

PIONEER BANCORP, INC.



*An Old Friend
with New Ideas*

2003 ANNUAL REPORT



PIONEER BANCORP, INC.

Dear Pioneer Bancorp Stockholder:

This was a year of firsts for Pioneer. While 2003 was the 102nd year of Pioneer Bank, it was the first year of Pioneer Bancorp, Inc. It was also the first year of our new South Main branch, the first year we were honored as Business of the Year by both the Roswell Chamber of Commerce and the Hispano Chamber of Commerce, and the first year our earnings exceeded \$5 million. In addition to record earnings, 2003 was the second consecutive year of record loan production and levels of core deposits. We are pleased to report audited earnings of \$5.2 million which allowed Pioneer to distribute our highest dividend to date, \$1.21 per share.

Total loan production reached \$273.9 million, an increase of \$58.7 million or 27.3% over 2002. While the increase was primarily due to residential production, Pioneer also experienced strong growth in consumer and commercial loan production. Total assets rose 8.4% to \$447.0 million. Transaction account deposits increased by 21.7%, and total deposits reached \$282.6 million, an increase of 7.9% compared to last year.

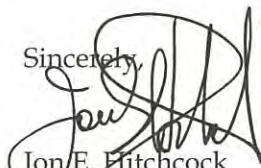
As is more fully described in Note A, Pioneer reduced opening retained earnings by \$464,107, as of December 31, 2001. This reduction was necessary to accelerate the expense of future retirement benefits over participants' expected years of active service. Despite this charge, and after the repurchase of \$1.1 million of stock, stockholders' equity reached \$31.2 million, an increase of 7.1% over last year. As a result of the stock repurchase and strong earnings, book value per share increased 11.3% to \$32.13 per share.

Management anticipates gradually rising interest rates this year, which will result in decreased loan production for 2004. We expect this change in the operating environment to reduce earnings when compared to the record levels of 2002 and 2003. Nevertheless, the environment should be conducive to strong operating results. In 2004, Pioneer will focus on laying the groundwork for continued expansion. We will upgrade a number of our lending and banking systems in order to improve customer service and efficiency. Additionally, the opening of a new flagship branch in Las Cruces will allow us to strengthen our presence in that important market.

As always, our primary goal is to continue to build shareholder value. We will do this through the growth of core deposits and the expansion of commercial and consumer lending activities.

Pioneer will continue to provide old-fashioned customer service along with the convenience and efficiency of modern technology. On behalf the Board of Directors and officers, I would like to thank our stockholders, customers, and employees for your continued contributions to the success of Pioneer Bancorp.

Sincerely,



Jon E. Hitchcock
President

Roswell, New Mexico
March 26, 2004

MISSION STATEMENT

Pioneer Bank's mission is to provide superior banking products and services to our customers.

We will continue to maintain goals that will enable Pioneer to be a leader in the communities we serve, increase profitability, strive for growth and improvement, provide the highest quality of service to our customers, and sustain integrity, confidence, and success for our stockholders, customers, and employees.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash and cash equivalents (Note B)	\$ 13,656,194	\$ 15,597,847
Securities (Note C)		
Available-for-sale	151,073,194	138,468,925
Held-to-maturity fair value: 2003 - \$594,770; 2002 - \$853,441	569,974	819,404
Loans held for sale, net (Note D)	11,605,657	21,612,875
Loans, net (Note D)	245,757,024	216,205,002
Federal Home Loan Bank, stock	6,771,800	6,668,600
Office properties and equipment, net (Note E)	8,894,349	6,251,625
Mortgage servicing rights, net (Note F)	2,730,892	2,092,435
Accrued interest receivable	1,837,459	1,674,641
Other assets	<u>4,131,141</u>	<u>3,124,528</u>
 Total assets	 <u>\$ 447,027,684</u>	 <u>\$ 412,515,882</u>
LIABILITIES		
Deposits (Note G)	\$ 282,638,638	\$ 261,841,066
FHLB advances and other borrowings (Note H)	123,311,783	110,357,066
Official checks	3,567,092	4,761,983
Advance payments for taxes and insurance	1,919,096	1,689,854
Accrued interest payable	433,479	516,985
Accounts payable and other liabilities	<u>3,953,445</u>	<u>4,218,110</u>
Total liabilities	415,823,533	383,385,064
 Commitments and contingencies (Note J)		
 Stockholders' equity (Note K)		
Capital stock, \$1 par value; shares authorized: 2,000,000; shares issued and outstanding: 2003 - 1,008,923, 2002 - 1,008,922	1,008,923	1,008,922
Treasury stock (37,886 shares in 2003)	(1,141,655)	-
Additional paid-in capital	56,982	56,952
Retained earnings	31,462,961	27,437,177
Accumulated other comprehensive income (loss)	<u>(183,060)</u>	<u>627,767</u>
Total stockholders' equity	<u>31,204,151</u>	<u>29,130,818</u>
 Total liabilities and stockholders' equity	 <u>\$ 447,027,684</u>	 <u>\$ 412,515,882</u>

