE>

The Federal Reserve Board requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. Required reserves must be maintained in the form of vault cash or a non-interest-bearing account at a Federal Reserve Bank.

In September, 1996 Congress passed legislation to recapitalize the Savings Association Insurance Fund (SAIF) which insures Association depositors up to applicable limits established by the Federal Deposit Insurance Corporation (FDIC). This recapitalization will result in a substantial reduction in future insurance premiums (based on current rates) and will put the Association at the same premium level as a well capitalized commercial bank. This one time assessment of $1,070,000 was accrued as a charge to expense in the accompanying September 30, 1996 statement of earnings.

NOTE 10 -- BORROWINGS

During June, 1996, the Association borrowed $4,000,000 from the Federal Home Loan Bank of Dallas and repaid $2,000,000 of the advance in September, 1996. The $2,000,000 balance at September 30, 1996, bears interest at 5.71% and is due June, 2003. The note is secured by a pledge of Federal Home Loan Bank stock.

On September 20, 1994, the Association borrowed $4,000,000 from the Federal Home Loan Bank of Dallas. The advance bears interest at an initial rate of 5.15% and resets quarterly based upon a three-month LIBOR plus two basis points. Interest is payable quarterly with the principal balance due September 20, 2001. Federal Home Loan Bank stock is pledged as collateral for the advance. This advance was repaid during the year ended September 30, 1995.

NOTE 11 -- FEDERAL INCOME TAXES

The Company and its subsidiaries plan to file a consolidated federal income tax return. If certain conditions are met in determining taxable income, the Association is allowed a special bad-debt deduction based on a percentage of taxable income (presently 8 percent) or on specified experience formulas. This special bad debt deduction is repealed for years beginning after January 1, 1997.

Federal income tax receivable (payable) shown on the accompanying consolidated statements of condition consists of the following:

	1996	1995
Current	$224,635	$200,967
Deferred	360,152	427,195
	$584,787	$628,162

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 11 -- FEDERAL INCOME TAXES -- (CONTINUED)

The provision for Federal income taxes differs from that computed at the statutory corporate tax rate as follows:

	1996	1995	1994
Computed "expected" tax expense	$776,573	$ 667,153	$1,219,173
Adjustments:			
SFAS No. 122 mortgage servicing rights	(78,367)	--	--
Bad debt deduction and real estate losses	(12,200)	(101,799)	(42,514)
Other	17,994	7,792	7,140
	$704,000	$ 573,146	$1,183,799

Deferred taxes are provided for timing differences in the recognition of income and expense for tax and financial statement purposes. The sources and effects of these differences are as follows:

	1996	1995	1994
Differed loan fees	$ 45,270	$ 14,881	$ 41,657
Accrued pension liability	(15,877)	(19,335)	(42,233)
FHLB stock dividends	35,360	31,552	19,652
Deferred compensation	21,707	--	--
Other, net	(5,460)	(10,098)	(6,076)
	$ 81,000	$ 17,000	$ 13,000

The deferred Federal income tax receivable shown in the accompanying balance sheets at September 30, was comprised of the following:

	1996	1995

Deferred income tax assets:		
Net unrealized losses on available for sale securities	$ 45,162	$ 31,195
Deferred loan fees	258,000	303,683
Deferred compensation and other employee benefits	321,000	314,996
Other	--	321
Total deferred income tax assets	624,162	650,195
Deferred income tax liabilities:		
FHLB stock dividends	130,000	94,728
Book/tax depreciation difference	133,000	127,534
Other	1,010	738
Total deferred income tax liabilities	264,010	223,000
Net deferred income tax assets	$360,152	$427,195

Stockholders' equity at September 30, 1996 and 1995, includes approximately $3,000,000, for which no deferred Federal income tax liability (approximately $1,020,000) has been recognized. These amounts represent an allocation of bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate.

NOTE 12 -- STOCKHOLDERS' EQUITY

The Mutual Holding Company had requested and received approval from the Office of Thrift Supervision to waive receipt of dividends on it shares through march 31, 1996. Dividends declared by the Association on Mutual Holding Company shares total $1,365,000 at September 30, 1996. Since the Mutual Holding Company ceased to exist effective March 29, 1996, this amount remains restricted for the payment of dividends to Company stockholders.

NOTE 13 -- PENSION PLAN, THRIFT PLAN AND DEFERRED COMPENSATION

The Association has a qualified defined benefit retirement plan covering substantially all of its employees. The benefits are based on each employee's years of service and the average of the highest compensation for sixty consecutive completed calendar months. The benefits are reduced by a specified percentage of the employee's social security benefit. An employee becomes fully vested upon completion of five years of qualifying service. It is the policy of the Association to fund an amount between the minimum and the maximum amount that can be deducted for Federal income tax purposes.

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

Actuarial present value of benefit obligations:

	1996	1995
Accumulated benefit obligation:		
Vested	$1,453,490	$1,143,959
Nonvested	122,567	17,722
	1,576,057	1,161,681
Effect of projected future compensation	579,773	1,159,055
Projected benefit obligation for service rendered to date	2,155,830	2,320,736
Plan assets at fair value; primarily cash and short-term investments	2,328,220	2,054,914
Plan assets in excess of (less than) projected benefit obligation	$ 172,390	$ (265,822)

The components of computed net pension expense for the years ended September 30, are as follows:

<TABLE>
<CAPTION>

	1996	1995	1994
Service cost -- benefits earned during the year	$127,148	$118,410	$144,114
Interest cost on projected benefit obligation	155,090	148,447	162,599
Actual return on plan assets	(118,323)	(119,522)	(64,369)
Net amortization and deferral	(10,411)	(514)	(7,486)
Net pension expense	$153,504	$146,821	$234,858
Assumptions used to develop the net periodic pension cost were:			
Discount rate	7.00%	6.75%	5.75%
Expected long-term rate of return on assets	6.50%	6.50%	5.50%
Rate on increase in compensation levels	5.00%	5.00%	6.00%

</TABLE>

The Association has a defined contribution thrift plan in effect for substantially all employees. Compensation and benefits expense includes $39,508 in 1996, $39,710 in 1995, and $29,572 in 1994 for such plan. The thrift plan permits employee contributions in the amount of 1% to 6% of compensation. The

NOTE 13 -- PENSION PLAN, THRIFT PLAN AND DEFERRED COMPENSATION -- (CONTINUED)

Association contributes for each thrift plan participant a matching contribution equal to 50% of the participant's contribution. In addition to the required matching contributions, the Association may contribute an additional amount of matching contributions determined by the board of directors at its discretion.

