



PIONEER SAVINGS BANK

1994 ANNUAL REPORT



## PIONEER SAVINGS BANK

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March 20, 1995

Dear Stockholder:

Pioneer Savings Bank had another record-breaking year in 1994. Net worth reached an all-time high and net income of \$2,007,628 exceeded the bank's previous record set in 1993. After dividends, Stockholders' Equity increased approximately \$1.4 million to \$11,023,500, equal to \$10.93 per share of stock. These earnings resulted in a 19.4% return on average equity. Dividends, equaling a 5% payout on the most recent market price of \$8 per share, increased to \$.40 per share from \$.15 in 1993.

Our excellent operating results were due primarily to a 13.9% (\$683,115) increase in net interest income after provision for loan losses and a 10.2% reduction (\$632,691) in other expenses, due to our continued commitment to monitoring expenses. Other income declined due to a reduction in the gain-on-sale of loans and securities, but loan administration and servicing fees--our largest source of other income--increased 11.6%. Servicing income results from our mortgage banking activities wherein we originate mortgage loans, sell them to investors and retain the servicing rights. Loan servicing increased 15.2% to \$562.8 million (11,229 loans). A recent external appraisal indicated that the fair value of our servicing portfolio to be approximately \$5.5 million over the carrying value stated in our statements of financial condition.

Other positive trends included an approximate \$2 million decline in investments in real estate and approximately \$463,000 in gains on the sale of these properties. Also, portfolio and investor-owned mortgage loan delinquencies are at acceptable levels and generally below national averages.

With a new name, our second in 93 years, one that better reflects our financial role for today and tomorrow, we look forward to 1995. It should be another good year for the bank even though our Business Plan projects net income to be less than our record performance in 1994. Rising interest rates during the first quarter of 1995 and the anticipated interest rate increases throughout the remainder of the year will have a significant impact on our net interest margin and on loan production. While higher interest rates may have an adverse effect on income and loan production, Pioneer has overcome the difficulties associated with the past ten years and we have positioned the bank to produce solid future returns for our stockholders.

The Officers and Board of Directors appreciate the hard work of our dedicated staff and thank our stockholders and customers for their continued support. We pledge our continued effort to improve the profitability of your bank and to increase the value of your investment.

Sincerely,

PIONEER SAVINGS BANK

A handwritten signature in dark ink, appearing to read "George W. Mitchell", is written in a cursive style.

George W. Mitchell  
President

# CONSOLIDATED STATEMENTS OF INCOME

## PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

	Years Ended December 31,	
	<u>1994</u>	<u>1993</u>
<b>INTEREST INCOME:</b>		
Loans - Note D . . . . .	\$ 6,405,602	\$ 6,732,361
Mortgage securities - Note C . . . . .	4,866,970	4,510,639
Investment securities and other . . . . .	<u>601,531</u>	<u>342,168</u>
	<u>11,874,103</u>	<u>11,585,168</u>
<b>INTEREST EXPENSE:</b>		
Deposits - Note H . . . . .	4,623,115	4,861,532
Federal Home Loan Bank advances and other borrowings . . . . .	<u>1,494,929</u>	<u>1,602,692</u>
	<u>6,118,044</u>	<u>6,464,224</u>
<b>NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES</b>	5,756,059	5,120,944
<b>PROVISION FOR LOAN LOSSES - Note D . . . . .</b>	<u>159,500</u>	<u>207,500</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<u>5,596,559</u>	<u>4,913,444</u>
<b>OTHER INCOME:</b>		
Loan administration and service fees . . . . .	2,031,028	1,820,709
Recoveries and gains on sale of investments in real estate . . . . .	463,309	211,718
Gain on sale of servicing . . . . .	179,344	101,954
Gain on sale of loans and securities, net - Notes C and D . . . . .	70,602	1,096,401
Net rental operations of investments in real estate . . . . .	5,843	54,198
Other . . . . .	<u>468,273</u>	<u>352,920</u>
	<u>3,218,399</u>	<u>3,637,900</u>
<b>OTHER EXPENSES:</b>		
Compensation and employee benefits - Note O . . . . .	2,901,789	2,759,929
Provision for investments in real estate losses - Note F . . . . .	83,600	659,397
Occupancy . . . . .	513,869	482,781
Deposit insurance premiums . . . . .	387,398	429,632
Data processing . . . . .	356,009	368,450
Equipment . . . . .	352,494	392,035
Stationary, printing and office supplies . . . . .	203,073	188,311
Professional and supervisory . . . . .	199,394	268,881
Telephone . . . . .	160,319	157,309
Advertising . . . . .	74,807	40,488
Other . . . . .	<u>309,377</u>	<u>427,607</u>
	<u>5,542,129</u>	<u>6,174,820</u>
Income before income tax expense and cumulative effect of change in accounting principle . . . . .	3,272,829	2,376,524
Income tax expense - Note J . . . . .	<u>1,265,201</u>	<u>834,341</u>
Income before cumulative effect of change in accounting principle . . . . .	2,007,628	1,542,183
Cumulative effect at January 1, 1993, of change in accounting for income taxes - Note J . . . . .	<u>-</u>	<u>100,503</u>
<b>NET INCOME</b>	<u>\$ 2,007,628</u>	<u>\$ 1,642,686</u>

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

# CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

## PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

	December 31,	
	<u>1994</u>	<u>1993</u>
<b>ASSETS:</b>		
Cash and interest bearing deposits - Note B . . . . .	\$ 3,000,275	\$ 9,691,723
Investment and mortgage securities - Note C:		
Held-to-maturity (Held for investment in 1993) . . . . .	78,547,862	19,748,367
Available-for-sale (Held for sale in 1993) . . . . .	11,011,377	62,168,531
Loans, net - Notes D and P . . . . .	65,056,028	60,893,845
Loans held for sale, net - Note D . . . . .	8,290,523	24,366,551
Accrued interest receivable . . . . .	844,486	709,421
Federal Home Loan Bank stock . . . . .	1,825,800	2,542,200
Office properties and equipment - Note E . . . . .	3,698,205	3,757,108
Investments in real estate, net - Note F . . . . .	1,803,826	3,818,992
Purchased mortgage servicing rights - Note G . . . . .	3,333,018	2,806,132
Other assets - Note G . . . . .	<u>2,528,549</u>	<u>802,160</u>
TOTAL ASSETS	<u>\$179,939,949</u>	<u>\$191,305,030</u>
<b>LIABILITIES:</b>		
Deposits - Note H . . . . .	\$134,891,178	\$141,062,322
Federal Home Loan Bank advances and other borrowings -		
Note I . . . . .	29,339,056	35,375,025
Official checks . . . . .	1,909,185	3,131,043
Accrued interest payable . . . . .	114,858	176,749
Advance payments for taxes and insurance . . . . .	554,406	799,430
Accounts payable and other liabilities - Note J . . . . .	<u>2,107,766</u>	<u>1,101,454</u>
TOTAL LIABILITIES	<u>168,916,449</u>	<u>181,646,023</u>
<b>COMMITMENTS AND CONTINGENCIES - Notes D, L, M and N</b>		
<b>STOCKHOLDERS' EQUITY - Note K:</b>		
Capital stock, \$1 par value, 2,000,000 shares authorized:		
1,008,102 and 1,008,101 shares outstanding at		
December 31, 1994 and 1993, respectively . . . . .	1,008,102	1,008,101
Additional paid-in capital . . . . .	37,276	37,273
Unrealized losses on investment and mortgage securities,		
net of tax effect - Note C . . . . .	(239,899)	-
Retained earnings . . . . .	<u>10,218,021</u>	<u>8,613,633</u>
TOTAL STOCKHOLDERS' EQUITY	<u>11,023,500</u>	<u>9,659,007</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$179,939,949</u>	<u>\$191,305,030</u>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

