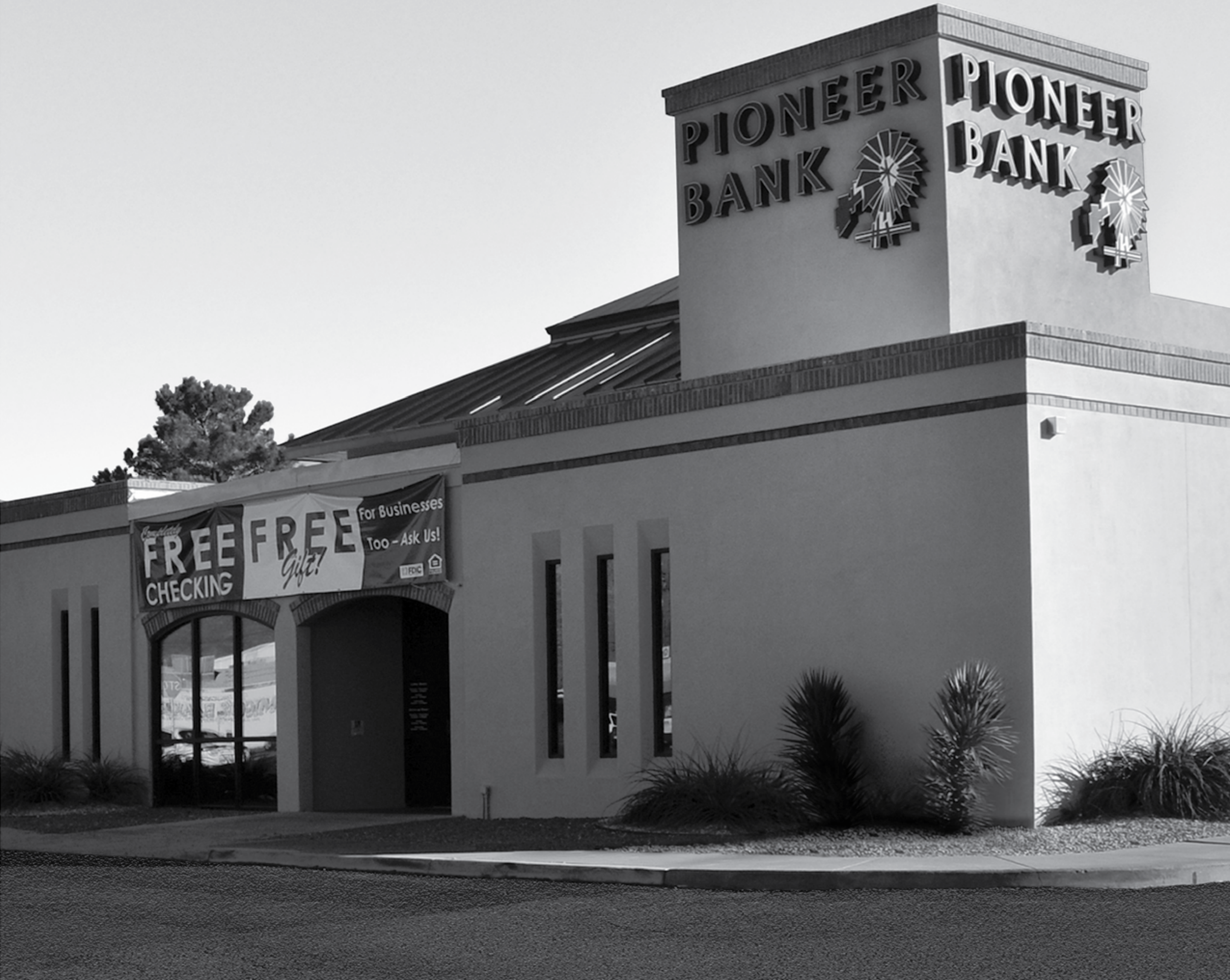
PIONEER BANCORP, INC.



2008 ANNUAL REPORT

FINANCIAL HIGHLIGHTS (Unaudited)

(In thousands, except per share amounts)	2008/2007 Change	**2008**	2007	2006	2005	2004
FOR THE YEAR						
Interest and dividend income	+ 1%	**$ 29,809**	$ 29,379	$ 27,751	$ 23,659	$ 21,548
Interest expense	- 22%	**11,426**	14,671	13,317	9,818	8,633
Net interest income	+ 25%	**18,383**	14,708	14,434	13,841	12,915
Loan loss provision	+ 289%	**1,246**	320	201	167	-
Noninterest income	- 1%	**5,893**	5,944	5,438	5,220	5,191
Noninterest expense	+ 15%	**16,476**	14,286	13,446	12,155	10,458
Net income	+ 7%	**4,088**	3,824	3,995	4,211	4,761
PER SHARE						
Earnings	+ 8%	**4.38**	4.06	4.19	4.40	4.94
Dividends	- 25%	**0.83**	1.10	1.10	1.22	1.21
Year-end book value	+ 8%	**48.79**	45.32	40.89	37.62	35.80
AT YEAR-END						
Assets	+ 3%	**551,344**	537,802	522,846	499,776	472,343
Net loans	- 4%	**300,147**	311,045	303,002	282,014	266,600
Securities	+ 9%	**197,043**	180,741	169,000	168,657	159,599
Loans serviced for others	+ 10%	**482,095**	437,597	401,675	375,635	356,840
Deposits	+ 2%	**365,418**	359,100	349,731	345,449	312,903
Borrowings	+ 2%	**125,984**	123,046	120,351	106,462	113,013
Stockholders' equity	+ 7%	**45,532**	42,369	38,848	35,946	34,367
PERFORMANCE RATIOS						
Return on average assets		**0.75%**	0.72%	0.78%	0.87%	1.04%
Return on average stockholders' equity		**9.30%**	9.42%	10.68%	11.98%	14.52%
Efficiency ratio		**67.87%**	69.17%	67.67%	63.76%	57.76%
Net interest margin		**3.52%**	2.97%	2.95%	3.02%	2.93%
CAPITAL RATIOS						
Equity to assets		**8.3%**	7.9%	7.4%	7.2%	7.3%
Core capital		**7.9%**	7.7%	7.4%	7.3%	7.2%
Tier 1 risk-based capital		**16.1%**	15.4%	15.4%	16.5%	17.5%
Total risk-based capital		**16.7%**	15.7%	15.6%	16.8%	17.8%
SELECTED INFORMATION						
Average common shares *(in thousands)*		**934**	941	954	958	964
Common dividend payout ratio		**18.96%**	26.99%	26.23%	27.71%	24.41%
Full-time equivalent employees		**195**	189	196	189	180
Customer service facilities						
Full service facilities		**7**	7	7	6	6
Banking branches		**5**	5	5	5	4
Loan production offices		**1**	1	1	2	2
ATMs		**14**	14	14	12	11

PIONEER BANCORP, INC.

