PIONEER SAVINGS BANK

1997 ANNUAL REPORT

PIONEER SAVINGS BANK

March 25, 1998

Dear Stockholder:

Pioneer's 1997 recordbreaking net operating income of $3,386,211 marked the ninth consecutive year of increased annual earnings, excluding non-reoccurring transactions. These earnings represented a 20.4% return on average equity. Stockholders' equity increased approximately $2.3 million, to a total of approximately $17.7 million, equal to $17.60 per share of stock. Dividends, equaling a 4.75% pay out on the most recent stock price of $22.09 per share, increased to $1.05 per share up from $.85 in 1996.

Pioneer's excellent operating results were due primarily to increases in net interest income and other income, as well as a decline in other expenses. Net interest income increased as a result of our strategy of growing the loan portfolio while reducing investments in lower yielding securities. Other income increased 18.4% due primarily to increases on gains on sale of loans and securities of approximately $1.0 million. The decline of $463,500 in other expenses was a result of decreased Federal Deposit Insurance Corporation (FDIC) premium rates. Employee compensation and benefits, representing the largest component of other expense, increased primarily from the addition of loan and savings personnel.

Other positive trends included a 22% (approximately $33.2 million) increase in deposits. The growth in savings and the profitable sale of investment and mortgage securities enabled Pioneer to further reduce Federal Home Loan Bank advances and other borrowings by approximately $46.3 million. Another positive benefit not reflected in the Statement of Financial Condition, is that the estimated fair value of our mortgage servicing rights, totaling approximately $6.6 million, exceeded the carrying amount by $3.5 million.

Over the last several months the news media has increasingly publicized the potential problems that the approaching year 2000 will have upon computer systems across the country. Pioneer's management, as directed by our board of directors, has been very aggressive in identifying and correcting the issues relating to the century date change and to the possible impact on our computer systems and business operations. We expect to have all items corrected prior to this year end and do not expect to be negatively impacted by the year 2000 computer issue. We estimate that the total cost for correcting our year 2000 issues will be approximately $50,000, which is not expected to have a strong negative impact on our results of operation, liquidity, or capital.

PIONEER SAVINGS BANK AND SUBSIDIARY

Our 1998 Business Plan projects that this will be another good year for our bank even though we expect income to be less than our record performance this past year. The reduction in assets resulting from the sale of loans and securities during the fourth quarter of 1997 will reduce our net interest margin; however, our strategy is to prudently increase deposits and interest earning assets throughout this year. Pioneer is now operating a recently acquired and renovated branch bank located at Sunset & Alameda in Roswell. In addition, we expect to have a new branch bank, located on North Main in Roswell, ready for business by mid-April. With the addition of these two banking facilities and aggressive marketing in our branch cities, we are confident that Pioneer's deposit growth will continue throughout 1998.

The Board of Directors and officers appreciate the hard work of our dedicated staff and thank you, our stockholders and customers, for your continued support. We pledge that we will continue every effort to improve the profitability of the Bank and to increase the value of your investment.

Sincerely,

PIONEER SAVINGS BANK

George W. Mitchell

George W. Mitchell
President

GWM/law

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

PIONEER SAVINGS BANK AND SUBSIDIARY

	December 31, 1997	December 31, 1996
ASSETS:		
Cash and cash equivalents - Note B	$ 7,638,675	$ 6,341,937
Investment and mortgage securities - Note C		
Available-for-sale	68,555,136	88,211,519
Held-to-maturity	15,478,618	18,216,527
Loans held for sale, net - Note D	6,286,330	11,167,626
Loans, net - Notes D and P	124,692,383	110,603,241
Office properties and equipment, net - Note E	4,548,645	4,510,264
Federal Home Loan Bank (FHLB) stock	4,442,100	3,902,700
Mortgage servicing rights - Note F	3,087,433	2,937,357
Accrued interest receivable	1,154,264	1,146,946
Investments in real estate - Note G	186,510	214,962
Other assets	2,433,418	2,673,148
TOTAL ASSETS	$ 238,503,512	$ 249,926,227
LIABILITIES:		
Deposits - Note H	$ 183,126,824	$ 149,974,011
Federal Home Loan Bank advance and other borrowings - Note I	30,802,500	77,096,723
Official checks	2,391,582	3,536,340
Deferred tax liabilities, net - Note J	1,834,623	1,705,639
Advance payments for taxes and insurance	1,094,174	977,715
Accrued interest payable	166,375	153,666
Accounts payable and other liabilities	1,346,352	1,085,393
TOTAL LIABILITIES	220,762,430	234,529,487
COMMITMENTS AND CONTINGENCIES - Notes D, L, M and N		
STOCKHOLDERS' EQUITY - Note K:		
Capital stock, $1 par value, 2,000,000 shares authorized: 1,008,108 and 1,008,107 shares outstanding at December 31, 1997 and 1996, respectively	1,008,108	1,008,107
Additional paid-in capital	37,357	37,322
Unrealized losses on investment and mortgage securities, available-for-sale, net of tax effect - Note C	(49,850)	(66,457)
Retained earnings	16,745,467	14,417,768
TOTAL STOCKHOLDERS' EQUITY	17,741,082	15,396,740
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 238,503,512	$ 249,926,227

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

CONSOLIDATED STATEMENTS OF INCOME

PIONEER SAVINGS BANK AND SUBSIDIARY

	Years Ended December 31, 1997	1996
INTEREST INCOME:		
Loans - Note D	$ 10,988,781	$ 9,333,235
Mortgage securities	5,553,927	6,055,989
Investment securities and other	971,321	500,390
	17,514,029	15,889,614
INTEREST EXPENSE:		
Deposits - Note H	6,952,649	6,423,455
FHLB advance and other borrowings	3,731,750	3,239,858
	10,684,399	9,663,313
NET INTEREST INCOME	6,829,630	6,226,301
LOAN LOSS PROVISION (BENEFIT) - Note D	33,990	(164,114)
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	6,795,640	6,390,415
OTHER INCOME:		
Loan administration and service fees	1,897,637	2,020,171
Gain on sale of loans, net - Note D	1,570,362	1,214,387
Gain on sale of investment and mortgage securities - Note C	978,951	290,540
Gains on sale of investments in real estate	571	188,149
Other	655,000	596,178
	5,102,521	4,309,425
OTHER EXPENSES:		
Compensation and employee benefits - Note O	3,685,625	3,331,514
Occupancy	521,898	515,772
Data processing	472,492	418,392
Equipment	459,245	410,499
Stationary, printing and office supplies	239,776	219,552
Advertising	234,855	168,911
Professional and supervisory	214,974	185,529
Telephone	134,904	146,318
Deposit insurance premiums - Note H	99,860	1,180,871
Other	470,093	419,889
	6,533,722	6,997,247
INCOME BEFORE INCOME TAX EXPENSE	5,364,439	3,702,593
Income tax expense - Note J	1,978,228	1,386,984
NET INCOME	$ 3,386,211	$ 2,315,609
Weighted average number of common shares outstanding	1,008,107	1,008,106
Net income per share	$ 3.36	$ 2.30
Dividends per share	$ 1.05	$ 0.85