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Interest and dividend income		
Loans	\$ 15,236,379	\$ 14,886,915
Mortgage securities	5,287,570	6,577,113
Investment securities and other	<u>380,009</u>	<u>641,677</u>
	20,903,958	22,105,705
Interest expense		
Deposits	4,235,309	5,439,716
FHLB advances and other borrowings	<u>4,898,822</u>	<u>4,863,608</u>
	<u>9,134,131</u>	<u>10,303,324</u>
Net interest income	11,769,827	11,802,381
Loan loss provision (Note D)	<u>78,000</u>	<u>72,046</u>
Net interest income after loan loss provision	11,691,827	11,730,335
Other income		
Gain on sale of loans, net (Note D)	2,037,747	2,046,521
Loan administration and service fees	619,191	797,452
Change in mortgage servicing rights impairment allowance (Note F)	871,773	(1,152,247)
Deposit account fees	968,412	837,403
Gain on sale of securities, net (Note C)	1,583,707	3,053,148
Other	<u>430,332</u>	<u>328,416</u>
	6,511,162	5,910,693
Other expenses		
Compensation and employee benefits (Note M)	5,592,757	5,637,880
Equipment	738,439	757,570
Data processing	779,814	717,912
Occupancy	684,915	642,503
Stationery, printing, and office supplies	324,891	302,242
Professional and supervisory	299,602	364,940
Postage and transportation	293,930	266,562
Advertising and public relations	362,098	324,095
Telephone	168,089	179,939
Other	<u>515,669</u>	<u>404,970</u>
	<u>9,760,204</u>	<u>9,598,613</u>
Income before income tax expense	8,442,785	8,042,415

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Income before income tax expense	\$ 8,442,785	\$ 8,042,415
Income tax expense (Note I)	<u>3,242,023</u>	<u>3,083,764</u>
Net income	<u>\$ 5,200,762</u>	<u>\$ 4,958,651</u>
Weighted average number of capital stock shares outstanding	<u>991,389</u>	<u>1,008,921</u>
Income per share	<u>\$ 5.25</u>	<u>\$ 4.91</u>

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities		
Net income	\$ 5,200,762	\$ 4,958,651
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization (accretion) of		
Mortgage servicing rights	1,602,658	1,165,049
Premiums and discounts on investment and mortgage securities, net	901,934	160,424
Interest rate cap agreements	-	271,547
Loan loss provision	78,000	72,046
Change in mortgage servicing rights impairment allowance	(871,773)	1,152,247
Net (gain) loss on sales and disposals of		
Loans	(2,037,747)	(2,046,521)
Office properties and equipment	13,351	16,152
Investments in real estate owned	(8,691)	(5,644)
Securities available-for-sale	(1,583,707)	(3,053,148)
Federal Home Loan Bank stock dividends	(157,700)	(192,200)
Depreciation of office properties and equipment	529,569	524,104
Origination of mortgage loans held for sale	(70,916,542)	(66,333,930)
Changes in operating assets and liabilities		
Accrued interest receivable	(162,818)	(117,489)
Other assets	(1,006,613)	866,083
Official checks	(1,194,891)	723,299
Deferred tax liabilities, net of tax effect of unrealized losses	1,951,487	(974,976)
Accrued interest payable	(83,506)	(28,496)
Accounts payable and other liabilities, net of dividends declared, not paid	(1,673,683)	412,253
Net cash used in operating activities	(69,419,910)	(62,430,549)
Cash flows from investing activities		
Loan originations and principal payments on loans, net	(29,754,179)	(36,695,132)
Securities held-to-maturity:		
Maturities and principal reductions	247,705	386,058
Securities available-for-sale:		
Purchases	(87,855,683)	(106,195,985)
Sales	91,536,671	122,454,792
Maturities and principal reductions	64,652,013	53,616,498
Purchase of office properties and equipment	(3,185,645)	(457,899)
Net sales of FHLB stock	54,500	-
Proceeds from sales of investments in real estate owned	132,848	93,044
Net cash provided by investing activities	35,828,230	33,201,376

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from financing activities		
Net increase (decrease) in deposits	\$ 20,797,572	\$ 24,081,204
Additions to FHLB advances and other borrowings	42,954,717	31,760,323
Payments on FHLB advances and other borrowings	(30,000,000)	(21,200,000)
Net decrease in advance payments for taxes and insurance	229,242	126,486
Sales of capital stock	31	36
Purchase of treasury shares	(1,141,655)	-
Payments of cash dividends	<u>(1,189,880)</u>	<u>(1,109,812)</u>
Net cash provided by financing activities	<u>31,650,027</u>	<u>33,658,237</u>
 Increase (decrease) in cash and cash equivalents	 (1,941,653)	 4,429,064
Cash and cash equivalents at beginning of year	<u>15,597,847</u>	<u>11,168,783</u>
Cash and cash equivalents at end of year	<u>\$ 13,656,194</u>	<u>\$ 15,597,847</u>
 Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	\$ 9,217,637	\$ 10,331,820
Income taxes	3,137,000	4,194,859
 Supplemental schedule of noncash investing and financing activities		
Dividends declared, not paid	\$ 640,897	\$ 655,799
Loan securitizations transferred to AFS securities	81,592,165	72,896,050
Transfer from loans to other real estate owned	124,157	87,400