P.O. Box 130 • Roswell, New Mexico 88202-0130 • (575) 624-5200

Dear Pioneer Bancorp Stockholder:

We are pleased to report that despite widespread problems in the national economy and residential housing market, Pioneer Bancorp, Inc. had a financially outstanding year in 2008. In addition to solid financial performance, Pioneer, with the support of our stockholders, was able to successfully complete a transaction to allow Pioneer to qualify for Subchapter S tax treatment beginning January 1, 2009. As a Subchapter S Corporation, Pioneer will avoid the double taxation as occurred during our C Corporation structure. We believe the election to Subchapter S will keep Pioneer a locally-owned independent Bank for the foreseeable future. We would like to thank our continuing stockholders for their willingness to remain Pioneer stockholders and in many cases to increase their investment in Pioneer. We also believe that we are well positioned to weather the current economic situation and to take full advantage of opportunities as the economy begins to improve.

Following our strategic plan, Pioneer completed the renovation of our Alamogordo office, as illustrated on the front cover of this year's report. This renovation will serve as a model for renovations in Hobbs, scheduled to begin in the first quarter of 2009, and at our Carlsbad branch office sometime in the near future. Pioneer's new corporate headquarters, located at 3000 North Main Street in Roswell, is on schedule for a fourth quarter 2009 completion.

Net income increased $264,000, or 6.9%, to $4,088,000 for the year ended December 31, 2008 from $3,824,000 for the year ended December 31, 2007. Total assets increased $13.5 million, or 2.5%, to $551.3 million at December 31, 2008 from $537.8 million at December 31, 2007. Deposits increased $6.3 million, or 1.8%, to $365.4 million at December 31, 2008 from $359.1 million at December 31, 2007. Stockholder's equity increased $3.1 million, or 7.3%, to $45.5 million at December 31, 2008 from $42.4 million at December 31, 2007. Book value per share increased $3.47, or 7.7%, to $48.79 at December 31, 2008 from $45.32 at December 31, 2007.

Please plan to attend the annual meeting of stockholders, which will be held on April 21, 2009. On behalf of the Board of Directors, Officers and Employees of Pioneer we thank you for your support. Although the operating environment will remain challenging in 2009, we believe 2009 will be another strong year for Pioneer. Please help us to continue to grow by "telling a friend" about Pioneer. As always, we value and appreciate your feedback and suggestions. Please feel free to call or come by any of our offices at any time.

Sincerely,
PIONEER BANCORP, INC.

Jon E. Hitchcock
President and CEO

Roswell, New Mexico
March 20, 2009

Crowe Horwath LLP
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Pioneer Bancorp, Inc.
Roswell, New Mexico

We have audited the accompanying consolidated balance sheets of Pioneer Bancorp, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and cash flows 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pioneer Bancorp, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in Schedules I and II is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position and results of operations of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
February 15, 2009

PIONEER BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2008 and 2007

(In thousands, except share amounts)

	2008	2007
ASSETS		
Cash and cash equivalents (Note B)	$ 18,466	$ 12,208
Securities available-for-sale (Note C)	197,043	180,741
Loans held for sale, net (Note D)	15,129	16,818
Loans, net (Note D)	285,018	294,227
Federal Home Loan Bank, stock	6,622	5,621
Premises and equipment, net (Note E)	18,997	16,264
Mortgage servicing rights, net (Note F)	2,513	4,803
Accrued interest receivable	2,380	2,757
Other assets	5,176	4,363
Total assets	$ 551,344	$ 537,802
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits (Note G)	$ 365,418	$ 359,100
FHLB advances and other borrowings (Note H)	125,984	123,046
Official checks	4,703	4,328
Advance payments for taxes and insurance	1,820	1,996
Accrued interest payable	552	617
Accounts payable and other liabilities	7,335	6,346
Total liabilities	505,812	495,433
Commitments and contingencies (Note J)		
Stockholders' equity (Note K)		
Capital stock, $1 par value; shares authorized: 2,000,000; shares issued: 1,008,923	1,009	1,009
Treasury stock (2008 - 75,670 shares; 2007 - 74,096 shares)	(2,550)	(2,480)
Additional paid-in capital	-	112
Retained earnings	46,931	43,844
Accumulated other comprehensive income/(loss)	142	(116)
Total stockholders' equity	45,532	42,369
Total liabilities and stockholders' equity	$ 551,344	$ 537,802

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2008 and 2007
(In thousands, except share amounts)

	2008	2007
Interest and dividend income		
Loans	$ 20,503	$ 21,764
Mortgage securities	8,949	6,224
Investment securities and other	357	1,391
	29,809	29,379
Interest expense		
Deposits	6,799	9,686
FHLB advances and other borrowings	4,627	4,985
	11,426	14,671
Net interest income	18,383	14,708
Loan loss provision	1,246	320
Net interest income after loan loss provision	17,137	14,388
Noninterest income		
Deposit account fees	3,556	2,209
Gain on sale of loans, net (Note D)	1,541	1,576
Loan administration and service fees	1,043	1,345
Change in mortgage servicing rights impairment allowance (Note F)	(2,610)	(73)
Gain on sale of securities, net (Note C)	2,153	684
Other	210	203
	5,893	5,944
Noninterest expense		
Compensation and employee benefits (Note M)	8,908	8,342
Equipment	1,506	1,450
Data processing	1,584	1,275
Occupancy	1,097	1,088
Stationery, printing, and office supplies	517	393
Professional and supervisory	731	451
Postage and transportation	416	347
Advertising and public relations	978	450
Telephone	164	163
Other	575	327
	16,476	14,286
Income before income tax expense	6,554	6,046

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2008 and 2007
(In thousands, except share amounts)

	2008	2007
Income before income tax expense	6,554	6,046
Income tax expense (Note I)	2,466	2,222
Net income	$ 4,088	$ 3,824
Weighted-average number of capital stock shares outstanding:		
Basic	933,566	941,443
Diluted	933,566	941,443
Earnings per share:		
Basic	$ 4.38	$ 4.06
Diluted	4.38	4.06

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2008 and 2007
(In thousands, except share amounts)

