PIONEER SAVINGS BANK

1998 ANNUAL REPORT

PIONEER SAVINGS BANK

March 10, 1999

Dear Stockholder:

1998 was an outstanding year for your bank. Pioneer Savings Bank's year-end operating results showed record levels in most areas: deposits, total assets, net income, stockholders' equity, dividends paid, and stock prices. Deposits increased $41.9 million, about 22.9%. Net income was $3,601,198, or $3.57 per share of stock. Pioneer's earnings for the year resulted in an average return of 1.3% on average assets and a return of 19.1% on our average equity. Total assets increased to $312.2 million, approximately 30.9%. After payment of dividends of $1.15, stockholders' equity rose to $20,068,720, an average of $19.90 per share outstanding. Stock trades in December 1998 ranged from $27.21 to $27.72 per share, which compares to $22.09 per share in the fourth quarter of 1997.

Pioneer's excellent operating results were positively impacted by increases in net interest income, gain on sale of loans and gain on sale of investment and mortgage securities. Our net interest income grew as a result of the continuing strategy of increasing our investments in loans. Pioneer's loan portfolio grew to a total of $165.1 million, an increase of $40.4 million. This loan growth was facilitated by Pioneer's successful strategy of aggressively soliciting savings deposits and developing new customer relationships.

Another significant increase in 1998's operations included a 65% increase in loan production, totaling $184.5 million for the year. The majority of those loans were sold in the national secondary market and were added to our servicing portfolio. Despite these additions to the servicing portfolio, servicing volume declined due to record levels of refinances of loans serviced.

This year was the first full year of operation for our two savings branches in Roswell. Although these savings branches were partially responsible for our significant growth in savings deposits in the Chaves County area, they also contributed to increases in our operating expenses.

In Memoriam

On July 12, 1998 we were saddened by the death of Rex Desmond. He will be remembered not only for his profound contributions to the Bank, but for the many years that he served our community. We are honored to dedicate this Annual Report in his memory.

PIONEER SAVINGS BANK AND SUBSIDIARY

Since 1997, Pioneer Savings Bank has been actively reviewing all of our date sensitive computer systems in order to assess the possible effects of the upcoming Year 2000, commonly referred to as Y2K. All of our mission critical systems have been tested by rolling the date forward to the year 2000 and performing transactions as if they occurred in the year 2000. We are pleased to inform you that our tests showed accurate results and were not influenced by the year 2000 date change. You can be confident knowing that your bank will be ready for the new millennium.*

Pioneer's 1999 Business Plan is based on your bank experiencing another year of significant deposit growth, even though we expect income to be less than our record performance of 1998. Depressed oil prices are having a negative effect on our branch offices located in the oil patch, and we expect that loan production and savings growth will decline in those areas. We also project that rising interest rates (at least through the first half of 1999) will cause our loan production to be less than the record levels we experienced this past year. However, despite the depressed economy in the oil patch and the possibility of higher interest rates, we are confident that your bank will continue to grow and prosper as we enter the new millennium.

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

Sincerely,

PIONEER SAVINGS BANK

George W. Mitchell

George W. Mitchell
President

* Year 2000 Readiness Disclosure

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

PIONEER SAVINGS BANK AND SUBSIDIARY

	December 31, 1998	December 31, 1997
ASSETS:		
Cash and cash equivalents - Note B	$ 8,820,041	$ 7,638,675
Investment and mortgage securities - Note C		
Available-for-sale	87,496,393	68,555,136
Held-to-maturity	9,688,157	15,478,618
Loans held for sale, net - Note D	24,735,463	6,286,330
Loans, net - Notes D and P	165,051,767	124,692,383
Office properties and equipment, net - Note E	4,833,482	4,548,645
Federal Home Loan Bank (FHLB) stock	3,439,100	4,442,100
Mortgage servicing rights, net - Note F	3,026,320	3,087,433
Accrued interest receivable	1,313,924	1,154,264
Investments in real estate - Note G	319,126	186,510
Other assets	3,452,221	2,433,418
TOTAL ASSETS	$ 312,175,994	$ 238,503,512
LIABILITIES:		
Deposits - Note H	$ 225,022,207	$ 183,126,824
FHLB advances and other borrowings - Note I	57,513,179	30,802,500
Official checks	4,335,760	2,391,582
Deferred tax liabilities, net - Note J	1,743,163	1,834,623
Advance payments for taxes and insurance	1,365,788	1,094,174
Accrued interest payable	430,981	166,375
Accounts payable and other liabilities	1,696,196	1,346,352
TOTAL LIABILITIES	292,107,274	220,762,430
COMMITMENTS AND CONTINGENCIES - Notes D, L, M and N		
STOCKHOLDERS' EQUITY - Note K:		
Capital stock, $1 par value, 2,000,000 shares authorized: 1,008,247 and 1,008,108 shares outstanding at December 31, 1998 and 1997, respectively	1,008,247	1,008,108
Additional paid-in capital	40,937	37,357
Retained earnings	19,187,259	16,745,467
Accumulated other comprehensive income	(167,723)	(49,850)
TOTAL STOCKHOLDERS' EQUITY	20,068,720	17,741,082
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 312,175,994	$ 238,503,512