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2003 and 2002

	Capital Stock \$1 Par	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2001, as reported	\$ 1,008,920	\$ -	\$ 56,918	\$ 24,153,338	\$ 104,628	\$ 25,323,804
Adjustment (Note A)	-	-	-	(464,107)	-	(464,107)
Balance at December 31, 2001, as restated	1,008,920	-	56,918	23,689,231	104,628	24,859,697
Capital stock issued	2	-	34	-	-	36
Comprehensive income						
Net income	-	-	-	4,958,651	-	4,958,651
Net change in unrealized losses on securities, net of tax (Note C)	-	-	-	-	523,139	523,139
Total comprehensive income						5,481,790
Dividends - \$1.20 per share	-	-	-	(1,210,705)	-	(1,210,705)
Balance, December 31, 2002	1,008,922	-	56,952	27,437,177	627,767	29,130,818
Capital stock issued	1	-	30	-	-	31
Purchase of treasury stock	-	(1,141,655)	-	-	-	(1,141,655)
Comprehensive income						
Net income	-	-	-	5,200,762	-	5,200,762
Net change in unrealized losses on securities, net of tax (Note C)	-	-	-	-	(810,827)	(810,827)
Total comprehensive income						4,389,935
Dividends - \$1.21 per share	-	-	-	(1,174,978)	-	(1,174,978)
Balance, December 31, 2003	<u>\$ 1,008,923</u>	<u>\$ (1,141,655)</u>	<u>\$ 56,982</u>	<u>\$ 31,462,961</u>	<u>\$ (183,060)</u>	<u>\$ 31,204,151</u>

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations: 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 consolidated entities are collectively referred to as the Company. The Bank is a federal savings bank operating in New Mexico and West Texas. Deposits in the Bank are insured by the Federal Deposit Insurance Corporation (the FDIC).

Pioneer Bank (the Bank) operates six full customer service facilities, two savings branches, and two loan production offices in the geographic area of the Southwest region of the United States, primarily New Mexico and West 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.

The Bank became a wholly owned subsidiary of the Bancorp on May 16, 2003 in accordance with the Plan and Agreement of Reorganization and Merger dated January 15, 2003 which provided that each share of the Bank's common stock be exchanged for an equal number of shares of the common stock of the Bancorp. The par value remained at \$1. This was treated as an internal reorganization; accordingly, the capital accounts of the Bank as of May 16, 2003 were carried forward, without change, as the capital accounts of the Bancorp.

Principles of consolidation: The consolidated financial statements include the accounts of Pioneer Bancorp, Inc. and its wholly owned subsidiary, Pioneer Bank, and the Bank's wholly owned subsidiary, Pioneer Mortgage Company, and its wholly owned subsidiaries, Pioneer Mortgage Company of Texas, Inc. and PPM, Inc. Significant intercompany transactions and balances are eliminated in consolidation.

Use of estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, 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 Company considers all cash on hand, due from banks, and federal funds sold as cash and cash equivalents for purposes of the financial statement presentation.

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PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities and Federal Home Loan Bank stock: The Company's securities 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 securities available-for-sale are recognized as determined by the specific identification basis upon disposition. Management has the ability and positive intent to hold securities categorized as held-to-maturity until maturity.

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 securities amortization and accretion related to changes in prepayments are recorded on a current basis. Federal Home Loan Bank (FHLB) 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 allowance for loan losses, net deferred loan fees, and unearned discounts.

Allowance for loan losses: Each period, the loan loss provision in the consolidated statements of income results from the combination of an estimate by management of probable 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 judgment 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 a 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

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PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 loan loss provision 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, and other factors, 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 costs of the mortgage loan are 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, including 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.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Derivatives: All derivative instruments are recorded at their fair values. If derivative instruments are designated as hedges of fair values, both the change in the fair value of the hedge and the hedged item are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income and reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of hedges are reflected in earnings as they occur.

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 uses, among other strategies, 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. The interest rate cap agreements are not for speculation purposes.

Treasury stock: Treasury stock is carried at cost. During the year ended December 31, 2003, the Company purchased 37,866 shares of treasury stock, all of which remain in treasury stock at December 31, 2003. The average price of the treasury stock purchased was \$30.15.

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.

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PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes: The Company 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 Company. The calculation of taxes payable is based on each respective entity's 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 I, 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 capital stock has been computed on the basis of the weighted-average number of shares of capital stock outstanding. There were no other classes of stock or common stock equivalents at December 31, 2003 or 2002. Dividends are paid based on the actual number of shares outstanding on the day of record.

Comprehensive income (loss): Comprehensive income (loss) consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale, which is recognized as a separate components of equity.

Adoption of new accounting standards: During 2003, the Company adopted FASB Statement 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*; FASB Statement 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equities*; FASB Statement 132 (revised 2003), *Employers' Disclosures About Pensions and Other Postretirement Benefits*; FASB Interpretation 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees*; and FASB Interpretation 46, *Consolidation of Variable Interest Entities*. Adoption of the new standards did not materially affect the Company's operating results or financial condition.

Restatement: The accompanying financial statements have been restated to reflect an adjustment to the Company's Indexed Retirement Plan. In prior years, the Company did not record the full liability for the Plan in accordance with Statement of Financial Accounting Standards No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions*. During 2003, the Company recorded this amount as a prior period adjustment to years ending before December 31, 2001. Net income for the years ended December 31, 2003 and 2002 were not affected by this adjustment.

