

PIONEER BANCORP, INC.



2007 ANNUAL REPORT

FINANCIAL HIGHLIGHTS (Unaudited)

(In thousands, except
per share amounts)

	2007/2006 Change	2007	2006	2005	2004	2003
FOR THE YEAR						
Interest and						
dividend income	+ 6%	\$ 29,379	\$ 27,751	\$ 23,659	\$ 21,548	\$ 20,904
Interest expense	+ 10%	14,671	13,317	9,818	8,633	9,134
Net interest income	+ 2%	14,708	14,434	13,841	12,915	11,770
Loan loss provision	+ 59%	320	201	167	-	78
Noninterest income	+ 9%	5,944	5,438	5,220	5,191	6,511
Noninterest expense	+ 6%	14,286	13,446	12,155	10,458	9,760
Net income	- 4%	3,824	3,995	4,211	4,761	5,201
PER SHARE						
Earnings	- 3%	4.06	4.19	4.40	4.94	5.25
Dividends	+ 0%	1.10	1.10	1.22	1.21	1.21
Year-end book value	+ 11%	45.32	40.89	37.62	35.80	32.13
AT YEAR-END						
Assets	+ 3%	537,802	522,846	499,776	472,343	447,028
Net loans	+ 3%	311,045	303,002	282,014	266,600	257,363
Securities	+ 7%	180,741	169,000	168,657	159,599	151,643
Loans serviced						
for others	+ 9%	437,597	401,675	375,635	356,840	351,032
Deposits	+ 3%	359,100	349,731	345,449	312,903	282,639
Borrowings	+ 2%	123,046	120,351	106,462	113,013	123,312
Stockholders' equity	+ 9%	42,369	38,848	35,946	34,367	31,204
PERFORMANCE RATIOS						
Return on average assets		0.72%	0.78%	0.87%	1.04%	1.21%
Return on average						
stockholders' equity		9.42%	10.68%	11.98%	14.52%	17.24%
Efficiency ratio		69.17%	67.67%	63.76%	57.76%	53.39%
Net interest margin		2.97%	2.95%	3.02%	2.93%	2.78%
CAPITAL RATIOS						
Equity to assets		7.9%	7.4%	7.2%	7.3%	7.0%
Core capital		7.7%	7.4%	7.3%	7.2%	6.9%
Tier 1 risk-based capital		15.4%	15.4%	16.5%	17.5%	17.3%
Total risk-based capital		15.7%	15.6%	16.8%	17.8%	17.6%
SELECTED INFORMATION						
Average common						
shares (in thousands)		941	954	958	964	991
Common dividend payout ratio		26.99%	26.23%	27.71%	24.41%	22.59%
Full-time equivalent employees		189	196	189	180	166
Customer service facilities						
Full service facilities		7	7	6	6	6
Banking branches		5	5	5	4	4
Loan production offices		1	1	2	2	2
ATMs		14	14	12	11	10



PIONEER BANCORP, INC.

Dear Pioneer Bancorp Stockholder:

The year 2007 saw a dramatic change over 2006 as high short-term interest rates during the first half of the year gave way to increasing residential mortgage loan delinquencies and foreclosures across the nation through the remainder of the year. While Pioneer isn't immune to these risks, we ended the year on a strong note and well positioned for the future.

As reported to you in October, most loans that Pioneer originates are conventional mortgages eligible for sale to government sponsored enterprises (GSE's) such as Fannie Mae. We also specialize in FHA and VA lending. The liquidity crisis that you have been hearing about has primarily impacted private mortgage securities and collateralized debt obligations utilized by subprime lenders to package their loans and then promoted by investment banking firms for sale to investors. These are the securities which will be of questionable value for months and possibly years to come as this economic adjustment plays itself out. By contrast, the impeccable credit quality of the GSE's and GNMA mortgage-backed securities has largely insulated these securities from any negative impact during this liquidity crisis.