	Capital Stock $1 Par	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2007	$ 1,009	$ (1,850)	$ 57	$ 41,052	$ (1,420)	$ 38,848
Comprehensive income						
Net income	-	-	-	3,824	-	3,824
Change in unrealized gain (loss) on securities available-for-sale, net of reclassification and tax effects	-	-	-	-	1,304	1,304
Total comprehensive income						5,128
Purchase of treasury stock (15,133 shares)	-	(630)	-	-	-	(630)
Stock-based compensation	-	-	55	-	-	55
Dividends - $1.10 per share	-	-	-	(1,032)	-	(1,032)
Balance, December 31, 2007	1,009	(2,480)	112	43,844	(116)	42,369
Adjustment to initially apply SFAS No. 158, net of tax	-	-	-	-	(1,085)	(1,085)
Adjustment for adoption of EITF 06-4	-	-	-	(200)	-	(200)
Comprehensive income						
Net income	-	-	-	4,088	-	4,088
Change in unrealized gain (loss) on securities available-for-sale, net of tax	-	-	-	-	1,225	1,225
Adjustment to pension liability, net of tax	-	-	-	-	118	118
Total comprehensive income						5,431
Purchase of treasury stock (3,034 shares)	-	(136)	-	-	-	(136)
Exercise of stock options (1,460 shares)	-	66	-	-	-	66
Stock-based compensation	-	-	89	-	-	89
Stock repurchased in reorganization (199,139 shares) (Note A)	-	(9,459)	-	-	-	(9,459)
Stock sales, less issuance costs of $227 (199,139 shares) (Note A)	-	9,459	(201)	(26)	-	9,232
Dividends - $0.83 per share	-	-	-	(775)	-	(775)
Balance, December 31, 2008	$ 1,009	$ (2,550)	$ -	$ 46,931	$ 142	$ 45,532

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007
(In thousands, except share amounts)

	2008	2007
Cash flows from operating activities		
Net income	$ 4,088	$ 3,824
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization (accretion) of:		
Mortgage servicing rights	1,079	828
Premiums and discounts on investments and mortgage securities, net	(138)	304
Loan loss provision	1,246	320
Deferred income tax expense	(2,401)	(692)
Change in mortgage servicing rights impairment allowance	2,610	73
Net (gain) loss on sales and disposals of:		
Loans	(1,541)	(1,576)
Premises and equipment	9	13
Foreclosed assets	(9)	-
Securities available-for-sale	(2,153)	(684)
Stock-based compensation expense	89	55
Federal Home Loan Bank stock dividends	(172)	(307)
Depreciation of premises and equipment	1,195	1,185
Origination of mortgage loans held for sale	(32,896)	(29,351)
Proceeds from sales of loans held for sale	34,727	24,075
Changes in operating assets and liabilities		
Accrued interest receivable	377	66
Other assets	(795)	903
Official checks	375	(1,854)
Accrued interest payable	(65)	203
Accounts payable and other liabilities, net of dividends declared, not paid	3,406	839
Net cash provided by (used in) operating activities	9,031	(1,776)
Cash flows from investing activities		
Loan originations and principal payments on loans, net	6,411	(3,537)
Securities available-for-sale		
Purchases	(189,339)	(140,605)
Sales	130,773	96,432
Maturities and principal reductions	44,850	34,950
Purchase of premises and equipment	(3,937)	(540)
Net sales (purchases) of FHLB stock	(829)	837
Proceeds from sales of foreclosed assets	1,543	126
Net cash used in investing activities	(10,528)	(12,337)

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007
(In thousands, except share amounts)

	2008	2007
Cash flows from financing activities		
Net increase in deposits	$ 6,318	$ 9,369
Additions to FHLB advances and other borrowings	38,000	18,695
Payments on FHLB advances and other borrowings	(35,062)	(16,000)
Net decrease in advance payments for taxes and insurance	(176)	49
Net proceeds from issuance of common stock, less payment for stock in reorganization	(227)	-
Purchase of treasury shares	(136)	(630)
Proceeds from exercise of stock options	66	-
Payments of cash dividends	(1,028)	(1,040)
Net cash provided by financing activities	7,755	10,443
Increase (decrease) in cash and cash equivalents	6,258	(3,670)
Cash and cash equivalents at beginning of year	12,208	15,878
Cash and cash equivalents at end of year	$ 18,466	$ 12,208
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 11,491	$ 14,468
Income taxes, net of refunds	3,904	2,318
Supplemental schedule of noncash investing and financing activities		
Dividends declared, not paid	$ 261	$ 514
Loan securitizations transferred to AFS securities	93,349	83,898
Transfer from loans to foreclosed assets	1,552	620

See accompanying notes to consolidated financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization, Nature of Operations, and Principles of Consolidation: Pioneer Bancorp, Inc. (the Bancorp) was formed January 13, 2003 and is a Nevada corporation chartered as a thrift holding company. The Bancorp holds all of the issued and outstanding shares of Pioneer Bank (the Bank). The Bank is a federal savings bank operating in Southern New Mexico and West Texas. Deposits in the Bank are insured by the Federal Deposit Insurance Corporation (the FDIC). The Bank has one subsidiary, Pioneer Mortgage Company (PMC), which is involved in residential construction and mortgage lending, primarily in West Texas. PMC has one subsidiary, PPM, Inc., which is currently inactive. These consolidated financial statements include these entities, collectively referred to as "the Company".

Pioneer Bank provides financial services through seven full customer service facilities, five banking branches, and one loan production office. The Bank engages in mortgage banking activities and, as such, acquires, sells and services one-to-four family residential mortgage loans. The Bank's primary deposit products are checking, savings, and term certificate accounts, and the Bank's primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the Bank's lending area.

In 2008, the stockholders approved a plan to reorganize the Company in order to qualify for Subchapter S taxation. In the reorganization, the Company repurchased the capital stock owned by non-qualified stockholders, as defined in the proxy statement/private placement memorandum. Stock option holders who were non-qualified stockholders, received a cash payment of $12.90 per share for their outstanding options. The Company also offered for sale to existing qualified stockholders, an opportunity to purchase the capital stock acquired in this reorganization. The reorganization was completed prior to December 31, 2008. In 2009, the Company filed an election to be taxed as an S corporation effective January 1, 2009.

Transaction costs of $339 thousand associated with the stock repurchase were expensed in 2008, and transaction costs of $227 thousand associated with the stock issuance were netted with the proceeds in equity.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, loan servicing rights, and fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements. Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities: Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available-for-sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers the following: the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. When these loans are sold individually, gains or losses are recognized in gain on sale of loans. When these loans are securitized, gains or losses are recognized in gain on sale of securities.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Mortgage Banking Derivatives: Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as derivatives not qualifying for hedge accounting. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date of the commitments. Changes in the fair values of these derivatives are included in net gains on sales of loans and are not material.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. In addition, certain regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for adequacy. Such agencies may require the Bank to change the allowance based on their judgment about information available to them at the time of their examination.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 5 to 33 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 7 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.

Long-Term Assets: Premises and equipment, core deposit and other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amounts may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Servicing Rights: Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Company compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the income statement as loan administration and service fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Net servicing fees totaled $1.0 million and $1.3 million for the years ended December 31, 2008 and 2007. Late fees and ancillary fees related to loan servicing are not material.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Treasury Stock: Treasury stock is carried at cost. During the years ended December 31, 2008 and 2007, the Company purchased 3,034 and 15,133 shares of treasury stock, respectively. The average price of the treasury stock purchased was $44.79 and $41.66 in 2008 and 2007, respectively.

Company Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. In accordance with EITF 06-5, Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Retirement Plans: Defined benefit pension plan expense is the net of service and interest cost and amortization of gains and losses not immediately recognized. Employee 401(k) plan expense is the amount of matching contributions.

