

PIONEER BANCORP, INC.



2006 ANNUAL REPORT

FINANCIAL HIGHLIGHTS (Unaudited)

	2006/2005 Change	2006	2005	2004	2003	2002
FOR THE YEAR						
Interest and						
dividend income	+ 17%	\$ 27,751,178	\$ 23,659,320	\$ 21,547,804	\$ 20,903,958	\$ 22,105,705
Interest expense	+ 36%	13,316,647	9,817,624	8,632,964	9,134,131	10,303,324
Net interest income	+ 4%	14,434,531	13,841,696	12,914,840	11,769,827	11,802,381
Loan loss provision	+ 21%	201,000	166,762	-	78,000	72,046
Noninterest income	+ 4%	5,437,740	5,220,308	5,190,875	6,511,162	5,910,693
Noninterest expense	+ 11%	13,446,707	12,154,716	10,457,629	9,760,204	9,598,613
Net income	- 5%	3,994,651	4,210,579	4,760,547	5,200,762	4,958,651
PER SHARE						
Net income	- 5%	4.19	4.40	4.94	5.25	4.91
Dividends	- 10%	1.10	1.22	1.21	1.21	1.20
Year-end book value	+ 9%	40.89	37.62	35.80	32.13	28.87
AT YEAR-END						
Assets	+ 5%	522,845,997	499,776,262	472,342,746	447,027,684	412,515,882
Net loans	+ 7%	303,001,916	282,013,757	266,600,081	257,362,681	237,817,877
Securities	+ 0%	169,000,141	168,656,605	159,598,938	151,643,168	138,468,925
Loans serviced						
for others	+ 7%	401,674,585	375,634,621	356,839,867	351,031,615	352,435,195
Deposits	+ 1%	349,731,106	345,448,655	312,903,407	282,638,638	261,841,066
Borrowings	+ 13%	120,351,024	106,462,167	113,012,519	123,311,783	110,357,066
Stockholders' equity	+ 8%	38,847,865	35,945,513	34,366,943	31,204,151	29,130,818
PERFORMANCE RATIOS						
Return on average assets		0.78%	0.87%	1.04%	1.21%	1.26%
Return on average						
stockholders' equity		10.68%	11.98%	14.52%	17.24%	18.37%
Efficiency ratio		67.67%	63.76%	57.76%	53.39%	54.19%
Net interest margin		2.95%	3.02%	2.93%	2.78%	3.13%
CAPITAL RATIOS						
Equity to assets		7.4%	7.2%	7.3%	7.0%	7.1%
Core capital		7.4%	7.3%	7.2%	6.9%	7.0%
Tier 1 risk-based capital		15.4%	16.5%	17.5%	17.3%	18.7%
Total risk-based capital		15.6%	16.8%	17.8%	17.6%	19.0%
SELECTED INFORMATION						
Average common shares		954,017	957,984	963,827	991,389	1,008,921
Common dividend payout ratio		26.23%	27.71%	24.41%	22.59%	24.42%
Full-time equivalent employees		196	189	180	166	164
Customer service facilities						
Full service facilities		7	6	6	6	6
Banking branches		5	5	4	4	3
Loan production offices		1	2	2	2	2
ATMs		14	12	11	10	9



PIONEER BANCORP, INC.

Dear Pioneer Bancorp Stockholder:

Pioneer Bancorp made significant progress in 2006 executing our corporate strategy of expanding in targeted markets that offer the strongest possibilities for commercial lending and deposit growth. The operating environment, however, remained challenging as the Federal Reserve continued to increase short-term interest rates, resulting in a tighter net interest margin, which adversely impacted earnings.

Net income for 2006 was \$4.0 million, representing a 10.7% return on average stockholders' equity. Net income per share was \$4.19 and dividends per share were \$1.10. Both net interest income and noninterest income increased 4% over 2005. Noninterest expense increased 11%, supporting Pioneer's growth into Las Cruces and El Paso. Year-end book value per share increased 9% to \$40.89. Total assets grew 5% to \$522.8 million, while net loans increased 7% to \$303.0 million. Deposits remained stable over the year and ended 2006 at \$349.7 million.

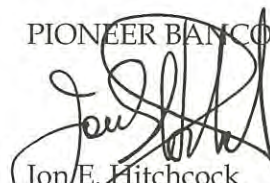
During 2006, Pioneer expanded branching efforts into El Paso, Texas, by remodeling our existing mortgage lending office to accommodate full-service banking operations and naming Aaron M. Emmert, Market President. Particularly noteworthy was Pioneer's acquisition of a \$24.6 million El Paso construction loan portfolio, which more than doubled our construction loans outstanding, and highlighted our banking entrance into this market.

We are very optimistic about growth prospects in the Southwest and in the markets we serve. Unlike many areas of the country that have seen rising delinquencies and declining home prices, our market area has remained robust and healthy. In recent months, Pioneer has actually seen a decline in mortgage delinquencies and we do not have an ongoing exposure to subprime mortgage loans.

Looking forward to 2007, we will continue to pursue our mission of providing superior banking products and services. On behalf of Pioneer Bancorp's Board of Directors and Officers, I would like to thank our stockholders, customers, and employees for your continued support.

Sincerely,

PIONEER BANCORP, INC.