	Years Ended December 31,	
	1994	1993
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Loan originations and principal payments		
on loans . . . . .	(4,556,024)	2,207,061
Held-to-maturity investment securities:		
Purchases . . . . .	(20,775,321)	-
Maturities and principal reductions . . . . .	4,894,013	-
Available-for-sale investment securities:		
Purchases . . . . .	(31,691,283)	-
Sales . . . . .	31,555,164	-
Maturities and principal reductions . . . . .	8,157,402	-
Investment securities, held for sale in 1993:		
Purchases . . . . .	-	(54,048,783)
Maturities and principal reductions . . . . .	-	24,267,469
Investment securities, held for investment in 1993:		
Purchases . . . . .	-	(32,005,129)
Maturities and principal reductions . . . . .	-	44,040,529
Purchases of office property and equipment . . . . .	(250,487)	(233,117)
Proceeds from sales of office property and equipment . . . . .	300	5,300
Additions to purchased loan-servicing rights . . . . .	(1,378,036)	(1,242,303)
Purchases of FHLB stock . . . . .	(693,500)	(742,200)
Redemption of FHLB stock . . . . .	1,409,900	104,700
Proceeds from sales of investments in real estate . . . . .	<u>2,629,216</u>	<u>1,103,284</u>
Net cash used for investing activities . . . . .	<u>(10,698,656)</u>	<u>(16,543,189)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Decrease in deposits . . . . .	(6,171,144)	(2,570,730)
Increase in FHLB advances (long-term) . . . . .	(12,000,000)	(2,750,000)
Payments on FHLB borrowings . . . . .	5,964,031	16,250,000
(Decrease) increase in advance payments		
for taxes and insurance . . . . .	(245,024)	112,602
Sales of capital stock . . . . .	4	11
Payment of cash dividend . . . . .	<u>(151,215)</u>	<u>(50,405)</u>
Net cash (used) provided by financing activities . . . . .	<u>(12,603,348)</u>	<u>10,991,478</u>
Decrease in cash and cash equivalents . . . . .	(6,691,448)	(5,055,890)
Cash and cash equivalents beginning of year . . . . .	<u>9,691,723</u>	<u>14,747,613</u>
Cash and cash equivalents end of year . . . . .	<u>\$ 3,000,275</u>	<u>\$ 9,691,723</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash (paid) received during the year for:		
Interest . . . . .	\$ (6,179,935)	\$ (6,477,444)
Income taxes . . . . .	(840,500)	(815,169)
Income tax refunds . . . . .	146,672	-

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

## CONSOLIDATED STATEMENTS OF INCOME -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

	Years Ended December 31,	
	1994	1993
Weighted average number of common shares . . . . .	1,008,101	1,008,099
Income before cumulative effect of change in accounting principle . . . . .	\$ 1.99	\$ 1.53
Cumulative effect of change in accounting principle. . . . .	-	.10
Net income per share . . . . .	\$ 1.99	\$ 1.63
Dividends per share. . . . .	\$ .40	\$ .15

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	1994	1993
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income. . . . .	\$ 2,007,628	\$ 1,642,686
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) of:		
Purchased mortgage servicing rights. . . . .	851,150	1,012,027
Excess servicing . . . . .	47,658	225,651
Premiums and discounts on mortgage and other securities. . . . .	(58,156)	(168,686)
Provision for:		
Loan losses. . . . .	159,500	207,500
Investments in real estate losses. . . . .	83,600	659,397
Net (gain) loss on sales of:		
Loans. . . . .	15,835	(414,550)
Office properties and equipment. . . . .	46	(4,171)
Investments in real estate . . . . .	(463,309)	(211,718)
Investment securities available-for-sale . . . . .	(86,437)	(681,851)
Mortgage servicing . . . . .	(179,344)	(101,954)
Depreciation of office properties and equipment . . . . .	309,044	318,413
Origination of mortgage loans held for sale . . . . .	(59,685,799)	(107,912,114)
Securitization of mortgage loans held for sale and sale of mortgage backed securities . . . . .	75,925,336	103,319,856
Sales of trading account securities . . . . .	-	2,626,389
Changes in operating assets and liabilities:		
Accrued interest receivable. . . . .	(135,065)	44,902
Other assets (less excess servicing-amortization). . . . .	(1,774,047)	340,891
Official checks. . . . .	(1,221,858)	124,281
Accrued interest payable . . . . .	(61,891)	(13,220)
Accounts payable and other liabilities (net of dividend declared and tax effect on unrealized losses). . . . .	876,665	(517,908)
Total adjustments . . . . .	14,602,928	(1,146,865)
Net cash provided by operating activities . . . . .	16,610,556	495,821

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

### NOTE A - SIGNIFICANT ACCOUNTING POLICIES

**PRINCIPLES OF CONSOLIDATION:** The consolidated financial statements include the accounts of Pioneer Savings Bank, the "Bank" (Pioneer Savings & Trust, F.A. prior to November 1, 1994) and its wholly owned subsidiary, Pioneer Mortgage Company. Significant intercompany transactions and balances are eliminated in consolidation.

**LOANS:** Loans are stated at unpaid principal balances, less the allowances for loan losses, net deferred loan fees, and unearned discounts.

**LOANS HELD FOR SALE:** Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate less deferred loan fees. Net unrealized losses are recognized in a valuation allowance by charges to income.

**ALLOWANCE FOR LOAN LOSSES:** An allowance is maintained at a level believed adequate by management to absorb potential losses inherent in the loan portfolio. The allowance is based on estimates, and ultimate losses may vary from the current estimates. The allowance is reviewed by management, and as losses become known, a provision for loss is charged to operations based upon management's assessment of the collectability of loans in the portfolio. Loans are charged against the allowance when, and to the extent, deemed uncollectible in the ordinary course of business.

**INVESTMENT SECURITIES, FEDERAL HOME LOAN BANK STOCK AND MORTGAGE SECURITIES:** The Bank adopted the provisions of Financial Accounting Standard (FAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," as of January 1, 1994. This standard addresses the accounting and reporting for all investments in debt securities. These investments are classified in three categories and accounted for as follows: "held-to-maturity," reported at amortized cost; "available-for-sale," reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity, net of taxes; "trading securities," reported at fair value, with unrealized gains and losses included in earnings. Prior to adoption of FAS No. 115, investment and mortgage securities held for investment were carried at amortized cost, and investments held for sale were carried at the lower of amortized cost or estimated market value. Gains or losses on investments and mortgage securities available-for-sale are recognized as determined by the specific identification basis upon disposition. Management has the ability and intent to hold securities held-to-maturity until maturity.

Investment securities consist of U.S. Treasury obligations. Mortgage securities consist of Government National Mortgage Association (GNMA) mortgage-backed securities, Federal National Mortgage Association (FNMA) pass-through certificates and Federal Home Loan Mortgage Corporation (FHLMC) participation certificates. Also included are collateralized mortgage obligations consisting of FNMA and FHLMC real estate mortgage investment conduits. Adjustments made to mortgage security amortization and accretion related to changes in prepayments are recorded on a current basis. At December 31, 1994, none of the mortgage securities owned by the Bank were considered "high-risk derivative products," as defined by the Federal Financial Institutions Examination Council.

**OFFICE PROPERTIES AND EQUIPMENT:** Office properties and equipment are stated on the basis of historical cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets which range from 3 to 50 years.

**INVESTMENTS IN REAL ESTATE:** Foreclosed real estate owned is recorded upon acquisition at the lower of cost (principal balance of former loan plus costs of obtaining title and repairs, if any) or estimated fair value, which is generally determined by independent appraisal. Subsequent to acquisition, management periodically re-evaluates the properties and provides allowances for any difference between carrying value and fair value, less selling expenses.