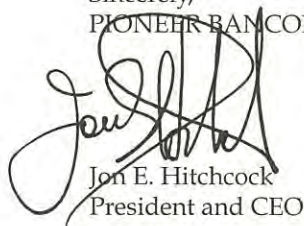
Unlike many areas of the country that have seen rising delinquencies and declining home prices, our market area has remained solid. Pioneer has benefited from our low mortgage loan delinquency rate throughout 2007, as we do not have an ongoing exposure to subprime mortgage loans. At year-end 2007, our residential mortgage loan delinquency rate stood at 1.7%. By comparison the nation's largest mortgage lender had a year-end delinquency rate of 7.2%. During all of 2007, Pioneer had only nine residential loan foreclosures out of our investment portfolio. Eight of those loans were FHA or VA loans that were conveyed to the government without loss to Pioneer. The remaining single conventional loan was sold in January, 2008 at a significant profit to Pioneer. Unfortunately, if this situation continues for a prolonged period, it could possibly impact our market area as well with lower home prices.

Net income for 2007 was \$3.8 million, representing a 9.4% return on average stockholders' equity. Net income was \$4.09 per share and dividends per share were \$1.10. Interest income increased 6% while interest expense increased 10% over 2006. However, net interest income increased 2%. Noninterest income increased 9% and noninterest expense increased 6%. Year-end book value per share was \$45.32, an increase of 11%. Total assets grew 3% to \$537.8 million, while net loans increased 3% to \$311.0 million. Deposits grew 3% as well over the year and ended 2007 at \$359.1 million. Stockholders' equity increased 9% to \$42.4 million.

Pioneer Bancorp continued to progress in our corporate strategy of expanding in targeted markets that offer the strongest possibilities for commercial lending and deposit growth. Pioneer's branching effort in El Paso, Texas, continued to progress during 2007 as our deposits in this market increased by 338%. Our construction and permanent lending in the Midland and El Paso markets continue to be very strong despite the slowdown nationally. We also began an exciting checking account acquisition program in January, 2008 that has already proven to be very successful. In the first month, in four of our seven banking markets, we have already netted more new checking accounts than we did in all of 2007 for those same branches.

We are looking forward to the challenges and opportunities 2008 will bring. On behalf of the Board of Directors and Officers of Pioneer Bancorp, I would like to express our sincere appreciation to our stockholders, customers, and employees for your support.

Sincerely,
PIONEER BANCORP, INC.



Jon E. Hitchcock
President and CEO

Roswell, New Mexico
March 21, 2008



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, 2007 and 2006, 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, 2007 and 2006, 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
March 3, 2008

PIONEER BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006

(In thousands, except share amounts)

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 12,208	\$ 15,878
Securities		
Available-for-sale	180,741	169,000
Loans held for sale, net	16,818	11,372
Loans, net	294,227	291,630
Federal Home Loan Bank, stock	5,621	6,151
Office properties and equipment, net	16,264	16,922
Mortgage servicing rights, net	4,803	4,298
Accrued interest receivable	2,757	2,823
Other assets	<u>4,363</u>	<u>4,772</u>
 Total assets	 <u>\$ 537,802</u>	 <u>\$ 522,846</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$ 359,100	\$ 349,731
FHLB advances and other borrowings	123,046	120,351
Official checks	4,328	6,182
Advance payments for taxes and insurance	1,996	1,947
Accrued interest payable	617	414
Accounts payable and other liabilities	<u>6,346</u>	<u>5,373</u>
Total liabilities	<u>495,433</u>	<u>483,998</u>
 Commitments and contingencies		
 Stockholders' equity		
Capital stock, \$1 par value; shares authorized:		
2,000,000; shares issued: 1,008,923	1,009	1,009
Treasury stock (2007 - 74,096 shares;		
2006 - 58,963 shares)	(2,480)	(1,850)
Additional paid-in capital	112	57
Retained earnings	43,844	41,052
Accumulated other comprehensive income (loss)	<u>(116)</u>	<u>(1,420)</u>
Total stockholders' equity	<u>42,369</u>	<u>38,848</u>
 Total liabilities and stockholders' equity	 <u>\$ 537,802</u>	 <u>\$ 522,846</u>