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

PIONEER SAVINGS BANK AND SUBSIDIARY

	Years Ended December 31, 1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 3,386,211	$ 2,315,609
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) of:		
Mortgage servicing rights	428,047	337,740
Premiums and discounts on investment and mortgage securities	(55,555)	(56,904)
Loan loss provision (benefit)	33,990	(164,114)
Net (gain) loss on sales of:		
Loans	(1,570,362)	(1,214,387)
Office properties and equipment	(2,975)	(3,686)
Investments in real estate	(571)	(188,149)
Investment and mortgage securities available-for-sale	(978,951)	(290,540)
Increase in mortgage servicing rights	(579,078)	(587,468)
Depreciation of office properties and equipment	366,091	325,585
Origination of mortgage loans held for sale	(24,599,685)	(28,168,101)
Securitization of mortgage loans held for sale and sale of mortgage-backed securities	31,051,343	32,458,385
Changes in operating assets and liabilities:		
Accrued interest receivable	(7,318)	(90,429)
Other assets	239,730	(14,616)
Official checks	(1,144,758)	1,141,010
Deferred tax liabilities, net of tax effect on unrealized losses	118,124	875,381
Accrued interest payable	12,709	(49,397)
Accounts payable and other liabilities, net of dividends declared, not paid	160,149	34,423
Total adjustments	3,470,930	4,344,733
Net cash provided by operating activities	6,857,141	6,660,342
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan originations and principal payments on loans, net	(14,123,132)	(30,843,074)
Held-to-maturity investment and mortgage securities:		
Purchases	(389,688)	(3,892,754)
Maturities and principal reductions	3,128,364	2,967,047
Available-for-sale investment and mortgage securities:		
Purchases	(100,460,949)	(60,346,432)
Sales	114,532,736	63,105,191
Maturities and principal reductions	6,645,802	5,582,327
Purchases of office properties and equipment	(404,472)	(832,541)
Proceeds from sales of office properties and equipment	2,975	4,000
Purchases of mortgage servicing rights	-	(815,894)
Proceeds from sale of mortgage servicing rights	955	41,680
Purchases of FHLB stock	(539,400)	(949,200)
Proceeds from sales of investments in real estate	29,023	488,034
Net cash provided (used) by investing activities	8,422,214	(25,491,616)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS -- Continued

PIONEER SAVINGS BANK AND SUBSIDIARY

	Years Ended December 31, 1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	33,152,813	3,166,232
Additions to FHLB advance and other borrowings	20,705,777	22,882,963
Payments on FHLB advance and other borrowings	(67,000,000)	(4,000,000)
Decrease (increase) in advance payments for taxes and insurance	116,459	(132,599)
Sales of capital stock	36	41
Payment of cash dividends	(957,702)	(756,078)
Net cash (used) provided by financing activities	(13,982,617)	21,160,559
Increase in cash and cash equivalents	1,296,738	2,329,285
Cash and cash equivalents beginning of year	6,341,937	4,012,652
Cash and cash equivalents end of year	$ 7,638,675	$ 6,341,937
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid (received) during the year for:		
Interest	$ 10,671,690	$ 9,712,710
Income taxes	1,855,320	826,072
Income tax refunds	(120,926)	(23,042)
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Dividends declared, not paid	$ 554,459	$ 453,648
Net change in unrealized (gains) losses on investment securities	(50,487)	589,649
Change in discount on transfer of mortgage securities from available-for-sale to held-to-maturity	23,020	25,418
Change in tax effect of net unrealized (gains) losses on investment securities	10,860	(235,464)
Real estate acquired through, or in lieu of, foreclosure	-	177,647

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

PIONEER SAVINGS BANK AND SUBSIDIARY

	Capital Stock $1 par	Additional Paid-In Capital	Unrealized Gains (Losses) on Securities	Retained Earnings	Total
Balance, December 31, 1995	$ 1,008,104	$ 37,284	$ 313,146	$ 12,959,049	$ 14,317,583
Stock issued	3	38	-	-	41
Net income	-	-	-	2,315,609	2,315,609
Net change in unrealized (losses) gains on securities, net of tax effect of $235,464	-	-	(379,603)	-	(379,603)
Dividends - $.85 per share	-	-	-	(856,890)	(856,890)
Balance, December 31, 1996	1,008,107	37,322	(66,457)	14,417,768	15,396,740
Stock issued	1	35	-	-	36
Net income	-	-	-	3,386,211	3,386,211
Net change in unrealized (losses) gains on securities, net of tax effect of $10,860	-	-	16,607	-	16,607
Dividends - $1.05 per share	-	-	-	(1,058,512)	(1,058,512)
Balance, December 31, 1997	$ 1,008,108	$ 37,357	$ (49,850)	$ 16,745,467	$ 17,741,082

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

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE A – SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS: The Bank operates six full service branch facilities and three loan production offices in the geographic area of the Southwest region of the United States, primarily New Mexico and Texas. There are no concentrations of credit risk to any one industry. The institution's primary sources of revenue are from providing loans to customers and servicing mortgage loans for others.

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of Pioneer Savings Bank, the "Bank" and its wholly owned subsidiary, Pioneer Mortgage Company and its wholly owned subsidiary, Pioneer Property Management Company. Significant intercompany transactions and balances are eliminated in consolidation.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS: The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The principal areas involving use of estimates and assumptions are the allowance for loan losses, allowance for losses on investments in real estate, the valuation allowance for impairment of mortgage servicing rights, and estimates of fair value of financial instruments. Actual results could differ from those estimates.