Jon E. Hitchcock
President and CEO

Roswell, New Mexico
March 23, 2007



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

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, 2006 and 2005, 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, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Oak Brook, Illinois
February 26, 2007

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents (Note B)	\$ 15,877,717	\$ 19,546,106
Securities (Note C)		
Available-for-sale	168,861,497	168,414,523
Held-to-maturity (fair value: 2006 - \$140,910; 2005 - \$248,102)	138,644	242,082
Loans held for sale, net (Note D)	11,371,837	12,584,741
Loans, net (Note D)	291,630,079	269,429,016
Federal Home Loan Bank, stock	6,151,500	5,448,700
Office properties and equipment, net (Note E)	16,922,320	14,377,091
Mortgage servicing rights, net (Note F)	4,297,927	3,930,788
Accrued interest receivable	2,822,742	2,215,076
Other assets	<u>4,771,734</u>	<u>3,588,139</u>
 Total assets	 <u>\$ 522,845,997</u>	 <u>\$ 499,776,262</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits (Note G)	\$ 349,731,106	\$ 345,448,655
FHLB advances and other borrowings (Note H)	120,351,024	106,462,167
Official checks	6,182,335	4,393,082
Advance payments for taxes and insurance	1,947,162	1,916,498
Accrued interest payable	413,389	454,459
Accounts payable and other liabilities	<u>5,373,116</u>	<u>5,155,888</u>
Total liabilities	<u>483,998,132</u>	<u>463,830,749</u>
 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 (2006 - 58,963 shares; 2005 - 53,368 shares)	(1,849,732)	(1,645,656)
Additional paid-in capital	56,982	56,982
Retained earnings	41,052,041	38,104,988
Accumulated other comprehensive income (loss)	<u>(1,420,349)</u>	<u>(1,579,724)</u>
Total stockholders' equity	<u>38,847,865</u>	<u>35,945,513</u>
 Total liabilities and stockholders' equity	 <u>\$ 522,845,997</u>	 <u>\$ 499,776,262</u>

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Interest and dividend income		
Loans	\$ 19,417,460	\$ 16,568,521
Mortgage securities	7,614,390	6,474,396
Investment securities and other	<u>719,328</u>	<u>616,403</u>
	<u>27,751,178</u>	<u>23,659,320</u>
Interest expense		
Deposits	8,136,149	5,643,252
FHLB advances and other borrowings	<u>5,180,498</u>	<u>4,174,372</u>
	<u>13,316,647</u>	<u>9,817,624</u>
Net interest income	<u>14,434,531</u>	<u>13,841,696</u>
Loan loss provision	<u>201,000</u>	<u>166,762</u>
Net interest income after loan loss provision	<u>14,233,531</u>	<u>13,674,934</u>
Other income		
Gain on sale of loans, net (Note D)	1,512,145	1,475,184
Loan administration and service fees	1,377,581	1,279,672
Change in mortgage servicing rights impairment allowance (Note F)	4,876	398,902
Deposit account fees	2,053,244	1,777,617
Gain on sale of securities, net (Note C)	298,702	190,267
Other	<u>191,192</u>	<u>98,666</u>
	<u>5,437,740</u>	<u>5,220,308</u>
Other expenses		
Compensation and employee benefits (Note M)	7,986,795	7,113,188
Equipment	1,285,870	1,137,362
Data processing	1,183,032	1,001,871
Occupancy	1,011,147	890,548
Stationery, printing, and office supplies	395,011	407,018
Professional and supervisory	342,227	370,084
Postage and transportation	339,166	325,044
Advertising and public relations	439,962	427,402
Telephone	172,125	174,930
Other	<u>291,372</u>	<u>307,269</u>
	<u>13,446,707</u>	<u>12,154,716</u>
Income before income tax expense	<u>6,224,564</u>	<u>6,740,526</u>

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Income before income tax expense	\$ 6,224,564	\$ 6,740,526
Income tax expense (Note I)	<u>2,229,913</u>	<u>2,529,947</u>
Net income	<u>\$ 3,994,651</u>	<u>\$ 4,210,579</u>
Weighted average number of capital stock shares outstanding	<u>954,017</u>	<u>957,984</u>
Net income per share	<u>\$ 4.19</u>	<u>\$ 4.40</u>

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Net income	\$ 3,994,651	\$ 4,210,579
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization (accretion) of		
Mortgage servicing rights	689,950	809,423
Premiums and discounts on investments and mortgage securities, net	421,684	449,589
Loan loss provision	201,000	166,762
Deferred income tax expense	(502,919)	1,854,436
Change in mortgage servicing rights impairment allowance	(4,876)	(398,902)
Net (gain) loss on sales and disposals of		
Loans	(1,512,145)	(1,475,184)
Office properties and equipment	3,416	17,675
Investments in real estate owned	(24,111)	(1,773)
Securities available-for-sale	(298,702)	(190,267)
Federal Home Loan Bank stock dividends	(309,700)	(249,007)
Depreciation of office properties and equipment	1,074,729	926,151
Origination of mortgage loans held for sale	(49,891,983)	(53,432,412)
Proceeds from sales of loans held for sale	51,748,305	50,633,284
Changes in operating assets and liabilities		
Accrued interest receivable	(607,666)	(329,033)
Other assets	(1,234,136)	561,022
Official checks	1,789,253	413,395
Accrued interest payable	(41,070)	49,285
Accounts payable and other liabilities, net of dividends declared, not paid	602,403	(1,583,884)
Net cash provided by operating activities	<u>6,098,083</u>	<u>2,431,139</u>
Cash flows from investing activities		
Loan originations and principal payments on loans, net	(22,402,063)	(12,661,178)
Securities held-to-maturity		
Maturities and principal reductions	103,082	127,789
Securities available-for-sale		
Purchases	(85,115,480)	(101,536,209)
Sales	47,650,241	48,641,533
Maturities and principal reductions	36,895,639	41,289,766
Purchase of office properties and equipment	(3,623,374)	(2,947,317)
Net sales of FHLB stock	(393,100)	1,524,107
Proceeds from sales of investments in real estate owned	50,541	69,383
Net cash used by investing activities	<u>(26,834,514)</u>	<u>(25,492,126)</u>