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PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial statements from December 31, 2001 have been restated to increase the liabilities for the Indexed Retirement Plan by \$758,345, reducing deferred taxes by \$294,238 and decreasing equity by \$464,107.

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

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents, subject to regulatory reserve requirements, totaled approximately \$4,236,000 and \$3,721,000 at December 31, 2003 and 2002. Cash and cash equivalents consisted of the following:

	<u>2003</u>	<u>2002</u>
Cash and due from banks	\$ 13,418,902	\$ 14,124,725
Interest-bearing deposits	<u>237,292</u>	<u>1,473,122</u>
	<u>\$ 13,656,194</u>	<u>\$ 15,597,847</u>

NOTE C - SECURITIES

The amortized cost and estimated market values of 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, 2003				
	Contractual Maturity in Years	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Available-for-Sale</u>					
U.S. Treasury securities	1-5	\$ 8,986,782	\$ 4,240	\$ (27,646)	\$ 8,963,376
FNMA stock		2,007,338	-	(297,267)	1,710,071
Other equity investments		2,000,000	-	(31,374)	1,968,626
Mortgage-backed securities and collateralized mortgage obligations		<u>138,379,171</u>	<u>577,350</u>	<u>(525,400)</u>	<u>138,431,121</u>
Total securities available-for-sale		<u>\$ 151,373,291</u>	<u>\$ 581,590</u>	<u>\$ (881,687)</u>	<u>\$ 151,073,194</u>
<u>Securities Held-to-Maturity</u>					
Mortgage-backed securities and collateralized mortgage obligations		<u>\$ 569,974</u>	<u>\$ 24,796</u>	<u>\$ -</u>	<u>\$ 594,770</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE C - SECURITIES (Continued)

	December 31, 2002				
	Contractual Maturity in Years	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Available-for-Sale</u>					
U.S. Treasury securities	< 1	\$ 1,001,771	\$ 8,229	\$ -	\$ 1,010,000
FNMA stock		2,007,339	-	(27,322)	1,980,017
Other equity investments		2,000,000	9,225	-	2,009,225
Mortgage-backed securities and collateralized mortgage obligations		<u>132,421,520</u>	<u>1,087,998</u>	<u>(39,835)</u>	<u>133,469,683</u>
Total securities available-for-sale		<u>\$ 137,430,630</u>	<u>\$ 1,105,452</u>	<u>\$ (67,157)</u>	<u>\$ 138,468,925</u>
<u>Securities Held-to-Maturity</u>					
Mortgage-backed securities and collateralized mortgage obligations		<u>\$ 819,404</u>	<u>\$ 34,037</u>	<u>\$ -</u>	<u>\$ 853,441</u>

All components of accumulated other comprehensive income (loss) for the Company are directly related to securities activity. An analysis of changes in accumulated other comprehensive income follows:

	<u>2003</u>	<u>2002</u>
Net unrealized holding gains on securities arising during the period	\$ 245,314	\$ 3,918,414
Reclassification adjustment for realized gains included in net income	(1,583,707)	(3,053,148)
Income tax	<u>527,566</u>	<u>(342,127)</u>
	<u>\$ (810,827)</u>	<u>\$ 523,139</u>

At December 31, 2003 and 2002, the Company had pledged securities of approximately \$28,012,000 and \$28,403,000 to secure deposits. At December 31, 2002, securities having a market value of approximately \$1,010,000 were pledged to secure the treasury, tax, and loan account. There were no securities pledged for treasury, tax, and loan in 2003.

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

	<u>2003</u>	<u>2002</u>
Gains	\$ 2,254,691	\$ 3,324,976
Losses	<u>(670,984)</u>	<u>(271,828)</u>
	<u>\$ 1,583,707</u>	<u>\$ 3,053,148</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE C - SECURITIES (Continued)

Description of Securities	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
U.S. treasury and federal agencies	\$ 3,935,250	\$ (27,646)	\$ -	\$ -	\$ 3,935,250	\$ (27,646)
FNMA stock	1,710,071	(297,267)	-	-	1,710,071	(297,267)
Other equity investments	1,968,626	(31,374)	-	-	1,968,626	(31,374)
Mortgage-backed securities and collateralized mortgage obligations	<u>47,918,390</u>	<u>(406,163)</u>	<u>17,345,870</u>	<u>(119,237)</u>	<u>65,264,260</u>	<u>(525,400)</u>
	<u>\$ 55,532,337</u>	<u>\$ (762,450)</u>	<u>\$ 17,345,870</u>	<u>\$ (119,237)</u>	<u>\$ 72,878,207</u>	<u>\$ (881,687)</u>

Unrealized losses on debt securities have not been recognized into income because of the high credit quality of the issuers, the intent and ability to hold such securities for the foreseeable future, and the direct relationship of the market value decline to increased market interest rates. The fair value of mortgage-backed securities, collateralized mortgage obligations, and U.S. treasury and agency securities is expected to recover as the debt securities approach their maturity date or market rates decline.