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2007 and 2006

<i>(In thousands, except share amounts)</i>	<u>2007</u>	<u>2006</u>
Interest and dividend income		
Loans	\$ 21,764	\$ 19,418
Mortgage securities	6,224	7,614
Investment securities and other	<u>1,391</u>	<u>719</u>
	<u>29,379</u>	<u>27,751</u>
Interest expense		
Deposits	9,686	8,136
FHLB advances and other borrowings	<u>4,985</u>	<u>5,181</u>
	<u>14,671</u>	<u>13,317</u>
Net interest income	<u>14,708</u>	<u>14,434</u>
Loan loss provision	<u>320</u>	<u>201</u>
Net interest income after loan loss provision	<u>14,388</u>	<u>14,233</u>
Other income		
Deposit account fees	2,209	2,053
Gain on sale of loans, net	1,576	1,512
Loan administration and service fees	1,345	1,378
Change in mortgage servicing rights impairment allowance	(73)	5
Gain on sale of securities, net	684	299
Other	<u>203</u>	<u>191</u>
	<u>5,944</u>	<u>5,438</u>
Other expenses		
Compensation and employee benefits	8,342	7,987
Equipment	1,450	1,286
Data processing	1,275	1,183
Occupancy	1,088	1,011
Stationery, printing, and office supplies	393	395
Professional and supervisory	451	342
Postage and transportation	347	339
Advertising and public relations	450	440
Telephone	163	172
Other	<u>327</u>	<u>291</u>
	<u>14,286</u>	<u>13,446</u>
Income before income tax expense	<u>6,046</u>	<u>6,225</u>

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2007 and 2006

<i>(In thousands, except share amounts)</i>	<u>2007</u>	<u>2006</u>
Income before income tax expense	6,046	6,225
Income tax expense	<u>2,222</u>	<u>2,230</u>
Net income	<u>\$ 3,824</u>	<u>\$ 3,995</u>
Weighted average number of capital stock shares outstanding:		
Basic	941,443	954,017
Diluted	941,443	954,017
Earnings per share:		
Basic	\$ 4.06	\$ 4.19
Diluted	4.06	4.19

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2007 and 2006

<i>(In thousands, except per share amounts)</i>	Capital Stock \$1 Par	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2006	\$ 1,009	\$ (1,646)	\$ 57	\$ 38,105	\$ (1,580)	\$ 35,945
Purchase of treasury stock	-	(204)	-	-	-	(204)
Comprehensive income						
Net income	-	-	-	3,995	-	3,995
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax effects	-	-	-	-	160	160
Total comprehensive income						4,155
Dividends - \$1.10 per share	-	-	-	(1,048)	-	(1,048)
Balance, December 31, 2006	1,009	(1,850)	57	41,052	(1,420)	38,848
Purchase of treasury stock	-	(630)	-	-	-	(630)
Comprehensive income						
Net income	-	-	-	3,824	-	3,824
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax effects	-	-	-	-	1,304	1,304
Total comprehensive income						5,128
Stock-based compensation	-	-	55	-	-	55
Dividends - \$1.10 per share	-	-	-	(1,032)	-	(1,032)
Balance, December 31, 2007	<u>\$ 1,009</u>	<u>\$ (2,480)</u>	<u>\$ 112</u>	<u>\$ 43,844</u>	<u>\$ (116)</u>	<u>\$ 42,369</u>

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2007 and 2006

(In thousands)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Net income	\$ 3,824	\$ 3,995
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization (accretion) of		
Mortgage servicing rights	828	690
Premiums and discounts on investments and mortgage securities, net	304	422
Loan loss provision	320	201
Deferred income tax expense	(692)	(503)
Change in mortgage servicing rights impairment allowance	73	(5)
Net (gain) loss on sales and disposals of		
Loans	(1,576)	(1,512)
Office properties and equipment	13	3
Foreclosed assets	-	(24)
Securities available-for-sale	(684)	(299)
Stock based compensation expense	55	-
Federal Home Loan Bank stock dividends	(307)	(310)
Depreciation of office properties and equipment	1,185	1,075
Origination of mortgage loans held for sale	(29,351)	(49,892)
Proceeds from sales of loans held for sale	24,075	51,748
Changes in operating assets and liabilities		
Accrued interest receivable	66	(607)
Other assets	903	(1,234)
Official checks	(1,854)	1,789
Accrued interest payable	203	(41)
Accounts payable and other liabilities, net of dividends declared, not paid	839	602
Net cash used by operating activities	<u>(1,776)</u>	<u>6,098</u>
Cash flows from investing activities		
Loan originations and principal payments on loans, net	(3,537)	(22,402)
Securities available-for-sale		
Purchases	(140,605)	(85,115)
Sales	96,432	47,650
Maturities and principal reductions	34,950	36,999
Purchase of office properties and equipment	(540)	(3,623)
Net sales (purchases) of FHLB stock	837	(393)
Proceeds from sales of foreclosed assets	126	50
Net cash used by investing activities	<u>(12,337)</u>	<u>(26,834)</u>