INVESTMENT AND MORTGAGE SECURITIES AND FEDERAL HOME LOAN BANK STOCK: The Bank's investments are classified in two categories and accounted for as follows: "held-to-maturity," reported at amortized cost; and "available-for-sale," reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of taxes. Realized gains and losses on investment 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. Federal Home Loan Bank Stock is carried at cost. At December 31, 1997 and 1996, none of the mortgage securities owned by the Bank were considered "high-risk derivative products," as defined by the Federal Financial Institutions Examination Council.

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. Net unrealized losses are recognized in a valuation allowance by charges to income.

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

ALLOWANCE FOR LOAN LOSSES: Each period the loan loss provision in the statements of income results from the combination of (a) an estimate by management of loan losses that occurred during the current period and (b) the ongoing adjustment of prior estimates of losses occurring in prior periods. In addition, certain regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses for adequacy. Such agencies may require the Bank to change the allowance based on their judgement about information available to them at the time of their examination.

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE A – SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES-Continued

ALLOWANCE FOR LOAN LOSSES – Continued: To serve as a basis for making this provision each quarter, the Bank maintains an extensive credit risk monitoring process that considers several factors including: current economic conditions affecting the Bank's customers, the payment performance of individual large loans and pools of homogeneous small loans, portfolio seasoning, changes in collateral values, and detailed reviews of specific large loan relationships. For large loans deemed to be impaired due to an expectation that all contractual payments will probably not be received, impairment is measured by comparing the Bank's recorded investment in the loan to the present value of expected cash flows discounted at the loan's effective interest rate, the fair value of the collateral, or the loan's observable market price.

The provision for loan losses increases the allowance for loan losses, a valuation account that is netted against loans on the balance sheet. As the specific customer and amount of a loan loss is confirmed by gathering additional information, taking collateral in full or partial settlement of the loan, bankruptcy of the borrower, etc., the loan is written down, thereby reducing the allowance for loan losses. If, subsequent to a writedown, the Bank is able to collect additional amounts from the customer or obtain control of collateral worth more than earlier estimated, a recovery is recorded, thereby increasing the allowance for loan losses.

OFFICE PROPERTIES AND EQUIPMENT: Office properties and equipment are stated at 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. Leasehold improvements are amortized over the life of the asset or the term of the lease, whichever is shorter. Repairs and maintenance not extending the useful life of the asset are expensed.

MORTGAGE SERVICING RIGHTS: Effective January 1, 1997, the Bank adopted portions of FAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" which supercedes, but generally retains, the requirements of FAS No. 122, "Accounting for Mortgage Servicing Rights--an Amendment of FASB Statement No. 65." This statement requires that mortgage banking enterprises recognize as separate assets rights to service mortgage loans for others, whether the rights are acquired through purchase or through origination of mortgage loans with the intention to sell or securitize those loans with servicing rights retained. In the case where the mortgage loan is originated, the total cost of the mortgage loan is allocated to the mortgage servicing right and to the loan based on their relative fair values.

The carrying amount of capitalized mortgage servicing rights (originated or acquired), excess servicing fees and the amortization thereon, is periodically evaluated in relation to estimated fair value. The Bank estimates the fair value of the portfolio by estimating the discounted present value of future net servicing income based on management's best estimate of remaining loan lives. The Bank stratifies the loan servicing portfolio by certain risk characteristics, such as loan type, interest rate and maturity, for purposes of measuring impairment. The Bank has determined that the primary risk characteristic is the loan's observable interest rate.

The carrying value of mortgage servicing rights (originated or acquired) is amortized in proportion to, and over the period of, estimated net servicing revenues.

INVESTMENTS IN REAL ESTATE: Foreclosed real estate is recorded at fair value upon acquisition. After foreclosure, real estate is carried at the lower of carrying amount or estimated fair value, less estimated selling costs, which is generally determined by an independent appraisal. Subsequent to acquisition, management periodically re-evaluates the properties and provides allowances for any differences.

INTEREST RATE CAP AGREEMENTS: The operations of the Bank are subject to risk of interest rate fluctuations to the extent there are differences between the amount of the Bank's interest-earning assets and interest-bearing liabilities that mature or reprice in specified periods. To the extent that the Bank is unable to naturally hedge its interest-earning assets and interest-earning 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 carrying amount, which is included in other assets in the accompanying consolidated statements of financial condition, is the unamortized cost of the caps, which are being amortized to expense over the life of the cap agreements.

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE A – SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES-Continued

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 uncollectable 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 loan origination 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.

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.

Deferred taxes result 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. As explained in Note J, 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. Deferred tax liabilities or assets are determined using the current marginal rate in effect at the end of each period.

ACCOUNTING STANDARDS ISSUED, NOT YET ADOPTED: In June 1996, the Financial Accounting Standards Board (FASB) issued FAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." FAS No. 125, effective January 1, 1997, provides accounting and reporting standards for transfers and servicing of financial assets and extinguishment of liabilities. In December 1996, the FASB issued FAS No. 127, "Deferral of the Effective Date of Certain Provisions of FAS No. 125," which defers the effective date of certain provisions of FAS No. 125 until after December 31, 1997. Management anticipates that adoption of the remaining portions of these statements will have no material impact on financial statement disclosures or operating results.

In June 1997, FAS No. 130 "Reporting Comprehensive Net Income" was issued by the FASB establishing standards for the reporting and disclosure of comprehensive net income components in financial statements. FAS No. 130 requires that all items required to be recognized in accounting standards as comprehensive net income be reported in a financial statement displayed with the same prominence as other financial statements. FAS No. 130 also requires an entity to classify items of other comprehensive income by their nature in a financial statement and to display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. This statement is effective for periods beginning after December 15, 1997. Reclassifications are required for prior period financial statements presented.

RECLASSIFICATIONS: Certain amounts in the 1996 consolidated financial statements have been reclassified to conform to the 1997 presentation.

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents, subject to regulatory reserve requirements of approximately $546,000, and $437,000 at December 31, 1997 and 1996, respectively, consisted of the following:

	December 31, 1997	December 31, 1996
Interest bearing deposits	$ 855,428	$ 852,932
Cash and due from banks	6,783,247	5,489,005
	$ 7,638,675	$ 6,341,937

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.