In addition to the aforementioned benefit plans, the Association has deferred compensation arrangements with key officers and certain directors. The deferred compensation is funded through life insurance contracts and calls for annual payments for a period of ten years. The Association funds the cost of the insurance for the officers while the cost of directors insurance is funded through a reduction in their normal directors fees. Vesting occurs after specified years of service and payments begin upon retirement. Expense reported in the statement of earnings under these arrangements totalled approximately $73,000 in 1996, $33,000 in 1995, and $121,000 in 1994. At September 30, 1996 and 1995, the Association had recorded a net liability of $271,000 and $218,000, respectively, related to such arrangements.

NOTE 14 -- EMPLOYEE STOCK OWNERSHIP PLAN

The Association has established an Employee Stock Ownership Plan (ESOP)for employees age 21 or older who have at least one year of credited service with the Association. The ESOP will be funded by the Association's contributions made in cash (which primarily will be invested in Company common stock) or common stock. Benefits may be paid either in shares of common stock or in cash. The Association accounts for its ESOP in accordance with the AICPA's Statement of Position 93-6.

During 1994 the ESOP borrowed $511,870 from a local bank and used the proceeds to purchase 51,187 shares of Association common stock (exchanged for 72,575 shares of Jacksonville Bancorp stock in 1996). The balance of this note was paid in full in connection with the Reorganization. Also, in conjunction with the Reorganization, the ESOP acquired an additional 129,473 shares of common stock of the Company.

The Association makes annual contributions to the ESOP equal to the debt service less dividends received on the unallocated shares. The ESOP shares have been pledged as collateral for the loan. As the loan is repaid, shares are released from collateral and committed for allocation to active employees, based on the proportion of debt service paid in the year. The shares pledged as collateral are reported as stock acquired by the ESOP plan in the statement of financial condition. As shares are released from collateral, the Association reports compensation expense equal to the average fair value of the shares over the period in which the shares were earned. Also, the shares become outstanding for earnings per share computations. Dividends on allocated shares are recorded as a reduction of retained earnings and dividends on unallocated shares are recorded as a reduction of the loan and accrued interest. ESOP compensation expense was $153,000, $114,000, and $67,000 for the years ended September 30, 1996, 1995, and 1994, respectively. At September 30, 1996 and 1995, 49,226 and 21,461 ESOP shares, respectively, have been released for allocation of which 28,792 and 12,527 were allocated to participants At September 30, 1996 and 1995, respectively. The 152,822 unreleased shares at September 30, 1996 have a fair value of approximately $1,950,000.

NOTE 15 -- MANAGEMENT RECOGNITION PLAN

As part of the initial conversion, the Association adopted a Management Recognition Plan (MRP) to enable the Association to provide officers and employees with a proprietary interest in the Association as incentive to contribute to its success.

The Association contributed $292,500 to the Trust and the Trust purchased 29,250 shares of common stock (exchanged for 41,472 shares of Jacksonville Bancorp stock in 1996). The committee appointed by the board of directors on March 31, 1994 granted all 41,472 shares to 13 officers.

The shares granted are in the form of restricted stock to be earned and payable over a three-year period at the rate of one-third per year beginning March 31, 1995. Compensation expense in the amount of the fair market value of the common stock at the date of the grant to the officer or employee is being recognized pro

NOTE 15 -- MANAGEMENT RECOGNITION PLAN -- (CONTINUED)

rata over the three years during which the shares are earned and payable. MRP expense included in compensation and benefits in the accompanying consolidated statements of earnings totalled $97,500, $106,000 and $65,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

NOTE 16 -- STOCK OPTION PLANS

Certain directors, officers and employees have options to purchase shares of the Associations' common stock under its 1994 Stock Incentive Plans. The option price is the fair market value at the date of grant. The options are exercisable beginning September 30, 1994 and expire March 31, 2004. Under the option plans, 73,123 shares were reserved for issuance and at September 30, 1994 no shares remain available for future grant to directors, officers and employees on a merit basis. In connection with the formation of the Company and issuance of additional stock effective March 31, 1996, the shares under option were converted to Company shares at a ratio of 1.41785 for each share under option. The option price per share was adjusted according to $7.05 per share. A summary of transactions follows:

<TABLE>
<CAPTION>

<S>	NUMBER OF SHARES <C>	AGGREGATE OPTION PRICE <C>
Options outstanding at September 30, 1994	103,677	$ 731,230
options exercised	1,418	10,000
Options outstanding at September 30, 1995	102,259	$ 721,230
options exercised	7,775	54,840
Options outstanding at September 30, 1996 (excise price of $7.05 per share)	94,484	$ 666,390

</TABLE>

NOTE 17 -- COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company and subsidiaries have various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In addition, the Company and subsidiaries are defendants in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial position of the Company and subsidiaries.

The Association is obligated under noncancelable operating leases for computer equipment. Leases are generally short term and the remaining commitment at September 30, 1996 is not significant to the Company's operations or financial condition.

NOTE 18 -- REGULATORY MATTERS

The Association is required to meet certain tangible, core, and risk-based capital requirements as specified by Federal regulatory agencies. Tangible capital generally consists of total stockholder's equity minus certain intangible assets. Core capital generally consists of tangible capital plus certain qualifying items. The risk-based capital requirements are dependent upon certain risk factors related to both recorded assets and off-balance sheet commitments and obligations.