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, 1998	1997
INTEREST INCOME:		
Loans - Note D	$ 12,603,221	$ 10,988,781
Mortgage securities	5,008,698	5,553,927
Investment securities and other	718,557	971,321
	18,330,476	17,514,029
INTEREST EXPENSE:		
Deposits - Note H	8,583,438	6,952,649
FHLB advances and other borrowings	2,566,661	3,731,750
	11,150,099	10,684,399
NET INTEREST INCOME	7,180,377	6,829,630
LOAN LOSS PROVISION - Note D	56,600	33,990
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	7,123,777	6,795,640
OTHER INCOME:		
Loan administration and service fees	2,341,142	2,326,165
Gain on sale of loans, net - Note D	1,792,004	1,570,362
Gain on sale of investment and mortgage securities, net - Note C	1,635,481	978,951
Other	847,872	655,571
	6,616,499	5,531,049
OTHER EXPENSES:		
Compensation and employee benefits - Note O	4,058,544	3,685,625
Amortization and valuation of mortgage servicing rights	663,890	428,528
Occupancy	582,579	521,898
Data processing	541,941	472,492
Equipment	467,900	459,245
Stationery, printing and office supplies	294,376	239,776
Advertising	281,472	234,855
Professional and supervisory	218,769	214,974
Telephone	168,748	134,904
Deposit insurance premiums	113,809	99,860
Other	605,862	470,093
	7,997,890	6,962,250
INCOME BEFORE INCOME TAX EXPENSE	5,742,386	5,364,439
INCOME TAX EXPENSE - Note J	2,141,188	1,978,228
NET INCOME	$ 3,601,198	$ 3,386,211
Weighted average number of common shares outstanding	1,008,112	1,008,107
Net income per share	$ 3.57	$ 3.36
Dividends per share	$ 1.15	$ 1.05

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, 1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 3,601,198	$ 3,386,211
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) of:		
Mortgage servicing rights	581,366	428,047
Premiums and discounts on investment and mortgage securities	(179,304)	(55,555)
Loan loss provision	56,600	33,990
Mortgage servicing right impairment provision	82,524	-
Net gain on sales of:		
Loans	(1,792,004)	(1,570,362)
Office properties and equipment	(35,320)	(2,975)
Investments in real estate	(568)	(571)
Investment and mortgage securities available-for-sale	(1,635,481)	(978,951)
Depreciation of office properties and equipment	378,272	366,091
Origination of mortgage loans held for sale	(49,597,023)	(24,599,685)
Securitization of mortgage loans held for sale and sale of mortgage-backed securities	32,337,117	30,472,265
Changes in operating assets and liabilities:		
Accrued interest receivable	(159,660)	(7,318)
Other assets	(1,018,803)	239,730
Official checks	1,944,178	(1,144,758)
Deferred tax liabilities, net of tax effect of unrealized losses	(14,373)	118,124
Accrued interest payable	264,606	12,709
Accounts payable and other liabilities, net of dividends declared, not paid	299,355	160,149
Total adjustments	(18,488,518)	3,470,930
Net cash (used) provided by operating activities	(14,887,320)	6,857,141
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan originations and principal payments on loans, net	(40,584,323)	(14,123,132)
Held-to-maturity investment and mortgage securities:		
Purchases	(195,139)	(389,688)
Maturities and principal reductions	6,033,074	3,128,364
Available-for-sale investment and mortgage securities:		
Purchases	(129,111,802)	(100,460,949)
Sales	94,058,988	114,532,736
Maturities and principal reductions	17,683,908	6,645,802
Purchases of office properties and equipment	(688,473)	(404,472)
Proceeds from sales of office properties and equipment	60,684	2,975
Proceeds from sale of mortgage servicing rights	-	955
Proceeds from sales (purchases) of FHLB stock	1,003,000	(539,400)
Proceeds from sales of investments in real estate	36,291	29,023
Net cash (used) provided by investing activities	(51,703,792)	8,422,214

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, 1998	1997
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	41,895,383	33,152,813
Additions to FHLB advances and other borrowings	47,323,179	20,705,777
Payments on FHLB advances and other borrowings	(20,612,500)	(67,000,000)
Decrease in advance payments for taxes and insurance	271,614	116,459
Sales of capital stock	3,719	36
Payment of cash dividends	(1,108,917)	(957,702)
Net cash provided (used) by financing activities	67,772,478	(13,982,617)
Increase in cash and cash equivalents	1,181,366	1,296,738
Cash and cash equivalents beginning of year	7,638,675	6,341,937
Cash and cash equivalents end of year	$ 8,820,041	$ 7,638,675
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid (received) during the year for:		
Interest	$ 10,885,493	$ 10,671,690
Income taxes	2,665,000	1,855,320
Income tax refunds	(170,250)	(120,926)
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Dividends declared, not paid	$ 604,948	$ 554,459
Net change in unrealized (gains) losses on investment securities	206,186	(50,487)
Accretion (amortization) of discount on mortgage securities transferred from available-for-sale to held-to-maturity	11,226	(23,020)
Change in tax effect of net unrealized losses (gains) on investment securities	77,087	(10,860)
Mortgage servicing rights capitalized	602,777	579,078
Real estate acquired through, or in lieu of, foreclosure	168,339	-