## CONSOLIDATED STATEMENTS OF CASH FLOWS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

Years Ended December 31,  
1994                      1993

#### SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Real estate acquired through, or in lieu of, foreclosure . . . . .	\$ 234,341	\$ 980,773	
Origination of loans to finance the sale of investments in real estate. . . . .	1,796,350	1,188,080	
Dividend declared but not disbursed. . . . .	252,025	100,810	
Transfer of mortgage securities available-for-sale to held-to-maturity net of unrealized loss of \$221,893. . . . .	43,184,533	-	
Transfer of mortgage securities held-for-sale to held-for-investment. . . . .	-	21,717,555	
Net unrealized losses on investment securities. . . . .	(362,277)	-	
Tax effect of net unrealized losses on investment securities. . . . .	122,378	-	

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	<u>Capital Stock</u>	<u>Additional Paid-In Capital</u>	<u>Unrealized Gains (Losses) on Securities</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 1992 . . . . .	\$1,008,097	\$ 37,266	\$ -	\$ 7,122,162	\$ 8,167,525
Stock issued . . . . .	4	7	-	-	11
Net income . . . . .	-	-	-	1,642,686	1,642,686
Dividends - \$.15 per share . . . . .	-	-	-	(151,215)	(151,215)
Balance, December 31, 1993 . . . . .	1,008,101	37,273	-	8,613,633	9,659,007
Stock issued . . . . .	1	3	-	-	4
Net income . . . . .	-	-	-	2,007,628	2,007,628
Effect of change in accounting for investment securities at January 1, 1994, net of tax effect of \$92,192 . . . . .	-	-	146,277	-	146,277
Net change in unrealized losses on investment securities available-for-sale net of income tax effect of \$214,570 . . . . .	-	-	(386,176)	-	(386,176)
Dividends - \$.40 per share . . . . .	-	-	-	(403,240)	(403,240)
Balance, December 31, 1994 . . . . .	<u>\$1,008,102</u>	<u>\$ 37,276</u>	<u>\$ (239,899)</u>	<u>\$10,218,021</u>	<u>\$11,023,500</u>

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE B - CASH AND INTEREST BEARING DEPOSITS

Cash and interest bearing deposits (cash equivalents) consisted of the following:

	December 31,	
	1994	1993
Interest bearing deposits	\$ 414,004	\$ 374,002
Cash and due from banks	2,586,271	5,170,721
Certificates of deposit (with an original maturity of three months or less)	-	4,147,000
	<u>\$ 3,000,275</u>	<u>\$ 9,691,723</u>

There were no amounts subject to withdrawal or usage restrictions.

#### NOTE C - INVESTMENT AND MORTGAGE SECURITIES

The amortized cost and estimated market values of investments in debt securities are as follows. Actual maturities may differ from contractual maturities because borrowers have the right to prepay obligations without prepayment penalties. The December 31, 1994 amounts are disclosed under the requirements of FAS No. 115. The 1993 amounts are reported under the previous accounting method:

	December 31, 1994			
	Contractual	Amortized	Gross	Estimated
	Maturity		Unrealized	
In Years	Cost	Losses	Value	
<u>Held-to-Maturity Securities</u>				
U.S. Treasury securities	0-1	\$ 199,570	\$ 30	\$ 199,540
Mortgage-backed securities	1-5	4,487,458	184,328	4,303,130
	5-10	1,557,763	33,787	1,523,976
	10-15	26,773,938	1,528,659	25,245,279
Collateralized mortgage obligations	5-10	2,128,125	120,452	2,007,673
	10-15	14,687,479	611,339	14,076,140
	15-30	<u>28,713,529</u>	<u>943,350</u>	<u>27,770,179</u>
		<u>\$ 78,547,862</u>	<u>\$3,421,945</u>	<u>\$75,125,917</u>
<u>Available-for-Sale Securities</u>				
U. S. Treasury securities	0-1	\$ 1,479,582	\$ 18,957	\$ 1,460,625
	1-5	4,474,420	63,483	4,410,937
Collateralized mortgage obligations	15-30	<u>5,159,285</u>	<u>19,470</u>	<u>5,139,815</u>
		<u>\$ 11,113,287</u>	<u>\$ 101,910</u>	<u>\$11,011,377</u>
Total Investment and Mortgage Securities		<u>\$ 89,661,149</u>	<u>\$3,523,855</u>	<u>\$86,137,294</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

### NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

**LOAN SERVICING RIGHTS:** The cost of purchased mortgage servicing rights acquired, excess servicing fees, and the amortization thereon, is periodically evaluated in relation to estimated future net servicing revenues. The Bank evaluates the carrying value of the servicing portfolio by estimating the discounted present value of future net servicing income of the portfolio based on management's best estimate of remaining loan lives.

The cost of purchased mortgage servicing rights acquired is amortized in proportion to, and over the period of, estimated net servicing revenues. When participating interests in loans sold have an average contractual interest rate, adjusted for normal servicing fees, that differs from the agreed yield to the purchaser, gains or losses are recognized equal to the present value of such differential over the estimated remaining life of such loans. The resulting "excess servicing fees" are amortized over their estimated lives using a method approximating the level-yield method.

**INTEREST AND FEES ON LOANS:** Interest on loans is accrued and credited to income as earned. A provision is either made against interest income to the extent that accrued but unpaid interest is deemed uncollectible or is automatically provided for if the loan is 90 days or more past due. Loan origination fees, net of direct origination costs, are deferred and amortized over the life of the loan by the interest method. If the loan is held for sale, the fees are deferred until the loan is sold.

**GAIN OR LOSS ON SALE OF LOANS AND LOAN PARTICIPATIONS:** Gains and losses on sales of mortgage loans and mortgage loan participations are based on the difference between amortized book value of the loans sold and sales proceeds. Premiums paid for acquired servicing rights on loans purchased are netted against any gains on the sale of the related loans.

**INCOME TAXES:** The Bank files a consolidated income tax return with its subsidiary Pioneer Mortgage Company and, as agreed, the income taxes of Pioneer Mortgage Company determined to be currently payable are remitted to the Bank. The calculation of taxes payable is based on Pioneer Mortgage Company's respective contribution to consolidated taxable income.

The Bank adopted, as of January 1, 1993, the provisions of FAS No. 109, "Accounting for Income Taxes." FAS No. 109 changed the manner in which deferred taxes are computed upon the temporary difference between the allowance for loan losses for tax and financial statement purposes. As explained in Note J, under FAS No. 109, it is not necessary to provide deferred taxes on the portion of the allowance for loan losses for tax purposes that arose in years prior to 1988. The previous standard required that deferred taxes be computed on the entire difference between the allowance for loan losses for tax and financial statement purposes, less an amount attributable to certain future tax deductions. Additionally, under FAS No. 109, deferred tax liabilities or assets at the end of each period are determined using the current marginal rate in effect.

**ACCOUNTING STANDARDS ISSUED, NOT YET ADOPTED:** In May 1993, the Financial Accounting Standards Board (FASB) issued FAS No. 114, "Accounting by Creditors for Impairment of a Loan." FAS No. 114 requires that certain loans be measured at the present value of expected future cash flows discounted at the loan's effective rate, or, if the loan is collateral dependent, at fair value of collateral. In October 1994, the FASB issued FAS No. 118, "Accounting by Creditors for Impairment of a Loan--Income Recognition and Disclosures," which amended FAS No. 114 to allow creditors to use existing methods for recognizing income and to require disclosure of information about the recorded investment in certain impaired loans and how creditors measure interest income related to those impaired loans. The Bank is required to adopt these new standards beginning January 1, 1995. Management does not anticipate that adoption of these standards will have a material impact on the Bank's financial statements.