NOTE 18 -- REGULATORY MATTERS -- (CONTINUED)

The following schedule presents the Association's regulatory capital ratio as of September 30, 1996:

	CORE CAPITAL	TANGIBLE CAPITAL	RISK-BASED CAPITAL
	(DOLLARS IN THOUSANDS)		
Consolidated Stockholders' equity	$35,431	$ 35,431	$ 35,431
Capitalization of Jacksonville Bancorp, Inc.	6,993	6,993	6,993
Total stockholder's equity for Association	28,438	28,438	28,438
Unrealized losses on available-for-sale securities	88	88	88
General loan loss allowance	--	--	1,100
Regulatory capital	28,526	28,526	29,626
Minimum capital requirement	6,496	3,248	8,872
Amount in excess of requirement	$22,030	$ 25,278	$ 20,754
Regulatory capital as a percentage of assets:			
Actual percentage	13.17%	13.17%	26.71%
Required percentage	3.00%	1.50%	8.00%

NOTE 19 -- FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company is 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. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company'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 Company uses the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments. Unless noted otherwise, the Company generally requires collateral to support financial instruments with credit risk.

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 the majority of the commitments are expected to be funded, the total commitment amounts represent future expected cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based in part on management's credit evaluation of the counterpart. Collateral held varies but consists principally of residential real estate and deposits.

NOTE 20 -- SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

The economy of the Company's market area, East Texas, has in the past been directly tied to the oil and gas industry. Oil and gas prices have had an indirect effect on the Association's business. Although the Association has a diversified loan portfolio, a significant portion of its loans are secured by real estate. Repayment of these loans is in part dependent upon the economic conditions in the market area. Part of the risk associated with real estate loans has been mitigated since much of this group represents loans secured by residential dwellings that are primarily owner occupied. Losses on this type of loan have historically been less than those on speculative and commercial properties. The Association's loan policy requires appraisal prior to funding any real estate loans and outlines the appraisal requirements on those renewing.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 21 -- DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Interest Bearing Deposits

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment and Mortgage-Backed Securities

For securities held as investments, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Accrued Interest

The carrying amounts of accrued interest approximates their fair values.

Loans Receivable

For certain homogeneous categories of loans, such as residential mortgages, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposit Liabilities

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowings

Rates currently available to the Association for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Commitments to Extend Credit and Standby Letters of Credit

At September 30, 1996 the Association had not issued any standby letters of credit. Commitments to extend credit totalled $5,372,000 at September 30, 1996 and consisted primarily of agreements to fund mortgage loans at the prevailing rates based upon acceptable collateral. Fees charged for these commitments are not significant to the operations or financial position of the Association and primarily represent a recovery of underwriting costs.

The Company has not been required to perform on any financial guarantees during the past two years. The Company has not incurred any losses on its commitments in the last two years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 21 -- DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS -- (CONTINUED)

The estimated fair values of the Company's financial instruments at September 30, are as follows:

<TABLE>
<CAPTION>

	1996		1995	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
FINANCIAL ASSETS:				
Cash and interest-bearing deposits....	$ 5,193,415	$ 5,193,415	$ 8,051,464	$ 8,051,464
Investment securities................	$ 33,805,498	$ 33,736,839	$ 42,907,427	$ 42,799,479

Accrued interest receivable..........	$ 1,633,042	$ 1,633,042	$ 1,448,348	$ 1,448,348
Loans and mortgage-backed securities.........................	$171,241,310		$140,374,619	
Less: Allowance for loan losses.......	1,100,000		(1,000,000)	
	$170,141,310	$172,560,000	$139,374,619	$142,390,000
FINANCIAL LIABILITIES:				
Deposits..............................	$174,327,887	$174,138,000	$173,810,946	$172,409,000
Borrowings...........................	$ 2,000,000	$ 2,000,000	$ 358,309	$ 423,000
UNRECOGNIZED FINANCIAL INSTRUMENTS:				
Commitments to extend credit..........		$ 5,372,000		$ 3,277,000

</TABLE>

NOTE 22 -- CONDENSED FINANCIAL STATEMENTS OF JACKSONVILLE BANCORP, INC. (PARENT COMPANY ONLY)

Jacksonville Bancorp, Inc. was organized in December, 1995 and began operations on March 29, 1996, effective with the Reorganization. The Company's balance sheet as of September 30, 1996 and related statements of earnings and cash flows from inception through September 30, 1996, are as follows:

<TABLE>

<S>	<C>
BALANCE SHEET	
ASSETS	
Cash in bank (Association)................................	$ 5,776,215
Investment in Association................................	28,438,091
Investment in IHC..	1,538,274
Other assets...	11,121
	$35,763,701
LIABILITIES AND STOCKHOLDERS' EQUITY	
Dividends payable..	$ 333,033
Stockholders' equity.....................................	35,430,668
Total liabilities and stockholders' equity...........	$35,763,701
STATEMENT OF EARNINGS	
Income..	$ --
General and administrative expenses........................	32,708
Loss before income taxes and equity in subsidiaries.......	(32,708)
Income tax (benefit).......................................	(11,121)
Loss before equity in earnings of subsidiaries..............	(21,587)
Equity in earnings of Association...........................	739,661
Equity in earnings of IHC...................................	63,868
Net earnings..	$ 781,942
CASH FLOWS	
Operations activities	
Net earnings..	$ 781,942
Adjustments to reconcile net income to net cash provided by operating activities	
Equity in earnings to subsidiaries..................	(803,529)
Increase in other assets............................	(11,121)
Net cash used in operations.........................	(32,708)
Investing activities	
Investment in subsidiaries..............................	(7,884,226)
Financing activities:	
Dividends paid..	(333,033)
Proceeds from sale of stock.............................	14,026,182
Net cash provided by financing activities...........	13,693,149
Net increase in cash and cash equivalents, at end of year...	$ 5,776,215

</TABLE>

STOCK INFORMATION

Shares of Jacksonville Bancorp, Inc.'s common stock are traded nationally under the symbol "JXVL" on the NASDAQ National Market System. At December 20, 1996, the Company had 2,638,265 shares of common stock outstanding and had 461 stockholders of record.