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from financing activities		
Net increase in deposits	\$ 4,282,451	\$ 32,545,248
Additions to FHLB advances and other borrowings	54,888,857	19,431,548
Payments on FHLB advances and other borrowings	(41,000,000)	(25,981,900)
Net decrease in advance payments for taxes and insurance	30,664	(24,087)
Purchase of treasury shares	(204,076)	(147,389)
Payments of cash dividends	(929,854)	(1,173,583)
Net cash provided by financing activities	<u>17,068,042</u>	<u>24,649,837</u>
 Increase (decrease) in cash and cash equivalents	 (3,668,389)	 1,588,850
 Cash and cash equivalents at beginning of year	 <u>19,546,106</u>	 <u>17,957,256</u>
 Cash and cash equivalents at end of year	 <u><u>\$ 15,877,717</u></u>	 <u><u>\$ 19,546,106</u></u>
 Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	\$ 13,357,717	\$ 9,768,339
Income taxes, net of refunds	1,949,000	1,844,800
 Supplemental schedule of noncash investing and financing activities		
Dividends declared, not paid	\$ 522,478	\$ 640,222
Loan securitizations transferred to AFS securities	47,650,241	48,641,533
Transfer from loans to other real estate owned	147,040	67,610

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2006 and 2005

	Capital Stock \$1 Par	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2005	\$ 1,008,923	\$ (1,498,267)	\$ 56,982	\$ 35,061,349	\$ (262,044)	\$ 34,366,943
Purchase of treasury stock	-	(147,389)	-	-	-	(147,389)
Comprehensive income						
Net income	-	-	-	4,210,579	-	4,210,579
Net change in unrealized losses on securities, net of tax (Note C)	-	-	-	-	(1,317,680)	(1,317,680)
Total comprehensive income						2,892,899
Dividends - \$1.22 per share	-	-	-	(1,166,940)	-	(1,166,940)
Balance, December 31, 2005	1,008,923	(1,645,656)	56,982	38,104,988	(1,579,724)	35,945,513
Purchase of treasury stock	-	(204,076)	-	-	-	(204,076)
Comprehensive income						
Net income	-	-	-	3,994,651	-	3,994,651
Net change in unrealized losses on securities, net of tax (Note C)	-	-	-	-	159,375	159,375
Total comprehensive income						4,154,026
Dividends - \$1.10 per share	-	-	-	(1,047,598)	-	(1,047,598)
Balance, December 31, 2006	<u>\$ 1,008,923</u>	<u>\$ (1,849,732)</u>	<u>\$ 56,982</u>	<u>\$ 41,052,041</u>	<u>\$ (1,420,349)</u>	<u>\$ 38,847,865</u>

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

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

Pioneer Bank operates seven full customer service facilities, five banking branches, and one loan production office 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.

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 subsidiary, PPM, Inc. Inter-company 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 reported period. The principle 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.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

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 (REMIC).

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. These loans are sold as whole loans with gains or losses recognized in gain on sale of loans or packaged and sold as originated securities with gains or losses recognized in gain on sale of securities.

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 of 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 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.

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PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 write-down, the Bank is able to collect additional amounts from the customer or obtain control of collateral worth more than estimated earlier, 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 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.

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PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are 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, 2006 and 2005, the Company purchased 5,595 and 4,413 shares of treasury stock, respectively. All of the purchased shares remain in treasury stock at December 31, 2006. The average price of the treasury stock purchased was \$36.47 and \$33.40 in 2006 and 2005, respectively.

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.

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 enacted rate in effect at the end of each period.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 potential common shares at December 31, 2006 or 2005. 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 2005 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 of \$1,988,000 and \$3,032,000 at December 31, 2006 and 2005, consisted of the following:

	<u>2006</u>	<u>2005</u>
Cash and due from banks	\$ 15,114,529	\$ 19,250,412
Interest-bearing deposits	<u>763,188</u>	<u>295,694</u>
	<u>\$ 15,877,717</u>	<u>\$ 19,546,106</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE C - SECURITIES

U.S. Treasury securities have maturities from one to five years. Mortgage-backed securities are not due at a single maturity date. The amortized cost and estimated market values of debt securities are as follows:

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Available-for-Sale</u>				
U.S. Treasury securities	\$ 15,111,876	\$ -	\$ (130,626)	\$ 14,981,250
FNMA preferred stock	1,080,114	201,000	-	1,281,114
Other equity investments	2,000,000	-	(75,654)	1,924,346
Mortgage-backed securities and collateralized mortgage obligations	<u>152,997,948</u>	<u>12,176</u>	<u>(2,335,337)</u>	<u>150,674,787</u>
Total securities available-for-sale	<u>\$ 171,189,938</u>	<u>\$ 213,176</u>	<u>\$ (2,541,617)</u>	<u>\$ 168,861,497</u>

Securities Held-to-Maturity

Mortgage-backed securities and collateralized mortgage obligations	<u>\$ 138,644</u>	<u>\$ 2,266</u>	<u>\$ -</u>	<u>\$ 140,910</u>
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	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Available-for-Sale</u>				
U.S. Treasury securities	\$ 4,996,832	\$ -	\$ (96,832)	\$ 4,900,000
FNMA preferred stock	1,440,114	73,200	-	1,513,314
Other equity investments	2,000,000	-	(62,739)	1,937,261
Mortgage-backed securities and collateralized mortgage obligations	<u>162,567,288</u>	<u>21,490</u>	<u>(2,524,830)</u>	<u>160,063,948</u>
Total securities available-for-sale	<u>\$ 171,004,234</u>	<u>\$ 94,690</u>	<u>\$ (2,684,401)</u>	<u>\$ 168,414,523</u>

Securities Held-to-Maturity

Mortgage-backed securities and collateralized mortgage obligations	<u>\$ 242,082</u>	<u>\$ 6,020</u>	<u>\$ -</u>	<u>\$ 248,102</u>
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(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

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 (loss) follows:

	<u>2006</u>	<u>2005</u>
Net unrealized holding gains (losses) on securities arising during the period	\$ 559,972	\$ (1,969,865)
Reclassification adjustment for:		
Realized gains on sales	(298,702)	(190,267)
Income tax	<u>(101,895)</u>	<u>842,452</u>
	<u>\$ 159,375</u>	<u>\$ (1,317,680)</u>