	December 31, 1997				
	Contractual Maturity In Years	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available-for-Sale Securities					
U.S. Treasury securities	1-5	$ 11,002,687	$ 22,235	$ -	$ 11,024,922
Mortgage-backed securities	1-5	44,255	328	-	44,583
	10-15	1,002,499	3,690	-	1,006,189
	15-30	12,858,713	159,568	-	13,018,281
Collateralized mortgage obligations	10-15	14,735,279	24,456	38,122	14,721,613
	15-30	28,920,196	84,173	264,821	28,739,548
		$ 68,563,629	$ 294,450	$ 302,943	$ 68,555,136
Held-to-Maturity Securities					
U.S. Treasury securities	0-1	$ 199,565	$ -	$ 2,485	$ 197,080
Mortgage-backed securities	1-5	2,102,054	42,919	-	2,144,973
	5-10	630,214	25,675	-	655,889
	10-15	1,888,598	69	1,528	1,887,139
Collateralized mortgage obligations	5-10	2,387,057	2,616	74,484	2,315,189
	10-15	984,753	-	19,666	965,087
	15-30	7,286,377	7,529	227,219	7,066,687
		$ 15,478,618	$ 78,808	$ 325,382	$ 15,232,044
Total Investment and Mortgage Securities		$ 84,042,247	$ 373,258	$ 628,325	$ 83,787,180

	December 31, 1996				
	Contractual Maturity In Years	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available-for-Sale Securities					
U.S. Treasury securities	0-1	$ 2,999,281	$ 11,032	$ -	$ 3,010,313
	1-5	3,997,483	24,392	-	4,021,875
Mortgage-backed securities	10-15	10,765,849	54,483	-	10,820,332
	15-30	17,409,949	19,606	232,272	17,197,283
Collateralized mortgage obligations	10-15	8,615,764	6,703	8,842	8,613,625
	15-30	44,482,173	144,731	78,813	44,548,091
		$ 88,270,499	$ 260,947	$ 319,927	$ 88,211,519
Held-to-Maturity Securities					
U.S. Treasury securities	0-1	$ 199,528	$ 74	$ -	$ 199,602
Mortgage-backed securities	1-5	2,925,256	41,405	-	2,966,661
	5-10	967,857	31,626	-	999,483
	10-15	2,160,079	-	38,990	2,121,089
Collateralized mortgage obligations	5-10	2,128,125	-	58,523	2,069,602
	10-15	1,243,321	409	26,900	1,216,830
	15-30	8,592,361	4,235	314,037	8,282,559
		$ 18,216,527	$ 77,749	$ 438,450	$ 17,855,826
Total Investment and Mortgage Securities		$ 106,487,026	$ 338,696	$ 758,377	$ 106,067,345

NOTE C - INVESTMENT AND MORTGAGE SECURITIES - Continued

Unrealized gains or losses relating to investment and mortgage securities, the corresponding tax effects and amounts recorded directly to stockholders' equity at December 31, 1997 and 1996 are:

	December 31, 1997	December 31, 1996
Net unrealized loss on securities available-for-sale	$ (8,493)	$ (58,980)
Net transfer discount on securities transferred from available-for-sale to held-to-maturity	(73,958)	(50,938)
Net deferred tax asset	32,601	43,461
Net unrealized loss recorded to stockholders' equity	$ (49,850)	$ (66,457)

At December 31, 1997 and 1996, approximately $26,660,000 and $16,058,000, respectively, of mortgage securities were pledged to secure public unit deposits. At December 31, 1997 and 1996, mortgage securities having a par value of approximately $20,982,000 and $77,457,000, respectively, were pledged to secure Federal Home Loan Bank advances and other borrowings.

The following table presents components of gains and losses realized on sales of available-for-sale investment securities:

	December 31, 1997	December 31, 1996
Gains	$ 1,129,396	$ 788,402
Losses	(150,445)	(497,862)
	$ 978,951	$ 290,540

NOTE D - LOANS

Loans consisted of the following:

	December 31, 1997	December 31, 1996
First mortgage loans held for sale:		
Conventional	$ 2,981,393	$ 4,455,892
FHA insured and VA insured	3,336,509	6,747,402
Total first mortgage loans held for sale	6,317,902	11,203,294
Deferred loan fees, net	(31,572)	(35,668)
	$ 6,286,330	$ 11,167,626
First mortgage loans held for investment:		
Conventional	$ 80,423,596	$ 74,336,042
FHA insured and VA guaranteed	33,140,157	26,680,009
Construction and land	8,464,480	8,426,984
Loans in process	(3,010,143)	(2,699,600)
Total first mortgage loans held for investment	119,018,090	106,743,435
Savings account loans	902,814	691,565
Installment and other loans	5,335,749	3,791,224
Unearned discounts	(17,905)	(14,486)
	125,238,748	111,211,738
Allowance for loan losses	(313,022)	(283,846)
Deferred loan fees, net	(233,343)	(324,651)
	$ 124,692,383	$ 110,603,241

Net gains from sales of loans were $1,570,362 and $1,214,387 in 1997 and 1996, respectively.

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE D - LOANS - Continued

At December 31, 1997 and 1996, approximately $113,617,000 and $105,530,000, respectively, of mortgage loans were pledged to secure Federal Home Loan Bank advances and other borrowings.

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

	December 31, 1997	December 31, 1996
Balance at beginning of year	$ 283,846	$ 459,999
Recoveries	8	6,931
Loan loss provision	33,990	(164,114)
Charge-offs	(4,822)	(18,970)
Balance at end of year	$ 313,022	$ 283,846

Impaired loans on nonaccrual status totaled approximately $1,670,000 and $544,000 at December 31, 1997 and 1996, respectively. Based on management analysis, there were no other impaired loans as of December 31, 1997 or 1996. Management determined that a valuation allowance for impaired loans is not required as the collateral value of the impaired loans exceeded the Bank's recorded investment. The Bank had no outstanding commitments to lend additional funds to debtors with impaired loans. The average recorded investment in impaired loans for the years ended December 31, 1997 and 1996 was $1,979,000 and $628,000, respectively.