The following table sets forth the reported high and low sale prices of a share of the Association's common stock as reported by NASDAQ (the common stock commenced trading on the NASDAQ National Market System on March 29, 1996) and cash dividends paid per share of common stock during the periods indicated.

	HIGH	LOW	DIVIDEND
Quarter ended December 31, 1994(1)	7.40	7.40	$0.10
Quarter ended March 31, 1995(1)	7.58	7.14	0.10
Quarter ended June 30, 1995(1)	7.58	7.31	0.10
Quarter ended September 30, 1995(1)	12.69	8.11	0.10
Quarter ended December 31, 1995(1)	11.90	10.57	0.10
Quarter ended March 31, 1996(1)	11.63	10.40	0.10
Quarter ended June 30, 1996	10.88	9.13	0.125
Quarter ended September 30, 1996	13.13	10.00	0.125

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(1) Amounts previously reported for Jacksonville stock have been restated to reflect the exchange of 1.41785 shares of the Company stock for each share of Jacksonville stock during the second quarter of fiscal 1996.

DIRECTORS AND EXECUTIVE OFFICERS

W.G. BROWN
Chairman of the Board of the Company;
Retired, Owner of Brown Lumber
Industries

RAY W. BEALL
Director of the Company; Retired senior
executive for Beall's Department Store

CHARLES BROADWAY
Director, Chief Executive Officer of the
Company

ROBERT BROWN
Director of the Company; Manager,
Brown Lumber Industries

JERRY M. CHANCELLOR
Director and President of the Company

BILLY W. TAYLOR
Director and Executive Vice President of
the Company

DR. JOE TOLLETT
Director of the Company; Retired
Pediatrician

DR. JOE TOLLETT
Director of the Company; Retired
Pediatrician

BANKING LOCATIONS

MAIN OFFICE
Commerce and Neches Streets
Jacksonville, Texas 75766
(903) 586-9861

BRANCH OFFICES

<TABLE>

<S> <C>

1015 North Church Street Palestine, Texas 75801 (903) 729-3228	617 South Palenstine Street Athens, Texas 75751 (903) 677-2511
107 East Fourth Street Rusk, Texas 75785 (903) 683-2287	5620 Old Bullard Road Tyler, Texas 75703 (903) 534-9144
1412 Judson Road Longview, Texas 75601 (903) 758-0118	

</TABLE>

STOCKHOLDER INFORMATION

Jacksonville Bancorp, Inc. is a Texas-chartered corporation and savings and loan holding company. Its primary asset, Jacksonville Savings and Loan Association, is a Texas-chartered stock savings and loan association which conducts business from its main office in Jacksonville, Texas and five branch offices in the neighboring communities.

TRANSFER AGENT/REGISTRAR

Mellon Securities Trust Company
120 Broadway, 13th Floor
New York, New York 10005
1-800-526-0801

SHAREHOLDER REQUESTS

Requests for annual reports, quarterly reports and related stockholder literature should be directed to Corporate Secretary, Jacksonville Bancorp, Inc., Commerce and Neches Streets, Jacksonville, Texas 75766.

Shareholders needing assistance with stock records, transfers or lost certificates, please contact the Company's transfer agent, Mellon Securities Trust Company.

[JACKSONVILLE BANCORP LOGO]

January 2, 1997

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Jacksonville Bancorp, Inc. The meeting will be held at the Norman Activity Center, located at 526 East Commerce Street, Jacksonville, Texas, on Wednesday, January 22, 1997 at 10:00 a.m., Central Time. The matters to be considered by stockholders at the Annual Meeting are described in the accompanying materials.

It is very important that you be represented at the Annual Meeting regardless of the number of shares you own or whether you are able to attend the meeting in person. We urge you to mark, sign, and date your proxy card today and return it in the envelope provided, even if you plan to attend the Annual Meeting. This will not prevent you from voting in person, but will ensure that your vote is counted if you are unable to attend.

Your continued support of and interest in Jacksonville Bancorp, Inc. are sincerely appreciated.

Sincerely,

/s/ CHARLES BROADWAY

Charles Broadway
Chief Executive Officer

JACKSONVILLE BANCORP, INC.
COMMERCE AND NECHES STREETS
JACKSONVILLE, TEXAS 75766
(903) 586-9861

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JANUARY 22, 1997

NOTICE IS HEREBY GIVEN that an Annual Meeting of Stockholders of Jacksonville Bancorp, Inc, ("Company") will be held at the Norman Activity Center, located at 526 East Commerce Street, Jacksonville, Texas on Wednesday, January 22, 1997, at 10:00 a.m., Central Time, for the following purposes, all of which are more completely set forth in the accompanying Proxy Statement:

1. To elect three directors of the Company for a three-year term and until their successors are elected and qualified;

2. To ratify the appointment of Henry & Peters, P.C. as the Association's independent auditors for the fiscal year ending September 30, 1997; and

3. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors of the Company has fixed December 6, 1996 as the voting record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting. Only those stockholders of record as of the close of business on that date will be entitled to vote at the Annual Meeting or at any such adjournment.

BY ORDER OF THE BOARD OF DIRECTORS
/s/ SANDRA THOMPSON
Sandra Thompson, Secretary

January 2, 1997
Jacksonville, Texas

YOU ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING. IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED REGARDLESS OF THE NUMBER YOU OWN. EVEN IF YOU PLAN TO BE PRESENT, YOU ARE URGED TO COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY PROMPTLY IN THE ENVELOPE PROVIDED. IF YOU ATTEND THIS MEETING, YOU MAY VOTE EITHER IN PERSON OR BY YOUR PROXY. ANY PROXY GIVEN MAY BE REVOKED BY YOU IN WRITING OR IN PERSON AT ANY TIME PRIOR TO THE EXERCISE THEREOF.

JACKSONVILLE BANCORP, INC.