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	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 1996	$ 1,008,107	$ 37,322	$ 14,417,768	$ (66,457)	$ 15,396,740
Stock issued	1	35	-	-	36
Comprehensive income:					
Net income	-	-	3,386,211	-	
Net change in unrealized (losses) gains on securities, net of tax.	-	-	-	16,607	
Total comprehensive income					3,402,818
Dividends - $1.05 per share	-	-	(1,058,512)	-	(1,058,512)
Balance, December 31, 1997	1,008,108	37,357	16,745,467	(49,850)	17,741,082
Stock issued	139	3,580	-	-	3,719
Comprehensive income:					
Net income	-	-	3,601,198	-	
Net change in unrealized (losses) gains on securities, net of tax.	-	-	-	(117,873)	
Total comprehensive income					3,483,325
Dividends - $1.15 per share	-	-	(1,159,406)	-	(1,159,406)
Balance, December 31, 1998	$ 1,008,247	$ 40,937	$ 19,187,259	$ (167,723)	$ 20,068,720

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE A – SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS: Pioneer Savings Bank, "the Bank", operates six full customer service facilities, two savings branches 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 Bank'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 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.

CASH AND CASH EQUIVALENTS: The Bank considers all cash on hand, due from banks and federal funds sold as cash and cash equivalents for purposes of the financial statement presentation.

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, adjusted for premiums and discounts that are recognized in income using the interest method over the period to maturity; and "available-for-sale," reported at fair value, with unrealized gains and losses, net of taxes, reported as a net amount in accumulated other comprehensive income. 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 categorized as 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.

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 that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their unpaid principal balances, less the allowances for loan losses, net deferred loan fees, and unearned discounts.

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

ALLOWANCE FOR LOAN LOSSES: Each period the loan loss provision in the statements of income results from the combination of an estimate by management of loan losses that occurred during the current period and 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.

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: The Bank recognizes, as separate assets, rights to service mortgage loans for others, whether the rights are acquired through purchase or result from the sale or securitization of loans with servicing rights retained. In the case where the mortgage loan is originated and sold, the total cost of the mortgage loan is allocated to the mortgage servicing right and the loan based on their relative fair values.

The carrying amount of mortgage servicing rights, and the amortization thereon, is periodically evaluated in relation to estimated fair value. The Bank stratifies the underlying mortgage portfolio by certain risk characteristics, such as loan type, interest rate and maturity, for purposes of measuring impairment. The Bank estimates the fair value of each stratum by calculating the discounted present value of future net servicing income based on management's best estimate of remaining loan lives. The Bank has determined that the primary risk characteristic of the mortgage servicing rights is the contractual interest rate of the underlying mortgage loans.

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

INVESTMENTS IN REAL ESTATE: Foreclosed real estate is initially recorded at fair value upon acquisition, establishing a new cost basis. 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.

PIONEER SAVINGS BANK AND SUBSIDIARY

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

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 affecting deposits and short-term borrowings and are not for speculation purposes. 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.

INTEREST AND FEES ON LOANS: Interest on loans is accrued and credited to income on a level yield basis. The accrual of interest on impaired loans is discontinued after the loan is 90 days past due or when in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received. Loan origination fees, net of direct origination costs, are deferred and amortized and recognized as an adjustment to the yield of the related loan. 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 allocated 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 tax expenses or benefits 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.

NET INCOME AND DIVIDENDS PER SHARE: Net income per share of common stock has been computed on the basis of the weighted-average number of shares of common stock outstanding. There were no other classes of stock or common stock equivalents at December 31, 1998 or 1997. Dividends are paid based on the actual number of shares outstanding on the day of record.

ACCOUNTING STANDARD ADOPTED: During 1998, the Bank adopted Statement of Financial Accounting Standard (SFAS) No. 130, "Reporting Comprehensive Income." This Statement requires certain items to be recognized as components of other comprehensive income. The Bank must classify items of other comprehensive income by their nature in the financial statements and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the stockholders' equity section of the statement of financial condition. Reclassification of financial statements for earlier periods is provided for comparative purposes.

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

ACCOUNTING STANDARDS ISSUED, NOT YET ADOPTED: In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated statements of financial position and measure those instruments at fair value and if certain conditions are met, it may be recognized as one of three hedging designations. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. This statement is effective for periods beginning after June 15, 1999.