**RECLASSIFICATIONS:** Certain amounts in the 1993 financial statements have been reclassified to conform to the 1994 presentation.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE D - LOANS

Loans consisted of the following:

	December 31,	
	<u>1994</u>	<u>1993</u>
First mortgage loans held for investment:		
Conventional	\$ 49,526,814	\$ 48,949,530
FHA insured and VA guaranteed	8,879,954	5,698,721
Construction and land	7,313,917	7,445,878
Less - Loans in process	<u>(2,568,969)</u>	<u>(3,040,150)</u>
	63,151,716	59,053,979
Savings account loans	936,097	1,115,142
Installment and other loans	1,911,858	1,427,908
Unearned discounts	<u>(17,819)</u>	<u>(8,733)</u>
	65,981,852	61,588,296
Allowance for loan losses	(566,045)	(393,009)
Deferred loan fees, net	<u>(359,779)</u>	<u>(301,442)</u>
	<u>\$ 65,056,028</u>	<u>\$ 60,893,845</u>
First mortgage loans held for sale:		
Conventional	\$ 2,082,484	\$ 5,053,922
FHA insured and VA insured	<u>6,295,131</u>	<u>19,430,194</u>
	8,377,615	24,484,116
Deferred loan fees, net	<u>(87,092)</u>	<u>(117,565)</u>
	<u>\$ 8,290,523</u>	<u>\$ 24,366,551</u>

At December 31, 1994 and 1993, approximately \$59,921,000 and \$78,816,000, respectively, of mortgage loans were pledged to secure FHLB advances (Note I).

An analysis of the activity in the allowance for loan losses is as follows:

	Years Ended December 31,	
	<u>1994</u>	<u>1993</u>
Balance at beginning of year	\$ 393,009	\$ 439,958
Recoveries	18,700	31,500
Provision	<u>159,500</u>	<u>207,500</u>
	571,209	678,958
Charge-offs	<u>(5,164)</u>	<u>(285,949)</u>
Balance at end of year	<u>\$ 566,045</u>	<u>\$ 393,009</u>

Nonaccrual loans totaled \$863,773 and \$2,520,042 at December 31, 1994 and 1993, respectively. The Bank had no outstanding commitments to lend additional funds to debtors whose loans are on nonaccrual status.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

## PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

### NOTE C - INVESTMENT AND MORTGAGE SECURITIES -- Continued

	December 31, 1993			
	Amortized Cost or Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<u>Held for Investment Securities</u>				
U.S. Treasury securities	\$ 196,790	\$ 3,210	\$ -	\$ 200,000
Mortgage-backed securities	9,716,431	144,569	-	9,861,000
Collateralized mortgage obligations	<u>9,835,146</u>	<u>1,552</u>	<u>2,698</u>	<u>9,834,000</u>
	<u>\$ 19,748,367</u>	<u>\$ 149,331</u>	<u>\$ 2,698</u>	<u>\$19,895,000</u>
<u>Held for Sale Securities</u>				
Mortgage-backed securities	\$ 6,743,466	\$ 226,534	\$ -	\$ 6,970,000
Collateralized mortgage obligations	<u>55,425,065</u>	<u>76,322</u>	<u>64,387</u>	<u>55,437,000</u>
	<u>\$ 62,168,531</u>	<u>\$ 302,856</u>	<u>\$ 64,387</u>	<u>\$62,407,000</u>
Total Investment and Mortgage Securities	<u>\$ 81,916,898</u>	<u>\$ 452,187</u>	<u>\$ 67,085</u>	<u>\$82,302,000</u>

The Bank adopted the provisions of FAS No. 115, "Accounting for Certain Investment and Debt Securities" as of January 1, 1994. As a result of adoption, the Bank recorded unrealized gains of \$238,469, deferred tax liabilities of \$92,192, and an increase to stockholders' equity of \$146,277.

During the year ended December 31, 1994, the Bank transferred mortgage-backed securities and collateralized mortgage obligations, with amortized costs of \$5,467,295 and \$37,717,238 respectively, from available-for-sale to held-to-maturity. The transfers resulted in net transfer discounts of \$221,893, and related deferred tax assets of \$74,955, and charges to stockholders' equity of \$146,938. The transfer discount and the related deferred tax asset and net unrealized loss on investment and mortgage securities recorded in stockholders' equity are amortized as an adjustment to income using the level-yield method. The balance in the transfer discount, deferred tax asset and net unrealized loss on investment and mortgage security account at December 31, 1994 are \$260,367, \$87,952 and \$172,415, respectively.

The investment and mortgage securities which are classified as available-for-sale in the accompanying December 31, 1994 statement of financial condition have been adjusted to fair value for unrealized losses of \$101,910. The effect on deferred taxes and stockholders' equity is \$34,426 and \$67,484, respectively.

At December 31, 1994 and 1993, \$9,283,429 and \$8,462,531, respectively, of mortgage securities were pledged to secure public unit deposits. At December 31, 1994 and 1993, mortgage securities having a par value of \$25,735,999 and \$18,473,993, respectively, were pledged to secure borrowings from the FHLB.

The following table presents components of gains and losses on sales of investment securities:

	Years Ended December 31,	
	1994	1993
Gains	\$ 912,136	\$ 877,720
Losses	<u>(825,699)</u>	<u>(195,869)</u>
	<u>\$ 86,437</u>	<u>\$ 681,851</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE G - LOAN SERVICING

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

	December 31,	
	<u>1994</u>	<u>1993</u>
Mortgage loans underlying pass through securities:		
GNMA	\$252,444,518	\$199,532,552
FNMA	19,446,210	30,279,110
FHLMC	<u>6,979,297</u>	<u>10,154,560</u>
	<u>278,870,025</u>	<u>239,966,222</u>
Mortgage loan portfolios serviced for:		
FNMA	113,034,927	103,889,609
FHLMC	161,249,795	137,034,989
Other investors	<u>9,597,247</u>	<u>7,515,738</u>
	<u>283,881,969</u>	<u>248,440,336</u>
	<u>\$562,751,994</u>	<u>\$488,406,558</u>

Custodial balances on deposit in connection with the foregoing loan servicing are as follows:

	December 31,	
	<u>1994</u>	<u>1993</u>
At Pioneer Savings Bank	\$ 10,586,525	\$ 10,441,933
At other financial institutions	<u>3,645,736</u>	<u>6,950,929</u>
	<u>\$ 14,232,261</u>	<u>\$ 17,392,862</u>

Following is an analysis of the changes in loan-servicing rights acquired (purchased) and excess servicing fees receivable for the years ended December 1994 and 1993:

	<u>Purchased</u>	<u>Excess Servicing</u>
Balance, December 31, 1992	\$ 2,575,856	\$ 273,309
Additions	1,242,303	-
Amortization	(1,012,027)	(50,745)
Valuation adjustments due to changes in prepayment assumptions	<u>-</u>	<u>(174,906)</u>
Balance, December 31, 1993	2,806,132	47,658
Additions	1,378,036	-
Amortization	(851,150)	(29,658)
Valuation adjustments due to changes in prepayment assumptions	<u>-</u>	<u>(18,000)</u>
Balance, December 31, 1994	<u>\$ 3,333,018</u>	<u>\$ -</u>

Capitalized excess servicing is included as a component of other assets in the consolidated statements of financial condition.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE D - LOANS - Continued

Interest income that would have been recorded under the original terms of such loans and the interest income actually recognized are summarized below:

	Years Ended December 31,	
	1994	1993
Interest income that would have been recorded	\$ 6,390,230	\$ 6,730,091
Interest income recognized	<u>6,405,602</u>	<u>6,732,361</u>
Interest income foregone, net of recoveries of interest on loans previously charged-off	<u>\$ (15,372)</u>	<u>\$ (2,270)</u>

Net (loss) gain on whole loan sales were (\$15,835) and \$414,550 in 1994 and 1993, respectively.