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2007 and 2006

<i>(In thousands)</i>	<u>2007</u>	<u>2006</u>
Cash flows from financing activities		
Net increase in deposits	\$ 9,369	\$ 4,282
Additions to FHLB advances and other borrowings	18,695	54,889
Payments on FHLB advances and other borrowings	(16,000)	(41,000)
Net decrease in advance payments for taxes and insurance	49	31
Purchase of treasury shares	(630)	(204)
Payments of cash dividends	(1,040)	(930)
Net cash provided by financing activities	<u>10,443</u>	<u>17,068</u>
 Increase (decrease) in cash and cash equivalents	 (3,670)	 (3,668)
Cash and cash equivalents at beginning of year	<u>15,878</u>	<u>19,546</u>
Cash and cash equivalents at end of year	<u>\$ 12,208</u>	<u>\$ 15,878</u>
 Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	\$ 14,468	\$ 13,358
Income taxes, net of refunds	2,318	1,949
 Supplemental schedule of noncash investing and financing activities		
Dividends declared, not paid	\$ 514	\$ 522
Loan securitizations transferred to AFS securities	83,898	47,650
Transfer from loans to foreclosed assets	620	147

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

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, servicing mortgage loans for others, and deposit account related fees.

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.

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.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated.

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. When these loans are sold individually gains or losses are recognized in gain on sale of loans. When these loans are securitized gains or losses are recognized in gain on sale of securities.

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

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

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

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

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

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.

Servicing Rights: Servicing rights are recognized separately when they are acquired through sales of mortgage loans. Prior to January 1, 2007, a portion of the cost of the loan was allocated to the servicing right based on relative fair values. The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 156 on January 1, 2007, and for sales of mortgage loans beginning in 2007, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Company compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

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

Servicing fee income, which is reported on the income statement as Loan administration and service fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled \$1.3 million and \$1.2 million for the years ended December 31, 2007 and 2006. Late fees and ancillary fees related to loan servicing are not material.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Treasury Stock: Treasury stock is carried at cost. During the years ended December 31, 2007 and 2006, the Company purchased 15,133 and 5,595 shares of treasury stock, respectively. All of the purchased shares remain in treasury stock at December 31, 2007. The average price of the treasury stock purchased was \$41.66 and \$36.47 in 2007 and 2006, respectively.

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

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 certain direct origination costs, are deferred and amortized and recognized in interest income using the level-yield method without anticipating prepayments. If the loan is held for sale, the loan origination fees are deferred until the loan is sold.

Stock-Based Compensation: The Company records stock-based employee compensation cost using the fair value method in accordance with SFAS No. 123R, *Share-based Payment*.

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

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-5, *Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance) {Issue}*. This Issue requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also requires that if the contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the Issue requires disclosure when there are contractual restrictions on the Company's ability to surrender a policy. The adoption of EITF 06-5 on January 1, 2007 had no impact on the Company's financial condition or results of operation.

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.

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

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 2006 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 \$2.6 million and \$2.0 million at December 31, 2007 and 2006, consisted of the following (*in thousands*):

	<u>2007</u>	<u>2006</u>
Cash and due from banks	\$ 11,955	\$ 15,115
Interest-bearing deposits	<u>253</u>	<u>763</u>
	<u>\$ 12,208</u>	<u>\$ 15,878</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE C - SECURITIES

U.S. Government-sponsored agency securities with maturities less than 1 year are \$5.0 million with \$15.5 million maturing 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 (*in thousands*):