In October 1998, the FASB issued SFAS No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise". SFAS No. 134 requires a mortgage banking enterprise to classify according to SFAS No. 115 any retained mortgage-backed securities after the securitization of a mortgage loan held for sale. It also requires that the enterprise must classify as trading any retained mortgage-backed securities that it commits to sell before or during the securitization process. This statement is effective for periods beginning after December 15, 1998.

Management does not believe the adoption of these statements will have a material affect on these financial statements.

RECLASSIFICATIONS: Certain amounts in the 1997 consolidated financial statements have been reclassified to conform to the 1998 presentation.

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents, subject to regulatory reserve requirements, totaled approximately $888,000 and $546,000 at December 31, 1998 and 1997, respectively. Cash and cash equivalents consisted of the following:

	December 31,	
	1998	1997
Cash and due from banks	$ 7,889,057	$ 6,783,247
Interest bearing deposits	930,984	855,428
	$ 8,820,041	$ 7,638,675

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

PIONEER SAVINGS BANK AND SUBSIDIARY

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, 1998				
	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	$ 1,999,394	$ 606	$ -	$ 2,000,000
	15-30	1,051,546	-	2,946	1,048,600
Mortgage-backed securities	0-1	31,123	-	63	31,060
	10-15	41,011,790	155,605	43,743	41,123,652
	15-30	17,113,436	15,256	132,348	16,996,344
Collateralized mortgage obligations	5-10	10,887,210	83	61,794	10,825,499
	15-30	15,616,574	-	145,336	15,471,238
		$ 87,711,073	$ 171,550	$ 386,230	$ 87,496,393
Held-to-Maturity Securities					
U.S. Treasury securities	0-1	$ 198,350	$ 116	$ -	$ 198,466
Mortgage-backed securities	0-1	1,024,046	-	52	1,023,994
	1-5	399,012	-	6,635	392,377
	5-10	1,541,345	8,059	-	1,549,404
Collateralized mortgage obligations	15-30	6,525,404	4,875	34,922	6,495,357
		$ 9,688,157	$ 13,050	$ 41,609	$ 9,659,598
Total Investment and Mortgage Securities		$ 97,399,230	$ 184,600	$ 427,839	$ 97,155,991

	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

NOTE C - INVESTMENT AND MORTGAGE SECURITIES - Continued

During the year ended December 31, 1994, the Bank transferred mortgage-backed securities and collateralized mortgage obligations from available-for-sale to held-to-maturity. The net transfer discount and the related net 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 net transfer discount is included in accumulated other comprehensive income.

All components of accumulated other comprehensive income for the Bank are directly related to investment securities activity. An analysis of changes in accumulated other comprehensive income follows:

	December 31, 1998	December 31, 1997
Balance, beginning of year	$ (49,850)	$ (66,457)
Net unrealized holding gains on investment securities arising during the period	1,429,295	1,029,438
Reclassification adjustment for gains included in net income	(1,635,481)	(978,951)
Accretion (amortization) of discount on mortgage securities transferred from available-for-sale to held-to-maturity	11,226	(23,020)
Tax effect of other comprehensive income	77,087	(10,860)
Balance, end of year	$ (167,723)	$ (49,850)

At December 31, 1998 and 1997, approximately $15,997,000 and $26,660,000, respectively, of securities were pledged to secure public unit deposits. At December 31, 1998 and 1997, mortgage securities having a par value of approximately $1,200,000 and $20,982,000, 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, 1998	December 31, 1997
Gains	$ 1,735,863	$ 1,129,396
Losses	(100,382)	(150,445)
	$ 1,635,481	$ 978,951

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE D - LOANS

Loans consisted of the following:

	December 31, 1998	December 31, 1997
Loans held for sale:		
Mortgage loans held for sale:		
Conventional	$ 11,804,762	$ 2,981,393
FHA insured and VA insured	12,908,101	3,336,509
Deferred loan costs (fees), net	22,600	(31,572)
Mortgage loans held for sale, net	$ 24,735,463	$ 6,286,330
Loans:		
Mortgage loans held for investment:		
Conventional	$ 107,799,760	$ 80,423,596
FHA insured and VA guaranteed	46,492,766	33,140,157
Construction and land	5,685,518	8,464,480
Loans in process	(3,013,975)	(3,010,143)
Deferred loan costs (fees), net	27,965	(233,343)
Mortgage loans held for investment, net	156,992,034	118,784,747
Consumer loans:		
Savings account loans	987,418	902,814
Installment and other loans	7,440,251	5,335,749
Unearned discounts	(16,868)	(17,905)
Consumer loans, net	8,410,801	6,220,658
Allowance for loan losses	(351,068)	(313,022)
Loans, net	$ 165,051,767	$ 124,692,383

Net gains from sales of loans were $1,792,004 and $1,570,362 in 1998 and 1997, respectively.