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

	December 31, 1997	December 31, 1996
Interest income that would have been recorded	$ 10,961,944	$ 9,316,783
Interest income recognized	10,988,781	9,333,235
Interest income foregone, net of recoveries of interest on loans previously charged-off	$ (26,837)	$ (16,452)

NOTE E - OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment consisted of:

	December 31, 1997	December 31, 1996
Land	$ 1,017,065	$ 1,017,065
Buildings and leasehold improvements	3,584,554	3,595,108
Furniture, equipment and autos	2,480,291	3,249,690
Construction in progress	240,862	-
	7,322,772	7,861,863
Accumulated depreciation	(2,774,127)	(3,351,599)
Office properties and equipment, net	$ 4,548,645	$ 4,510,264

Construction in progress as of December 31, 1997 consisted of land and construction costs related to two new branch facilities being prepared to open for operations in 1998.

During 1997, $903,400 of fully depreciated furniture and fixtures were retired and removed from the books.

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE F - MORTGAGE SERVICING RIGHTS AND 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:

	December 31, 1997	December 31, 1996
Mortgage loans underlying pass-through securities:		
GNMA	$ 142,271,938	$ 140,609,787
FNMA	41,975,140	29,556,997
FHLMC	3,568,765	4,531,643
	187,815,843	174,698,427
Mortgage loan portfolios serviced for:		
FNMA	140,754,550	154,391,066
FHLMC	106,239,158	123,174,772
Other investors	10,401,741	10,173,001
	257,395,449	287,738,839
	$ 445,211,292	$ 462,437,266

Custodial balances on deposit at Pioneer, in connection with the foregoing loan servicing, amounted to $11,107,180 and $10,225,244 at December 31, 1997 and 1996, respectively.

An analysis of changes in mortgage servicing rights follows:

	December 31, 1997	December 31, 1996
Balance, beginning of year	$ 2,937,357	$ 1,913,415
Additions:		
Capitalized	579,078	587,468
Purchased	-	815,894
Sales	(955)	(41,680)
Amortization	(428,047)	(337,740)
Balance, end of year	$ 3,087,433	$ 2,937,357

Based on management's evaluation of the fair value of the mortgage servicing rights, a valuation allowance for impairment of the carrying value was not considered necessary as of and for the years ended December 31, 1997 or 1996.

NOTE G - INVESTMENTS IN REAL ESTATE

Investments in real estate acquired in settlement of loans and through foreclosure, were $186,510 and $214,962 as of December 31, 1997 and 1996, respectively. There were no allowances for losses on investments in real estate as of December 31, 1997 or 1996. There were no provisions or charge-offs relating to investments in real estate during the years ended December 31, 1997 and 1996, respectively.

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE H - DEPOSITS

A comparative summary of deposits follows:

	Average Rate	December 31, 1997	Average Rate	December 31, 1996
Non-interest bearing	0.00%	$ 17,379,368	0.00%	$ 13,690,001
Passbook	3.58%	11,487,731	3.00%	7,837,556
NOW accounts	1.92%	12,747,518	1.91%	10,908,930
Super NOW accounts	2.21%	2,682,600	2.22%	2,616,782
Money market deposit accounts (MMDA)	4.04%	15,962,882	3.39%	10,919,140
Certificates of deposit	5.46%	84,192,228	5.45%	87,964,504
Jumbo certificates of deposit < 1 year	5.39%	33,933,993	5.09%	12,541,310
Jumbo certificates of deposit > 1 year	5.92%	4,740,504	5.89%	3,495,788
		$ 183,126,824		$ 149,974,011

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

	December 31,	
Rate	1997	1996
0.00%	$ 17,503,574	$ 14,304,160
1.00% - 2.00%	11,303,494	9,936,944
2.01% - 3.00%	10,519,188	9,846,022
3.01% - 4.00%	10,773,503	11,578,606
4.01% - 5.00%	9,095,038	7,572,707
5.01% - 6.00%	117,620,875	85,222,344
6.01% - 7.00%	5,913,130	11,009,007
7.01% - 8.00%	398,022	504,221
	$ 183,126,824	$ 149,974,011

The amount of deposit accounts with overdraft balances that have been reclassified as loans were $2,695 and $4,721 at December 31, 1997 and 1996, respectively.

A comparative summary of deposits by term to maturity follows:

	December 31,	
	1997	1996
No contractual maturities	$ 60,263,529	$ 45,972,409
Under 12 months	99,230,559	77,960,926
13 months to 24 months	12,174,217	16,884,017
25 months to 36 months	6,281,016	3,464,711
37 months to 48 months	1,481,845	4,067,439
49 months to 60 months	3,692,559	1,598,324
Over 60 months	3,099	26,185
	$ 183,126,824	$ 149,974,011

At December 31, 1997 and 1996, approximately $26,660,000 and $16,058,000, respectively, of mortgage securities were pledged to secure public unit deposits.

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE H - DEPOSITS - Continued

Interest expense on deposits was comprised of:

	December 31, 1997	December 31, 1996
Passbook	$ 332,805	$ 206,721
NOW, Super NOW and MMDA's	680,627	575,970
Certificates of Deposit	5,939,217	5,640,764
	$ 6,952,649	$ 6,423,455

During 1996, President Clinton signed into law legislation to recapitalize the Savings Association Insurance Fund (SAIF) through a one time special assessment to institutions insured by SAIF. The Bank recorded an expense of approximately $863,000 relating to the special assessment in 1996, which is included in deposit insurance premiums in the accompanying consolidated financial statements.