All of the following are considered to determine whether or not the impairment of FNMA stock is other-than-temporary. The security has call provisions to repurchase at purchased par and dividend payments are received regularly. There are no concerns of credit losses and there is nothing to indicate that full principal will not be received. Management considers the unrealized losses to be market driven due to the fact that the dividend rates on these preferred issuances will periodically adjust to reflect current market interest rates. No loss will be incurred unless the securities are sold. While these securities are held in the available-for-sale portfolio, the current intent is to hold these for the foreseeable future. The Company does not have a history of trading such securities.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE D - LOANS

Loans consisted of the following:

	<u>2003</u>	<u>2002</u>
Loans held for sale		
Mortgage loans held for sale		
Conventional	\$ 4,575,792	\$ 12,667,323
FHA insured and VA insured	7,050,945	9,022,573
Deferred loan fees, net	<u>(21,080)</u>	<u>(77,021)</u>
Loans held for sale, net	<u>\$ 11,605,657</u>	<u>\$ 21,612,875</u>
Loans		
Mortgage loans held for investment		
Conventional	\$ 151,917,980	\$ 134,724,936
FHA insured and VA guaranteed	53,066,800	49,917,440
Commercial	7,227,460	8,552,751
Construction and land	10,098,733	7,502,337
Deferred loan costs, net	<u>72,752</u>	<u>29,322</u>
Mortgage loans held for investment, net	222,383,725	200,726,786
Consumer loans		
Installment and other loans	10,593,881	7,974,263
Second mortgages	587,529	844,249
Business	12,491,088	6,881,231
Savings account loans	251,998	234,977
Unearned discounts	<u>(22,268)</u>	<u>(20,950)</u>
Consumer loans, net	23,902,228	15,913,770
Allowance for loan losses	<u>(528,929)</u>	<u>(435,554)</u>
Loans, net	<u>\$ 245,757,024</u>	<u>\$ 216,205,002</u>

Net gains from sales of loans were \$2,037,747 and \$2,046,521 in 2003 and 2002.

At December 31, 2003 and 2002, approximately \$212,593,000 and \$202,881,000 of mortgage loans (including those held for sale) were pledged to secure FHLB advances and other borrowings.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE D - LOANS (Continued)

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

	<u>2003</u>	<u>2002</u>
Balance at beginning of year	\$ 435,554	\$ 362,476
Loan loss provision	78,000	72,046
Recoveries	56,885	3,079
Charge-offs	<u>(41,510)</u>	<u>(2,047)</u>
Balance at end of year	<u>\$ 528,929</u>	<u>\$ 435,554</u>

At December 31, 2003 and 2002, there were no loans that were considered impaired or for which a portion of the allowance was specifically allocated.

Nonperforming loans were as follows:

	<u>2003</u>	<u>2002</u>
Loans past due over 90 days still on accrual	\$ -	\$ -
Nonaccrual loans	2,555,000	3,090,000
Interest income forgone during impairment	151,000	91,000
Cash-basis interest income recognized	62,500	52,600

NOTE E - OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment consisted of:

	<u>2003</u>	<u>2002</u>
Land	\$ 3,225,481	\$ 2,011,829
Buildings and leasehold improvements	5,003,337	4,462,703
Furniture, equipment, and autos	4,351,837	3,951,807
Construction in progress	<u>800,992</u>	<u>78,628</u>
	13,381,647	10,504,967
Less accumulated depreciation	<u>4,487,298</u>	<u>4,253,342</u>
Office properties and equipment, net	<u>\$ 8,894,349</u>	<u>\$ 6,251,625</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE E - OFFICE PROPERTIES AND EQUIPMENT (Continued)

Depreciation expense was \$529,569 and \$524,104 in 2003 and 2002.

As of December 31, 2003 the Company is currently in the process of constructing a new branch facility. The estimated costs to complete construction of the new facility are approximately \$2,403,000.

The Bank leases office space for administrative offices and certain branch offices under various operating leases with terms ranging through 2009. Lease payments included in occupancy expense totaled \$233,422 and \$225,262 for the years ended December 31, 2003 and 2002. Future minimum lease payments under the non-cancelable operating leases are:

2004	\$ 216,250
2005	178,389
2006	180,224
2007	168,156
2008 and thereafter	<u>185,836</u>
	<u>\$ 928,855</u>

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:

	<u>2003</u>	<u>2002</u>
Mortgage loans underlying pass-through securities		
GNMA	\$ 122,888,514	\$ 142,241,045
FNMA	97,234,734	84,127,976
FHLMC	<u>547,889</u>	<u>724,401</u>
	220,671,137	227,093,422
Mortgage loan portfolios serviced for		
FNMA	34,970,236	54,782,123
FHLMC	19,017,354	32,380,186
Other investors	<u>76,372,888</u>	<u>38,179,464</u>
	<u>130,360,478</u>	<u>125,341,773</u>
	<u>\$ 351,031,615</u>	<u>\$ 352,435,195</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

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

Custodial balances on deposit at the Bank, in connection with the foregoing loan servicing, amounted to \$15,157,994 and \$14,878,106 at December 31, 2003 and 2002.