At December 31, 1998 and 1997, approximately $170,284,000 and $113,617,000, 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, 1998	December 31, 1997
Balance at beginning of year	$ 313,022	$ 283,846
Recoveries	-	8
Loan loss provision	56,600	33,990
Charge-offs	(18,554)	(4,822)
Balance at end of year	$ 351,068	$ 313,022

Recorded investments in impaired loans totaled approximately $1,420,000 and $1,670,000 at December 31, 1998 and 1997, respectively. Based on management analysis, there were no other impaired loans as of December 31, 1998 or 1997. The average recorded investment in impaired loans for the years ended December 31, 1998 and 1997 was $1,554,000 and $1,979,000, respectively. 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.

PIONEER SAVINGS BANK AND SUBSIDIARY

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:

	December 31, 1998	December 31, 1997
Interest income recognized	$ 12,603,221	$ 10,988,781
Interest income that would have been recorded	12,595,455	11,014,792
Interest income recovered (foregone), net	$ 7,766	$ (26,011)

NOTE E - OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment consisted of:

	December 31, 1998	December 31, 1997
Land	$ 1,060,065	$ 1,017,065
Buildings and leasehold improvements	3,983,231	3,584,554
Furniture, equipment and autos	2,911,416	2,480,291
Construction in progress	-	240,862
	7,954,712	7,322,772
Less accumulated depreciation	(3,121,230)	(2,774,127)
Office properties and equipment, net	$ 4,833,482	$ 4,548,645

Construction in progress as of December 31, 1997 consisted of costs related to two branch facilities opened for operations in 1998. Those costs are included under their respective headings at December 31, 1998.

The Bank leases office space for administrative offices and certain branch offices under various operating leases with terms ranging through 2004. Lease payments included in occupancy expense totaled $210,076 and $208,618 for the years ended December 31, 1998 and 1997, respectively. Future minimum lease payments under the non-cancelable operating leases are:

1999	$ 179,354
2000	159,540
2001	144,470
2002	144,470
2003	144,470
2004	12,039
	$ 784,343

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, 1998	December 31, 1997
Mortgage loans underlying pass-through securities:		
GNMA	$ 134,755,335	$ 142,271,938
FNMA	47,133,308	41,975,140
FHLMC	2,569,134	3,568,765
	184,457,777	187,815,843
Mortgage loan portfolios serviced for:		
FNMA	111,544,987	140,754,550
FHLMC	83,891,111	106,239,158
Other investors	9,066,688	10,401,741
	204,502,786	257,395,449
	$ 388,960,563	$ 445,211,292

Custodial balances on deposit at the Bank, in connection with the foregoing loan servicing, amounted to $12,791,837 and $11,107,180 at December 31, 1998 and 1997, respectively.

An analysis of changes in mortgage servicing rights follows:

	December 31, 1998	December 31, 1997
Balance, beginning of year	$ 3,087,433	$ 2,937,357
Capitalized	602,777	579,078
Sales	-	(955)
Amortization	(581,366)	(428,047)
Impairment allowance	(82,524)	-
Balance, end of year	$ 3,026,320	$ 3,087,433

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE G - INVESTMENTS IN REAL ESTATE

Investments in real estate acquired in settlement of loans were $319,126 and $186,510 as of December 31, 1998 and 1997, respectively. There were no allowances for losses on investments in real estate as of December 31, 1998 or 1997. There were no provisions or charge-offs relating to investments in real estate during the years ended December 31, 1998 and 1997, respectively. Gains on the sale of investments in real estate were $568 and $571 for December 31, 1998 and 1997, respectively.

NOTE H - DEPOSITS

A comparative summary of deposits follows:

	Average Rate	December 31, 1998	Average Rate	December 31, 1997
Non-interest bearing	0.00%	$ 21,052,805	0.00%	$ 17,379,368
Passbook	3.29%	11,190,968	3.58%	11,487,731
NOW accounts	1.90%	14,473,890	1.92%	12,747,518
Super NOW accounts	2.25%	3,296,892	2.21%	2,682,600
Money market deposit accounts (MMDA)	4.50%	51,582,224	4.04%	15,962,882
Certificates of deposit	4.93%	80,764,834	5.46%	84,192,228
Jumbo certificates of deposit < 1 year	4.70%	37,621,150	5.39%	33,933,993
Jumbo certificates of deposit > 1 year	5.69%	5,039,444	5.92%	4,740,504
		$ 225,022,207		$ 183,126,824

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

Rate	December 31, 1998	December 31, 1997
0.00%	$ 22,688,638	$ 17,503,574
1.00% - 2.00%	12,748,904	11,303,494
2.01% - 3.00%	11,240,984	10,519,188
3.01% - 4.00%	1,660,102	10,773,503
4.01% - 5.00%	106,936,575	9,095,038
5.01% - 6.00%	64,893,932	117,620,875
6.01% - 7.00%	4,463,072	5,913,130
7.01% - 8.00%	390,000	398,022
	$ 225,022,207	$ 183,126,824

The amount of deposit accounts with overdraft balances that have been reclassified as loans were $18,127 and $2,695 at December 31, 1998 and 1997, respectively.