NOTE I - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

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, 1997 and 1996, the Bank's advances were secured by a blanket assignment of mortgage loans with a market value greater than the amount of outstanding advances. At December 31, 1997 and 1996, mortgage securities having a par value of approximately $20,982,000 and $77,457,000, respectively and mortgage loans of approximately $113,617,000 and $105,530,000, respectively, were pledged to secure Federal Home Loan Bank advances and other borrowings. A summary of advances and borrowings follows:

	Maturity Date	Rate	December 31, 1997	December 31, 1996
FHLB Borrowings	1-03-97	5.80%	$ -	$ 25,000,000
	1-06-97	5.80%	-	25,000,000
	1-09-97	5.53%	-	17,000,000
	1-08-98	5.90%	15,600,000	-
FHLB Advances	3-01-99	5.47%	10,000,000	10,000,000
Reverse Repurchase Agreements	1-06-98	4.50%	5,012,500	-
Treasury, Tax and Loan			190,000	96,723
			$ 30,802,500	$ 77,096,723

NOTE J - INCOME TAXES

The Bank records tax expense equal to the sum of deferred tax expense and income taxes currently payable or refundable. Total income tax expense in the accompanying consolidated statements of income are:

	December 31, 1997	December 31, 1996
Current:		
Federal	$ 1,644,137	$ 518,738
State	238,381	77,811
Deferred:		
Federal	82,296	679,639
State	13,414	110,796
	$ 1,978,228	$ 1,386,984

PIONEER SAVINGS BANK AND SUBSIDIARY

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:

	December 31, 1997	December 31, 1996
Computed "expected" tax expense	$ 1,823,909	$ 1,258,882
Change in base year amount of tax bad debt reserves	-	(3,160)
State income taxes	163,129	114,042
Other	(8,810)	17,220
	$ 1,978,228	$ 1,386,984

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 amount for tax purposes which arose after 1987, 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 costs for tax purposes and the deferral of deductions for accrued liabilities under the Bank's medical and dental benefit plan. Certain unrealized gains and losses on available-for-sale securities, which are deferred under FAS No. 115 for financial statement reporting purposes, are recognized currently for income tax purposes. The Bank recognized current taxes receivable of $33,270 in 1996 related to these unrealized gains and losses on such securities.

Deferred taxes consisted of:

	December 31, 1997	December 31, 1996
Deferred tax assets	$ 344,036	$ 293,999
Deferred tax liabilities	(2,178,659)	(1,999,638)
	$ (1,834,623)	$ (1,705,639)

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.

As of January 1, 1996, Internal Revenue Code (IRC) Section 593, which allowed thrifts an 8% taxable income deduction for bad debts, was repealed. The Bank is required to recapture, over a six year period, its bad debt reserve into income to the extent its reserve at December 31, 1995 exceeded its reserve recalculated without regard to IRC Section 593. The amount to be recaptured totals $679,379, for which a deferred tax liability has been recorded. The recapture can be deferred for up to two years contingent upon the Bank's residential loan portfolio continuing to grow. Management anticipates that the Bank will be able to defer the above recapture due to the Bank's growth in the mortgage loan portfolio.

The permanent deferral of bad debt reserves prior to 1988 will not be affected by the repeal of Section 593. 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, 1997. 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 qualifying financial institution 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.

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE K - REGULATORY CAPITAL

The Bank is subject to certain restrictions on the amount of dividends it may declare without prior regulatory approval. The Bank is also subject to various regulatory capital requirements administered by the Office of Thrift Supervision (OTS). Failure to meet minimum capital requirements can initiate certain mandatory—and possible additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier 1 Capital (as defined by regulation) to Risk Weighted Assets (as defined), and Tier 1 and Tangible Capital to Adjusted Assets (as defined). Management believes, as of December 31, 1997 and 1996 that the Bank met all regulatory capital adequacy requirements to which it is subject.

The most recent notifications from the OTS as of December 31, 1997 and 1996 categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, Tier 1 leverage and Tangible Capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table:

	Actual		Amount Needed To Be Considered Adequately Capitalized		Amount Needed To Be Considered Well Capitalized Under Prompt Corrective Action	
As of December 31, 1997:	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk Weighted Assets)	$ 17,917,444	19.9%	$ 7,206,186	8.0%	$ 9,007,732	10.0%
Core Capital (to Adjusted Tangible Assets)	17,790,932	7.5	9,542,134	4.0	11,927,668	5.0
Tangible Capital (to Tangible Assets)	17,790,932	7.5	3,578,300	1.5	N/A	
Tier 1 Capital (to Risk Weighted Assets)	17,790,932	19.8	N/A		5,404,639	6.0
As of December 31, 1996:						
Total Capital (to Risk Weighted Assets)	$ 15,532,081	17.7%	$ 7,016,612	8.0%	$ 8,770,765	10.0%
Core Capital (to Adjusted Tangible Assets)	15,463,197	6.2	9,994,840	4.0	12,493,588	5.0
Tangible Capital (to Tangible Assets)	15,463,197	6.2	3,748,076	1.5	N/A	
Tier 1 Capital (to Risk Weighted Assets)	15,463,197	17.6	N/A		5,262,459	6.0

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE L - COMMITMENTS AND CONTINGENCIES

OPERATING LEASES: The Bank leases office space for administrative offices and certain branch offices under various operating leases with terms ranging through 2000. Lease payments included in occupancy expense totaled $208,618 and $206,321 for the years ended December 31, 1997 and 1996, respectively. Future annual minimum lease payments under the Bank's non-cancelable operating leases outstanding, as of December 31, 1997, were:

December 31,		
1998	$	203,821
1999		63,282
2000		15,070
	$	282,173

LITIGATION: 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 consolidated financial statements. With regard to any actions in process at December 31, 1997, management of the bank intends to vigorously defend those actions, and it is their opinion as well as the opinion of legal counsel, that the resolution of such matters will not have a material adverse effect on the Bank's financial position or results of operations.

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 INTEREST-BEARING DEPOSITS: For these short-term instruments, their carrying amount is a reasonable estimate of fair value. The carrying amounts at December 31, 1997 and 1996, as presented in Note B were $7,638,675 and $6,341,937 respectively.

INVESTMENT AND MORTGAGE 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 total estimated fair value of the investment securities, at December 31, 1997 and 1996, as presented in Note C, were $83,787,180 and $106,067,345, respectively. The carrying amount of such investments totals $84,033,754 and $106,428,046, at December 31, 1997 and 1996, respectively.

ACCRUED INTEREST RECEIVABLE: The fair value approximates the carrying amount because the balance is expected to be collected or paid in 90 days or less. The carrying amounts at December 31, 1997 and 1996 were $1,154,264 and $1,146,946, respectively.

LOANS AND LOANS HELD FOR SALE: As presented on the following page, 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 allowance for 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.