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

JANUARY 22, 1997

GENERAL

This Proxy Statement is being furnished to the stockholders of the Company in connection with the solicitation of proxies by the Board of Directors for use at its Annual Meeting of Stockholders ("Annual Meeting") to be held at the Norman Activity Center, located at 526 East Commerce Street, Jacksonville, Texas, on Wednesday, January 22, 1997, at 10:00 a.m., Central Time, and at any adjournment thereof, for the purposes set forth in the Notice of Annual Meeting of Stockholders. This Proxy Statement is first being mailed to stockholders on or about January 2, 1997.

VOTING RIGHTS

Only the holders of record of the outstanding shares of the common stock, $0.01 par value per share, of the Company ("Common Stock") at the close of business on December 6, 1996 (the "Voting Record Date") will be entitled to notice of and to vote at the Annual Meeting. At such date, there were 2,664,265 shares of Common Stock issued and outstanding.

Each share of Common Stock is entitled to one vote at the Annual Meeting on all matters properly presented at the meeting. Directors are elected by a plurality of the votes cast with a quorum present. The affirmative vote of the holders of a majority of the total votes present, in person or by proxy, at the Annual Meeting is required for approval of the proposal to ratify the independent auditors. The presence, either in person or by proxy, of the holders of a majority of the shares of Common Stock outstanding on the Voting Record Date is necessary to constitute a quorum at the Annual Meeting. Abstentions are considered in determining the presence of a quorum, but abstentions and broker non-votes will not effect the vote required to approve the proposals presented at the Annual Meeting.

PROXIES

Shares of Common Stock represented by properly executed proxies, if such proxies are received in time and not revoked, will be voted in accordance with the instructions indicated on the proxies. IF NO INSTRUCTIONS ARE INDICATED, SUCH PROXIES WILL BE VOTED FOR THE NOMINEES FOR DIRECTOR DESCRIBED HEREIN, THE OTHER MATTERS DESCRIBED BELOW AND, IN THE DISCRETION OF THE PROXY HOLDER, AS TO ANY OTHER MATTER WHICH MAY PROPERLY COME BEFORE THE ANNUAL MEETING. ANY HOLDER OF COMMON STOCK WHO RETURNS A SIGNED PROXY BUT FAILS TO PROVIDE INSTRUCTIONS AS TO THE MANNER IN WHICH SUCH SHARES ARE TO BE VOTED WILL BE DEEMED TO HAVE VOTED IN FAVOR OF THE MATTERS SET FORTH IN THE PRECEDING SENTENCE.

A Company stockholder who has given a proxy may revoke it at any time prior to its exercise at the Annual Meeting by (i) giving written notice of revocation to the Secretary of the Company (ii) properly submitting to the Company a duly-executed proxy bearing a later date, or (iii) attending the Annual Meeting and voting in person. All written notices of revocation and other communications with respect to revocation of proxies should be addressed as follows: Jacksonville Bancorp, Inc., Commerce and Neches Streets, Jacksonville, Texas 75766, Attention: Secretary.

BENEFICIAL OWNERSHIP

The following table sets forth information as to the Common Stock beneficially owned, as of December 6, 1996, by the only persons or entities known to the Company to be the beneficial owners of more than 5% of the Common Stock and by all directors and officers of the Company as a group.

<TABLE>
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1)	PERCENT OF CLASS
<S>	<C>	<C>
Jacksonville Bancorp, Inc. Employee Stock Ownership Plan................ Commerce and Neches Streets Jacksonville, Texas 75766	202,048	7.6%
All directors and officers of the Company as a group (six persons)......	219,147(2)	8.1%

</TABLE>

----

(1) Pursuant to rules promulgated by the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended ("Exchange Act"), a person or entity is considered to beneficially own shares of Common Stock if the person or entity has or shares (i) voting power, which includes the power to vote or to direct the voting of the shares, or (ii) investment power, which includes the power to dispose or direct the disposition of the shares. Unless otherwise indicated, a person or entity has sole voting and sole investment power with respect to the indicated shares. Shares which are subject to stock options and which may be exercised within 60 days of the Voting Record Date are deemed to be outstanding for the purpose of computing the percentage of Common Stock beneficially owned by such person.

(2) Includes in the case of all directors and officers of the Company as a group, (i) exercisable options to purchase 46,533 shares pursuant to the Company's 1994 Stock Incentive Plan and 1994 Directors' Stock Option Plan; (ii) 5,638 shares of Common Stock which were awarded to certain officers of the Company pursuant to the Company's 1994 Management Recognition Plan ("MRP"); and (iii) 5,244 shares of Common Stock allocated to the account of the officers in the Company's Employee Stock Ownership Plan (the "ESOP").

INFORMATION WITH RESPECT TO NOMINEES FOR DIRECTOR

ELECTION OF DIRECTORS

The Bylaws of the Company provide that the Board of Directors shall be divided into three classes which are as equal in number as possible, and that the members of each class of directors are to be elected for a term of three years and until their successors are elected and qualified.

At the Annual Meeting, stockholders of the Company will be asked to elect three directors of the Company for a three-year term and until their successors are elected and qualified. The nominees for election as directors were selected by the Nominating Committee of the Board of Directors and, each nominee currently serves as a director of the Company. There are no arrangements or understandings between the persons named and any other person pursuant to which such person was selected as a nominee for election as a director at the Annual Meeting. No director or nominee for director is related to any other director or executive officer of the Company by blood, marriage or adoption, other than that W.G. Brown and Dr. Joe Tollett are cousins and that Robert F. Brown is the son of W.G. Brown and the nephew of Dr. Joe Tollett.

If any person named as nominee should be unable or unwilling to stand for election at the time of the Annual Meeting, the proxies will nominate and vote for any replacement nominee or nominees recommended by the Board of Directors of the Company. At this time, the Board of Directors knows of no reason why any of the nominees may not be able to serve as a director if elected.

INFORMATION WITH RESPECT TO NOMINEES FOR DIRECTOR AND DIRECTORS WHOSE TERMS CONTINUE

The following tables present information concerning each nominee for director and each director whose term continues and reflects his tenure as a director of the Company, his principal occupation during the past five years as well as the number of shares of Common Stock beneficially owned by each such person as of the Voting Record Date.