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE H – DEPOSITS - Continued

A comparative summary of deposits by term to maturity follows:

	December 31, 1998	December 31, 1997
No contractual maturities	$ 101,596,953	$ 60,263,529
Under 12 months	96,832,598	99,230,559
13 months to 24 months	16,109,928	12,174,217
25 months to 36 months	2,996,339	6,281,016
37 months to 48 months	3,138,434	1,481,845
49 months to 60 months	4,347,955	3,692,559
Over 60 months	-	3,099
	$ 225,022,207	$ 183,126,824

At December 31, 1998 and 1997, approximately $15,997,000 and $26,660,000, respectively, of mortgage securities were pledged to secure public unit deposits.

Interest expense on deposits was comprised of:

	December 31, 1998	December 31, 1997
Passbook	$ 425,362	$ 332,805
NOW, Super NOW and MMDAs	1,798,786	680,627
Certificates of Deposit	6,359,290	5,939,217
	$ 8,583,438	$ 6,952,649

PIONEER SAVINGS BANK AND SUBSIDIARY

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, 1998 and 1997, 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, 1998 and 1997, mortgage securities having a par value of approximately $1,200,000 and $20,982,000, respectively, and mortgage loans of approximately $170,284,000 and $113,617,000, respectively, were pledged to secure FHLB advances and other borrowings. A summary of advances and borrowings follows:

	Maturity Date	Rate	December 31, 1998	December 31, 1997
FHLB Borrowings	1-08-98	5.90%	$ -	$ 15,600,000
	1-5-99 to 1-12-99	5.10% - 5.18%	15,315,000	-
FHLB Advances	3-01-99	5.47%	10,000,000	10,000,000
	9-03-01	5.13%	1,667,000	-
	9-01-03	5.44%	22,000,000	-
	1-17-05	5.71%	5,000,000	-
	1-26-05	5.51%	2,481,900	-
Reverse Repurchase Agreements	1-06-98	4.50%	-	5,012,500
	1-04-99	3.40%	1,037,500	-
Treasury, Tax and Loan			11,779	190,000
			$ 57,513,179	$ 30,802,500

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, 1998	December 31, 1997
Current:		
Federal	$ 1,940,304	$ 1,644,137
State	292,323	238,381
Deferred:		
Federal	(78,630)	82,296
State	(12,809)	13,414
	$ 2,141,188	$ 1,978,228

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, 1998	December 31, 1997
Computed "expected" tax expense	$ 1,953,691	$ 1,823,909
Change in base year amount of tax bad debt reserves	-	-
State income taxes	193,892	163,129
Other	(6,395)	(8,810)
	$ 2,141,188	$ 1,978,228

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 SFAS No. 115 for financial statement reporting purposes, are recognized currently for income tax purposes.

Deferred taxes consisted of:

	December 31, 1998	December 31, 1997
Deferred tax assets	$ 404,090	$ 344,036
Deferred tax liabilities	(2,147,253)	(2,178,659)
	$ (1,743,163)	$ (1,834,623)

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 was deferred for two years based upon the Bank's residential loan portfolio growth. Beginning in 1998, the bank began to recapture its bad debt reserves.

The permanent deferral of bad debt reserves prior to 1988 was not 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, 1998. 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 MATTERS

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, 1998 and 1997 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, 1998 and 1997 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, 1998:	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk Weighted Assets)	$ 20,369,749	18.6%	$ 8,784,071	8.0%	$ 10,980,089	10.0%
Core Capital (to Adjusted Tangible Assets)	$ 20,236,443	6.5%	$ 12,493,749	4.0%	$ 15,617,186	5.0%
Tangible Capital (to Tangible Assets)	$ 20,236,443	6.5%	$ 4,685,156	1.5%	N/A	
Tier 1 Capital (to Risk Weighted Assets)	$ 20,236,443	18.4%	N/A		$ 6,588,054	6.0%
As of December 31, 1997:						
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%

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE L - COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Bank has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In addition, the Bank may become a party to certain claims and legal actions. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the consolidated financial condition of the Bank.

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 CASH EQUIVALENTS: For these short-term instruments, their carrying amount is a reasonable estimate of fair value. The carrying amounts at December 31, 1998 and 1997, as presented in Note B were $8,820,041 and $7,638,675 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, 1998 and 1997, as presented in Note C, were $97,155,991 and $83,787,180, respectively. The carrying amount of such investments totals $97,184,550 and $84,033,754, at December 31, 1998 and 1997, respectively.