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

	<u>2003</u>	<u>2002</u>
Mortgage servicing rights		
Balance, beginning of year	\$ 3,694,815	\$ 3,660,635
Capitalized	1,368,667	1,199,229
Amortization	<u>(1,602,658)</u>	<u>(1,165,049)</u>
Balance, end of year	3,460,824	3,694,815
Impairment allowance	<u>(729,932)</u>	<u>(1,601,705)</u>
Balance, end of year, net of impairment allowance	<u>\$ 2,730,892</u>	<u>\$ 2,092,435</u>
Valuation allowance		
Beginning of year	\$ 1,601,705	\$ 449,457
Additions expensed	-	1,152,247
Reductions credited to expense	<u>(871,773)</u>	<u>-</u>
End of year	<u>\$ 729,932</u>	<u>\$ 1,601,705</u>

NOTE G - DEPOSITS

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

	<u>2003</u>	<u>2002</u>
No contractual maturities	\$ 150,240,649	\$ 134,271,864
2003	-	86,582,276
2004	87,129,422	11,725,016
2005	26,491,454	20,435,741
2006	8,540,701	2,300,015
2007	5,830,443	6,526,154
2008	<u>4,405,969</u>	<u>-</u>
	<u>\$ 282,638,638</u>	<u>\$ 261,841,066</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE G - DEPOSITS (Continued)

At December 31, 2003 and 2002, approximately \$28,012,000 and \$28,403,000 of mortgage securities were pledged to secure public unit deposits.

Time deposits of \$100,000 or more were \$44,682,000 and \$36,230,000 at year-end 2003 and 2002.

NOTE H - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

FHLB advances and other borrowings consist of fixed rate, fixed term advances that must be secured by mortgage loans or other assets acceptable to the FHLB. At December 31, 2003 and 2002, 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, 2003 and 2002, mortgage loans of approximately \$212,593,000 and \$208,881,000 were pledged to secure FHLB advances. A summary of FHLB advances and other borrowings follows:

	Maturity Date	Rate	December 31,	
			<u>2003</u>	<u>2002</u>
FHLB advances and borrowings	1-02-03	1.350%	\$ -	\$ 8,000,000
	9-01-03	5.440	-	22,000,000
	1-02-04	1.100	20,050,000	-
	4-19-04	5.100	10,000,000	10,000,000
	4-20-04	5.185	5,000,000	5,000,000
	5-20-04	3.566	10,000,000	10,000,000
	1-18-05	5.710	5,000,000	5,000,000
	1-26-05	5.510	2,481,900	2,481,900
	4-19-05	5.272	10,000,000	10,000,000
	5-16-05	4.052	8,500,000	8,500,000
	4-10-06	5.249	14,000,000	14,000,000
	5-15-06	2.620	5,000,000	-
	10-10-06	3.092	10,000,000	10,000,000
	10-30-06	3.220	5,000,000	5,000,000
	10-09-07	3.103	8,000,000	-
	06-11-08	2.449	10,000,000	-
Treasury, tax and loan			<u>279,883</u>	<u>375,166</u>
			<u>\$ 123,311,783</u>	<u>\$ 110,357,066</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE H - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS
(Continued)

A summary of maturities of FHLB advances and other borrowings over the next five years is as follows:

2004	\$ 45,329,883
2005	25,981,900
2006	34,000,000
2007	8,000,000
2008	<u>10,000,000</u>
	<u>\$ 123,311,783</u>

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 in the accompanying consolidated statements of income are:

	<u>2003</u>	<u>2002</u>
Current		
Federal	\$ 1,084,671	\$ 3,255,115
State	205,865	803,625
Deferred		
Federal	1,583,051	(761,939)
State	<u>368,436</u>	<u>(213,037)</u>
	<u>\$ 3,242,023</u>	<u>\$ 3,083,764</u>

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:

	<u>2003</u>	<u>2002</u>
Computed "expected" tax expense	\$ 2,870,547	\$ 2,734,421
State income taxes	372,727	388,518
Other	<u>(1,251)</u>	<u>(39,175)</u>
	<u>\$ 3,242,023</u>	<u>\$ 3,083,764</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE I - INCOME TAXES (Continued)

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 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. Certain unrealized gains and losses on securities available-for-sale are recognized currently for income tax purposes. Deferred taxes consisted of:

	<u>2003</u>	<u>2002</u>
Deferred tax assets	\$ 1,316,308	\$ 1,938,338
Deferred tax liabilities	<u>(3,478,553)</u>	<u>(2,676,662)</u>
	<u>\$ (2,162,245)</u>	<u>\$ (738,324)</u>

The Company 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. As of December 31, 1995, the amount to be recaptured totaled \$679,000, for which a deferred tax liability had been recorded. The recapture was deferred for two years based upon the Bank's residential loan portfolio growth. In 1998, the Company began recapturing approximately \$113,000 of its bad debt reserves per year, and as of December 31, 2003, the total amount recaptured was approximately \$679,000.

The permanent deferral of bad debt reserves prior to 1988 was not affected by the repeal of Section 593. The Company'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, 2003. 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 Company 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.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE J - COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, 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.

Also, the Bank 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 Bank'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 Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The approximate contract or notional amounts of financial instruments whose contract amounts represent credit risk at December 31, 2003 are:

Undisbursed lines of credit and loans in process	\$ 13,047,000
Commitments to originate loans	2,772,000
Loans sold with recourse	1,869,000
Commitments to sell mortgages and mortgage-backed securities	3,000,000

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. At December 31, 2003, commitments to make loans at fixed rates totaled \$570,446. The fixed rate commitments had interest rates ranging from 5.875% to 8.5%.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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, FHLB stock, 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 market prices or dealer quotes and, if no such information is available, on the rate and term of the security and information about the issuer. 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 debt is based on current rates for similar financing. The fair value of commitments is based on the current fees or cost that would be charged to enter into or terminate such arrangements. The fair value of commitments is not material.