#### NOTE E - OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment consisted of the following:

	December 31,	
	1994	1993
Land	\$ 818,855	\$ 818,855
Buildings and leasehold improvements	3,202,351	3,170,010
Furniture, equipment and autos	<u>2,499,279</u>	<u>2,424,867</u>
	6,520,485	6,413,732
Accumulated depreciation	<u>(2,822,280)</u>	<u>(2,656,624)</u>
	<u>\$ 3,698,205</u>	<u>\$ 3,757,108</u>

#### NOTE F - INVESTMENTS IN REAL ESTATE

Investments in real estate consisted of the following:

	December 31,	
	1994	1993
Real estate acquired in settlement of loans and through foreclosure	\$ 1,803,826	\$ 3,947,914
Allowance for losses	<u>-</u>	<u>(128,922)</u>
	<u>\$ 1,803,826</u>	<u>\$ 3,818,992</u>

An analysis of the activity in the allowance for losses on foreclosed real estate owned is as follows:

	Years Ended December 31,	
	1994	1993
Balance at beginning of year	\$ 128,922	\$ 45,601
83,600                      659,397 Provision		
Charge-offs	<u>(212,522)</u>	<u>(576,076)</u>
Balance at end of year	<u>\$ -</u>	<u>\$ 128,922</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE I - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Federal Home Loan Bank (FHLB) advances and other borrowings consist of fixed rate, fixed-term advances which must be secured by mortgage loans or other assets acceptable to the FHLB. At December 31, 1994 and 1993, the Bank's advances were secured by a blanket assignment of mortgage loans with a market value greater than the amount of outstanding advances. Borrowings were secured by mortgage securities having a par value of \$25,735,999. A summary of advances and borrowings follows:

	Maturity Date	Rate at December 31, 1994	December 31, 1994	December 31, 1993
Borrowings:	1-04-94	-	\$ -	\$ 5,000,000
	1-04-94	-	-	1,250,000
	1-07-94	-	-	10,000,000
	1-06-95	5.94%	14,250,000	-
	1-06-95	6.51%	1,050,000	-
	1-23-95	6.09%	7,000,000	-
Advances:	4-01-94	-	-	5,000,000
	10-16-94	-	-	7,000,000
	2-06-95	5.73%	3,000,000	3,000,000
	2-02-96	6.41%	4,000,000	4,000,000
Treasury, Tax and Loan			<u>39,056</u>	<u>125,025</u>
			<u>\$ 29,339,056</u>	<u>\$ 35,375,025</u>

#### NOTE J - INCOME TAXES

Effective January 1, 1993, the Bank adopted the provisions of FAS No. 109, "Accounting for Income Taxes." The cumulative effect of adopting the new standard resulted in an increase in earnings of \$100,503 as reflected on the accompanying 1993 consolidated statement of income.

The Bank records tax expense equal to the sum of deferred tax expense and income taxes currently payable or refundable. Deferred tax expense results from changes in deferred tax liabilities and assets. Deferred tax liabilities and assets are recognized for the estimated future tax effects attributable to temporary differences between the basis of assets and liabilities for tax and financial statement purposes. Total income tax expense in the accompanying consolidated statements of income are as follows:

	Years Ended December 31,	
	<u>1994</u>	<u>1993</u>
CURRENT:		
Federal	\$ 349,399	\$ 546,140
State	44,290	83,542
DEFERRED:		
Federal	744,033	179,340
State	<u>127,479</u>	<u>25,319</u>
	<u>\$ 1,265,201</u>	<u>\$ 834,341</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE H - DEPOSITS

A comparative summary of deposits follows:

Type	Average Rate	December 31, 1994	Average Rate	December 31, 1993
Non-interest bearing	0.00%	\$ 12,786,600	0.00%	\$ 13,689,492
Passbook	2.74%	7,478,624	2.57%	7,970,990
NOW accounts	2.00%	9,631,493	2.02%	11,289,713
Super NOW accounts	2.37%	2,364,171	2.27%	2,337,399
Money market deposit accounts (MMDA)	2.77%	12,280,156	2.53%	13,879,747
Certificates of deposit	4.71%	76,936,675	4.14%	78,016,947
Jumbo certificates of deposit	4.99%	13,413,459	3.84%	13,878,034
		<u>\$134,891,178</u>		<u>\$141,062,322</u>

The following is a comparative summary of deposits held by the Bank categorized by interest rates being paid:

	December 31, 1994	December 31, 1993
0.00%	\$ 12,887,100	\$ 13,689,586
1.00% - 2.00%	9,631,493	-
2.01% - 3.00%	22,137,505	52,423,164
3.01% - 4.00%	31,586,780	31,196,289
4.01% - 5.00%	26,560,419	22,011,384
5.01% - 6.00%	19,032,838	11,226,183
6.01% - 7.00%	10,106,279	5,091,592
7.01% - 8.00%	2,376,415	2,645,959
8.01% - 9.00%	572,349	2,182,986
9.01% - 10.00%	-	595,179
	<u>\$134,891,178</u>	<u>\$141,062,322</u>

A comparative summary of deposits by term to maturity follows:

	December 31, 1994	December 31, 1993
No contractual maturities	\$ 44,541,044	\$ 49,267,341
Under 12 months	55,623,137	67,230,284
13 months to 24 months	18,499,589	9,972,973
25 months to 36 months	7,461,529	3,426,622
Over 36 months	8,765,879	11,165,102
	<u>\$134,891,178</u>	<u>\$141,062,322</u>

The aggregate amount of jumbo certificates of deposit with a minimum denomination of \$100,000 and with an original maturity of one year or less was \$8,282,758 and \$10,477,984 at December 31, 1994 and 1993, respectively.

Interest expense on deposits was comprised of the following:

	Years Ended December 31,	
	1994	1993
Passbook	\$ 202,256	\$ 219,685
Now, Super Now and MMDA's	624,132	658,557
Certificates of Deposit	3,796,727	3,983,290
	<u>\$ 4,623,115</u>	<u>\$ 4,861,532</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE K - REGULATORY CAPITAL

In accordance with the "Financial Institutions Reform, Recovery and Enforcement Act of 1989," (FIRREA), the Office of Thrift Supervision (OTS) issued three capital requirements which became effective December 7, 1989. Following is a comparison of the Bank's capital ratios to those required by OTS:

	<u>Unaudited</u>			
	<u>December 31, 1994</u>		<u>December 31, 1993</u>	
	<u>Required</u>	<u>Actual</u>	<u>Required</u>	<u>Actual</u>
Tangible	1.5%	6.2%	1.5%	5.0%
Core	3.0	6.2	3.0	5.0
Risk-based	8.0	17.7	8.0	13.1

At December 31, 1994 and 1993, the Bank exceeded all three capital requirements. Risk based assets as of December 31, 1994 and 1993 approximated \$65,614,000 and \$75,834,000, respectively.

Following is a reconciliation of capital as reflected in the accompanying consolidated financial statements to regulatory capital as of December 31, 1994:

	<u>Unaudited-Regulatory</u>		
	<u>Tangible Capital</u>	<u>Core Capital</u>	<u>Risk-Based Capital</u>
Capital, as reported in the accompanying consolidated financial statements	\$11,023,500	\$11,023,500	\$11,023,500
Allowance for loan losses	-	-	566,045
Allowance for available-for-sale securities	239,899	239,899	239,899
Nonallowable assets - Equity investments	-	-	(198,210)
Regulatory capital	11,263,399	11,263,399	11,631,234
Minimum capital requirement computed	<u>2,707,162</u>	<u>5,414,324</u>	<u>5,249,130</u>
Excess of regulatory capital over minimum requirement	<u>\$ 8,556,237</u>	<u>\$ 5,849,075</u>	<u>\$ 6,382,104</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE J - INCOME TAXES -- Continued

The differences between total tax expense and the amount computed by applying the applicable statutory Federal income tax rate of 34% to income before income taxes were as follows:

	Years Ended December 31,	
	<u>1994</u>	<u>1993</u>
Computed "expected" tax expense	\$ 1,112,762	\$ 808,018
Change in base year amount of tax bad debt reserves	13,627	6,215
Tax exempt interest	(1,131)	(1,216)
State income taxes, net	105,912	76,063
Other	<u>34,031</u>	<u>(54,739)</u>
	<u>\$ 1,265,201</u>	<u>\$ 834,341</u>

As of December 31, 1994 and 1993, the Bank has deferred tax assets of \$193,794 and \$345,716 and deferred tax liabilities of \$1,651,127 and \$931,537, resulting in a net deferred tax liability of \$1,457,333 and \$585,821. The net deferred tax liability is included in other liabilities in the accompanying consolidated statements of financial condition. The Bank has not recorded a valuation allowance with respect to the deferred tax assets because it is anticipated that the assets are fully realizable. The deferred taxes are attributable to temporary differences, such as the use of accelerated depreciation methods for tax purposes, the excess of the allowance for loan losses for financial reporting purposes over the portion of the allowance for loan losses for tax purposes which arose after 1987, the prior deductions for tax purposes of losses incurred on previous mortgage pool exchanges, the exclusion from taxable income for certain stock dividends, the recognition of unrealized gains and losses on securities for tax purposes, the deduction of loan origination cost for tax purposes, and the deferral of deductions for accrued liabilities under the Bank's medical and dental benefit plan.