NOMINEES FOR DIRECTOR FOR THREE-YEAR TERM

NAME	AGE	POSITION WITH THE ASSOCIATION AND PRINCIPAL OCCUPATION DURING THE PAST FIVE YEARS	DIRECTOR SINCE	COMMON STOCK BENEFICIALLY OWNED AS OF DECEMBER 6, 1996(1) NO.	%
Jerry M. Chancellor..........	54	Director and Executive Vice President (since 1983) of the Association	1984	25,339(2)	0.9%
Bill W. Taylor...............	55	Director and Senior Vice President (since 1984) of the Association	1993	28,784(3)	1.1
Dr. Joe Tollett..............	68	Director; Retired pediatrician	1973	28,750(4)	1.1

DIRECTORS WITH TERMS EXPIRING IN 1998

NAME	AGE	POSITION WITH THE ASSOCIATION AND PRINCIPAL OCCUPATION DURING THE PAST FIVE YEARS	DIRECTOR SINCE	COMMON STOCK BENEFICIALLY OWNED AS OF DECEMBER 6, 1996(1) NO.	%
Ray W. Beall.................	68	Director, Retired, formerly senior executive for Beall's Department Store	1966	26,320(5)	1.0%
Robert F. Brown..............	48	Manager, Brown Lumber Industries, Jacksonville, Texas, since 1994; partner of Shapiro-Brown, Dallas, Texas, a management company for multi-family properties	1995	17,462(6)	0.7

DIRECTORS WITH TERMS EXPIRING IN 1999

NAME	AGE	POSITION WITH THE ASSOCIATION AND PRINCIPAL OCCUPATION DURING THE PAST FIVE YEARS	DIRECTOR SINCE	COMMON STOCK BENEFICIALLY OWNED AS OF DECEMBER 6, 1996(1) NO.	%
Charles Broadway.............	63	Director, President and Chief Executive Officer (since 1983) of the Association	1981	36,559(7)	1.4%
W.G. Brown...................	77	Chairman of the Board and Director; Owner of Brown Lumber	1953	55,933(8)	2.1

Industries, Jacksonville, Texas

</TABLE>

THE BOARD OF DIRECTORS RECOMMENDS THAT THE NOMINEES BE ELECTED AS DIRECTORS

----

(1) Based on information furnished by the respective individuals. Pursuant to rules promulgated by the SEC under the Exchange Act, a person or entity is considered to beneficially own shares of Common Stock if the person or entity has or shares (i) voting power, which includes the power to vote or to direct the voting of the shares, or (ii) investment power, which includes the power to dispose or direct the disposition of the shares. Unless otherwise indicated, a person or entity has sole voting and sole investment power with respect to the indicated shares. Shares which are subject to stock options and which may be exercised within 60 days of the Voting Record Date are deemed to be outstanding for the purpose of computing the percentage of Common Stock beneficially owned by such person.

(2) Includes 10,223 shares which may be acquired upon the exercise of outstanding stock options, 1,753 shares of restricted stock granted pursuant to the 1994 MRP which are scheduled to vest on March 31, 1997 and 1,709 shares allocated to his account in the ESOP.

(3) Includes 808 shares held jointly with Mr. Taylor's children, 383 shares held by his wife, 8,130 shares which may be acquired upon the exercise of outstanding stock options, 1,583 shares of restricted stock granted pursuant to the 1994 MRP which are scheduled to vest on March 31, 1997 and 1,369 shares allocated to his account in the ESOP.

(4) Includes 3,630 shares held by Dr. Tollett's wife, 3,804 shares held jointly with his wife, 9,030 shares held in a family trust and 5,178 shares which may be acquired upon the exercise of stock options.

(5) Includes 5,178 shares which may be acquired upon the exercise of stock options.

(6) Includes 10,000 shares held in trust for his children.

(7) Includes 15,945 shares held jointly with Mr. Broadway's wife, 12,646 shares which may be acquired upon the exercise of stock options, 2,302 shares of restricted stock granted pursuant to the 1994 MRP which are scheduled to vest on March 31, 1997 and 2,166 shares allocated to his account in the ESOP.

(8) Includes 423 shares held as custodian for Mr. Brown's children, 35,446 shares held by a company which Mr. Brown owns, 14,886 shares held in a family trust and 5,178 shares which may be acquired upon the exercise of stock options.

On October 22, 1996, the Company's shareholders approved the 1996 Stock Option Plan and the 1996 Management Recognition Plan. On that date following the approval of the plans, grants of restricted stock and stock options were made to the Company's directors and executive officers.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Regular meetings of the Board of Directors of the Company are held once a month and special meetings of the Board of Directors of the Company are held from time-to-time as needed. There were 14 meetings of the Board of Directors of the Company held during fiscal 1996. No director attended fewer than 75% of the total number of meetings of the Board of Directors of the Company held during fiscal 1996 and the total number of meetings held by all committees of the Board on which the director served during such year.

The Company's business is primarily conducted through Jacksonville Savings & Loan Association ("Jacksonville"), a Texas-chartered savings and loan association and a wholly owned subsidiary of the Company. The Board of Directors of Jacksonville has established various committees, including Audit, Investment, REO Disposition and Salary committees.

The Audit Committee reviews and makes recommendations regarding Jacksonville's annual audit and meets on an as needed basis. The Audit Committee currently consists of Messrs. Brown and Taylor. The Audit Committee met once in fiscal 1996.

The REO Disposition Committee reviews proposed real estate owned transactions and marketing strategies for approval and approves the disposition of particular parcels of real estate owned. The REO Disposition Committee currently consists of each member of the Board of Directors. The REO Disposition Committee meets quarterly and met four times in fiscal 1996.

The Salary Committee reviews and makes recommendations to the Board on employee salaries. The Salary Committee currently consists of Ray Beall, Charles Broadway, W.G. Brown, Dr. Joe Tollett and Jerry Chancellor. The Salary Committee meets on an as needed basis and met three times in fiscal 1996.

