

PIONEER

BANCORP, INC.



2004 ANNUAL REPORT

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.

Dear Pioneer Bancorp Stockholder:

This year was a "foundation year" for Pioneer Bancorp, Inc. Pioneer's recent branching efforts have been extremely successful. Our new full-service bank in Las Cruces, coupled with increased name recognition, led to strong core deposit growth in this vibrant market. In its first full year of operation, our Roswell South Main branch exceeded our Roswell Sunset and Las Cruces Roadrunner branches in transaction volume.

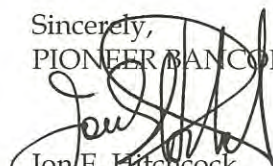
Institution wide, core deposit growth exceeded expectations, with an increase of 14.2% to \$261 million. Transaction account deposits increased by 24.2% to \$72 million. While a portion of the growth was due to economic factors, the FDIC's deposit market share report indicates that Pioneer gained market share in most of our communities. In Chaves County, Pioneer Bank achieved deposit market leadership for the first time in the bank's history. The bank also moved up in state rankings of total deposits.

Increased interest rates and the corresponding reductions in demand for mortgage refinancing led to a decline in loan production, to \$195 million. Total assets rose by 5.7% to \$472 million by the end of the year. Despite the rising rate environment and the corresponding decline in loan production, active management of our borrowings, coupled with our impressive deposit growth, allowed us to maintain a healthy interest margin. Net income exceeded \$4.7 million, which increased book value per share to \$35.80. This increase in book value represents an 11% increase over 2003 and a 99% increase over the past 5 years. Additionally, the enhanced liquidity facilitated by the repurchase of stock, led to trades in the range of \$32.00 to \$37.00 per share, with a closing trade of \$34.11.

While management anticipates continued rate increases by the Federal Reserve in 2005, we expect to increase loan production as a result of our addition of several experienced commercial bankers in key markets such as Las Cruces. Commercial and consumer loans offer a higher yield than most residential loans and have been less heavily impacted by the heavy refinance activity of 2002 and 2003. We will focus on diversifying our lending activities, while continuing to develop our strengths in residential and construction lending.

As Pioneer Bancorp moves forward, we are committed to building on our core values - customer service, efficiency, and involvement in the community. On behalf of the Board of Directors and officers, I would like to thank our stockholders, customers, and employees for your contributions to our success and growth.

Sincerely,
PIONEER BANCORP, INC.



Jon E. Hitchcock
President

Roswell, New Mexico
March 18, 2005

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash and cash equivalents (Note B)	\$ 17,957,256	\$ 13,656,194
Securities (Note C)		
Available-for-sale	159,229,670	151,073,194
Held-to-maturity fair value: 2004 - \$384,314; 2003 - \$594,770	369,268	569,974
Loans held for sale, net (Note D)	9,597,871	15,835,862
Loans, net (Note D)	257,002,210	241,526,819
Federal Home Loan Bank, stock	6,723,800	6,771,800
Office properties and equipment, net (Note E)	12,373,600	8,894,349
Mortgage servicing rights, net (Note F)	3,053,867	2,730,892
Accrued interest receivable	1,886,043	1,837,459
Other assets	<u>4,149,161</u>	<u>4,131,141</u>
 Total assets	 <u>\$ 472,342,746</u>	 <u>\$ 447,027,684</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits (Note G)	\$ 312,903,407	\$ 282,638,638
FHLB advances and other borrowings (Note H)	113,012,519	123,311,783
Official checks	3,979,687	3,567,092
Advance payments for taxes and insurance	1,940,585	1,919,096
Accrued interest payable	405,174	433,479
Accounts payable and other liabilities	<u>5,734,431</u>	<u>3,953,445</u>
Total liabilities	437,975,803	415,823,533
 Commitments and contingencies (Note J)		
 Stockholders' equity (Note K)		
Capital stock, \$1 par value; shares authorized: 2,000,000; shares issued: 1,008,923	1,008,923	1,008,923
Treasury stock (48,955 shares in 2004 and 37,866 shares in 2003)	(1,498,267)	(1,141,655)
Additional paid-in capital	56,982	56,982
Retained earnings	35,061,349	31,462,961
Accumulated other comprehensive income (loss)	<u>(262,044)</u>	<u>(183,060)</u>
Total stockholders' equity	<u>34,366,943</u>	<u>31,204,151</u>
 Total liabilities and stockholders' equity	 <u>\$ 472,342,746</u>	 <u>\$ 447,027,684</u>