Stock-Based Compensation: Compensation cost is recognized for stock options issued to employees based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: The Bancorp files a consolidated income tax return with its subsidiary, Pioneer Bank, and its subsidiary, Pioneer Mortgage Company, and as agreed, the income taxes of these subsidiaries determined to be currently payable are remitted to the Bancorp. The calculation of taxes payable is based on each respective entity's contribution to consolidated taxable income.

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), as of January 1, 2008. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no affect on the Company's financial statements.

Earnings and Dividends Per Share: Earnings per share of capital stock has been computed on the basis of the weighted-average number of shares of capital stock outstanding. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Dividends are paid based on the actual number of shares outstanding on the day of record.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale and changes in the funded status of the pension plan which are also recognized as separate components of equity.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note L. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

(Continued)

(In thousands, except share amounts)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards: FASB Statement No. 157, *Fair Value Measurements* (FAS 157), defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. FAS 157 was effective for the Company on January 1, 2008. In February 2008, the FASB issued Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157.* This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis, to fiscal years beginning after November 15, 2008. The impact of adoption was not material. In October 2008, the FASB issued Staff Position (FSP) 157-3, *Determining the Fair Value of a Financial Asset when the Market for That Asset Is Not Active.* This FSP clarifies the application of FAS 157 in a market that is not active. The impact of adoption was not material.

FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. FAS 159 was effective for the Company on January 1, 2008. The Company did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

FASB Emerging Issues Task Force Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements,* requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue was effective for the Company on January 1, 2008. The impact of adoption was not material.

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents, subject to regulatory reserve requirements of $2.6 million and $2.6 million at December 31, 2008 and 2007, consisted of the following:

	2008	2007
Cash and due from banks	$ 18,182	$ 11,955
Interest-bearing deposits	284	253
	$ 18,466	$ 12,208

(In thousands, except share amounts)

NOTE C - SECURITIES AVAILABLE-FOR-SALE

Mortgage-backed securities are not due at a single date. The amortized cost, fair value, and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) are as follows:

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities and collateralized mortgage obligations	$ 193,225	$ 2,730	$ (859)	$ 195,096
Other equity investments	2,000	-	(53)	1,947
Total securities available-for-sale	$ 195,225	$ 2,730	$ (912)	$ 197,043

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government-sponsored enterprises	$ 20,020	$ 448	$ (1)	$ 20,467
Mortgage-backed securities and collateralized mortgage obligations	158,912	311	(897)	158,326
Other equity investments	2,000	-	(52)	1,948
Total securities available-for-sale	$ 180,932	$ 759	$ (950)	$ 180,741

(Continued)

(In thousands, except share amounts)

NOTE C - SECURITIES AVAILABLE-FOR-SALE (Continued)

At December 31, 2008 and 2007, the Company had pledged securities of approximately $51.7 million and $58.5 million to secure deposits. At December 31, 2008 and 2007, securities having a market value of approximately $683 thousand and $1.0 million were pledged to secure the treasury, tax, and loan account.

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

	2008	2007
Gains	$ 2,716	$ 1,429
Losses	(563)	(745)
	$ 2,153	$ 684

(In thousands, except share amounts)

NOTE C - SECURITIES AVAILABLE-FOR-SALE (Continued)

Securities with unrealized losses at year-end 2008 and 2007, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2008						
Mortgage-backed securities and collateralized mortgage obligations	$ 44,251	$ (763)	$ 3,755	$ (96)	$ 48,006	$ (859)
Other equity investments	-	-	1,947	(53)	1,947	(53)
	$ 44,251	$ (763)	$ 5,702	$ (149)	$ 49,953	$ (912)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2007						
U.S. government-sponsored enterprises	$ 4,999	$ (1)	$ -	$ -	$ 4,999	$ (1)
Mortgage-backed securities and collateralized mortgage obligations	69,769	(897)	-	-	69,769	(897)
Other equity investments	-	-	1,948	(52)	1,948	(52)
	$ 74,768	$ (898)	$ 1,948	$ (52)	$ 76,716	$ (950)

Unrealized losses on securities have not been recognized into income because of the high credit quality of the issuers, the Company's intent and ability to hold such securities for the foreseeable future, and the direct relationship of the market value decline to changes in market interest rates and market conditions. The fair value of securities is expected to recover as the securities approach their maturity date or market conditions improve.

(Continued)

(In thousands, except share amounts)

NOTE D - LOANS

Loans consisted of the following:

	2008	2007
Loans held for sale		
Mortgage loans held for sale		
Conventional	$ 5,893	$ 12,357
FHA insured and VA guaranteed	9,201	4,435
Deferred loan costs, net	35	26
Loans held for sale, net	$ 15,129	$ 16,818
Loans		
Mortgage loans held for investment		
Conventional	$ 138,082	$ 143,386
FHA insured and VA guaranteed	30,679	30,553
Commercial	27,556	29,590
Construction and land	57,878	57,190
Deferred loan fees, net	(52)	(153)
Mortgage loans held for investment, net	254,143	260,566
Consumer loans		
Installment and other loans	11,162	10,373
Second mortgages	4,636	5,668
Business	16,582	18,378
Unearned discounts	(51)	(54)
Consumer loans, net	32,329	34,365
Allowance for loan losses	(1,454)	(704)
Loans, net	$ 285,018	$ 294,227

Net gains from sales of loans were $1.5 million and $1.6 million in 2008 and 2007.

(In thousands, except share amounts)

NOTE D - LOANS (Continued)

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

	2008	2007
Balance at beginning of year	$ 704	$ 603
Loan loss provision	1,246	320
Recoveries	320	10
Charge-offs	(816)	(229)
Balance at end of year	$ 1,454	$ 704

Impaired loans with no allowance for loan loss allocated were $501 thousand and $0 at December 31, 2008 and 2007. Cash-basis interest income recognized during impairment was not material.

Nonaccrual loans and loans past due 90 days still on accrual were as follows:

	2008	2007
Loans past due over 90 days still on accrual	$ -	$ -
Nonaccrual loans	1,141	1,426

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

NOTE E - PREMISES AND EQUIPMENT

Year-end premises and equipment consisted of:

	2008	2007
Land	$ 4,085	$ 4,335
Buildings and leasehold improvements	11,132	10,661
Furniture, equipment, and autos	7,626	7,066
Construction in progress	3,251	115
	26,094	22,177
Less accumulated depreciation and amortization	7,097	5,913
Premises and equipment, net	$ 18,997	$ 16,264

Depreciation expense was $1.2 million and $1.2 million for 2008 and 2007.

(In thousands, except share amounts)

NOTE E - PREMISES AND EQUIPMENT (Continued)

In 2008, the Company began construction of a new corporate headquarters in Roswell, New Mexico and plans to occupy the building during the fourth quarter of 2009. Construction in progress includes expenditures related to this project, which were $2.7 million in 2008 and $31 thousand in 2007. Estimated remaining costs to complete the project are $8.2 million, and an additional $2.0 million is expected for furniture and equipment in 2009.