At December 31, 2006 and 2005, the Company had pledged securities of approximately \$42,161,000 and \$42,225,000 to secure deposits. At December 31, 2006 and 2005, securities having a market value of approximately \$1,628,000 and \$3,445,000 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>2006</u>	<u>2005</u>
Gains	\$ 626,996	\$ 528,809
Losses	<u>(328,294)</u>	<u>(338,542)</u>
	<u>\$ 298,702</u>	<u>\$ 190,267</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE C - SECURITIES (Continued)

Securities with unrealized losses at year-end 2006 and 2005, 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>2006</u>						
U.S. Treasury securities	\$ 14,981,250	\$ (130,626)	\$ -	\$ -	\$ 14,981,250	\$ (130,626)
Other equity investments	-	-	1,924,346	(75,654)	1,924,346	(75,654)
Mortgage-backed securities and collateralized mortgage obligations	<u>23,726,191</u>	<u>(182,461)</u>	<u>121,196,871</u>	<u>(2,152,876)</u>	<u>144,923,062</u>	<u>(2,335,337)</u>
	<u>\$ 38,707,441</u>	<u>\$ (313,087)</u>	<u>\$ 123,121,217</u>	<u>\$ (2,228,530)</u>	<u>\$ 161,828,658</u>	<u>\$ (2,541,617)</u>

<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>2005</u>						
U.S. Treasury securities	\$ 4,900,000	\$ (96,832)	\$ -	\$ -	\$ 4,900,000	\$ (96,832)
Other equity investments	-	-	1,937,261	(62,739)	1,937,261	(62,739)
Mortgage-backed securities and collateralized mortgage obligations	<u>101,133,297</u>	<u>(1,349,897)</u>	<u>52,074,537</u>	<u>(1,174,933)</u>	<u>153,207,834</u>	<u>(2,524,830)</u>
	<u>\$ 106,033,297</u>	<u>\$ (1,446,729)</u>	<u>\$ 54,011,798</u>	<u>\$ (1,237,672)</u>	<u>\$ 160,045,095</u>	<u>\$ (2,684,401)</u>

Unrealized losses on debt securities have not been recognized into income because of the high credit quality of the issuers, the Company's intent and ability to hold such securities for the foreseeable future, and the direct relationship of the market value decline to 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, 2006 and 2005

NOTE D - LOANS

Loans consisted of the following:	<u>2006</u>	<u>2005</u>
Loans held for sale		
Mortgage loans held for sale		
Conventional	\$ 7,557,066	\$ 6,895,550
FHA insured and VA insured	3,815,021	5,705,976
Deferred loan (fees) costs, net	<u>(250)</u>	<u>(16,785)</u>
Loans held for sale, net	<u>\$ 11,371,837</u>	<u>\$ 12,584,741</u>
Loans		
Mortgage loans held for investment		
Conventional	\$ 145,348,880	\$ 152,901,675
FHA insured and VA guaranteed	36,123,505	41,062,100
Commercial	29,297,540	30,010,053
Construction and land	52,397,655	21,775,425
Deferred loan (fees) costs, net	<u>(189,720)</u>	<u>(109,064)</u>
Mortgage loans held for investment, net	<u>262,977,860</u>	<u>245,640,189</u>
Consumer loans		
Installment and other loans	10,128,521	9,503,689
Second mortgages	4,476,761	2,743,344
Business	14,692,067	12,221,764
Unearned discounts	<u>(42,570)</u>	<u>(37,827)</u>
Consumer loans, net	<u>29,254,779</u>	<u>24,430,970</u>
Allowance for loan losses	<u>(602,560)</u>	<u>(642,143)</u>
Loans, net	<u>\$ 291,630,079</u>	<u>\$ 269,429,016</u>

Net gains from sales of loans were \$1,512,145 and \$1,475,184 in 2006 and 2005.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE D - LOANS (Continued)

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

	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 642,143	\$ 516,502
Loan loss provision	201,000	166,762
Recoveries	3,270	12,194
Charge-offs	<u>(243,853)</u>	<u>(53,315)</u>
Balance at end of year	<u>\$ 602,560</u>	<u>\$ 642,143</u>

At December 31, 2006 and 2005 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>2006</u>	<u>2005</u>
Loans past due over 90 days still on accrual	\$ -	\$ -
Nonaccrual loans	566,861	1,027,119

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

NOTE E - OFFICE PROPERTIES AND EQUIPMENT

Year-end office properties and equipment consisted of:

	<u>2006</u>	<u>2005</u>
Land	\$ 4,335,182	\$ 3,225,317
Buildings and leasehold improvements	10,583,827	9,354,375
Furniture, equipment, and autos	7,935,055	6,723,617
Construction in progress	<u>260,954</u>	<u>311,678</u>
	23,115,018	19,614,987
Less accumulated depreciation	<u>6,192,698</u>	<u>5,237,896</u>
Office properties and equipment, net	<u>\$ 16,922,320</u>	<u>\$ 14,377,091</u>

Depreciation expense was \$1,074,729 and \$926,150 for 2006 and 2005.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE E - OFFICE PROPERTIES AND EQUIPMENT (Continued)

The Bank leases office space for administrative offices and certain branch offices under various operating leases with terms ranging through 2010. Lease payments included in occupancy expense totaled \$244,700 and \$225,169 for the years ended December 31, 2006 and 2005. Future minimum lease payments under the non-cancelable operating leases are:

2007	\$	243,415
2008		225,894
2009		230,414
2010		<u>19,233</u>
Total	\$	<u>718,956</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>2006</u>	<u>2005</u>
Mortgage loans underlying pass-through securities		
GNMA	\$ 126,040,532	\$ 129,031,149
FNMA	112,345,602	97,072,791
FHLMC	<u>196,208</u>	<u>299,204</u>
	<u>238,582,342</u>	<u>226,403,144</u>
Mortgage loan portfolio serviced for		
FNMA	41,076,686	36,154,576
FHLMC	7,402,151	10,325,284
Other investors	<u>114,613,406</u>	<u>102,751,617</u>
	<u>163,092,243</u>	<u>149,231,477</u>
	<u>\$ 401,674,585</u>	<u>\$ 375,634,621</u>