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Interest and dividend income		
Loans	\$ 15,509,080	\$ 15,236,379
Mortgage securities	5,462,063	5,287,570
Investment securities and other	<u>576,661</u>	<u>380,009</u>
	21,547,804	20,903,958
Interest expense		
Deposits	4,272,170	4,235,309
FHLB advances and other borrowings	<u>4,360,794</u>	<u>4,898,822</u>
	<u>8,632,964</u>	<u>9,134,131</u>
Net interest income	12,914,840	11,769,827
Loan loss provision (Note D)	<u>-</u>	<u>78,000</u>
Net interest income after loan loss provision	12,914,840	11,691,827
Other income		
Gain on sale of loans, net (Note D)	1,425,956	2,037,747
Loan administration and service fees	1,032,846	619,191
Change in mortgage servicing rights impairment allowance (Note F)	326,154	871,773
Deposit account fees	1,048,326	968,412
Gain on sale of securities, net (Note C)	1,487,168	1,583,707
Loss on other than temporary impairment of FNMA preferred stock (Note C)	(567,239)	-
Other	<u>437,664</u>	<u>430,332</u>
	5,190,875	6,511,162
Other expenses		
Compensation and employee benefits (Note M)	6,211,292	5,592,757
Equipment	844,686	738,439
Data processing	854,549	779,814
Occupancy	774,224	684,915
Stationery, printing, and office supplies	341,320	324,891
Professional and supervisory	306,463	299,602
Postage and transportation	308,120	293,930
Advertising and public relations	396,092	362,098
Telephone	194,705	168,089
Other	<u>226,178</u>	<u>515,669</u>
	<u>10,457,629</u>	<u>9,760,204</u>
Income before income tax expense	7,648,086	8,442,785

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Income before income tax expense	\$ 7,648,086	\$ 8,442,785
Income tax expense (Note I)	<u>2,887,539</u>	<u>3,242,023</u>
Net income	<u>\$ 4,760,547</u>	<u>\$ 5,200,762</u>
Weighted average number of capital stock shares outstanding	<u>960,730</u>	<u>991,389</u>
Net income per share	<u>\$ 4.96</u>	<u>\$ 5.25</u>

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Net income	\$ 4,760,547	\$ 5,200,762
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization (accretion) of		
Mortgage servicing rights	978,322	1,602,658
Premiums and discounts on investment and mortgage securities, net	528,863	901,934
Loan loss provision	-	78,000
Change in mortgage servicing rights impairment allowance	(326,154)	(871,773)
Net (gain) loss on sales and disposals of		
Loans	(1,425,956)	(2,037,747)
Office properties and equipment	25,592	13,351
Investments in real estate owned	(11,523)	(8,691)
Securities available-for-sale	(1,487,168)	(1,583,707)
Federal Home Loan Bank stock dividends	(130,400)	(157,700)
Loss on other than temporary impairment on FNMA Preferred stock	567,239	-
Depreciation of office properties and equipment	654,297	529,569
Origination of mortgage loans held for sale	(39,147,151)	(70,916,542)
Changes in operating assets and liabilities		
Accrued interest receivable	(48,584)	(162,818)
Other assets	(18,020)	(1,006,613)
Official checks	412,595	(1,194,891)
Deferred tax liabilities, net of tax effect of unrealized losses	29,023	1,951,487
Accrued interest payable	(28,305)	(83,506)
Accounts payable and other liabilities, net of dividends declared, not paid	<u>1,809,780</u>	<u>(1,673,683)</u>
Net cash used in operating activities	(32,857,003)	(69,419,910)
Cash flows from investing activities		
Loan originations and principal payments on loans, net	(15,803,570)	(29,754,179)
Securities held-to-maturity:		
Maturities and principal reductions	199,075	247,705
Securities available-for-sale:		
Purchases	(123,617,044)	(87,855,683)
Sales	114,025,981	91,536,671
Maturities and principal reductions	47,533,756	64,652,013
Purchase of office properties and equipment	(4,159,140)	(3,185,645)
Net sales of FHLB stock	178,400	54,500
Proceeds from sales of investments in real estate owned	<u>339,702</u>	<u>132,848</u>
Net cash provided by investing activities	18,697,160	35,828,230