The Company leases office space for administrative offices and certain branch offices under various operating leases with terms ranging through 2010. Lease payments included in occupancy expense totaled $262 thousand and $259 thousand for the years ended December 31, 2008 and 2007. The Company will not renew the lease expiring in January 2010. Future minimum lease payments under the non-cancelable operating leases are:

2009	$ 264
2010	46
Total	$ 310

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:

	2008	2007
Mortgage loans underlying pass-through securities		
GNMA	$ 147,653	$ 129,306
FNMA	187,016	154,696
FHLMC	139	177
	334,808	284,179
Mortgage loan portfolio serviced for		
FNMA	57,514	49,784
FHLMC	4,022	5,531
Other investors	85,751	98,103
	147,287	153,418
	$ 482,095	$ 437,597

Custodial balances on deposit at the Bank, in connection with the foregoing loan servicing, amounted to $11.2 million and $10.4 million at December 31, 2008 and 2007.

(Continued)

(In thousands, except share amounts)

NOTE F - MORTGAGE SERVICING RIGHTS AND LOAN SERVICING (Continued)

An analysis of changes in mortgage servicing rights and the related impairment allowance follows:

	2008	2007
Mortgage servicing rights		
Balance, beginning of year	$ 4,876	$ 4,298
Capitalized	1,399	1,406
Amortization	(1,079)	(828)
Balance, end of year	5,196	4,876
Impairment allowance	(2,683)	(73)
Balance, end of year, net of impairment allowance	$ 2,513	$ 4,803
Valuation allowance		
Beginning of year	$ 73	$ -
Additions expensed	2,610	73
Reductions credited to income	-	-
End of year	$ 2,683	$ 73

The fair value of capitalized mortgage servicing rights was $2.5 million and $5.0 million at year-end 2008 and 2007. Fair value was determined using discount rates ranging from 9.15% to 21.55%, prepayment speeds ranging from 20.93% to 52.60%, depending on the grouping of the specific right, and a weighted average default rate of 0.60%.

The weighted-average amortization period is 2.44 years. Estimated amortization expense for each of the next five years follows:

2009	$ 2,593
2010	1,552
2011	851
2012	478
2013	281

(Continued)

(In thousands, except share amounts)

NOTE G - DEPOSITS

A comparative summary of deposits by remaining term to maturity follows:

	2008	2007
No contractual maturities	$ 187,782	$ 168,971
2008	-	163,059
2009	147,978	12,494
2010	14,220	7,834
2011	6,183	3,019
2012	3,824	3,723
2013	5,431	-
	$ 365,418	$ 359,100

At December 31, 2008 and 2007, approximately $51.7 million and $58.5 million of mortgage securities were pledged to secure public unit deposits.

Time deposits of $100,000 or more were $77.3 million and $80.5 million at year-end 2008 and 2007.

NOTE H - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

At year-end, advances from the FHLB were as follows*:*

	2008	2007
Maturities January 2009 through November 2013, at fixed rates from 0.05% to 4.99%, averaging 2.81%	$ 125,300	$ 122,200

Each advance is payable at its maturity date or on payment of a prepayment penalty for fixed rate advances. The advances were collateralized by $191.8 million and $195.0 million of first mortgage loans under a blanket lien arrangement at year-end 2008 and 2007. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow an additional $62.4 million at year-end 2008.

Required payments over the next five years are:

2009	$ 49,300
2010	7,000
2011	18,000
2012	25,000
2013	26,000

Other borrowings consist of balances in the treasury, tax, and loan account at a variable rate of federal funds less one quarter percent. Balances were $684 thousand and $846 thousand at year-end 2008 and 2007.

(In thousands, except share amounts)

NOTE I - INCOME TAXES

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

	2008	2007
Current		
Federal	$ 4,082	$ 2,599
State	785	315
Deferred		
Federal	(2,147)	(576)
State	(254)	(116)
	$ 2,466	$ 2,222

The differences between total tax expense and the amount computed by applying the applicable U.S. federal statutory income tax rate of 34% to income before income taxes were:

	2008	2007
Computed "expected" tax expense	$ 2,228	$ 2,056
State income taxes	531	170
Other	(293)	(4)
	$ 2,466	$ 2,222

Temporary differences created deferred tax assets and (liabilities) as of December 31, 2008 and and 2007:

	2008	2007
Deferred tax assets	$ 4,439	$ 1,080
Deferred tax liabilities	(4,034)	(3,822)
	$ 405	$ (2,742)

A deferred tax liability of $709 thousand relating to unrealized gains on securities available-for-sale is not included in the above table. The Company has not recorded a valuation allowance with respect to the deferred tax assets because it believes it is more likely than not that the assets are fully realizable.

(Continued)

NOTE I - INCOME TAXES (Continued)

The Company's deferred taxes are primarily attributable to the following: 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 that 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 Company's medical and dental benefit plan, and originated mortgage servicing rights.

During 2008, the Company was reorganized in order to qualify for Subchapter S taxation. As of December 31, 2008, the Company had 73 shareholders for S Corporation purposes, all of whom signed stockholder agreements. The Company qualifies for S Corporation taxation and in 2009 filed an election to be taxed as an S Corporation effective January 1, 2009. Accordingly, on January 1, 2009, the Company eliminated all deferred tax assets and liabilities and recognized $342 thousand of income. Beginning in 2009, the Company is not subject to federal or state tax. The Company may be subject to built-in gains taxes at the maximum corporate rate if certain assets are sold at a gain for a 10-year period following the election.

NOTE J - COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company 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 Company.

Also, the Company has various outstanding commitments and contingent assets and liabilities that are not reflected in the accompanying consolidated financial statements. Those financial instruments with off-balance-sheet risk are used to meet the financial needs of the Company's customers and include commitments to extend credit and standby letters of credit. They 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 Company has in particular classes of financial instruments.

(In thousands, except share amounts)

NOTE J - COMMITMENTS AND CONTINGENCIES (Continued)

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company 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 are:

	2008	2007
Undisbursed lines of credit and loans in process	$ 27,235	$ 35,422
Commitments to originate loans	3,648	17,256
Loans sold with recourse	4,245	4,085
Standby letters of credit	2,418	2,053
Commitments to sell mortgages and mortgage-backed securities	6,132	7,486

Commitments to extend credit are agreements to lend to a customer as long as there are no violations of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2008, commitments to make loans at fixed rates totaled $1.1 million. The fixed rate commitments had interest rates ranging from 6.50% to 11.50%.

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 federal banking agencies. Failure to meet capital requirements can initiate certain mandatory and possibly 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 its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios to Total and Tier 1 Capital (as defined by regulation) to Risk-Weighted Assets (as defined) and Core Capital (as defined) to Adjusted Total Assets (as defined). Management believes, as of December 31, 2008 and 2007, that the Bank met all regulatory capital adequacy requirements to which it is subject.