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

December 31, 2006				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Available-for-Sale</u>				
U.S. Government-sponsored agencies	\$ 15,112	\$ -	\$ (131)	\$ 14,981
FNMA preferred stock	1,080	201	-	1,281
Other equity investments	2,000	-	(76)	1,924
Mortgage-backed securities and collateralized mortgage obligations	<u>153,137</u>	<u>12</u>	<u>(2,335)</u>	<u>150,814</u>
Total securities available-for-sale	<u>\$ 171,329</u>	<u>\$ 213</u>	<u>\$ (2,542)</u>	<u>\$ 169,000</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE C - SECURITIES (Continued)

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

	<u>2007</u>	<u>2006</u>
Net unrealized holding gains (losses) on securities arising during the period	\$ 2,822	\$ 560
Reclassification adjustment for:		
Realized gains on sales	(684)	(299)
Income tax	<u>(834)</u>	<u>(101)</u>
	<u>\$ 1,304</u>	<u>\$ 160</u>

At December 31, 2007 and 2006, the Company had pledged securities of approximately \$58.5 million and \$42.2 million to secure deposits. At December 31, 2007 and 2006, securities having a market value of approximately \$1.0 million and \$1.6 million were pledged to secure the treasury, tax, and loan account.

The following table presents components of gains and losses on sales of securities available-for-sale (*in thousands*):

	<u>2007</u>	<u>2006</u>
Gains	\$ 1,429	\$ 627
Losses	<u>(745)</u>	<u>(328)</u>
	<u>\$ 684</u>	<u>\$ 299</u>

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE C - SECURITIES (Continued)

Securities with unrealized losses at year-end 2007 and 2006, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (*in thousands*):

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<u>2007</u>						
U.S. Government-sponsored agencies	\$ 4,999	\$ (1)	\$ -	\$ -	\$ 4,999	\$ (1)
Other equity investments	-	-	1,948	(52)	1,948	(52)
Mortgage-backed securities and collateralized mortgage obligations	69,769	(897)	-	-	69,769	(897)
	<u>\$ 74,768</u>	<u>\$ (898)</u>	<u>\$ 1,948</u>	<u>\$ (52)</u>	<u>\$ 76,716</u>	<u>\$ (950)</u>
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<u>2006</u>						
U.S. Government-sponsored agencies	\$ 14,981	\$ (131)	\$ -	\$ -	\$ 14,981	\$ (131)
Other equity investments	-	-	1,924	(76)	1,924	(76)
Mortgage-backed securities and collateralized mortgage obligations	23,726	(182)	121,197	(2,153)	144,923	(2,335)
	<u>\$ 38,707</u>	<u>\$ (313)</u>	<u>\$ 123,121</u>	<u>\$ (2,229)</u>	<u>\$ 161,828</u>	<u>\$ (2,542)</u>

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

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE D - LOANS

Loans consisted of the following (*in thousands*):

	<u>2007</u>	<u>2006</u>
Loans held for sale		
Mortgage loans held for sale		
Conventional	\$ 12,357	\$ 7,557
FHA insured and VA insured	4,435	3,815
Deferred loan costs, net	<u>26</u>	<u>-</u>
Loans held for sale, net	<u>\$ 16,818</u>	<u>\$ 11,372</u>
Loans		
Mortgage loans held for investment		
Conventional	\$ 143,386	\$ 145,349
FHA insured and VA guaranteed	30,553	36,123
Commercial	29,590	29,298
Construction and land	57,190	52,398
Deferred loan fees, net	<u>(153)</u>	<u>(190)</u>
Mortgage loans held for investment, net	<u>260,566</u>	<u>262,978</u>
Consumer loans		
Installment and other loans	10,373	10,129
Second mortgages	5,668	4,477
Business	18,378	14,692
Unearned discounts	<u>(54)</u>	<u>(43)</u>
Consumer loans, net	<u>34,365</u>	<u>29,255</u>
Allowance for loan losses	<u>(704)</u>	<u>(603)</u>
Loans, net	<u>\$ 294,227</u>	<u>\$ 291,630</u>

Net gains from sales of loans were \$1.6 million and \$1.5 million in 2007 and 2006.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE D - LOANS (Continued)

An analysis of the activity in the allowance for loan losses is as follows (*in thousands*):

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$ 603	\$ 642
Loan loss provision	320	201
Recoveries	10	4
Charge-offs	<u>(229)</u>	<u>(244)</u>
Balance at end of year	<u>\$ 704</u>	<u>\$ 603</u>

At December 31, 2007 and 2006 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.