Custodial balances on deposit at the Bank, in connection with the foregoing loan servicing, amounted to \$7,965,126 and \$12,181,306, at December 31, 2006 and 2005.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

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

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

	<u>2006</u>	<u>2005</u>
Mortgage servicing rights		
Balance, beginning of year	\$ 3,935,664	\$ 3,457,645
Capitalized	1,052,213	1,287,442
Amortization	<u>(689,950)</u>	<u>(809,423)</u>
Balance, end of year	4,297,927	3,935,664
Impairment allowance	<u>-</u>	<u>(4,876)</u>
 Balance, end of year, net of impairment allowance	 <u>\$ 4,297,927</u>	 <u>\$ 3,930,788</u>
 Valuation allowance		
Beginning of year	\$ 4,876	\$ 403,778
Reductions credited to income	<u>(4,876)</u>	<u>(398,902)</u>
 End of year	 <u>\$ -</u>	 <u>\$ 4,876</u>

The fair value of capitalized mortgage servicing rights was \$5,044,509 and \$5,045,119 at year-end 2006 and 2005. Fair value was determined using discount rates ranging from 9.00% to 12.00%, prepayment speeds ranging from 8.83 % to 21.34%, depending on the stratification of the specific right, and a weighted average default rate of .50%.

The weighted-average amortization period is 5.32 years. Estimated amortization expense for each of the next five years follows:

2007	\$ 775,400
2008	674,490
2009	549,330
2010	446,420
2011	364,200

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE G - DEPOSITS

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

	<u>2006</u>	<u>2005</u>
No contractual maturities	\$ 162,958,167	\$ 185,687,430
2006	-	112,737,781
2007	156,973,012	25,698,511
2008	16,122,653	11,755,519
2009	4,711,879	3,515,787
2010	5,965,926	6,053,627
2011	<u>2,999,469</u>	<u>-</u>
	<u>\$ 349,731,106</u>	<u>\$ 345,448,655</u>

At December 31, 2006 and 2005, approximately \$42,161,000 and \$42,225,000 of mortgage securities were pledged to secure public unit deposits.

Time deposits of \$100,000 or more were \$74,445,307 and \$58,645,163 at year-end 2006 and 2005.

NOTE H - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

At year-end, advances from the Federal Home Loan Bank were as follows:

	<u>2006</u>	<u>2005</u>
Maturities January 2007 through November 2011, fixed rate at rates from 2.32% to 5.49%, averaging 4.25%	\$ 119,700,000	\$ 106,000,000

At December 31, 2006 and 2005, mortgage loans of approximately \$202,355,000 and \$203,710,000 were pledged to secure FHLB advances.

Required payments over the next five years are:

2007	\$ 60,200,000
2008	21,000,000
2009	13,500,000
2010	7,000,000
2011	<u>18,000,000</u>
	<u>\$ 119,700,000</u>

Other borrowings consist of balances in the treasury, tax, and loan account at a variable rate of federal funds less one quarter percent. Balances were \$651,024 and \$462,167 at year-end 2006 and 2005.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE I - INCOME TAXES

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

	<u>2006</u>	<u>2005</u>
Current		
Federal	\$ 2,408,026	\$ 602,667
State	324,806	72,844
Deferred		
Federal	(455,425)	1,677,120
State	<u>(47,494)</u>	<u>177,316</u>
	<u>\$ 2,229,913</u>	<u>\$ 2,529,947</u>

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

	<u>2006</u>	<u>2005</u>
Computed "expected" tax expense	\$ 2,116,352	\$ 2,291,779
State income taxes	277,312	264,542
Other	<u>(163,751)</u>	<u>(26,374)</u>
	<u>\$ 2,229,913</u>	<u>\$ 2,529,947</u>

Temporary differences created deferred tax assets and (liabilities) as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Deferred tax assets	\$ 1,038,114	\$ 2,107,490
Deferred tax liabilities	<u>(4,472,357)</u>	<u>(5,034,664)</u>
	<u>\$ (3,434,243)</u>	<u>\$ (2,927,174)</u>

The Company has not recorded a valuation allowance with respect to the deferred tax assets, because it believes it is more likely than not that the assets are fully realizable.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE I - INCOME TAXES (Continued)

The Company's deferred taxes are primarily attributable to: 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.

Prior to 1996, the Company used the "percentage of taxable income" reserve method under IRC Section 593 to account for loan losses for income tax purposes, creating a permanent deferral of \$1,597,000 of its loan loss reserve upon the repeal of IRC Section 593. The corresponding unrecognized deferred tax liability on the permanently deferred loan loss reserve is \$613,000. The deferred tax liability will not be recognized until it becomes apparent that the loan loss reserve will reverse and become taxable. This may occur if the Company fails to meet the definition of a qualifying financial institution 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.

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.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE J - COMMITMENTS AND CONTINGENCIES (Continued)

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

	<u>2006</u>	<u>2005</u>
Undisbursed lines of credit and loans in process	\$ 47,468,000	\$ 27,143,000
Commitments to originate loans	12,337,000	9,049,000
Loans sold with recourse	4,065,000	3,491,000
Commitments to sell mortgages and mortgage-backed securities	7,353,000	4,219,000

Commitments to extend credit are agreements to lend to a customer as long as there are no violations of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2006, commitments to make loans at fixed rates totaled \$844,990. The fixed rate commitments had interest rates ranging from 7.50% to 16.00%.