(Continued)

(In thousands, except share amounts)

NOTE K - REGULATORY MATTERS (Continued)

The most recent notifications from the Office of Thrift Supervision (OTS) as of December 31, 2008 and 2007 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, and Core 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	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008						
Total Risk-Based Capital (to risk-weighted assets)	$ 44,684	16.7%	$ 21,461	8.0%	$ 26,827	10.0%
Tier 1 Risk-Based Capital (to risk-weighted assets)	43,229	16.1%	10,731	4.0%	16,096	6.0%
Core Capital (to adjusted total assets)	43,229	7.9%	21,970	4.0%	27,462	5.0%
As of December 31, 2007						
Total Risk-Based Capital (to risk-weighted assets)	$ 41,862	15.7%	$ 21,371	8.0%	$ 26,714	10.0%
Tier 1 Risk-Based Capital (to risk-weighted assets)	41,158	15.4%	10,685	4.0%	16,028	6.0%
Core Capital (to adjusted total assets)	41,158	7.7%	21,516	4.0%	26,894	5.0%

(Continued)

NOTE L - FAIR VALUE

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value of securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2 inputs).

(Continued)

(In thousands, except share amounts)

NOTE L - FAIR VALUE (Continued)

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2008 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Available-for-sale securities	$ 1,947	$ 195,096	$ -

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at December 31, 2008 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Servicing rights	$ -	$ 2,513	$ -

The following represent impairment charges recognized during the period:

Servicing rights, which are carried at lower of cost or fair value, were written down to fair value of $2.5 million, resulting in a valuation allowance of $2.7 million. A charge of $2.6 million was included in earnings for the period.

(Continued)

(In thousands, except share amounts)

NOTE L - FAIR VALUE (Continued)

Assets and Liabilities Measured on a Recurring Basis

Carrying amounts and estimated fair value of financial instruments, not previously presented, at year-end were as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	$ 18,466	$ 18,466	$ 12,208	$ 12,208
Securities available-for-sale	197,043	197,043	180,741	180,741
Loans held for sale	15,129	15,471	16,818	16,927
Loans, net	285,018	289,986	294,227	296,086
FHLB stock	6,622	N/A	5,621	N/A
Accrued interest receivable	2,380	2,380	2,757	2,757
Financial Liabilities				
Deposits	$ 365,418	$ 365,783	$ 359,100	$ 359,101
FHLB advances	125,984	128,365	123,046	124,060
Advance payments for taxes and insurance	1,820	1,820	1,996	1,996
Accrued interest payable	552	552	617	617

The methods and assumptions used to estimate fair value are described as follows:

The carrying amount is the estimated fair value for cash and cash equivalents, short-term borrowings, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on the information presented on the previous page. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. The fair value of loans held for sale is based on market quotes. The fair value of mortgage banking derivatives is not material. The fair value of debt is based on current rates for similar financing. It was not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair value of commitments is based on current fees or cost that would be charged to enter into or terminate such arrangements. The fair value of commitments is not material.

(In thousands, except share amounts)

NOTE M - RETIREMENT PLANS

The Bank has a qualified 401(k) retirement savings plan for employees. Contributions are optional at the discretion of the Board of Directors. The level of matching contributions as a percentage of eligible employee compensation and plan expenses were as follows for 2008 and 2007:

Year	Match	Compensation	Expense
2008	100%	5.0%	$ 257
2007	100%	5.0%	$ 239

The Company has an unfunded noncontributory defined benefit plan that covers certain senior executive officers. The plan provides defined benefits based on years of service and final average salary. The Company uses December 31 as the measurement date for its plan.

FASB No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87,88,106 and 132(R),* requires that defined benefit plan assets and obligations are to be measured as of the date of the employer's fiscal year-end, starting in 2008. In accordance with the adoption provisions, the net periodic benefit cost for the period between the January 1, 2008 measurement date and the 2008 fiscal year-end measurement were allocated proportionately between amounts to be recognized as an adjustment to retained earnings and net periodic benefit cost for the fiscal year. As a result of this adoption, the Company increased the pension liability by $1.8 million, increased deferred income taxes by $700 thousand and credited accumulated other comprehensive income for $1.1 million.

Information about plan obligations follows:

	2008
Benefit obligation at beginning of year	$ 1,830
Service cost	34
Interest cost	214
Plan amendments	1,778
Actuarial (gain)/loss	(252)
Benefits paid	(32)
Benefit obligation at end of year	$ 3,572

Amounts recognized in accumulated other comprehensive income consist of:

	2008
Net (gain)	$ (252)
Prior service cost	1,585
Total	$ 1,333

The estimated net gain and prior service cost for the benefit plan that will be amortized from accumulated other comprehensive income into net periodic benefit costs during the year ending December 31, 2009 are $21 thousand and $132 thousand.

(In thousands, except share amounts)

NOTE M - RETIREMENT PLANS (Continued)

Estimated Future Payments

The following benefit payments, which reflect expected future service, are expected:

2009	$	49
2010		48
2011		48
2012		47
2013		68
Years 2014-2018		1,417

The weighted-average discount rate used to determine benefit obligations and periodic benefit cost was 5.94% at year-end.

NOTE N - RELATED PARTY TRANSACTIONS

Loans to executive officers, directors, and their affiliates were $2.1 million and $1.3 million at December 31, 2008 and 2007.

Deposits from executive officers, directors, and their affiliates at year-end 2008 and 2007 were $2.8 million and $1.1 million.

NOTE O - STOCK-BASED COMPENSATION

The Company has a stock option plan as described below. Total compensation cost that has been charged against income for that plan was $89 thousand and $55 thousand for 2008 and 2007. The total income tax benefit was $0.

The Company's 2007 Stock Option Plan, which is shareholder-approved, permits the grant of share options to its officers, employees, and directors for up to 70 thousand shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are granted with an exercise price equal to the estimated market price of the Company's common stock at the date of grant; those option awards have a vesting period of 5 years and have 10-year contractual terms. The Company's policy will be to use shares held as treasury shares to satisfy expected share option exercises.

(Continued)

(In thousands, except share amounts)

NOTE O - STOCK-BASED COMPENSATION (Continued)

Currently, the Company has a sufficient number of treasury shares to satisfy expected share option exercises.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Because the Company's stock is not actively traded, expected volatilities are based on historical volatilities of the SNL Index for all publicly traded thrifts. The Company uses management's estimate of option exercise, post-vesting termination behavior, and the expected term of options granted, which represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted-average assumptions as of the grant date:

	2008	2007
Risk-free interest rate	-	4.93%
Expected term	-	7.50
Expected stock price volatility	-	16.11%
Dividend yield	-	2.50%

A summary of the activity in the stock option plan for 2008 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	49,500	$ 45	
Granted	-	-	
Exercised	(1,460)	45	
Forfeited or expired	(3,100)	45	
Outstanding at end of year	44,940	$ 45	8.4
Vested or expected to vest	44,940	$ 45	8.4
Exercisable at end of year	7,900	$ 45	8.4

(Continued)

(In thousands, except share amounts)

NOTE O - STOCK-BASED COMPENSATION (Continued)

Information related to the stock option plan for the year follows:

	2008	2007
Intrinsic value of options exercised	$ -	$ -
Cash received from option exercises	65,700	-
Tax benefit realized from option exercises	-	-
Weighted-average fair value of options granted	-	10

Forfeited options above include 2,100 shares of stock options acquired by the Company from stock option holders who were non-qualified stockholders in the 2008 reorganization. These option holders received a cash payment of $12.90 per share as consideration for surrendering their outstanding options. The intrinsic value of options outstanding is $0 since the fair value per share at December 31, 2008 was less than the weighted-average exercise price.