The Bank has not recognized deferred tax liabilities for the portion of the allowance for loan losses for tax purposes that arose in years prior to 1988. Deferred tax liabilities are recognized for this temporary difference only if it is apparent that it will reverse and become taxable in the foreseeable future. This difference could become taxable in the future if the Bank fails to meet the definition of a savings and loan for tax purposes, or if distributions are made to stockholders in excess of accumulated earnings for tax purposes. Management does not anticipate that any event resulting in the reversal of this difference will occur. The Bank's allowance for loan losses for tax purposes for which no deferred tax liability has been recognized, and the corresponding unrecognized deferred tax liability, are \$1,597,000 and \$613,000, respectively, as of December 31, 1994.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The following table presents information for loans:

	<u>December 31, 1994</u>		<u>December 31, 1993</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Loans held for investment:				
1-4 Family and Participations	\$ 49,843,179	\$ 48,228,310	\$ 44,192,211	\$ 46,758,072
Multi-family & participation	8,563,589	8,121,326	10,456,040	11,074,384
Deferred fees and valuation allowance	<u>(810,082)</u>	<u>-</u>	<u>(579,094)</u>	<u>-</u>
	<u>57,596,686</u>	<u>56,349,636</u>	<u>54,069,157</u>	<u>57,832,456</u>
Construction loans:				
Construction	4,744,948	4,746,233	4,405,728	4,413,140
Deferred fees and valuation allowance	<u>(85,549)</u>	<u>-</u>	<u>(88,951)</u>	<u>-</u>
	<u>4,659,399</u>	<u>4,746,233</u>	<u>4,316,777</u>	<u>4,413,140</u>
Loans held for sale:				
Mortgages held for sale	8,377,615	8,359,530	24,484,116	24,833,073
Deferred fees and valuation allowance	<u>(87,092)</u>	<u>-</u>	<u>(117,565)</u>	<u>-</u>
	<u>8,290,523</u>	<u>8,359,530</u>	<u>24,366,551</u>	<u>24,833,073</u>
Second mortgages	1,054,905	1,068,761	844,841	895,461
Deferred fees	<u>(21,669)</u>	<u>-</u>	<u>(14,858)</u>	<u>-</u>
	<u>1,033,236</u>	<u>1,068,761</u>	<u>829,983</u>	<u>895,461</u>
Savings account loans	<u>936,097</u>	<u>930,732</u>	<u>1,115,142</u>	<u>1,119,966</u>
Consumer and Commercial:				
Consumer and commercial	856,953	779,430	583,066	592,061
Deferred fees and valuation allowance	<u>(26,343)</u>	<u>-</u>	<u>(20,280)</u>	<u>-</u>
	<u>830,610</u>	<u>779,430</u>	<u>562,786</u>	<u>592,061</u>
	<u>\$ 73,346,551</u>	<u>\$ 72,234,322</u>	<u>\$ 85,260,396</u>	<u>\$ 89,686,157</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE L - COMMITMENTS AND CONTINGENCIES

The Bank leases office space for administrative offices and certain branch offices under various operating leases with terms ranging through 1999. Lease payments included in occupancy expense totaled \$182,907 and \$140,690 for the years ended December 31, 1994 and 1993, respectively. Future annual minimum lease payments under the Bank's non-cancelable operating leases outstanding as of December 31, 1994, were as follows:

<u>December 31,</u>	
1995	\$199,421
1996	199,421
1997	197,546
1998	184,421
1999	<u>44,638</u>
	<u>\$825,447</u>

In the normal course of business, the Bank may become a party to lawsuits in which they defend or settle such actions. When actions are deemed probable of settlement, estimated provisions for losses are provided in the financial statements. There were no actions in process at December 31, 1994.

#### NOTE M - 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 DUE FROM BANKS, AND INTEREST-BEARING DEPOSITS WITH OTHER BANKS:** For these short-term instruments, their carrying amount is a reasonable estimate of fair value.

**INVESTMENT SECURITIES:** The fair value of investment securities is equal to the estimated quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities, adjusted for differences between the quoted instruments and the instruments being valued. The fair value of the investment securities is presented in Note C.

**LOANS:** The fair value of performing loans is calculated by using a simulated pricing model. The model calculates the fair value of the loans by discounting the scheduled cash flows through maturity using the discount rates that reflect the credit and interest rate risks inherent in the loan portfolio.

Fair value of significant non-performing loans is valued on a loan-by-loan basis. The factors considered in determining an appropriate reserve for possible loan losses are considered in determining the effects of changes in credit risk when estimating fair value. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market information and specific borrower information.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

**INTEREST RATE CAP AGREEMENT:** The operations of the Bank are subject to risk of interest rate fluctuations to the extent there is a difference between the amount of the Bank's interest-earning assets and the amount of interest-bearing liabilities that mature or reprice in specified periods. The principal objective of interest rate risk management is to maintain the net interest income component of earnings and the market value of portfolio equity component of capital. To the extent that the Bank is unable to naturally hedge its interest-earning assets and interest-bearing liabilities, the Bank, among other strategies, uses interest rate cap agreements. The Bank has entered into interest rate cap agreements to reduce the impact of increases in short-term interest rates effecting deposits and short-term borrowings.

The fair value of interest rate cap agreements is the estimated amount that the Bank would receive to terminate the agreement at the reporting date, considering current interest rates. The carrying amount, which is included in other assets in the accompanying consolidated statements of financial condition, is the unamortized cost of the cap, which is being amortized to expense over the life of the cap agreement.

	<u>December 31, 1994</u>			<u>December 31, 1993</u>		
	<u>Notional Amount (in millions)</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Notional Amount (in millions)</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Interest rate cap agreements	<u>\$ 25</u>	<u>\$327,826</u>	<u>\$370,000</u>	<u>\$ 10</u>	<u>\$ 79,297</u>	<u>\$ 4,000</u>

**SERVICING:** The fair value of servicing is based on external appraisals as follows:

	<u>December 31, 1994</u>		<u>December 31, 1993</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Bulk	\$ 1,297,066	\$ 2,534,517	\$ 984,804	\$ 1,838,990
Correspondent	2,035,952	3,465,068	1,821,328	2,292,093
Originated	-	2,831,943	-	1,866,054
Total	<u>\$ 3,333,018</u>	<u>\$ 8,831,528</u>	<u>\$ 2,806,132</u>	<u>\$ 5,997,137</u>
Excess servicing	<u>\$ -</u>	<u>\$ 150,426</u>	<u>\$ 47,658</u>	<u>\$ 146,612</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

**DEPOSITS:** The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings and interest-bearing transaction accounts, is equal to the amount payable on demand. The fair values of time deposits are estimated based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits with similar remaining maturities. The following is a summary of estimated fair value of deposits as of:

	<u>December 31, 1994</u>		<u>December 31, 1993</u>	
	Carrying		Carrying	
	<u>Amount</u>	<u>Fair Value</u>	<u>Amount</u>	<u>Fair Value</u>
Non-interest bearing	\$ 12,786,600	\$ 12,786,600	\$ 13,689,492	\$ 13,689,492
Passbook	7,478,624	7,478,624	7,970,990	7,970,990
NOW accounts	9,631,493	9,631,493	11,289,713	11,289,713
Super NOW accounts	2,364,171	2,364,171	2,337,399	2,337,399
Money market deposit accounts	12,280,156	12,280,156	13,879,747	13,879,747
Certificates of deposit	76,936,675	75,583,563	78,016,947	78,603,848
Jumbo certificates of deposit	<u>13,413,459</u>	<u>13,276,302</u>	<u>13,878,034</u>	<u>13,948,250</u>
	<u>\$134,891,178</u>	<u>\$133,400,909</u>	<u>\$141,062,322</u>	<u>\$141,719,439</u>