Jacksonville's Board of Directors generally reviews and makes recommendations with respect to investment policies and practices. In the absence of such Board action, the Investment Committee, currently consisting of Messrs. Broadway and Taylor and Dr. Tollett, has the authority to act in such capacity. In fiscal 1996, there were 16 meetings of the Investment Committee.

The entire board of directors serves as the Nominating Committee and each year nominates individuals for election as directors of the Company. The Nominating Committee met once time during fiscal 1996.

DIRECTORS' COMPENSATION

During the fiscal year ended September 30, 1996, each member of the Board of Directors was paid $600 for each Board meeting attended. During the same period, each member of a Board Committee described above, who is an outside director was paid $200 per meeting attended. Committee members otherwise do not receive any fees for committee meetings.

The Company also maintains the 1994 Directors' Stock Option Plan and the 1996 Stock Option Plan pursuant to which non-employee directors of the Company were granted options to purchase an aggregate of 47,601 shares of Common Stock at an exercise price of $10.00 per share. In addition, the Company maintains the 1996 MRP pursuant to which non-employee directors of the Company (other than Robert F. Brown) were granted an aggregate of 9,708 shares of restricted stock and Messrs. Broadway, Chancellor and Taylor were granted 7,554, 12,020, and 11,407 shares of restricted stock, respectively.

EXECUTIVE COMPENSATION

SUMMARY

The following table sets forth a summary of certain information concerning the compensation awarded to or paid by [JACKSONVILLE] for services rendered in all capacities during the last two fiscal years to the President and Chief Executive Officer of [JACKSONVILLE] and any other executive officer of [JACKSONVILLE] who received salary and bonuses aggregating more than $100,000 during the last fiscal year.

SUMMARY COMPENSATION TABLE

<TABLE>
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		ANNUAL COMPENSATION			LONG TERM COMPENSATION		
					AWARDS		PAYOUTS
NAME AND PRINCIPAL POSITION	YEAR	SALARY(1)	BONUS	OTHER ANNUAL COMPENSATION(2)	OPTIONS(3)	RESTRICTED STOCK AWARDS(4)	LTIP PAYOUTS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Charles Broadway........	1996	$116,816	$20,323	--	--	$ --	--
Chief Executive Officer	1995	116,816	20,323	--	--	--	--
	1994	113,672	29,596	--	13,393	48,670	--
Jerry M. Chancellor(6)..	1996	$ 94,856	$16,408	--	--	$ --	--
President	1995	94,856	16,408	--	--	--	--
	1994	94,676	23,897	--	10,826	37,060	--

<CAPTION>

NAME AND PRINCIPAL POSITION	ALL OTHER COMPENSATION
<S>	<C>
Charles Broadway........	$ 40,872(5)
Chief Executive Officer	13,255
	13,445
Jerry M. Chancellor(6)..	$ 29,346(7)
President	7,556
	7,709

</TABLE>

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(1) Includes directors fees and fees for services as an officer and director of JS&L Corp., a subsidiary of Jacksonville.

(2) Does not include amounts attributable to miscellaneous benefits received by the named executive officer, including the payment of club membership dues. The costs to Jacksonville of providing such benefits to the named executive officer during the year ended September 30, 1996 did not exceed the lesser of $50,000 or 10% of the total of annual salary and bonus reported for such individual.

(3) Consists of awards granted pursuant to the Association's 1994 Stock Incentive Plan during the year ended September 30, 1994.

(4) Includes the grant of 4,867 and 3,706 shares of restricted Common Stock during the year ended September 30, 1994 to Messrs. Broadway and Chancellor pursuant to the 1994 MRP. After being exchanged pursuant to the exchange ratio of 1.41785 as a result of Jacksonville's "second step" conversion (the "Conversion and Reorganization") in fiscal 1996, the restricted shares granted to Messrs. Broadway and Chanceller had a fair market value of approximately $87,975 and $66,988 at September 30, 1996, respectively. The shares granted pursuant to the 1994 MRP vest over a three-year period at the rate of 33% per year, commencing on March 31, 1995, and the named executive officer is entitled to all voting and other stockholder rights (including the right to receive dividends) with respect to such shares.

(5) Includes (i) a premium of $9,597 paid to fund a deferred compensation plan, (ii) a matching contribution of $3,658 Jacksonville pursuant to a defined contribution thrift plan and (iii) 2,166 shares allocated to Mr. Broadway's account in the Company's ESOP which shares had a market value of $27,617 at September 30, 1996.

(6) Mr. Chancellor became president of the Company and Jacksonville on July 9, prior to that date, Mr. Broadway had served as president and chief executive officer.

(7) Includes (i) a premium of $4,602 paid to fund a deferred compensation plan, (ii) a matching contribution of $2,954 Jacksonville pursuant to a defined contribution thrift plan and (iii) 1,709 shares allocated to Mr. Chancellor's account in the Company's ESOP which shares had a market value of $21,790 at September 30, 1996.

STOCK OPTIONS

The following table sets forth certain information concerning exercises of stock options granted pursuant to the Company's 1994 Stock Incentive Plan by the named executive officers during the year ended September 30, 1996 and options held at September 30, 1995.

<TABLE>
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AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND YEAR END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF EXERCISABLE OPTIONS AT YEAR END	VALUE OF EXERCISABLE OPTIONS AT YEAR END(1)
<S>	<C>	<C>	<C>	<C>
Charles Broadway............................	$--	$--	12,646	$72,082
Jerry M. Chancellor.........................	$--	$--	10,223	$58,271

</TABLE>

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(1) Based on a per share market price of $12.75 as of September 30, 1996 as adjusted for the exchange of Jacksonville common stock for Company Common Stock in the Conversion and Reorganization.

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements will Messrs. Broadway, Chancellor and Taylor (the "Executives"). The employment agreements provide each officer with a three-year term of employment subject to additional one-year extensions at the discretion of the Board of Directors.