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 2003 and 2002:

<u>Year</u>	<u>Match</u>	<u>Compensation</u>	<u>Expense</u>
2003	100%	5.0%	\$ 126,727
2002	100%	5.0%	110,115

The Bank maintains a non-qualified retirement plan (hereinafter referred to as 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. During 2003, additional policies having a face value of \$550,000 were purchased. A death benefit for each executive has also been provided by endorsement of 80% of the non-at-risk insurance proceeds. The present value of the expected future cash outflows is being accrued over the service period of the participants for the benefits expected to be earned after the service period. The Bank has accrued benefits of \$1,179,885 and \$1,033,241, recorded in other liabilities, as of December 31, 2003 and 2002 under the IRP. As of December 31, 2003 and 2002, the cash surrender value of the life insurance policies under the IRP were approximately \$1,799,000 and \$1,184,000, which are recorded in other assets.

(Continued)

PIONEER BANCORP. INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE N - 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 also secured.

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

	<u>2003</u>	<u>2002</u>
Balance at beginning of year	\$ 361,717	\$ 63,710
Originations	1,457,435	306,306
Principal repayments	<u>(355,251)</u>	<u>(8,299)</u>
Balance at end of year	<u>\$ 1,463,901</u>	<u>\$ 361,717</u>



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated statements of financial condition of Pioneer Bancorp, Inc. (formerly Pioneer Bank) as of December 31, 2003 and 2002, 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 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. (formerly Pioneer Bank) as of December 31, 2003 and 2002, 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.

A handwritten signature in dark ink, appearing to read "Crowe Chizek and Company LLC", written in a cursive, flowing style.

Crowe Chizek and Company LLC

Oak Brook, Illinois
February 13, 2004

PIONEER BANCORP, INC.
SELECTED FINANCIAL DATA - UNAUDITED
December 31, 2003

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Interest and					
dividend income	\$ 20,903,958	\$ 22,105,705	\$ 23,021,519	\$ 22,765,151	\$ 22,063,276
Interest expense	9,134,131	10,303,324	13,893,529	15,476,093	13,633,862
Net interest income	11,769,827	11,802,381	9,127,990	7,289,058	8,429,414
Net income	5,200,762	4,958,651	2,778,655	2,545,352	2,800,406
Per share data					
Net income	5.25	4.91	2.75	2.52	2.77
Dividends	1.21	1.20	1.05	1.05	1.10
Securities	151,643,168	138,468,925	130,888,336	129,185,627	103,717,275
Loans	257,362,681	237,817,877	206,997,019	198,852,714	206,262,488
Total assets	447,027,684	412,515,882	372,901,648	362,962,161	341,548,512
Deposits	282,638,638	261,841,066	237,759,862	244,024,868	255,020,073
Borrowings	123,311,783	110,357,066	99,796,743	86,895,692	59,938,707
Stockholders' equity	31,204,151	29,130,818	24,859,697	22,076,190	18,119,142
Loans serviced for others	351,031,615	352,435,195	361,220,753	341,273,727	359,062,606
Customer service facilities					
Full service facilities	6	6	6	6	6
Banking branches	4	3	3	2	2
Loan production offices	2	2	2	2	2

PIONEER BANCORP, INC.
SELECTED FINANCIAL DATA - UNAUDITED
December 31, 2003

2003 Compared to 2002

	Average Balance		Average Rate		Interest		Interest Variance	Interest Variance Attributable to:	
	2003	2002	2003	2002	2003	2002		Volume	Rate
Interest and dividend income									
Loans	\$ 248,802	\$ 215,561	6.12%	6.91%	\$ 15,236	\$ 14,887	\$ 349	\$ 2,036	\$ (1,687)
Mortgage securities	146,643	133,568	3.61	4.92	5,288	6,577	(1,289)	471	(1,760)
Securities	14,076	15,864	2.70	4.05	380	642	(262)	(48)	(214)
Total interest earning assets	\$ 409,521	\$ 364,993	5.10%	6.06%	\$ 20,904	\$ 22,106	\$ (1,202)	\$ 2,459	\$ (3,661)
Interest expenses									
Deposits	\$ 271,063	\$ 250,479	1.56%	2.17%	\$ 4,235	\$ 5,440	\$ (1,205)	\$ 322	\$ (1,527)
Borrowed funds	123,289	101,441	3.97	4.79	4,899	4,864	35	869	(834)
Total interest-bearing liabilities	\$ 394,352	\$ 351,920	2.32%	2.93%	\$ 9,134	\$ 10,304	\$ (1,170)	\$ 1,191	\$ (2,361)
Net interest spread and income			2.78%	3.13%	\$ 11,770	\$ 11,802			
Ratio of net interest income to average interest-earning assets					2.88%	3.23%			