ACCRUED INTEREST RECEIVABLE: The fair value approximates the carrying amount because the balance is expected to be collected in 90 days or less. The carrying amounts at December 31, 1998 and 1997 were $1,313,924 and $1,154,264, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The following table presents information for loans:

	December 31, 1998		December 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loans Held for Investment:				
1-4 Family and participations	$ 149,687,372	$ 152,876,581	$ 107,527,598	$ 107,916,545
Multi-family and participation	1,783,278	1,762,890	6,085,755	5,842,535
Deferred fees and valuation allowance	(155,467)	-	(369,142)	-
	151,315,183	154,639,471	113,244,211	113,759,080
Construction Loans:				
Construction	5,493,419	5,499,668	5,454,337	5,457,816
Deferred fees and valuation allowance	(82,273)	-	(78,581)	-
	5,411,146	5,499,668	5,375,756	5,457,816
Loans held for sale:				
Mortgages held for sale	24,712,863	25,463,915	6,317,902	6,349,609
Deferred fees and valuation allowance	22,600	-	(31,572)	-
	24,735,463	25,463,915	6,286,330	6,349,609
Second Mortgages	1,980,368	2,000,959	1,818,323	1,818,056
Deferred fees	(12,670)	-	(11,746)	-
	1,967,698	2,000,959	1,806,577	1,818,056
Savings Account Loans	987,418	988,192	902,814	903,535
Consumer and Commercial:				
Consumer and commercial	5,441,756	5,521,242	3,467,826	3,458,259
Deferred fees and valuation allowance	(71,434)	-	(104,801)	-
	5,370,322	5,521,242	3,363,025	3,458,259
	$ 189,787,230	$ 194,113,447	$ 130,978,713	$ 131,746,355

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, 1998		December 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Bulk Acquisitions	$ 1,550,665	$ 1,603,117	$ 1,432,482	$ 2,293,808
Correspondent	575,799	1,045,262	853,887	1,395,970
Originated	899,856	2,070,523	801,064	2,906,209
	$ 3,026,320	$ 4,718,902	$ 3,087,433	$ 6,595,987

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, 1998			December 31, 1997		
	Notional Amount	Carrying Amount	Fair Value	Notional Amount	Carrying Amount	Fair Value
Interest rate cap agreements	$ 5,000,000	$ 31,667	$ 1,000	$ 5,000,000	$ 47,500	$ 2,000

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, 1998		December 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-interest bearing	$ 21,052,805	$ 21,052,805	$ 17,379,368	$ 17,379,368
Passbook	11,190,968	11,190,968	11,487,731	11,487,731
NOW accounts	14,473,890	14,473,890	12,747,518	12,747,518
Super NOW accounts	3,296,892	3,296,892	2,682,600	2,682,600
Money market deposit accounts	51,582,224	51,582,224	15,962,882	15,962,882
Certificates of deposit	80,764,834	80,827,088	84,192,228	84,278,529
Jumbo certificates of deposit	42,660,594	43,040,845	38,674,497	38,735,383
	$ 225,022,207	$ 225,464,712	$ 183,126,824	$ 183,274,011

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, 1998		December 31, 1997	
	Maturity Date	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FHLB Borrowings	1-08-98	-	-	15,600,000	15,600,000
	1-5-99 to 1-12-99	15,315,000	15,315,000	-	-
FHLB Advances	3-01-99	10,000,000	10,000,000	10,000,000	9,918,728
	9-03-01	1,667,000	1,659,413	-	-
	9-01-03	22,000,000	21,920,402	-	-
	1-17-05	5,000,000	5,004,321	-	-
	1-26-05	2,481,900	2,469,723	-	-
Reverse Repurchase Agreements	1-06-98	-	-	5,012,500	5,012,500
	1-04-99	1,037,500	1,037,500	-	-
Treasury, Tax and Loan		11,779	11,779	190,000	190,000
		$ 57,513,179	$ 57,418,138	$ 30,802,500	$ 30,721,228

ACCRUED INTEREST PAYABLE: The fair value approximates the carrying amount because the balance is expected to be paid in 90 days or less. The carrying amounts at December 31, 1998 and 1997 were $430,981 and $166,375, respectively.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS: The fair values of off-balance sheet financial instruments at December 31, 1998 and 1997 are not significant due to the short term nature of the commitments.

NOTE N - FINANCIAL INSTRUMENTS

In the ordinary course of business the Bank is party to financial instruments with off-balance sheet risk to meet the financial needs of its customers and reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated statements of financial condition. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

NOTE N - FINANCIAL INSTRUMENTS - Continued

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 approximate contract or notional amounts of financial instruments whose contract amounts represent credit risk at December 31, 1998 are:

Commitments to purchase loans	$	7,216,000
Undisbursed lines of credit and loans in process	$	4,737,000
Commitments to originate loans	$	528,000
Loans sold with recourse	$	146,000
Commitments to sell mortgages and mortgage backed securities	$	4,484,000

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.

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 1998 and 1997:

Year	Match	Compensation	Expense
1998	100%	5.0%	$ 105,276
1997	100%	4.0%	$ 73,411

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 has accrued benefits of $80,352 and $62,528 recorded in other liabilities as of December 31, 1998 and 1997, respectively, under the IRP. As of December 31, 1998 and 1997, the cash surrender value of the life insurance policies under the IRP were approximately $983,000 and $934,000, respectively, recorded in other assets.

PIONEER SAVINGS BANK AND SUBSIDIARY

NOTE P - RELATED PARTY TRANSACTIONS

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.