**ADVANCES AND BORROWINGS:** The fair value of advances and borrowings is based on the discounted value of contractual cash flows. The following table shows the break down of the total amount by maturity date:

Maturity Date	<u>December 31, 1994</u>		<u>December 31, 1993</u>	
	Carrying		Carrying	
	<u>Amount</u>	<u>Fair Value</u>	<u>Amount</u>	<u>Fair Value</u>
1-04-94	\$ -	\$ -	\$ 5,000,000	\$ 5,000,000
1-04-94	-	-	1,250,000	1,250,000
1-07-94	-	-	10,000,000	10,000,000
4-01-94	-	-	5,000,000	5,038,574
10-16-94	-	-	7,000,000	7,143,718
1-06-95	14,250,000	14,250,000	-	-
1-06-95	1,050,000	1,050,000	-	-
1-23-95	7,000,000	7,000,000	-	-
2-06-95	3,000,000	2,995,032	3,000,000	3,043,921
2-02-96	4,000,000	3,921,825	4,000,000	4,129,764
Treasury, Tax and Loan	<u>39,056</u>	<u>39,056</u>	<u>125,025</u>	<u>125,025</u>
	<u>\$ 29,339,056</u>	<u>\$ 29,255,913</u>	<u>\$ 35,375,025</u>	<u>\$ 35,731,002</u>

**ACCRUED INTEREST RECEIVABLE AND PAYABLE:** The fair value of interest receivable and payable approximate the carrying amount because the balance is expected to be collected or paid in 90 days or less.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE O - RETIREMENT PLANS

The Bank has a qualified 401(k) retirement savings plan for employees. Matching contributions are optional at the discretion of the Board of Directors. The level of matching contributions of eligible employee compensation and expense were as follows for 1994 and 1993:

<u>Year</u>	<u>Match</u>	<u>Covered Compensation</u>	<u>Expense</u>
1993	100%	3%	\$35,446
1994	100%	3%	41,176

During 1994, the Bank established a non-qualified defined benefit retirement plan (hereinafter referred to as an Indexed Retirement Plan or "IRP") for certain key executive officers. In conjunction with the establishment of this plan, the Bank purchased single premium life insurance policies having a total face value of \$800,000 on the lives of the participants. A death benefit for each executive has also been provided by endorsement of 80% of the non-at-risk insurance proceeds. Benefits are accrued under this plan to the extent that policy earnings exceed a cost of funds index tied to six-month Treasury yields. No benefits were accrued under the IRP during 1994.

#### NOTE P - RELATED PARTY TRANSACTIONS

An analysis of loans to directors and executive officers is as follows:

	Years Ended December 31,	
	<u>1994</u>	<u>1993</u>
Balance at beginning of year	\$ 379,869	\$ 391,505
Loans originated	-	380,100
Loan sales and principal repayments	<u>(11,220)</u>	<u>(391,736)</u>
Balance at end of year	<u>\$ 368,649</u>	<u>\$ 379,869</u>

It is the policy of the Bank to provide mortgage loans to its full-time officers and employees for the purpose of financing their personal residences. Any other loans made by the Bank to directors or officers are fully secured and are made in the ordinary course of business. Such loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and none of the loans involve more than normal risk of collection or present other unfavorable features.

A Director of the Bank is of counsel to a law firm which serves as general counsel for the Bank. The firm received approximately \$10,700 and \$36,000 for legal services rendered to the Bank in the years ended December 31, 1994 and 1993, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

#### NOTE N - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit secured by first mortgage loans and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated statements of financial condition. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The fair value of commitments to originate or purchase loans at December 31, 1994, in the following table, is not significant.

	<u>Contract or Notional Amount</u>
Financial instruments whose contract amounts represent credit risk:	
Undisbursed portion of construction loans	\$ 2,568,969
Commitments to originate loans	401,000
Commitments to purchase loans	874,589
Loans sold with recourse	388,307
Financial instruments the notional or contract amounts of which exceed the amount of credit risk:	
Commitments to sell mortgages and mortgage-backed securities	\$ 3,500,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

The Bank's lending area is concentrated in the Southwest region of the United States, primarily New Mexico and Texas. There are no concentrations of credit to any one industry.



## SELECTED FINANCIAL DATA -- Unaudited

### PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

The following table sets forth selected financial data for the last five years.

	Years Ended December 31,				
	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>
Interest income	\$ 11,874,103	\$ 11,585,168	\$ 12,797,024	\$ 13,219,387	\$ 13,477,807
Interest expense	6,118,044	6,464,224	8,112,659	9,952,915	11,145,394
Net interest income	5,756,059	5,120,944	4,684,365	3,266,472	2,332,413
Net income	2,007,628	1,642,686	1,232,645	216,922	105,571
Per share data:					
Net income	1.99	1.63	1.22	.22	.10
Dividends	.40	.15	.11	.03	-
Investment and					
mortgage securities	89,559,239	81,916,898	65,946,836	58,678,912	45,390,939
Loans	73,346,551	85,260,396	81,585,421	85,495,474	92,512,732
Total assets	179,939,949	191,305,030	179,077,713	172,404,417	166,894,994
Deposits					
Deposits	134,891,178	141,062,322	147,633,052	147,026,320	149,071,197
Borrowings	29,339,056	35,375,025	21,750,000	13,750,000	7,000,000
Stockholders' equity	11,023,500	9,659,007	8,167,525	7,045,770	6,859,092
Customer service					
facilities:					
Full service					
branch facilities	6	6	6	6	6
Loan production					
offices	3	2	2	2	2
Loans serviced for					
others	562,752,000	488,407,000	422,470,000	274,878,000	173,716,000

# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

## PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

To the Board of Directors and Stockholders  
Pioneer Savings Bank  
Roswell, New Mexico:

We have audited the accompanying consolidated statements of financial condition of Pioneer Savings Bank (Pioneer Savings & Trust, F.A., prior to November 1, 1994) and subsidiary as of December 31, 1994 and 1993, and the related consolidated statements of income, cash flows and stockholders' equity for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial position of Pioneer Savings Bank and subsidiary as of December 31, 1994 and 1993, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As explained in Notes A and J to the consolidated financial statements, the Bank adopted Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes," as of January 1, 1993 and as explained in Notes A and C, the Bank adopted Statement of Financial Accounting Standard No. 115, "Accounting for Certain Investments in Debt and Equity Securities," as of January 1, 1994.

*Arthur Andersen LLP*

Albuquerque, New Mexico  
February 27, 1995

## **CORPORATE INFORMATION**

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### **PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)**

#### **GENERAL INFORMATION**

Pioneer Savings Bank is a federally chartered stock savings bank. The Bank's deposits are insured by the Savings Association Insurance Fund, an agency of the FDIC. The principal business of the Bank is to finance the purchase, construction or improvements of residential real estate.

The Bank has one subsidiary, Pioneer Mortgage Company, which is involved in residential construction and mortgage lending, primarily in Texas.

#### **CORPORATE OFFICES**

Pioneer Savings Bank  
306 N. Pennsylvania  
P.O. Box 130  
Roswell, NM 88202

#### **INDEPENDENT PUBLIC ACCOUNTANTS**

Arthur Andersen LLP  
6501 Americas Parkway, NE, Suite 400  
Albuquerque, NM 87110

#### **GENERAL COUNSEL**

Sanders, Bruin, Coll & Worley, P.A.  
400 Penn Plaza  
Suite 600  
Roswell, NM 88201

#### **REGISTRAR AND TRANSFER AGENT**

Pioneer Savings Bank

#### **ANNUAL MEETING**

The annual meeting of shareholders of Pioneer Savings Bank will be held at 3:00 P.M. on April 18, 1995 at the Roswell Inn, 1815 N. Main, Roswell, New Mexico.