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The following table presents information for loans:

	December 31, 1997		December 31, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loans Held for Investment:				
1-4 Family and participations	$ 107,527,598	$ 107,916,545	$ 94,327,116	$ 95,574,927
Multi-family and participation	6,085,755	5,842,535	6,688,935	5,890,085
Deferred fees and valuation allowance	(369,142)	-	(458,195)	-
	113,244,211	113,759,080	100,557,856	101,465,012
Construction Loans:				
Construction	5,454,337	5,457,816	5,727,384	5,724,650
Deferred fees and valuation allowance	(78,581)	-	(85,064)	-
	5,375,756	5,457,816	5,642,320	5,724,650
Loans held for sale:				
Mortgages held for sale	6,317,902	6,349,609	11,203,294	11,243,061
Deferred fees and valuation allowance	(31,572)	-	(35,668)	-
	6,286,330	6,349,609	11,167,626	11,243,061
Second Mortgages	1,818,323	1,818,056	1,361,212	1,423,817
Deferred fees	(11,746)	-	(18,991)	-
	1,806,577	1,818,056	1,342,221	1,423,817
Savings Account Loans	902,814	903,535	691,565	692,908
Consumer and Commercial:				
Consumer and commercial	3,467,826	3,458,259	2,430,012	2,326,656
Deferred fees and valuation allowance	(104,801)	-	(60,733)	-
	3,363,025	3,458,259	2,369,279	2,326,656
	$ 130,978,713	$ 131,746,355	$ 121,770,867	$ 122,876,104

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

MORTGAGE SERVICING RIGHTS: The fair value of mortgage servicing rights based on external appraisals is:

	December 31, 1997		December 31, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Bulk	$ 1,432,482	$ 2,293,808	$ 1,659,874	$ 3,069,768
Correspondent	853,887	1,395,970	833,667	1,654,764
Originated	801,064	2,906,209	443,816	3,231,415
	$ 3,087,433	$ 6,595,987	$ 2,937,357	$ 7,955,947

INTEREST RATE CAP AGREEMENTS: The fair value of interest rate cap agreements is the estimated amount that the Bank would receive to terminate the agreements at the reporting date, considering current interest rates.

The following is a summary of the carrying amount, included in other assets, and estimated fair value of the interest rate cap as of:

	December 31, 1997			December 31, 1996		
	Notional Amount (millions)	Carrying Amount	Fair Value	Notional Amount (millions)	Carrying Amount	Fair Value
Interest rate cap agreements	$ 5	$ 47,000	$ 2,000	$ 15	$ 127,295	$ 14,500

DEPOSITS: The fair value of deposits with no stated maturity, such as non-interest bearing deposits, passbook, NOW, super NOW and MMDA accounts is equal to the amount payable on demand. The fair values of certificates of deposit 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 the estimated fair value of deposits as of:

	December 31, 1997		December 31, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-interest bearing	$ 17,379,368	$ 17,379,368	$ 13,690,001	$ 13,960,001
Passbook	11,487,731	11,487,731	7,837,556	7,837,556
NOW accounts	12,747,518	12,747,518	10,908,930	10,908,930
Super NOW accounts	2,682,600	2,682,600	2,616,782	2,616,782
Money market deposit accounts	15,962,882	15,962,882	10,919,140	10,919,140
Certificates of deposit	84,192,228	84,278,529	87,964,504	87,989,665
Jumbo certificates of deposit	38,674,497	38,735,383	16,037,098	16,045,409
	$ 183,126,824	$ 183,274,011	$ 149,974,011	$ 150,277,483

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

FHLB ADVANCES AND OTHER BORROWINGS: The fair value of FHLB advances and other 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:

		December 31, 1997		December 31, 1996	
	Maturity Date	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FHLB Borrowings:	1-03-97	$ -	$ -	$ 25,000,000	$ 25,000,000
	1-06-97	-	-	25,000,000	25,000,000
	1-09-97	-	-	17,000,000	17,000,000
	1-08-98	15,600,000	15,600,000	-	-
FHLB Advances:	3-01-99	10,000,000	9,918,728	10,000,000	10,000,000
Reverse Repurchase Agreements:	1-06-98	5,012,500	5,012,500	-	-
Treasury, Tax and Loan		190,000	190,000	96,723	96,723
		$ 30,802,500	$ 30,721,228	$ 77,096,723	$ 77,096,723

ACCRUED INTEREST PAYABLE: The fair value approximates the carrying amount because the balance is expected to be collected or paid in 90 days or less. The carrying amounts at December 31, 1997 and 1996 were $166,375 and $153,666, respectively.

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS: The fair values of off-balance-sheet financial instruments at December 31, 1997 are not significant due to the short term nature of the commitments.

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 contract or notional amounts of financial instruments whose contract amounts represent credit risk at December 31, 1997 are:

Undisbursed portion of construction loans	$ 2,845,241
Commitments to originate loans	1,347,201
Commitments to purchase loans	476,190
Loans sold with recourse	184,229
	$ 4,852,861

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.

PIONEER SAVINGS BANK AND SUBSIDIARY

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 made by the Bank to eligible employee compensation and plan expenses, included in compensation and employee benefits in the accompanying consolidated statements of income, were as follows for 1997 and 1996:

Year	Match	Compensation	Expense
1997	100%	4.0%	$ 73,411
1996	100%	3.5%	$ 57,219

The Bank maintains a non-qualified retirement plan (hereinafter referred to as an Indexed Retirement Plan or "IRP") for certain key executive officers. At the time the IRP was established, 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 the Bank's cost of funds. The Bank recorded accrued benefits of $26,459 and $25,915 as of December 31, 1997 and 1996, respectively under the IRP. As of December 31, 1997 and 1996, the cash surrender value of the life insurance policies under the IRP were approximately $934,000 and $893,000, respectively.

NOTE P - RELATED PARTY TRANSACTIONS

An analysis of loans over $60,000 to directors and executive officers is:

	Years Ended December 31, 1997	1996
Balance at beginning of year	$ 309,177	$ 316,376
Principal repayments	(7,975)	(7,199)
Balance at end of year	$ 301,202	$ 309,177

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 features unfavorable to the Bank.

A Director of the Bank is of counsel to a law firm that serves as general counsel for the Bank. This firm received approximately $8,600 and $8,700 for legal services rendered to the Bank in the years ended December 31, 1997 and 1996, respectively.