NOTE K - REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends it may declare without prior regulatory approval. The Bank is also subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios to Total and Tier 1 Capital (as defined by regulation) to Risk-Weighted Assets (as defined) and Core Capital (as defined) to Adjusted Total Assets (as defined). Management believes, as of December 31, 2006 and 2005, that the Bank met all regulatory capital adequacy requirements to which it is subject.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE K - REGULATORY MATTERS (Continued)

The most recent notifications from the OTS as of December 31, 2006 and 2005 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, 2006</u>						
Total Risk-Based Capital (to risk-weighted assets)	\$ 39,593	15.6%	\$ 20,297	8.0%	\$ 25,371	10.0%
Tier 1 Risk-Based Capital (to risk-weighted assets)	38,990	15.4%	10,149	4.0%	15,223	6.0%
Core Capital (to adjusted total assets)	38,990	7.4%	21,012	4.0%	26,265	5.0%
<u>As of December 31, 2005</u>						
Total Risk-Based Capital (to risk-weighted assets)	\$ 37,297	16.8%	\$ 17,784	8.0%	\$ 22,230	10.0%
Tier 1 Risk-Based Capital (to risk-weighted assets)	36,655	16.5%	8,892	4.0%	13,338	6.0%
Core Capital (to adjusted total assets)	36,655	7.3%	20,095	4.0%	25,119	5.0%

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE L- FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	2006		2005	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Financial Assets</u>				
Cash and cash equivalents	\$ 15,877,717	\$ 15,877,717	\$ 19,546,106	\$ 19,546,106
Securities available-for-sale	168,861,497	168,861,497	168,414,523	168,414,523
Securities held-to-maturity	138,644	140,910	242,082	248,102
Loans held for sale	11,371,837	11,456,731	12,584,741	12,677,109
Loans, net	291,630,079	289,855,313	269,429,016	268,261,785
FHLB stock	6,151,500	6,151,500	5,448,700	5,448,700
Mortgage servicing rights	4,297,927	5,044,509	3,930,788	5,045,119
Accrued interest receivable	2,822,742	2,822,742	2,215,076	2,215,076
<u>Financial Liabilities</u>				
Deposits	\$ 349,731,106	\$ 349,667,459	\$ 345,448,655	\$ 345,214,136
FHLB advances	120,351,024	118,779,298	106,462,167	103,737,867
Advance payments for taxes and insurance	1,947,162	1,947,162	1,916,498	1,916,498
Accrued interest payable	413,389	413,389	454,459	454,459

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 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, 2006 and 2005

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 2006 and 2005:

<u>Year</u>	<u>Match</u>	<u>Compensation</u>	<u>Expense</u>
2006	100%	5.0%	\$ 214,324
2005	100%	5.0%	\$ 131,417

The Bank maintains a non-qualified retirement plan for certain key executive officers. Prior to 2006, the Bank purchased single premium life insurance policies on the lives of the participants for \$1,350,000 in premiums. During 2006, additional policies were purchased for a total premium of \$985,000. A death benefit for each executive has been provided by endorsement of 80% to 100% 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 paid after the service period. As of December 31, 2006 and 2005, the cash surrender value of the life insurance policies was approximately \$3,043,000 and \$1,941,000, which is recorded in other assets. The Bank has accrued benefits of \$1,661,829 and \$1,503,876, recorded in other liabilities, as of December 31, 2006 and 2005. Expenses related to the plan of \$215,499 and \$225,269 were recorded for 2006 and 2005 in compensation and employee benefits.

NOTE N - RELATED PARTY TRANSACTIONS

Loans to directors, executive officers, and their affiliates were \$1,469,143 and \$1,546,622 at December 31, 2006 and 2005.

PIONEER BANCORP, INC.
SELECTED FINANCIAL DATA - UNAUDITED
December 31, 2006

2006 Compared to 2005
(\$ in thousands)

	Average Balance		Average Rate		Interest		Interest	Volume	Rate
	2006	2005	2006	2005	2006	2005	Variance		
Interest and dividend income									
Loans	\$ 293,088	\$ 273,294	6.63%	6.06%	\$ 19,418	\$ 16,569	\$ 2,849	\$ 1,311	\$ 1,538
Mortgage securities	169,895	161,179	4.48%	4.02%	7,614	6,474	1,140	391	749
Securities	16,783	17,227	4.28%	3.58%	719	616	103	(19)	122
Total interest-earning assets	\$ 479,766	\$ 451,700	5.78%	5.24%	\$ 27,751	\$ 23,659	\$ 4,092	\$ 1,683	\$ 2,409
Interest expenses									
Deposits	\$ 340,155	\$ 319,490	2.39%	1.77%	\$ 8,136	\$ 5,643	\$ 2,493	\$ 494	\$ 1,999
Borrowed funds	129,722	122,675	3.99%	3.40%	5,181	4,174	1,007	281	726
Total interest-bearing liabilities	\$ 469,877	\$ 442,165	2.83%	2.22%	\$ 13,317	\$ 9,817	\$ 3,500	\$ 775	\$ 2,725
Net interest spread and income			2.95%	3.02%	\$ 14,434	\$ 13,842			
Ratio of net interest income to average interest-earning assets					3.01%	3.06%			

2005 Compared to 2004
(\$ in thousands)

	Average Balance		Average Rate		Interest		Interest	Volume	Rate
	2005	2004	2005	2004	2005	2004	Variance		
Interest and dividend income									
Loans	\$ 273,294	\$ 265,582	6.06%	5.84%	\$ 16,569	\$ 15,509	\$ 1,060	\$ 468	\$ 592
Mortgage securities	161,179	146,750	4.02%	3.72%	6,474	5,462	1,012	580	432
Securities	17,227	18,714	3.58%	3.08%	616	577	39	(53)	92
Total interest-earning assets	\$ 451,700	\$ 431,046	5.24%	5.00%	\$ 23,659	\$ 21,548	\$ 2,111	\$ 995	\$ 1,116
Interest expenses									
Deposits	\$ 319,490	\$ 291,294	1.77%	1.47%	\$ 5,643	\$ 4,272	\$ 1,371	\$ 498	\$ 873
Borrowed funds	122,675	126,283	3.40%	3.45%	4,174	4,361	(187)	(123)	(64)
Total interest-bearing liabilities	\$ 442,165	\$ 417,577	2.22%	2.07%	\$ 9,817	\$ 8,633	\$ 1,184	\$ 375	\$ 809
Net interest spread and income			3.02%	2.93%	\$ 13,842	\$ 12,915			
Ratio of net interest income to average interest-earning assets					3.06%	3.00%			

PIONEER BANCORP, INC.