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from financing activities		
Net increase in deposits	\$ 30,264,769	\$ 20,797,572
Additions to FHLB advances and other borrowings	34,750,736	42,954,717
Payments on FHLB advances and other borrowings	(45,050,000)	(30,000,000)
Net decrease in advance payments for taxes and insurance	21,489	229,242
Sales of capital stock	-	31
Purchase of treasury shares	(356,612)	(1,141,655)
Payments of cash dividends	<u>(1,169,477)</u>	<u>(1,189,880)</u>
Net cash provided by financing activities	<u>18,460,905</u>	<u>31,650,027</u>
 Increase (decrease) in cash and cash equivalents	 4,301,062	 (1,941,653)
 Cash and cash equivalents at beginning of year	 <u>13,656,194</u>	 <u>15,597,847</u>
 Cash and cash equivalents at end of year	 <u>\$ 17,957,256</u>	 <u>\$ 13,656,194</u>
 Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	\$ 8,661,269	\$ 9,217,637
Income taxes, net of refunds	1,012,035	3,137,000
 Supplemental schedule of noncash investing and financing activities		
Dividends declared, not paid	\$ 633,579	\$ 640,897
Loan securitizations transferred to AFS securities	45,835,955	81,592,165
Transfer from loans to other real estate owned	328,179	124,157

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2004 and 2003

	Capital Stock \$1 Par	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2003	\$ 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	1,008,923	(1,141,655)	56,982	31,462,961	(183,060)	31,204,151
Purchase of treasury stock	-	(356,612)	-	-	-	(356,612)
Comprehensive income						
Net income	-	-	-	4,760,547	-	4,760,547
Net change in unrealized losses on securities, net of tax (Note C)	-	-	-	-	(78,984)	(78,984)
Total comprehensive income						4,681,563
Dividends - \$1.21 per share	-	-	-	(1,162,159)	-	(1,162,159)
Balance, December 31, 2004	<u>\$ 1,008,923</u>	<u>\$ (1,498,267)</u>	<u>\$ 56,982</u>	<u>\$ 35,061,349</u>	<u>\$ (262,044)</u>	<u>\$ 34,366,943</u>

See accompanying notes to consolidated financial statements

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

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 Southern New Mexico. Deposits in the Bank are insured by the Federal Deposit Insurance Corporation (the FDIC). The Bank has one subsidiary, Pioneer Mortgage Company, which is involved in residential construction and mortgage lending, primarily in West Texas.

Pioneer Bank operates six full customer service facilities, four banking 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, 2004 and 2003

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. Federal Home Loan Bank (FHLB) stock is carried at cost.

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: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

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.

Interest income on securities includes amortization of purchase premium or discount. Adjustments made to mortgage securities amortization and accretion related to changes in prepayments are recorded on a current basis.

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.

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.

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.

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PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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: Land is carried at cost. Office properties and equipment are stated at cost less accumulated depreciation. 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.

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PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

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

Investments in Real Estate: Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Treasury Stock: Treasury stock is carried at cost. During the years ended December 31, 2004 and 2003, the Company purchased 11,089 and 37,866 shares of treasury stock, respectively. All of the purchased shares remain in treasury stock at December 31, 2004. The average price of the treasury stock purchased was \$32.16 and \$30.15 in 2004 and 2003, respectively. The weighted average price for all shares purchased is \$30.61 at December 31, 2004.

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.

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PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

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, 2004 or 2003. 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 component of equity.

Reclassifications: Some items in the 2003 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 \$5,038,000 and \$4,236,000 at December 31, 2004 and 2003. Cash and cash equivalents consisted of the following:

	<u>2004</u>	<u>2003</u>
Cash and due from banks	\$ 17,492,593	\$ 13,418,902
Interest-bearing deposits	<u>464,663</u>	<u>237,292</u>
	<u>\$ 17,957,256</u>	<u>\$ 13,656,194</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

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, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Available-for-Sale</u>				
FNMA preferred stock	\$ 1,440,100	\$ -	\$ -	\$ 1,440,100
Other equity investments	2,000,000	-	(25,839)	1,974,161
Mortgage-backed securities and collateralized mortgage obligations	<u>156,219,149</u>	<u>472,652</u>	<u>(876,392)</u>	<u>155,815,409</u>
Total securities available-for-sale	<u>\$ 159,659,249</u>	<u>\$ 472,652</u>	<u>\$ (902,231)</u>	<u>\$ 159,229,670</u>
<u>Securities Held-to-Maturity</u>				
Mortgage-backed securities and collateralized mortgage obligations	<u>\$ 369,268</u>	<u>\$ 15,046</u>	<u>\$ -</u>	<u>\$ 384,314</u>
	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Available-for-Sale</u>				
U.S. Treasury securities	\$ 8,986,782	\$ 4,240	\$ (27,646)	\$ 8,963,376
FNMA preferred 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>