2002 Compared to 2001

	Average Balance		Average Rate		Interest		Interest Variance	Interest Variance Attributable to:	
	2002	2001	2002	2001	2002	2001		Volume	Rate
Interest and dividend income									
Loans	\$ 215,561	\$ 194,785	6.91%	7.45%	\$ 14,887	\$ 14,518	\$ 369	\$ 1,435	\$ (1,066)
Mortgage securities	133,568	133,804	4.92	5.89	6,577	7,880	(1,303)	(12)	(1,291)
Securities	15,864	13,100	4.05	4.76	642	623	19	112	(93)
Total interest earning assets	\$ 364,993	\$ 341,689	6.06%	6.74%	\$ 22,106	\$ 23,021	\$ (915)	\$ 1,535	\$ (2,450)
Interest expenses									
Deposits	\$ 250,479	\$ 236,522	2.17%	3.62%	\$ 5,440	\$ 8,572	\$ (3,132)	\$ 303	\$ (3,435)
Borrowed funds	101,441	95,011	4.79	5.60	4,864	5,321	(457)	308	(765)
Total interest-bearing liabilities	\$ 351,920	\$ 331,533	2.93%	4.19%	\$ 10,304	\$ 13,893	\$ (3,589)	\$ 611	\$ (4,200)
Net interest spread and income			3.13%	2.55%	\$ 11,802	\$ 9,128			
Ratio of net interest income to average interest-earning assets					3.23%	2.67%			

PIONEER BANCORP, INC.

CORPORATE INFORMATION

General Information

Pioneer Bancorp, Inc. holds all of the issued and outstanding shares of Pioneer Bank, which is a federal savings bank. The Bank's deposits are insured by the Federal Deposit Insurance Corporation through the Savings Association Insurance Fund. The principal business of the Bank is to finance the purchase, construction, or improvement of residential real estate.

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

CORPORATE OFFICES

Pioneer Bank
306 North Pennsylvania
P.O. Box 130
Roswell, NM 88202-0130

INDEPENDENT PUBLIC ACCOUNTANTS

Crowe Chizek and Company LLC
One Mid America Plaza
P.O. Box 3697
Oak Brook, IL 60522-3697

GENERAL COUNSEL

Sanders, Bruin, Coll & Worley, P.A.
701 W. Country Club Rd.
Roswell, NM 88201

REGISTRAR AND TRANSFER AGENT

Pioneer Bank

ANNUAL MEETING

The annual meeting of shareholders of Pioneer Bancorp, Inc. will be held at 2:00 p.m. on April 20, 2004 at the Sally Port Inn, 2000 North Main, Roswell, New Mexico.

MARKET FOR CAPITAL STOCK

The capital stock of Pioneer Bancorp, Inc. 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 trades of issued and outstanding stocks have ranged from \$32.02 to \$35.00 per share. As of December 31, 2003, there were approximately 359 holders of record of Pioneer capital stock. Dividends of \$1.21 and \$1.20 per share were declared in 2003 and 2002, respectively.

PIONEER BANK

Proud of Our Products and Services

- 
- Advantage Plus Checking
 - Pioneer Checking
 - 55+ Checking
 - Free Checking
 - Commercial Checking
 - Savings Accounts
 - Super Savings Accounts
 - Money Market Accounts
 - Certificates of Deposit
 - Easy Access CD
 - IRA Accounts
 - Mortgage Loans
 - Business Loans
 - Consumer Loans
 - 24-Hour Banking Services Line
(800) 375-1088
 - Online Banking
www.pioneerbnk.com

PIONEER BANCORP, INC.

BOARD OF DIRECTORS

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President – Bell Gas

James L. Bruin

Retired Attorney
Sanders, Bruin, Coll & Worley, PA

Patricia J. Cooper

Partner – Johnson Enterprises

James D. Harris

Owner – Charles, Garland and Harris Agency

Jon E. Hitchcock

President – Pioneer Bank

Timothy Z. Jennings

State Senator and Rancher

Arthur R. McQuiddy

President – McQuiddy
Communications & Energy, Inc.

George W. Mitchell

Investments

Stephen P. Puntch

Senior Vice President – Pioneer Bank

C. W. Ritter

President – Ritter Enterprises, Inc.

OFFICERS

PIONEER BANK

President and Chief Executive Officer

Chairman of the Board

Jon E. Hitchcock

Vice President

Davis E. Bennett
John Dick-Peddie
Jeremy C. Foster
Charlotte Y. Gipson
Daniel A. Hostetler
Alan W. Johnson
Robert W. Mays
Scott E. Mohrhauser
Dee Ann Nuñez
Rosalyn Robinson
Nancy L. Smith
Rebecca E. Underation
Michael R. Vineyard
Debe M. Wagner

Senior Vice President

Britt Donaldson
Stephen P. Puntch

Secretary

Barba N. McCampbell

Vice President & Comptroller

Gayla I. Morris

Assistant Secretary

Anna K. Ritchey
Staci Carrasco

Assistant Vice President

Patricia M. Barresi
Pamela K. Boyd
Braxton R. Fulkerson
Suzi K. Glass
Sylvia Masi
Betty L. Pankey
Carolyn S. Spencer
Robert D. Vie
Debra Young
Beth E. Zigmond

Assistant VP & Treasurer

Pamela D. McClain

PIONEER MORTGAGE COMPANY

Vice President

Freida J. Goodrum
Pamela A. Sparks

PIONEER BANK

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