As of December 31, 2008, there was $301 thousand of total unrecognized compensation cost related to nonvested stock options granted under the plan. The cost is expected to be recognized over a weighted-average period of 3.4 years.

NOTE P - OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) components and related tax effects were as follows:

	2008	2007
Unrealized holding gains (losses) on available-for-sale securities	$ 4,161	$ 2,822
Reclassification adjustment for losses (gains) realized in income	(2,153)	(684)
Net unrealized gains (losses)	2,008	2,138
Tax effect	(783)	(834)
Net-of-tax amount	1,225	1,304
Adjustment to initially apply SFAS No. 158	(1,778)	-
Net gain and prior service cost arising during the year on employee pension plan	193	-
Tax effect	618	-
Net-of-tax amount	(967)	-
	$ 258	$ 1,304

PIONEER BANCORP, INC.
SCHEDULE I - CONSOLIDATING STATEMENT OF FINANCIAL CONDITION
December 31, 2008
(In thousands, except share amounts)

	Pioneer Bank	Pioneer Mortgage Company (1)	Eliminations	Pioneer Bank Consolidated	Pioneer Bancorp, Inc.	Eliminations	Pioneer Bancorp, Inc. Consolidated
ASSETS							
Cash and cash equivalents	$ 18,466	$ -	$ -	$ 18,466	$ -	$ -	$ 18,466
Securities Available-for-sale	195,069	1,974	-	197,043	-	-	197,043
Loans held for sale, net	15,129	-	-	15,129	-	-	15,129
Loans, net	285,018	-	-	285,018	-	-	285,018
FHLB, stock	6,622	-	-	6,622	-	-	6,622
Investment in subsidiary	3,711	-	(3,711)	-	43,433	(43,433)	-
Intercompany advance	-	1,720	(1,720)	-	3,408	(3,408)	-
Premises and equipment, net	18,972	25	-	18,997	-	-	18,997
Mortgage servicing rights, net	2,513	-	-	2,513	-	-	2,513
Accrued interest receivable	2,366	14	-	2,380	-	-	2,380
Other assets	5,175	1	-	5,176	-	-	5,176
Total assets	$ 553,041	$ 3,734	$ (5,431)	$ 551,344	$ 46,841	$ (46,841)	$ 551,344
LIABILITIES							
Deposits	$ 365,418	$ -	$ -	$ 365,418	$ -	$ -	$ 365,418
FHLB advances and other borrowings	125,984	-	-	125,984	-	-	125,984
Official checks	4,703	-	-	4,703	-	-	4,703
Advance payments for taxes and insurance	1,820	-	-	1,820	-	-	1,820
Accrued interest payable	552	-	-	552	-	-	552
Intercompany advance	5,128	-	(1,720)	3,408	-	(3,408)	-
Accounts payable and other liabilities	5,853	31	-	5,884	1,451	-	7,335
Total liabilities	509,458	31	(1,720)	507,769	1,451	(3,408)	505,812
EQUITY							
Capital stock	-	82	(82)	-	1,009	-	1,009
Treasury stock	-	-	-	-	(2,550)	-	(2,550)
Additional paid-in capital	1,210	-	-	1,210	-	(1,210)	-
Retained earnings	42,223	3,629	(3,629)	42,223	46,931	(42,223)	46,931
Accumulated other comprehensive income (loss)	150	(8)	-	142	-	-	142
Total stockholders' equity	43,583	3,703	(3,711)	43,575	45,390	(43,433)	45,532
Total liabilities and stockholders' equity	$ 553,041	$ 3,734	$ (5,431)	$ 551,344	$ 46,841	$ (46,841)	$ 551,344

(1) The financial information for PPM, Inc. is included in the accounts of Pioneer Mortgage Company and is considered insignificant for the purposes of this presentation.

PIONEER BANCORP, INC.
SCHEDULE II - CONSOLIDATING STATEMENT OF INCOME
Year ended December 31, 2008
(In thousands, except share amounts)

	Pioneer Bank	Pioneer Mortgage Company (1)	Eliminations	Pioneer Bank Consolidated	Pioneer Bancorp, Inc.	Eliminations	Pioneer Bancorp, Inc. Consolidated
Interest and dividend income							
Loans	$ 20,167	$ 549	$ (213)	$ 20,503	$ -	$ -	$ 20,503
Mortgage securities	8,865	84	-	8,949	-	-	8,949
Investment securities and other	357	-	-	357	-	-	357
Total	29,389	633	(213)	29,809	-	-	29,809
Interest expense							
Deposits	6,799	-	-	6,799	-	-	6,799
FHLB advances and other borrowings	4,627	213	(213)	4,627	-	-	4,627
Total	11,426	213	(213)	11,426	-	-	11,426
Net interest income	17,963	420	-	18,383	-	-	18,383
Loan loss provision	1,246	-	-	1,246	-	-	1,246
Net interest income after loan loss provision	16,717	420	-	17,137	-	-	17,137
Noninterest income							
Deposit account fees	3,556	-	-	3,556	-	-	3,556
Gain on sale of loans, net	973	568	-	1,541	-	-	1,541
Loan administration and service fees	913	130	-	1,043	-	-	1,043
Change in mortgage servicing rights impairment allowance	(2,610)	-	-	(2,610)	-	-	(2,610)
Equity earnings of subsidiary	441	-	(441)	-	4,104	(4,104)	-
Gain on sale of securities, net	2,153	-	-	2,153	-	-	2,153
Other	220	-	-	220	-	(10)	210
Total	5,646	698	(441)	5,903	4,104	(4,114)	5,893
Noninterest expenses							
Compensation and employee benefits	8,639	269	-	8,908	-	-	8,908
Equipment	1,490	16	-	1,506	-	-	1,506
Data processing	1,574	10	-	1,584	-	-	1,584
Occupancy	1,064	33	-	1,097	-	-	1,097
Stationery, printing, and office supplies	500	11	-	511	6	-	517
Professional and supervisory	721	-	-	721	20	(10)	731
Postage and transportation	402	14	-	416	-	-	416
Advertising and public relations	952	26	-	978	-	-	978
Telephone	157	7	-	164	-	-	164
Other	558	16	-	574	1	-	575
Total	16,057	402	-	16,459	27	(10)	16,476
Income before income tax expense	6,306	716	(441)	6,581	4,077	(4,104)	6,554
Income tax expense	2,202	275	-	2,477	(11)	-	2,466
Net income	$ 4,104	$ 441	$ (441)	$ 4,104	$ 4,088	$ (4,104)	$ 4,088

(1) The financial information for PPM, Inc. is included in the accounts of Pioneer Mortgage Company and is considered insignificant for the purposes of this presentation.