#### **MARKET FOR COMMON STOCK**

The Common Stock of Pioneer Savings Bank is not traded on any exchange nor is there a market maker in the stock. The market for the stock is limited and sporadic. There are no accurate quarterly high bid and low bid quotations available; accordingly, such bid information by quarter is not shown. Recent transactions of issued and outstanding stock have ranged from \$7.75-\$8.01 per share. As of December 31, 1994, there were approximately 367 holders of record of Pioneer Common Stock. Dividends of \$.40 per share were declared in 1994.

# SELECTED FINANCIAL DATA -- Unaudited

## PIONEER SAVINGS BANK (formerly Pioneer Savings & Trust, F.A.)

### VOLUME AND RATE ANALYSIS

(000's OMITTED)

1994 COMPARED TO 1993:

	<u>Average Volume</u>		<u>Average Rate</u>		<u>Interest</u>		<u>Interest Variance</u> <u>Attributable to:</u>		
	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1993</u>	<u>Interest</u> <u>Variance</u>	<u>Volume</u>	<u>Rate</u>
Interest income:									
Loans.....	\$ 78,639	\$ 84,327	8.15%	7.98%	\$ 6,406	\$ 6,732	\$ (326)	\$ (463)	\$ 137
Mortgage securities.....	79,975	77,876	6.09	5.79	4,867	4,511	356	128	228
Investments.....	<u>7,168</u>	<u>7,385</u>	<u>8.38</u>	<u>4.63</u>	<u>601</u>	<u>342</u>	<u>259</u>	<u>(18)</u>	<u>277</u>
Total interest earning assets.....	<u>\$165,782</u>	<u>\$169,588</u>	<u>7.16%</u>	<u>6.83%</u>	<u>\$11,874</u>	<u>\$11,585</u>	<u>\$ 289</u>	<u>\$ (353)</u>	<u>\$ 642</u>
Interest expense:									
Deposits.....	\$139,505	\$144,496	3.31%	3.36%	\$ 4,623	\$ 4,861	\$ (238)	\$ (165)	\$ (73)
Borrowed funds.....	<u>28,099</u>	<u>30,098</u>	<u>5.32</u>	<u>5.33</u>	<u>1,495</u>	<u>1,603</u>	<u>(108)</u>	<u>(106)</u>	<u>(2)</u>
Total interest bearing liabilities.....	<u>\$167,604</u>	<u>\$174,594</u>	<u>3.65%</u>	<u>3.70%</u>	<u>\$ 6,118</u>	<u>\$ 6,464</u>	<u>\$ (346)</u>	<u>\$ (271)</u>	<u>\$ (75)</u>
Net interest spread and income.....			<u>3.51%</u>	<u>3.13%</u>	<u>\$ 5,756</u>	<u>\$ 5,121</u>			
Ratio of net interest income to average interest earning assets.....					<u>3.47%</u>	<u>3.02%</u>			

1993 COMPARED TO 1992:

	<u>Average Volume</u>		<u>Average Rate</u>		<u>Interest</u>		<u>Interest Variance</u> <u>Attributable to:</u>		
	<u>1993</u>	<u>1992</u>	<u>1993</u>	<u>1992</u>	<u>1993</u>	<u>1992</u>	<u>Interest</u> <u>Variance</u>	<u>Volume</u>	<u>Rate</u>
Interest Income:									
Loans.....	\$ 84,327	\$ 84,295	7.98%	8.82%	\$ 6,732	\$ 7,435	\$ (703)	\$ 3	\$ (706)
Mortgage securities.....	77,876	71,881	5.79	6.82	4,511	4,905	(394)	347	(741)
Investments.....	<u>7,385</u>	<u>10,322</u>	<u>4.63</u>	<u>4.43</u>	<u>342</u>	<u>457</u>	<u>(115)</u>	<u>(136)</u>	<u>21</u>
Total interest earning assets.....	<u>\$169,588</u>	<u>\$166,498</u>	<u>6.83%</u>	<u>7.69%</u>	<u>\$11,585</u>	<u>\$12,797</u>	<u>\$(1,212)</u>	<u>\$ 214</u>	<u>\$(1,426)</u>
Interest expense:									
Deposits.....	\$144,496	\$151,794	3.36%	4.41%	\$ 4,861	\$ 6,688	\$(1,827)	\$ (246)	\$(1,581)
Borrowed funds.....	<u>30,098</u>	<u>22,541</u>	<u>5.33</u>	<u>6.32</u>	<u>1,603</u>	<u>1,425</u>	<u>178</u>	<u>402</u>	<u>(224)</u>
Total interest bearing liabilities.....	<u>\$174,594</u>	<u>\$174,335</u>	<u>3.70%</u>	<u>4.65%</u>	<u>\$ 6,464</u>	<u>\$ 8,113</u>	<u>\$(1,649)</u>	<u>\$ 156</u>	<u>\$(1,805)</u>
Net interest spread and income.....			<u>3.13%</u>	<u>3.04%</u>	<u>\$ 5,121</u>	<u>\$ 4,684</u>			
Ratio of net interest income to average interest earning assets.....					<u>3.02%</u>	<u>2.81%</u>			

## **PIONEER SAVINGS BANK**

306 N. Pennsylvania, P.O. Box 130, Roswell, New Mexico 88201  
(505) 624-5200

1095 Mechem, P.O. Box 910, Ruidoso, New Mexico 88345  
(505) 258-5858

Porto Rico & 10th, P.O. Box 1707, Alamogordo, New Mexico 88310  
(505) 437-9075

111 N. Canal, P.O. Box S, Carlsbad, New Mexico 88220  
(505) 887-6551

1020 N. Turner, P.O. Box 177, Hobbs, New Mexico 88240  
(505) 393-2102

1155 S. Telshor - Suite 100, P.O. Box 609, Las Cruces, New Mexico 88004  
(505) 522-3300

## **PIONEER MORTGAGE COMPANY**

6068 Gateway East, El Paso, Texas 79905  
(915) 778-4100

3000 North Garfield Street, Suite 180 Midland, Texas 79705  
(915) 570-0777

5050 E. University - Suite 7, Odessa, Texas 79762  
(915) 367-0063



## BOARD OF DIRECTORS

---

**G. Eugene Bell**

Vice President - Bell Gas

**James L. Bruin**

Attorney

**Patricia J. Cooper**

Investments

**Rexell V. Desmond**

Investments

**Jon E. Hitchcock**

Executive VP & Treasurer -  
Pioneer Savings Bank

**George H. Hunker, Jr.**

Attorney

**Timothy Z. Jennings**

State Senator & Rancher

**Arthur R. McQuiddy**

President - McQuiddy Communications  
& Energy, Inc.

**George W. Mitchell**

President - Pioneer Savings Bank

**C.W. Ritter**

President - Ritter Enterprises, Inc.

## OFFICERS

### Pioneer Savings Bank

**President & Chief Executive Officer  
Chairman of the Board**

George W. Mitchell

**Vice-President**

John Dick-Peddie  
Suzi K. Glass  
Darlene S. Hart  
Daniel A. Hostetler  
Alan W. Johnson  
Susan F. Keohane  
Robert W. Mays  
Scott E. Mohrhauser  
Rebecca E. Underation  
Debe M. Wagner

**Executive Vice-President  
& Treasurer**

Jon E. Hitchcock, C.P.A.

**Senior Vice-President**

Britt Donaldson  
Stephen P. Puntch

**Assistant Vice President**

Janet L. Asher  
Virginia L. Boyer  
Charlotte Y. Gipson  
Lee M. Harrell  
Dee Ann Nunez  
Debi W. Rupe  
Robert D. Vie  
Debra M. Young

**Secretary**

Barba N. McCampbell

**Assistant Secretary**

Nancy L. Montez  
Paula L. Ridgeway  
Lanice A. White

### Pioneer Mortgage Company

**Vice-President**

Freida J. Goodrum  
Pamela A. Sparks