In December 2004, the Company recognized an impairment charge on FNMA preferred stock that was considered to have an "other than temporary" loss. The Company adjusted the basis of the security to reflect its fair value at the date of impairment, recognizing a loss of \$567,239.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE C - SECURITIES (Continued)

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>2004</u>	<u>2003</u>
Net unrealized holding gains on securities arising during the period	\$ 790,447	\$ 245,314
Reclassification adjustment for:		
Realized gains on sales	(1,487,168)	(1,583,707)
Other than temporary impairment on FNMA preferred stock	567,239	-
Income tax	<u>50,498</u>	<u>527,566</u>
	<u>\$ (78,984)</u>	<u>\$ (810,827)</u>

At December 31, 2004 and 2003, the Company had pledged securities of approximately \$28,100,000 and \$28,012,000 to secure deposits. At December 31, 2004 and 2003, securities having a market value of approximately \$5,821,000 and \$1,010,000 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:

	<u>2004</u>	<u>2003</u>
Gains	\$ 1,854,877	\$ 2,254,691
Losses	<u>(367,709)</u>	<u>(670,984)</u>
	<u>\$ 1,487,168</u>	<u>\$ 1,583,707</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE C - SECURITIES (Continued)

Securities with unrealized losses at year-end 2004 and 2003, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

<u>Description of Securities</u>	<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>2004</u>						
Other equity investments	\$ -	\$ -	\$ 1,974,161	\$ (25,839)	\$ 1,974,161	\$ (25,839)
Mortgage-backed securities and collateralized mortgage obligations	<u>46,370,876</u>	<u>(257,994)</u>	<u>34,115,926</u>	<u>(618,398)</u>	<u>80,486,802</u>	<u>(876,392)</u>
	<u>\$ 46,370,876</u>	<u>\$ (257,994)</u>	<u>\$ 36,090,087</u>	<u>\$ (644,237)</u>	<u>\$ 82,460,963</u>	<u>\$ (902,231)</u>
<u>2003</u>						
U.S. treasury and federal agencies	\$ 3,935,250	\$ (27,646)	\$ -	\$ -	\$ 3,935,250	\$ (27,646)
FNMA preferred 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 and collateralized mortgage obligations is expected to recover as the debt securities approach their maturity date or market rates decline.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE D - LOANS

Loans consisted of the following:

	<u>2004</u>	<u>2003</u>
Loans held for sale		
Mortgage loans held for sale		
Conventional	\$ 4,868,354	\$ 6,931,573
FHA insured and VA insured	4,715,652	8,925,369
Deferred loan fees, net	<u>13,865</u>	<u>(21,080)</u>
Loans held for sale, net	<u>\$ 9,597,871</u>	<u>\$ 15,835,862</u>
Loans		
Mortgage loans held for investment		
Conventional	\$ 162,857,124	\$ 149,562,198
FHA insured and VA guaranteed	47,872,264	51,192,377
Commercial	18,463,589	7,227,460
Construction and land	9,339,372	10,098,733
Deferred loan costs, net	<u>80,987</u>	<u>72,752</u>
Mortgage loans held for investment, net	238,613,336	218,153,520
Consumer loans		
Installment and other loans	8,045,578	10,593,881
Second mortgages	1,709,699	587,529
Business	9,163,405	12,491,088
Savings account loans	-	251,998
Unearned discounts	<u>(13,306)</u>	<u>(22,268)</u>
Consumer loans, net	18,905,376	23,902,228
Allowance for loan losses	<u>(516,502)</u>	<u>(528,929)</u>
Loans, net	<u>\$ 257,002,210</u>	<u>\$ 241,526,819</u>

Net gains from sales of loans were \$1,425,956 and \$2,037,747 in 2004 and 2003.

At December 31, 2004 and 2003, approximately \$216,620,000 and \$212,593,000 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, 2004 and 2003

NOTE D - LOANS (Continued)

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

	<u>2004</u>	<u>2003</u>
Balance at beginning of year	\$ 528,929	\$ 435,554
Loan loss provision	-	78,000
Recoveries	1,712	56,885
Charge-offs	<u>(14,139)</u>	<u>(41,510)</u>
Balance at end of year	<u>\$ 516,502</u>	<u>\$ 528,929</u>

At December 31, 2004 and 2003 and during the years then ended, 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>2004</u>	<u>2003</u>
Loans past due over 90 days still on accrual	\$ -	\$ -
Nonaccrual loans	1,890,000	2,555,000
Interest income forgone while on non-accrual	89,200	151,000
Cash-basis interest income recognized	44,300	62,500