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

	Years Ended December 31, 1998	1997
Balance at beginning of year	$ 301,202	$ 309,177
Principal repayments	(8,430)	(7,975)
Balance at end of year	$ 292,772	$ 301,202

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

PIONEER SAVINGS BANK AND SUBSIDIARY

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, 1998 and 1997, 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, 1998 and 1997, 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 12, 1999

SELECTED FINANCIAL DATA -- Unaudited

PIONEER SAVINGS BANK AND SUBSIDIARY

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

	1998	1997	1996	1995	1994
Interest income	$ 18,330,476	$ 17,514,029	$ 15,889,614	$ 13,906,154	$ 11,874,103
Interest expense	$ 11,150,099	$ 10,684,399	$ 9,663,313	$ 8,246,486	$ 6,118,044
Net interest income	$ 7,180,377	$ 6,829,630	$ 6,226,301	$ 5,659,668	$ 5,756,059
Net income	$ 3,601,198	$ 3,386,211	$ 2,315,609	$ 3,345,889	$ 2,007,628
Per share data:					
Net income	$ 3.57	$ 3.36	$ 2.30	$ 3.32	$ 1.99
Dividends	$ 1.15	$ 1.05	$ 0.85	$ 0.60	$ 0.40
Investment and mortgage securities	$ 97,184,550	$ 84,033,754	$ 106,428,046	$ 114,111,048	$ 89,559,239
Loans	$ 189,787,230	$ 130,978,713	$ 121,770,867	$ 94,017,223	$ 73,346,551
Total assets	$ 312,175,994	$ 238,503,512	$ 249,926,227	$ 225,063,709	$ 179,939,949
Deposits	$ 225,022,207	$ 183,126,824	$ 149,974,011	$ 146,807,779	$ 134,891,178
Borrowings	$ 57,513,179	$ 30,802,500	$ 77,096,723	$ 58,213,760	$ 29,339,056
Stockholders' equity	$ 20,068,720	$ 17,741,082	$ 15,396,740	$ 14,317,583	$ 11,023,500
Loans serviced for others (in thousands)	$ 388,961	$ 445,211	$ 462,437	$ 427,257	$ 562,621

	1998	1997	1996	1995	1994
Customer service facilities:					
Full service facilities	6	6	6	6	6
Savings branches	2				
Loan production offices	2	3	3	3	3

SELECTED FINANCIAL DATA -- Unaudited

PIONEER SAVINGS BANK AND SUBSIDIARY

VOLUME AND RATE ANALYSIS
(000's OMITTED)

1998 Compared to 1997:	Average Volume		Average Rate		Interest			Interest Variance Attributable to:	
	1998	1997	1998	1997	1998	1997	Interest Variance	Volume	Rate
Interest income:									
Loans	$ 158,654	$ 131,772	7.94%	8.34%	$ 12,603	$ 10,989	$ 1,614	$ 2,135	$ (521)
Mortgage securities	80,453	84,100	6.23%	6.60%	5,009	5,554	(545)	(227)	(318)
Investments	12,263	15,598	5.86%	6.23%	718	971	(253)	(195)	(58)
Total interest earning assets	$ 251,370	$ 231,470	7.29%	7.57%	$ 18,330	$ 17,514	$ 816	$ 1,713	$ (897)
Interest expenses:									
Deposits	$ 199,249	$ 160,900	4.31%	4.32%	$ 8,583	$ 6,953	$ 1,630	$ 1,652	$ (22)
Borrowed funds	46,680	66,917	5.50%	5.58%	2,567	3,731	(1,164)	(1,113)	(51)
Total interest bearing liabilities	$ 245,929	$ 227,817	4.53%	4.69%	$ 11,150	$ 10,684	$ 466	$ 539	$ (73)
Net interest spread and income			2.76%	2.88%	$ 7,180	$ 6,830			
Ratio of net interest income to average interest earnings assets					2.97%	3.08%			

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%			

CORPORATE INFORMATION

PIONEER SAVINGS BANK AND SUBSIDIARY

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 PM. on April 20, 1999 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 $27.21 - $27.72 per share. As of December 31, 1998, there were approximately 370 holders of record of Pioneer common stock. Dividends of $1.15 and $1.05 per share were declared in 1998 and 1997, respectively.

BOARD OF DIRECTORS

PIONEER SAVINGS BANK AND SUBSIDIARY

G. Eugene Bell
Vice President – Bell Gas

James L. Bruin
Attorney

Patricia J. Cooper
Investments

Dan Funchess
Funeral Director

Jon E. Hitchcock
Executive Vice President & 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
Janie L. Hartwich
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. Welsh
Virginia L. Boyer
Charlotte Y. Gipson
April L. Rue
Carolyn S. Shanley-Spencer
Robert D. Vie
Debra M. Young

Secretary
Barba N. McCampbell

Assistant Treasurer
Pamela D. McClain

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

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300 South Sunset Avenue, Roswell, New Mexico 88201
3301 North Main Street, Roswell, New Mexico 88201
(505) 624-5200

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

10th 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

Backed by the Full Faith and Credit of the United States Government