CORPORATE INFORMATION

General Information

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

CORPORATE OFFICES

Pioneer Bancorp, Inc.
306 North Pennsylvania Avenue
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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 West Country Club Road
Roswell, NM 88201

REGISTRAR AND TRANSFER AGENT

Pioneer Bancorp, Inc.

ANNUAL MEETING

The annual meeting of shareholders of Pioneer Bancorp, Inc. will be held at 2:00 p.m. on April 24, 2007, 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 \$38.00 per share. As of December 31, 2006, there were approximately 345 holders of record of Pioneer capital stock. Dividends of \$1.10 and \$1.22 per share were declared in 2006 and 2005.

PIONEER BANCORP, INC.
SCHEDULE I - CONSOLIDATING STATEMENT OF FINANCIAL CONDITION
December 31, 2006

	Pioneer Bank	Pioneer Mortgage Company (1)	Eliminations	Pioneer Bank Consolidated	Pioneer Bancorp, Inc.	Eliminations	Pioneer Bancorp, Inc. Consolidated
ASSETS							
Cash and cash equivalents	\$ 15,877,657	\$ 60	\$ -	\$ 15,877,717	\$ -	\$ -	\$ 15,877,717
Securities							
Available-for-sale	168,166,629	694,868	-	168,861,497	-	-	168,861,497
Held-to-maturity	138,644	-	-	138,644	-	-	138,644
Loans held for sale, net	11,371,837	-	-	11,371,837	-	-	11,371,837
Loans, net	291,630,079	-	-	291,630,079	-	-	291,630,079
FHLB, stock	6,151,500	-	-	6,151,500	-	-	6,151,500
Investment in subsidiary	2,569,477	1,000	(2,570,477)	-	38,990,177	(38,990,177)	-
Intercompany advance	-	1,895,586	(1,895,586)	-	1,430,873	(1,430,873)	-
Office properties and equipment, net	16,647,840	274,480	-	16,922,320	-	-	16,922,320
Mortgage servicing rights, net	4,297,927	-	-	4,297,927	-	-	4,297,927
Accrued interest receivable	2,774,194	48,548	-	2,822,742	-	-	2,822,742
Other assets	3,199,064	1,202	1,571,468	4,771,734	-	-	4,771,734
Total assets	<u>\$522,824,848</u>	<u>\$ 2,915,744</u>	<u>\$ (2,894,595)</u>	<u>\$522,845,997</u>	<u>\$ 40,421,050</u>	<u>\$ (40,421,050)</u>	<u>\$522,845,997</u>
LIABILITIES							
Deposits	\$349,731,106	\$ -	\$ -	\$349,731,106	\$ -	\$ -	\$349,731,106
FHLB advances and other borrowings	120,351,024	-	-	120,351,024	-	-	120,351,024
Official checks	6,182,335	-	-	6,182,335	-	-	6,182,335
Advance payments for taxes and insurance	1,947,162	-	-	1,947,162	-	-	1,947,162
Accrued interest payable	413,389	-	-	413,389	-	-	413,389
Intercompany advance	3,326,459	-	(1,895,586)	1,430,873	-	(1,430,873)	-
Accounts payable and other liabilities	3,298,188	26,505	1,895,586	5,220,279	152,836	1	5,373,116
Total liabilities	<u>485,249,663</u>	<u>26,505</u>	<u>-</u>	<u>485,276,168</u>	<u>152,836</u>	<u>(1,430,872)</u>	<u>483,998,132</u>
EQUITY							
Capital stock	1	82,130	(82,130)	1	1,008,923	(1)	1,008,923
Treasury stock	-	-	-	-	(1,849,732)	-	(1,849,732)
Additional paid-in capital	1,065,873	-	-	1,065,873	56,982	(1,065,873)	56,982
Retained earnings	37,924,304	2,812,465	(2,812,465)	37,924,304	41,052,041	(37,924,304)	41,052,041
Accumulated other comprehensive income (loss)	(1,414,993)	(5,356)	-	(1,420,349)	-	-	(1,420,349)
Total stockholders' equity	<u>37,575,185</u>	<u>2,889,239</u>	<u>(2,894,595)</u>	<u>37,569,829</u>	<u>40,268,214</u>	<u>(38,990,178)</u>	<u>38,847,865</u>
Total liabilities and stockholders' equity	<u>\$522,824,848</u>	<u>\$ 2,915,744</u>	<u>\$ (2,894,595)</u>	<u>\$522,845,997</u>	<u>\$ 40,421,050</u>	<u>\$ (40,421,050)</u>	<u>\$522,845,997</u>

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

PIONEER BANCORP, INC.
SCHEDULE II - CONSOLIDATING STATEMENT OF INCOME
Year ended December 31, 2006