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

	<u>2007</u>	<u>2006</u>
Loans past due over 90 days still on accrual	\$ -	\$ -
Nonaccrual loans	1,426	567

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

NOTE E - OFFICE PROPERTIES AND EQUIPMENT

Year-end office properties and equipment consisted of (*in thousands*):

	<u>2007</u>	<u>2006</u>
Land	\$ 4,335	\$ 4,335
Buildings and leasehold improvements	10,661	10,584
Furniture, equipment, and autos	7,066	7,935
Construction in progress	<u>115</u>	<u>261</u>
	22,177	23,115
Less accumulated depreciation and amortization	<u>5,913</u>	<u>6,193</u>
Office properties and equipment, net	<u>\$ 16,264</u>	<u>\$ 16,922</u>

Depreciation expense was \$1.2 million and \$1.1 million for 2007 and 2006.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

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 \$259 thousand and \$245 thousand for the years ended December 31, 2007 and 2006. Future minimum lease payments under the non-cancelable operating leases are *(in thousands)*:

2008	\$	258
2009		263
2010		<u>45</u>
Total	\$	<u>566</u>

In 2008, the Company plans to begin construction of a corporate headquarters in Roswell, New Mexico, and plans to occupy the building during the 4th quarter of 2009. As of December 31, 2007, costs related to this project are \$31 thousand. Estimated costs to complete are \$12 million.

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 *(in thousands)*:

	<u>2007</u>	<u>2006</u>
Mortgage loans underlying pass-through securities		
GNMA	\$ 129,306	\$ 126,041
FNMA	154,696	112,346
FHLMC	<u>177</u>	<u>196</u>
	<u>284,179</u>	<u>238,583</u>
Mortgage loan portfolio serviced for		
FNMA	49,784	41,077
FHLMC	5,531	7,402
Other investors	<u>98,103</u>	<u>114,613</u>
	<u>153,418</u>	<u>163,092</u>
	<u>\$ 437,597</u>	<u>\$ 401,675</u>

Custodial balances on deposit at the Bank, in connection with the foregoing loan servicing, amounted to \$10.4 million and \$8.0 million at December 31, 2007 and 2006.

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PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

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

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

	<u>2007</u>	<u>2006</u>
Mortgage servicing rights		
Balance, beginning of year	\$ 4,298	\$ 3,936
Capitalized	1,406	1,052
Amortization	<u>(828)</u>	<u>(690)</u>
Balance, end of year	4,876	4,298
Impairment allowance	<u>(73)</u>	<u>-</u>
Balance, end of year, net of impairment allowance	<u>\$ 4,803</u>	<u>\$ 4,298</u>
Valuation allowance		
Beginning of year	\$ -	\$ 5
Additions expensed	73	-
Reductions credited to income	<u>-</u>	<u>(5)</u>
End of year	<u>\$ 73</u>	<u>\$ -</u>

The fair value of capitalized mortgage servicing rights was \$5.0 million and \$5.0 million at year-end 2007 and 2006. Fair value was determined using discount rates ranging from 9.30% to 19.30%, prepayment speeds ranging from 8.17 % to 25.32%, depending on the grouping of the specific right, and a weighted average default rate of .60%.

The weighted-average amortization period is 4.85 years. Estimated amortization expense for each of the next five years follows (in thousands):

2008	\$ 1,279
2009	1,099
2010	884
2011	707
2012	565

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE G - DEPOSITS

A comparative summary of deposits by remaining term to maturity follows (*in thousands*):

	<u>2007</u>	<u>2006</u>
No contractual maturities	\$ 168,971	\$ 162,958
2007	-	156,973
2008	163,059	16,123
2009	12,494	4,712
2010	7,834	5,966
2011	3,019	2,999
2012	<u>3,723</u>	<u>-</u>
	<u>\$ 359,100</u>	<u>\$ 349,731</u>

At December 31, 2007 and 2006, approximately \$58.5 million and \$42.2 million of mortgage securities were pledged to secure public unit deposits.