NOTE E - OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment consisted of:

	<u>2004</u>	<u>2003</u>
Land	\$ 3,225,317	\$ 3,225,317
Buildings and leasehold improvements	7,656,723	5,003,337
Furniture, equipment, and autos	6,044,062	4,351,837
Construction in progress	<u>225,509</u>	<u>801,156</u>
	17,151,611	13,381,647
Less accumulated depreciation	<u>4,778,011</u>	<u>4,487,298</u>
Office properties and equipment, net	<u>\$ 12,373,600</u>	<u>\$ 8,894,349</u>

Depreciation expense was \$654,297 and \$529,569 in 2004 and 2003.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE E - OFFICE PROPERTIES AND EQUIPMENT (Continued)

As of December 31, 2004, 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 \$1,494,000.

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 \$218,407 and \$233,422 for the years ended December 31, 2004 and 2003. Future minimum lease payments under the non-cancelable operating leases are:

2005	\$ 225,685
2006	229,606
2007	229,323
2008	211,481
2009 and thereafter	<u>233,790</u>
	<u>\$ 1,129,885</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>2004</u>	<u>2003</u>
Mortgage loans underlying pass-through securities		
GNMA	\$ 127,381,701	\$ 122,888,514
FNMA	95,013,194	97,234,734
FHLMC	<u>360,129</u>	<u>547,889</u>
	222,755,024	220,671,137
Mortgage loan portfolios serviced for		
FNMA	33,218,249	34,970,236
FHLMC	14,110,361	19,017,354
Other investors	<u>86,756,233</u>	<u>76,372,888</u>
	<u>134,084,843</u>	<u>130,360,478</u>
	<u>\$ 356,839,867</u>	<u>\$ 351,031,615</u>

Custodial balances on deposit at the Bank, in connection with the foregoing loan servicing, amounted to \$16,284,311 and \$15,157,994 at December 31, 2004 and 2003.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

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

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

	<u>2004</u>	<u>2003</u>
Mortgage servicing rights		
Balance, beginning of year	\$ 3,460,824	\$ 3,694,141
Capitalized	975,143	1,369,341
Amortization	<u>(978,322)</u>	<u>(1,602,658)</u>
Balance, end of year	3,457,645	3,460,824
Impairment allowance	<u>(403,778)</u>	<u>(729,932)</u>
Balance, end of year, net of impairment allowance	<u>\$ 3,053,867</u>	<u>\$ 2,730,892</u>
Valuation allowance		
Beginning of year	\$ 729,932	\$ 1,601,705
Reductions credited to income	<u>(326,154)</u>	<u>(871,773)</u>
End of year	<u>\$ 403,778</u>	<u>\$ 729,932</u>

NOTE G - DEPOSITS

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

	<u>2004</u>	<u>2003</u>
No contractual maturities	\$ 172,408,074	\$ 150,240,649
2004	-	87,129,422
2005	100,329,943	26,491,454
2006	14,754,010	8,540,701
2007	17,193,311	5,830,443
2008	4,466,458	4,405,969
2009	<u>3,751,611</u>	<u>-</u>
	<u>\$ 312,903,407</u>	<u>\$ 282,638,638</u>

At December 31, 2004 and 2003, approximately \$28,100,000 and \$28,012,000 of mortgage securities were pledged to secure public unit deposits.

Time deposits of \$100,000 or more were \$42,561,246 and \$44,682,000 at year-end 2004 and 2003.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

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, 2004 and 2003, 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, 2004 and 2003, mortgage loans of approximately \$216,620,000 and \$212,593,000 were pledged to secure FHLB advances. A summary of FHLB advances and other borrowings follows:

	Maturity Date	Rate	December 31,	
			2004	2003
FHLB advances and borrowings	01-02-2004	1.100%	\$ -	\$ 20,050,000
	04-19-2004	5.100	-	10,000,000
	04-20-2004	5.185	-	5,000,000
	05-20-2004	3.566	-	10,000,000
	01-03-2005	1.230	2,700,000	-
	01-18-2005	5.710	5,000,000	5,000,000
	01-26-2005	5.510	2,481,900	2,481,900
	04-19-2005	5.272	10,000,000	10,000,000
	05-16-2005	4.052	8,500,000	8,500,000
	04-10-2006	5.249	14,000,000	14,000,000
	05-15-2006	2.620	5,000,000	5,000,000
	07-31-2006	2.560	5,000,000	-
	10-10-2006	3.092	10,000,000	10,000,000
	10-30-2006	3.220	5,000,000	5,000,000
	12-18-2006	3.479	2,000,000	-
	03-12-2007	2.321	3,000,000	-
	04-02-2007	2.514	5,000,000	-
	10-09-2007	3.103	8,000,000	8,000,000
	06-11-2008	2.449	10,000,000	10,000,000
	10-06-2008	3.727	5,000,000	-
	09-29-2009	3.817	5,000,000	-
	02-26-2010	3.139	3,000,000	-
	03-02-2010	3.636	4,000,000	-
Treasury, tax, and loan			<u>330,619</u>	<u>279,883</u>
			<u>\$ 113,012,519</u>	<u>\$ 123,311,783</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

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

A summary of maturities of FHLB advances and other borrowings is as follows:

2005	\$ 29,012,519
2006	41,000,000
2007	16,000,000
2008	15,000,000
2009	5,000,000
2010	<u>7,000,000</u>
	<u>\$ 113,012,519</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>2004</u>	<u>2003</u>
Current		
Federal	\$ 2,447,810	\$ 1,084,671
State	468,728	205,865
Deferred		
Federal	(23,434)	1,583,051
State	<u>(5,565)</u>	<u>368,436</u>
	<u>\$ 2,887,539</u>	<u>\$ 3,242,023</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>2004</u>	<u>2003</u>
Computed "expected" tax expense	\$ 2,600,349	\$ 2,870,547
State income taxes	313,432	372,727
Other	<u>(26,242)</u>	<u>(1,251)</u>
	<u>\$ 2,887,539</u>	<u>\$ 3,242,023</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

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>2004</u>	<u>2003</u>
Deferred tax assets	\$ 1,269,111	\$ 1,316,308
Deferred tax liabilities	<u>(3,351,835)</u>	<u>(3,478,553)</u>
	<u>\$ (2,082,724)</u>	<u>\$ (2,162,245)</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.

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 as of December 31, 2004. 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.

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.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE J - COMMITMENTS AND CONTINGENCIES (Continued)

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, 2004 are:

Undisbursed lines of credit and loans in process	\$ 15,576,000
Commitments to originate loans	7,512,000
Loans sold with recourse	2,476,000
Commitments to sell mortgages and mortgage-backed securities	5,356,000

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, 2004, commitments to make loans at fixed rates totaled \$164,000. The fixed rate commitments had interest rates ranging from 4.99% to 7.50%.

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.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE K - REGULATORY MATTERS (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier 1 Capital (as defined by regulation) to Risk-Weighted Assets (as defined) and Core Capital (as defined) to Adjusted Total Assets (as defined). Management believes, as of December 31, 2004 and 2003, that the Bank met all regulatory capital adequacy requirements to which it is subject.

The most recent notifications from the OTS as of December 31, 2004 and 2003 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 (\$ in thousands)		Amount Needed to Be Considered Adequately Capitalized (\$ in thousands)		Amount Needed to Be Considered Well Capitalized Under Prompt Corrective Action (\$ in thousands)	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>As of December 31, 2004</u>						
Total Risk-Based Capital (to risk-weighted assets)	\$ 34,634	17.8%	\$ 15,559	8.0%	\$ 19,448	10.0%
Tier 1 Risk-Based Capital (to risk-weighted assets)	34,117	17.5	7,779	4.0	11,669	6.0
Core Capital (to adjusted total assets)	34,117	7.2	18,893	4.0	23,616	5.0
<u>As of December 31, 2003</u>						
Total Risk-Based Capital (to risk-weighted assets)	\$ 31,390	17.6%	\$ 14,307	8.0%	\$ 17,884	10.0%
Tier 1 Risk-Based Capital (to risk-weighted assets)	30,862	17.3	7,153	4.0	10,730	6.0
Core Capital (to adjusted total assets)	30,862	6.9	17,944	4.0	22,430	5.0

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying amounts and estimated fair values of financial instruments were as follows at year-end:

	2004		2003	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Financial Assets</u>				
Cash and cash equivalents	\$ 17,957,256	\$ 17,957,256	\$ 13,656,194	\$ 13,656,194
Securities available-for-sale	159,229,670	159,229,670	151,073,194	151,073,194
Securities held-to-maturity	369,268	384,314	569,974	594,770
Loans held for sale	9,597,871	9,720,791	15,835,862	16,306,603
Loans, net	257,002,210	259,760,433	241,526,819	246,242,393
FHLB stock	6,723,800	6,723,800	6,771,800	6,771,800
Mortgage servicing rights	3,053,867	3,364,000	2,730,892	3,537,323
Accrued interest receivable	1,886,043	1,886,043	1,837,459	1,837,459
<u>Financial Liabilities</u>				
Deposits	\$ 312,903,407	\$ 313,063,055	\$ 282,638,638	\$ 283,883,548
FHLB advances	113,012,519	112,496,747	123,311,783	124,885,136
Advance payments for taxes and insurance	1,940,585	1,940,585	1,919,096	1,919,096
Accrued interest payable	405,174	405,174	433,479	433,479

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.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

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 2004 and 2003:

<u>Year</u>	<u>Match</u>	<u>Compensation</u>	<u>Expense</u>
2004	100%	5.0%	\$ 136,081
2003	100%	5.0%	126,727

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 \$1,320,925 and \$1,179,885, recorded in other liabilities, as of December 31, 2004 and 2003 under the IRP. As of December 31, 2004 and 2003, the cash surrender value of the life insurance policies under the IRP was approximately \$1,875,000 and \$1,799,000, which is recorded in other assets.

NOTE N - RELATED PARTY TRANSACTIONS

It is a policy of the Bank to provide mortgage loans to qualifying officers and employees for the purpose of financing their personal residences. Any other loans made by the Bank to directors, officers, or employees are generally secured and are subject to the Bank's normal underwriting practices.

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

	<u>2004</u>	<u>2003</u>
Balance at beginning of year	\$ 1,463,901	\$ 361,717
Originations	84,175	1,457,435
Principal repayments	<u>(154,723)</u>	<u>(355,251)</u>
Balance at end of year	<u>\$ 1,393,353</u>	<u>\$1,463,901</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. as of December 31, 2004 and 2003, 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. as of December 31, 2004 and 2003, 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 cursive script, appearing to read "Anne G. L. Gay".

Crowe Chizek and Company LLC

Oak Brook, Illinois
February 11, 2005

PIONEER BANCORP, INC.
SELECTED FINANCIAL DATA - UNAUDITED
December 31, 2004

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Interest and					
dividend income	\$ 21,547,804	\$ 20,903,958	\$ 22,105,705	\$ 23,021,519	\$ 22,765,151
Interest expense	8,632,964	9,134,131	10,303,324	13,893,529	15,476,093
Net interest income	12,914,840	11,769,827	11,802,381	9,127,990	7,289,058
Net income	4,760,547	5,200,762	4,958,651	2,778,655	2,545,352
Per share data					
Net income	4.96	5.25	4.91	2.75	2.52
Dividends	1.21	1.21	1.20	1.05	1.05
Securities	159,598,938	151,643,168	138,468,925	130,888,336	129,185,627
Loans	266,600,081	257,362,681	237,817,877	206,997,019	198,852,714
Total assets	472,342,746	447,027,684	412,515,882	372,901,648	362,962,161
Deposits	312,903,407	282,638,638	261,841,066	237,759,862	244,024,868
Borrowings	113,012,519	123,311,783	110,357,066	99,796,743	86,895,692
Stockholders' equity	34,366,943	31,204,151	29,130,818	24,859,697	22,076,190
Loans serviced for others	356,839,867	351,031,615	352,435,195	361,220,753	341,273,727
Customer service facilities					
Full service facilities	6	6	6	6	6
Banking branches	4	4	3	2	2
Loan production offices	2	2	2	2	2