	Pioneer Bank	Pioneer Mortgage Company (1)	Eliminations	Pioneer Bank Consolidated	Pioneer Bancorp, Inc.	Eliminations	Pioneer Bancorp, Inc. Consolidated
Interest and dividend income							
Loans	\$ 19,009,625	\$ 1,044,641	\$ (636,806)	\$ 19,417,460	\$ -	\$ -	\$ 19,417,460
Mortgage securities	7,581,397	32,993	-	7,614,390	-	-	7,614,390
Investment securities and other	<u>719,328</u>	<u>-</u>	<u>-</u>	<u>719,328</u>	<u>-</u>	<u>-</u>	<u>719,328</u>
Total	27,310,350	1,077,634	(636,806)	27,751,178	-	-	27,751,178
Interest expense							
Deposits	8,136,149	-	-	8,136,149	-	-	8,136,149
FHLB advances and other borrowings	<u>5,180,498</u>	<u>636,806</u>	<u>(636,806)</u>	<u>5,180,498</u>	<u>-</u>	<u>-</u>	<u>5,180,498</u>
Total	13,316,647	636,806	(636,806)	13,316,647	-	-	13,316,647
Net interest income	13,993,703	440,828	-	14,434,531	-	-	14,434,531
Loan loss provision	<u>201,000</u>	<u>-</u>	<u>-</u>	<u>201,000</u>	<u>-</u>	<u>-</u>	<u>201,000</u>
Net interest income after loan loss provision	13,792,703	440,828	-	14,233,531	-	-	14,233,531
Other income							
Gain on sale of loans, net	823,340	688,805	-	1,512,145	-	-	1,512,145
Loan administration and service fees	1,031,537	346,044	-	1,377,581	-	-	1,377,581
Change in mortgage servicing rights impairment allowance	4,876	-	-	4,876	-	-	4,876
Equity earnings of subsidiary	325,117	-	(325,117)	-	4,010,430	(4,010,430)	-
Deposit account fees	2,053,244	-	-	2,053,244	-	-	2,053,244
Gain on sale of securities, net	298,702	-	-	298,702	-	-	298,702
Other	<u>239,606</u>	<u>736</u>	<u>(49,150)</u>	<u>191,192</u>	<u>-</u>	<u>-</u>	<u>191,192</u>
Total	4,776,422	1,035,585	(374,267)	5,437,740	4,010,430	(4,010,430)	5,437,740
Other expenses							
Compensation and employee benefits	7,327,261	659,534	-	7,986,795	-	-	7,986,795
Equipment	1,233,359	52,511	-	1,285,870	-	-	1,285,870
Data processing	1,162,135	20,897	-	1,183,032	-	-	1,183,032
Occupancy	982,834	77,463	(49,150)	1,011,147	-	-	1,011,147
Stationery, printing, and office supplies	360,769	28,365	-	389,134	5,877	-	395,011
Professional and supervisory	323,128	100	-	323,228	18,999	-	342,227
Postage and transportation	316,547	22,619	-	339,166	-	-	339,166
Advertising and public relations	385,056	54,906	-	439,962	-	-	439,962
Telephone	155,047	17,078	-	172,125	-	-	172,125
Other	<u>278,224</u>	<u>12,223</u>	<u>-</u>	<u>290,447</u>	<u>925</u>	<u>-</u>	<u>291,372</u>
Total	12,524,360	945,696	(49,150)	13,420,906	25,801	-	13,446,707
Income before income tax expense	6,044,765	530,717	(325,117)	6,250,365	3,984,629	(4,010,430)	6,224,564
Income tax expense	<u>2,034,335</u>	<u>205,600</u>	<u>-</u>	<u>2,239,935</u>	<u>(10,022)</u>	<u>-</u>	<u>2,229,913</u>
Net income	\$ 4,010,430	\$ 325,117	\$ (325,117)	\$ 4,010,430	\$ 3,994,651	\$ (4,010,430)	\$ 3,994,651

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

PIONEER BANCORP, INC.



Pioneer Bank's Facility in El Paso - 6068 Gateway East

An Old Friend with New Ideas.

PIONEER BANCORP, INC.

BOARD OF DIRECTORS

G. Eugene Bell

Vice President
Bell Gas, Inc.

James D. Harris

Owner - Charles, Garland &
Harris Agency

George W. Mitchell

Investments

James L. Bruin

Retired Attorney
Sanders, Bruin, Coll & Worley, PA

Jon E. Hitchcock, CPA

President, CEO
Pioneer Bank

Stephen P. Puntch

Executive Vice President
Pioneer Bank

Martin B. Cooper, CPA

President
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.

OFFICERS

PIONEER BANK

Chairman of the Board

President and Chief Executive Officer

Jon E. Hitchcock, CPA

Executive Vice President

Stephen P. Puntch

Senior Vice President

Britt Donaldson
Christopher G. Palmer, CPA

President - Las Cruces, NM

Kiel A. Hoffman

President - El Paso, TX

Aaron M. Emmert

Corporate Secretary

Anna K. Ritchey

Assistant Secretary

Staci D. Carrasco
Tracy G. Segura
Mary R. Skinner

Assistant Vice President

David L. Chavez
Tanya L. Crowder
Travis S. Daniels
Rose M. Dick
Suzi K. Glass
Bridget M. Lara
Charlee R. Merchant
Nancy J. Montgomery
Betty J. Naegele
Betty L. Pankey
Melody E. Parra
Sylvia C. Salazar
Laura M. Smith
Carolyn S. Spencer
Debra M. Young
Beth E. Zigmond

Vice President

Davis E. Bennett
Kathleen M. Carrillo
John M. Dick-Peddie
Dawson J. Dinsmore
Denise L. Gendreau
Charlotte Y. Gipson
Daniel A. Hostetler
Robert W. Mays
Pamela D. McClain
Scott E. Mohrhauser
Gayla I. Morris
Dee Ann Nunez
Rosalyn Robinson
Nancy L. Smith
Pamela A. Sparks
Rebecca E. Underation
Michael R. Vineyard
Debe M. Wagner

PIONEER MORTGAGE COMPANY

Vice President

Freida J. Goodrum

Assistant Vice President

Sharon K. McKandles

PIONEER BANK

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1020 North Turner Street, P.O. Box 177, Hobbs, New Mexico 88240
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1095 Mechem Drive, P.O. Box 910, Ruidoso, New Mexico 88345
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