Time deposits of \$100,000 or more were \$80.5 million and \$74.4 million at year-end 2007 and 2006.

NOTE H - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

At year end, advances from the Federal Home Loan Bank were as follows (*in thousands*):

	<u>2007</u>	<u>2006</u>
Maturities January 2008 through June 2013, fixed rate at rates from 2.45% to 4.99, averaging 4.18%	\$ 122,200	\$ 119,700

Each advance is payable at its maturity date, or on payment of a prepayment penalty for fixed rate advances. The advances were collateralized by \$195.0 million and \$202.4 million of first mortgage loans under a blanket lien arrangement at year-end 2007 and 2006. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to \$60.6 million at year-end 2007.

Required payments over the next four years are (*in thousands*):

2008	\$ 70,700
2009	13,500
2010	7,000
2011	18,000

Other borrowings consist of balances in the treasury, tax, and loan account at a variable rate of federal funds less one quarter percent. Balances were \$846 thousand and \$651 thousand at year-end 2007 and 2006.

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

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 *(in thousands)*:

	<u>2007</u>	<u>2006</u>
Current		
Federal	\$ 2,599	\$ 2,408
State	315	325
Deferred		
Federal	(576)	(455)
State	<u>(116)</u>	<u>(48)</u>
	<u>\$ 2,222</u>	<u>\$ 2,230</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 *(in thousands)*:

	<u>2007</u>	<u>2006</u>
Computed "expected" tax expense	\$ 2,056	\$ 2,116
State income taxes	170	277
Other	<u>(4)</u>	<u>(163)</u>
	<u>\$ 2,222</u>	<u>\$ 2,230</u>

Temporary differences created deferred tax assets and (liabilities) as of December 31, 2007 and 2006 *(in thousands)*:

	<u>2007</u>	<u>2006</u>
Deferred tax assets	\$ 1,080	\$ 1,038
Deferred tax liabilities	<u>(3,822)</u>	<u>(4,472)</u>
	<u>\$ (2,742)</u>	<u>\$ (3,434)</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, 2007 and 2006

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, and originated mortgage servicing rights.

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 \$1.6 million 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 thousand. 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, 2007 and 2006

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 (*in thousands*):

	<u>2007</u>	<u>2006</u>
Undisbursed lines of credit and loans in process	\$ 35,422	\$ 47,468
Commitments to originate loans	17,256	12,337
Loans sold with recourse	4,085	4,065
Standby letters of credit	2,053	1,445
Commitments to sell mortgages and mortgage-backed securities	7,486	7,353

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, 2007, commitments to make loans at fixed rates totaled \$427 thousand. The fixed rate commitments had interest rates ranging from 7.13% to 14.00%.

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, 2007 and 2006, 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, 2007 and 2006

NOTE K - REGULATORY MATTERS (Continued)

The most recent notifications from the OTS as of December 31, 2007 and 2006 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, 2007</u>						
Total Risk-Based Capital (to risk-weighted assets)	\$ 41,862	15.7%	\$ 21,371	8.0%	\$ 26,714	10.0%
Tier 1 Risk-Based Capital (to risk-weighted assets)	41,158	15.4%	10,685	4.0%	16,028	6.0%
Core Capital (to adjusted total assets)	41,158	7.7%	21,516	4.0%	26,894	5.0%
<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%

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PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE L- FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	2007		2006	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial Assets				
Cash and cash equivalents	\$ 12,208	\$ 12,208	\$ 15,878	\$ 15,878
Securities available-for-sale	180,741	180,741	169,000	169,000
Loans held for sale	16,818	16,927	11,372	11,457
Loans, net	294,227	296,086	291,630	289,855
FHLB stock	5,621	5,621	6,151	6,151
Accrued interest receivable	2,757	2,757	2,823	2,823
Financial Liabilities				
Deposits	\$ 359,100	\$ 359,101	\$ 349,731	\$ 349,667
FHLB advances	123,046	124,060	120,351	118,779
Advance payments for taxes and insurance	1,996	1,996	1,947	1,947
Accrued interest payable	617	617	414	414

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 mortgage banking derivatives is not material. 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.