PIONEER BANCORP, INC.
SELECTED FINANCIAL DATA - UNAUDITED
December 31, 2004

2004 Compared to 2003

	Average Balance		Average Rate		Interest		Interest Variance	Interest Variance Attributable to:	
	2004	2003	2004	2003	2004	2003		Volume	Rate
Interest and dividend income									
Loans	\$ 265,582	\$ 248,802	5.83%	6.12%	\$ 15,509	\$ 15,236	\$ 273	\$ 980	\$ (707)
Mortgage securities	146,750	146,643	3.72	3.61	5,462	5,288	174	4	170
Securities	18,714	14,076	3.08	2.70	577	380	197	143	54
Total interest-earning assets	<u>\$ 431,046</u>	<u>\$ 409,521</u>	<u>4.99%</u>	<u>5.10%</u>	<u>\$ 21,548</u>	<u>\$ 20,904</u>	<u>\$ 644</u>	<u>\$ 1,127</u>	<u>\$ (483)</u>
Interest expenses									
Deposits	\$ 291,294	\$ 271,063	1.46%	1.56%	\$ 4,272	\$ 4,235	\$ 37	\$ 297	\$ (260)
Borrowed funds	126,283	123,289	3.45	3.97	4,361	4,899	(538)	103	(641)
Total interest-bearing liabilities	<u>\$ 417,577</u>	<u>\$ 394,352</u>	<u>2.06%</u>	<u>2.32%</u>	<u>\$ 8,633</u>	<u>\$ 9,134</u>	<u>\$ (501)</u>	<u>\$ 400</u>	<u>\$ (901)</u>
Net interest spread and income			<u>2.93%</u>	<u>2.78%</u>	<u>\$ 12,915</u>	<u>\$ 11,770</u>			
Ratio of net interest income to average interest-earning assets					<u>3.00%</u>	<u>2.88%</u>			

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	<u>\$ 409,521</u>	<u>\$ 364,993</u>	<u>5.10%</u>	<u>6.06%</u>	<u>\$ 20,904</u>	<u>\$ 22,106</u>	<u>\$ (1,202)</u>	<u>\$ 2,459</u>	<u>\$ (3,661)</u>
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	<u>\$ 394,352</u>	<u>\$ 351,920</u>	<u>2.32%</u>	<u>2.93%</u>	<u>\$ 9,134</u>	<u>\$ 10,304</u>	<u>\$ (1,170)</u>	<u>\$ 1,191</u>	<u>\$ (2,361)</u>
Net interest spread and income			<u>2.78%</u>	<u>3.13%</u>	<u>\$ 11,770</u>	<u>\$ 11,802</u>			
Ratio of net interest income to average interest-earning assets					<u>2.88%</u>	<u>3.23%</u>			

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 banking 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. 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 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 Bancorp, Inc.

ANNUAL MEETING

The annual meeting of shareholders of Pioneer Bancorp, Inc. will be held at 2:00 p.m. on April 19, 2005 at the Sally Port Inn, 2000 North Main Street, 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 been at \$34.11 per share. As of December 31, 2004, there were approximately 359 holders of record of Pioneer capital stock. Dividends of \$1.21 per share were declared in both 2004 and 2003.

PIONEER

BANCORP, INC.



Pioneer Bank's Flagship Facility in Las Cruces – 3831 East Lohman

An Old Friend with New Ideas.

PIONEER BANK

Proud of Our Products and Services

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 - Pioneer Checking
 - 55+ Checking
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 - Commercial Checking
 - Savings Accounts
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 - Money Market Accounts
 - Certificates of Deposit
 - Easy Access CD
 - IRA Accounts
 - Mortgage Loans
 - Business Loans
 - Consumer Loans

PIONEER BANCORP, INC.

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President
Bell Gas, Inc

James D. Harris

Owner – Charles, Garland
Harris Agency

George W. Mitchell

Investments

James L. Bruin

Retired Partner
Sanders, Bruin, Coll & Worley, PA

Jon E. Hitchcock

President, CEO
Pioneer Bank

Stephen P. Puntch

Senior Vice President
Pioneer Bank

Martin B. Cooper, CPA

Martin B. Cooper, CPA PC

Timothy Z. Jennings

State Senator and Rancher

C. W. Ritter

President
Ritter Enterprises, Inc.

Patricia J. Cooper

Partner – Johnson Enterprises

Arthur R. McQuiddy

President – McQuiddy
Communications & Energy, Inc.

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Dawson J. Dinsmore
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Daniel A. Hostetler
Robert W. Mays
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Gayla I. Morris
Dee Ann Nuñez
Rosalyn Robinson
Nancy L. Smith
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Senior Vice President

Britt Donaldson
Christopher G. Palmer, CPA

President – Las Cruces, NM

Kiel A. Hoffman

Corporate Secretary

Anna K. Ritchey

Assistant Secretary

Staci D. Carrasco
Mary R. Skinner

Assistant Vice President

Pamela K. Boyd
David L. Chavez
Theresa C. S. DeVito
Rose M. Dick
Braxton R. Fulkerson
Suzi K. Glass
Sylvia Masi
Pamela D. McClain
Nancy J. Montgomery
Betty Naegle
Betty L. Pankey
Melody E. Parra
Carolyn S. Spencer
Debra Young
Beth E. Zigmond

PIONEER MORTGAGE COMPANY

Vice President

Freida J. Goodrum
Pamela A. Sparks

Assistant Vice President

Sharon K. McKandles

PIONEER BANK

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