PIONEER BANCORP, INC.
SELECTED FINANCIAL DATA - UNAUDITED
December 31, 2008

(In thousands, except share amounts)

2008 Compared to 2007

	Average Balance		Average Rate		Interest				
	2008	2007	2008	2007	2008	2007	Interest Variance	Volume	Rate
Interest and dividend income									
Loans	$ 309,706	$ 309,310	6.62%	7.04%	$ 20,503	$ 21,764	$ (1,261)	$ 26	$ (1,287)
Mortgage securities	191,921	142,236	4.66%	4.38%	8,949	6,224	2,725	2,317	408
Securities	11,159	29,945	3.20%	4.65%	357	1,391	(1,034)	(601)	(433)
Total interest-earning assets	$ 512,786	$ 481,491	5.81%	6.10%	$ 29,809	$ 29,379	$ 430	$ 1,742	$ (1,312)
Interest expenses									
Deposits	$ 354,887	$ 354,425	1.92%	2.73%	$ 6,799	$ 9,686	$ (2,887)	$ 9	$ (2,896)
Borrowed funds	143,097	114,858	3.23%	4.34%	4,627	4,985	(358)	913	(1,271)
Total interest-bearing liabilities	$ 497,984	$ 469,283	2.29%	3.13%	$ 11,426	$ 14,671	$ (3,245)	$ 922	$ (4,167)
Net interest spread and income			3.52%	2.97%	$ 18,383	$ 14,708			
Ratio of net interest income to average interest-earning assets					3.58%	3.05%			

2007 Compared to 2006

	Average Balance		Average Rate		Interest				
	2007	2006	2007	2006	2007	2006	Interest Variance	Volume	Rate
Interest and dividend income									
Loans	$ 309,310	$ 293,088	7.04%	6.63%	$ 21,764	$ 19,418	$ 2,346	$ 1,141	$ 1,205
Mortgage securities	142,236	169,895	4.38%	4.48%	6,224	7,614	(1,390)	(1,210)	(180)
Securities	29,945	16,783	4.65%	4.28%	1,391	719	672	611	61
Total interest-earning assets	$ 481,491	$ 479,766	6.10%	5.78%	$ 29,379	$ 27,751	$ 1,628	$ 542	$ 1,086
Interest expenses									
Deposits	$ 354,425	$ 340,155	2.73%	2.39%	$ 9,686	$ 8,136	$ 1,550	$ 390	$ 1,160
Borrowed funds	114,858	129,722	4.34%	3.99%	4,985	5,181	(196)	(645)	449
Total interest-bearing liabilities	$ 469,283	$ 469,877	3.13%	2.83%	$ 14,671	$ 13,317	$ 1,354	$ (255)	$ 1,609
Net interest spread and income			2.97%	2.95%	$ 14,708	$ 14,434			
Ratio of net interest income to average interest-earning assets					3.05%	3.01%			

Pioneer's New Corporate Headquarters,

3000 N. Main, Roswell, New Mexico

PIONEER BANCORP, INC.

CORPORATE INFORMATION

General Information

Pioneer Bancorp, Inc. is a thrift holding company organized in the State of Nevada. The Bancorp owns Pioneer Bank which focuses on traditional and mortgage banking. The Bank is a Federal Savings Bank which provides depository services and originates and services residential, commercial, and consumer loans primarily in Southern New Mexico and West Texas. The Bank has one subsidiary, Pioneer Mortgage Company, which is involved in residential construction and mortgage lending, primarily in West Texas.

CORPORATE OFFICES

Pioneer Bancorp, Inc.
306 North Pennsylvania Avenue
P.O. Box 130
Roswell, NM 88202-0130

INDEPENDENT PUBLIC ACCOUNTANTS

Crowe Horwath LLP
One Mid America Plaza
P.O. Box 3697
Oak Brook, IL 60522-3697

GENERAL COUNSEL

Sanders, Bruin, Coll & Worley, P.A.
701 West Country Club Road
Roswell, NM 88201

REGISTRAR AND TRANSFER AGENT

Pioneer Bancorp, Inc.

ANNUAL MEETING

The annual meeting of shareholders of Pioneer Bancorp, Inc. will be held at 2:00 p.m. on April 21, 2009 at the Sally Port Inn, 2000 North Main Street, Roswell, New Mexico.

PIONEER BANCORP, INC.

BOARD OF DIRECTORS

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Vice President
Bell Gas, Inc.

James L. Bruin
Retired Attorney
Sanders, Bruin, Coll & Worley, PA

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Patricia J. Cooper
Partner - Johnson Enterprises

Jon E. Hitchcock, CPA
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Pioneer Bank

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State Senator and Rancher

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Investments

Stephen P. Puntch
Executive Vice President
Pioneer Bank

C.W. "Buddy" Ritter
President
Ritter Enterprises, Inc.

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Senior Vice President
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Corporate Secretary
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Assistant Secretary
Staci D. Carrasco
Kathleen Fiel
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PIONEER MORTGAGE COMPANY

Vice President
Tena G. Waggoner

Assistant Vice President
Sharon K. McKandles
Becky L. Vines

PIONEER BANK

www.pioneerbnk.com

306 North Pennsylvania Avenue, P.O. Box 130, Roswell, New Mexico 88201
3301 North Main Street, Roswell, New Mexico 88201
2 St. Mary's Place, Roswell, New Mexico 88203
300 South Sunset Avenue, Roswell, New Mexico 88203
(575) 624-5200

3831 East Lohman Avenue, P.O. Box 609, Las Cruces, New Mexico 88011
705 East University Avenue, Las Cruces, New Mexico 88001
2900 Roadrunner Parkway, Las Cruces, New Mexico 88011
(575) 532-7500

1020 Tenth Street, P.O. Box 1707, Alamogordo, New Mexico 88310
(575) 439-6040

111 North Canal Street, P.O. Box S, Carlsbad, New Mexico 88220
(575) 885-7474

1020 North Turner Street, P.O. Box 177, Hobbs, New Mexico 88240
(575) 393-2102

1095 Mechem Drive, P.O. Box 910, Ruidoso, New Mexico 88345
(575) 258-6500

6068 Gateway East, P.O. Box 972178, El Paso, Texas 79905
(915) 782-2400
www.pioneerelpaso.com

PIONEER MORTGAGE COMPANY

3000 North Garfield Street, Suite 180, Midland, Texas 79705
(432) 570-0777
www.pioneermidland.com