The employment agreements are terminable with or without cause by the Company. The Executives have no right to compensation or other benefits pursuant to the employment agreement for any period after voluntary termination or termination by the Company for cause, disability, retirement or death. However, in the event that (i) an Executive terminates his employment because of failure of the Company to comply with any material provision of the employment agreement or (ii) the employment agreement was terminated by an Executive for Good Reason, as defined, an Executive would be entitled to 3.00 or 2.99 times, respectively, the average annual compensation, as defined, paid to him by the Company during the five most recent taxable years ending during the calendar year in which the notice of termination occurs or such portion of such period in which the Executive served as an employee of the Company as well as continued participation in employee benefit plans of the Company until the expiration of the remaining term of employment. "Good Reason" is generally defined in the employment agreements to include failure to comply with a material portion of the agreements or the assignment by the Company to the Executive of any duties which are materially inconsistent with the Executive's positions, duties, responsibilities and status with the Company prior to a change of control of the Company.

The employment agreements provide that in the event that any of the payments to be made thereunder or otherwise upon termination of employment by the Executive following a change in control are deemed to constitute "excess parachute payments" within the meaning of Section 280G of the Code, then such payments and benefits received thereunder would be reduced, in the manner determined by the Company, by the amount, if any, which is the minimum necessary to result in no portion of the payments and benefits being non-deductible by the Company for federal income tax purposes. Excess parachute payments generally would be defined as payments in excess of three times the recipient's average annual compensation from the Company includable in the recipient's gross income during the most recent five taxable years ending before the date on which a change in control of the Company or other triggering events occurred ("base amount"). A recipient of excess parachute payments is subject to a 20% excise tax on the amount by which such payments exceed the base amount, in addition to regular income taxes, and payments in excess of the base amount would not be deductible by the Company as compensation expense of federal income tax purposes.

Although the above-described employment agreements could increase the cost of any acquisition of control of the Company, management does not believe that the terms thereof would have a significant anti-takeover effect.

INDEBTEDNESS OF MANAGEMENT

Jacksonville, in the ordinary course of business, makes available to its directors and executive officers mortgage loans on their primary residences, consumer loans and loans on their savings accounts. Such loans are made on the same terms as comparable loans to other borrowers.

RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

The Board of Directors of the Company has appointed Henry & Peters, P.C. as independent auditors for the Company for the year ending September 30, 1997, and further directed that the selection of auditors be submitted for ratification by the stockholders at the Annual Meeting. The Company has been advised by Henry & Peters, P.C. that neither the firm nor any of its associates has any relationship with the Company other than the usual relationship that exists between independent public accountants and clients. Henry & Peters, P.C. will have representatives at the Annual Meeting who will have an opportunity to make a statement, if they so desire, and will be available to respond to appropriate questions.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF HENRY & PETERS, P.C., AS INDEPENDENT AUDITORS FOR THE YEAR ENDING SEPTEMBER 30, 1997.

OTHER MATTERS

Management is not aware of any business to come before the Annual Meeting other than those matters described in this Proxy Statement. However, if any other matters should properly come before the Annual Meeting, it is intended that the proxies solicited hereby will be voted with respect to those other matters in accordance with the judgment of the persons voting the proxies.

The cost of solicitation of proxies will be borne by the Company. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of the Common Stock. In addition to solicitations by mail, directors, officers and employees of the Company may solicit proxies personally or by telephone without additional compensation.

STOCKHOLDER PROPOSALS

Any proposal which a stockholder wishes to have included in the proxy solicitation materials to be used in connection with the next Annual Meeting of Stockholders of the Company must be received at the office of the Company no later than November 2, 1997. If such proposal is in compliance with all of the requirements of Rule 14a-8 under the Exchange Act, it will be included in the Proxy Statement and set forth on the form of proxy issued for the next Annual Meeting of Stockholders. It is urged that any such proposals be sent by certified mail, return receipt requested.

ANNUAL REPORTS AND FINANCIAL STATEMENTS

Stockholders of the Company as of the record date for the Annual Meeting are being forwarded a copy of the Company's Annual Report to Stockholders for the year ended September 30, 1996 ("Annual Report"). Included in the Annual Report are the financial statements of the Company as of September 30, 1996 and 1995 and for each of the years in the three-year period ended September 30, 1996, prepared in accordance with generally accepted accounting principles, and the related report of the Company's independent public accountants. The Annual Report is not a part of this Proxy Statement.

UPON RECEIPT OF A WRITTEN REQUEST, THE COMPANY WILL FURNISH TO ANY STOCKHOLDER WITHOUT CHARGE A COPY OF ITS ANNUAL REPORT ON FORM 10-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE EXCHANGE ACT FOR THE YEAR ENDED SEPTEMBER 30, 1996. UPON WRITTEN REQUEST, THE COMPANY WILL FURNISH TO ANY SUCH STOCKHOLDER A COPY OF THE EXHIBITS TO THE ANNUAL REPORT ON FORM 10-K. SUCH WRITTEN REQUESTS SHOULD BE DIRECTED TO JACKSONVILLE BANCORP, INC., COMMERCE AND NECHES STREETS, JACKSONVILLE, TEXAS 75766, ATTENTION: SECRETARY. THE ANNUAL REPORT ON FORM 10-K IS NOT A PART OF THIS PROXY STATEMENT.

EXHIBIT 23

Consent of Independent Auditors

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Jacksonville Bancorp, Inc., Jacksonville, Texas, of our report dated November 20, 1996, included in the 1996 Annual Report to Shareholders of Jacksonville Bancorp, Inc., Jacksonville, Texas.

HENRY & PETERS, P.C.

Tyler, Texas
December 20, 1996

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement No. 333-18031 of Jacksonville Bancorp, Inc. ("Company") on Form S-8 of our report dated November 20, 1996, appearing in the Company's Annual Report on Form 10-K for the year ended September 30, 1996.

HENRY & PETERS, P.C.

Tyler, Texas
December 20, 1996

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