ARTHUR ANDERSEN LLP

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

We have audited the accompanying consolidated statements of financial condition of Pioneer Savings Bank and subsidiary as of December 31, 1997 and 1996, 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Pioneer Savings Bank and subsidiary as of December 31, 1997 and 1996, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Albuquerque, New Mexico
February 20, 1998

SELECTED FINANCIAL DATA -- Unaudited

PIONEER SAVINGS BANK AND SUBSIDIARY

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

	1997	1996	1995	1994	1993
Interest income	$ 17,514,029	$ 15,889,614	$ 13,906,154	$ 11,874,103	$ 11,585,168
Interest expense	10,684,399	9,663,313	8,246,486	6,118,044	6,464,224
Net interest income	6,829,630	6,226,301	5,659,668	5,756,059	5,120,944
Net income	3,386,211	2,315,609	3,345,889	2,007,628	1,642,686
Per share data:					
Net income	3.36	2.30	3.32	1.99	1.63
Dividends	1.05	0.85	0.60	0.40	0.15
Investment and mortgage securities	84,033,754	106,428,046	114,111,048	89,559,239	81,916,898
Loans	130,978,713	121,770,867	94,017,223	73,346,551	85,260,396
Total assets	238,503,512	249,926,227	225,063,709	179,939,949	191,305,030
Deposits	183,126,824	149,974,011	146,807,779	134,891,178	141,062,322
Borrowings	30,802,500	77,096,723	58,213,760	29,339,056	35,375,025
Stockholders' equity	17,741,082	15,396,740	14,317,583	11,023,500	9,659,007
Loans serviced for others (in thousands)	445,211	462,437	427,257	562,621	488,407
Customer service facilities:					
Full service branch facilities	6	6	6	6	6
Loan production offices	3	3	3	3	2

PIONEER SAVINGS BANK AND SUBSIDIARY

VOLUME AND RATE ANALYSIS
(000's OMITTED)

1997 Compared to 1996:

	Average Volume		Average Rate		Interest			Interest Variance Attributable to:	
	1997	1996	1997	1996	1997	1996	Interest Variance	Volume	Rate
Interest income:									
Loans	$ 131,772	$ 111,700	8.34%	8.36%	$ 10,989	$ 9,333	$ 1,656	$ 1,674	$ (18)
Mortgage securities	84,100	92,429	6.60%	6.55%	5,554	6,056	(502)	(550)	48
Investments	15,598	7,860	6.23%	6.36%	971	500	471	482	(11)
Total interest earning assets	$ 231,470	$ 211,989	7.57%	7.50%	$ 17,514	$ 15,889	$ 1,625	$ 1,606	$ 19
Interest expenses:									
Deposits	$ 160,900	$ 149,261	4.32%	4.30%	$ 6,953	$ 6,423	$ 530	$ 503	$ 27
Borrowed funds	66,917	58,071	5.58%	5.58%	3,731	3,240	491	493	(2)
Total interest bearing liabilities	$ 227,817	$ 207,332	4.69%	4.66%	$ 10,684	$ 9,663	$ 1,021	$ 996	$ 25
Net interest spread and income			2.88%	2.84%	$ 6,830	$ 6,226			
Ratio of net interest income to average interest earnings assets					3.08%	3.19%			

1996 Compared to 1995:

	Average Volume		Average Rate		Interest			Interest Variance Attributable to:	
	1996	1995	1996	1995	1996	1995	Interest Variance	Volume	Rate
Interest income:									
Loans	$ 111,700	$ 81,845	8.36%	8.68%	$ 9,333	$ 7,102	$ 2,231	$ 2,495	$ (264)
Mortgage securities	92,429	89,954	6.55%	6.83%	6,056	6,145	(89)	162	(251)
Investments	7,860	7,094	6.36%	9.29%	500	659	(159)	49	(208)
Total interest earning assets	$ 211,989	$ 178,893	7.50%	7.77%	$ 15,889	$ 13,906	$ 1,983	$ 2,706	$ (723)
Interest expenses:									
Deposits	$ 149,261	$ 139,871	4.30%	4.19%	$ 6,423	$ 5,863	$ 560	$ 404	$ 156
Borrowed funds	58,071	37,985	5.58%	6.27%	3,240	2,383	857	1,121	(264)
Total interest bearing liabilities	$ 207,332	$ 177,856	4.66%	4.63%	$ 9,663	$ 8,246	$ 1,417	$ 1,525	$ (108)
Net interest spread and income			2.84%	3.14%	$6,226	$5,660			
Ratio of net interest income to average interest earnings assets					3.19%	3.28%			

CORPORATE INFORMATION

PIONEER SAVINGS BANK

GENERAL INFORMATION

Pioneer Savings Bank is a federally chartered stock savings bank. The Bank's deposits are insured by the FDIC through the Savings Association Insurance Fund. 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 North Pennsylvania
P.O. Box 130
Roswell, NM 88202

INDEPENDENT PUBLIC ACCOUNTANTS

Arthur Andersen LLP
6501 Americas Parkway, Northeast, 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 2:00 P.M. on April 21, 1998 at the Sally Port Inn, 2000 North 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 $20.02 - $22.09 per share. As of December 31, 1997, there were approximately 367 holders of record of Pioneer common stock. Dividends of $1.05 per share were declared in 1997.

BOARD OF DIRECTORS

PIONEER SAVINGS BANK

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
Daniel A. Hostetler
Alan W. Johnson
Susan F. Keohane
Robert W. Mays
Scott E. Mohrhauser
Dee Ann Nunez
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
Janie L. Hartwich
April L. Rue
Debi W. Rupe
Carolyn S. Shanley
Robert D. Vie
Debra M. Young

Secretary
Barba N. McCampbell

Assistant Secretary
Paula L. Ridgway
Anna K. Ritchey
Nancy L. Smith
Lanice A. White

Pioneer Mortgage Company

Vice President
Freida J. Goodrum
Pamela A. Sparks

PIONEER SAVINGS BANK

306 North Pennsylvania, P.O. Box 130, Roswell, New Mexico 88201
300 South Sunset Avenue, Roswell, New Mexico 88201
3301 North Main Street, Roswell, New Mexico 88201 (Opening 1998)
(505) 624-5200

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

10^{th} at Puerto Rico, P.O. Box 1707, Alamogordo, New Mexico 88310
(505) 437-9075

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

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

1155 South 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 East University - Suite 7, Odessa, Texas 79762
(915) 550-2060

Deposits
Federally Insured
to $100,000