NOTE M - RETIREMENT PLANS AND SUBSEQUENT EVENT

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 2007 and 2006 (in thousands):

<u>Year</u>	<u>Match</u>	<u>Compensation</u>	<u>Expense</u>
2007	100%	5.0%	\$ 239
2006	100%	5.0%	\$ 214

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE M - RETIREMENT PLANS AND SUBSEQUENT EVENT (Continued)

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 \$1.4 million in premiums. During 2006, additional policies were purchased for a total premium of \$985 thousand. 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, 2007 and 2006, the recorded amount of the life insurance policies was approximately \$3.2 million and \$3.0 million, which is recorded in other assets. The Bank has accrued benefits of \$1.8 million and \$1.7 million recorded in other liabilities, as of December 31, 2007 and 2006. Expenses related to the plan of \$198 thousand and \$215 thousand were recorded for 2007 and 2006 in compensation and employee benefits.

In January 2008, the Company's Board of Directors approved a proposal to terminate the existing non-qualified retirement plan and replace it with a non-qualified defined benefit plan, effective January 1, 2008. Based on the amounts contained in the proposal, the Company expects to record an increase in the plan liability from approximately \$1.8 million to approximately \$3.6 million as of the effective date of the new plan. The increase in plan liability will be offset by a decrease in deferred tax liabilities of approximately \$700 thousand and a decrease in accumulated other comprehensive income of approximately \$1.1 million. The amount charged to accumulated other comprehensive income is expected to be amortized to expense over 13 years, the average remaining service period of the participants. Agreements to implement this proposal are expected to be executed in early 2008. Any variations in the executed documents from the Board approved proposal may impact the estimated amounts disclosed above.

NOTE N - RELATED PARTY TRANSACTIONS

Loans to directors, executive officers, and their affiliates were \$1.3 million and \$1.5 million at December 31, 2007 and 2006.

NOTE O - STOCK-BASED COMPENSATION

The Company has one share based compensation plan as described below. Total compensation cost that has been charged against income for that plan was \$55 thousand for 2007. The total income tax benefit was \$4 thousand.

Stock Option Plan

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

(Continued)

PIONEER BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE O - STOCK-BASED COMPENSATION (Continued)

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

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

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

	<u>2007</u>
Risk-free interest rate	4.93%
Expected term	7.50
Expected stock price volatility	16.11%
Dividend yield	2.50%

A summary of the activity in the stock option plan for 2007 follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>
Outstanding at beginning of year	-	\$ -	
Granted	50,000	45	
Exercised	-	-	
Forfeited or expired	(500)	45	
Outstanding at end of year	<u>49,500</u>	<u>\$ 45</u>	<u>9.4</u>
Vested or expected to vest	49,500	45	9.4
Exercisable at end of year	<u>-</u>	<u>\$ -</u>	<u>-</u>

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

	<u>2007</u>
Weighted average fair value of options granted	\$ 10

As of December 31, 2007, there was \$416 thousand of total unrecognized compensation cost related to nonvested stock options granted under the plan. The cost is expected to be recognized over a weighted-average period of 4.4 years.

PIONEER BANCORP, INC.
SCHEDULE I - CONSOLIDATING STATEMENT OF FINANCIAL CONDITION
December 31, 2007

<i>(In thousands)</i>	Pioneer Bank	Pioneer Mortgage Company (1)	Eliminations	Pioneer Bank Consolidated	Pioneer Bancorp, Inc.	Eliminations	Pioneer Bancorp, Inc. Consolidated
ASSETS							
Cash and cash equivalents	\$ 12,208	\$ -	\$ -	\$ 12,208	\$ -	\$ -	\$ 12,208
Securities							
Available-for-sale	180,445	296	-	180,741	-	-	180,741
Loans held for sale, net	16,818	-	-	16,818	-	-	16,818
Loans, net	294,227	-	-	294,227	-	-	294,227
FHLB, stock	5,621	-	-	5,621	-	-	5,621
Investment in subsidiary	3,271	-	(3,271)	-	41,189	(41,189)	-
Intercompany advance	-	2,961	(2,961)	-	2,037	(2,037)	-
Office properties and equipment, net	16,233	31	-	16,264	-	-	16,264
Mortgage servicing rights, net	4,803	-	-	4,803	-	-	4,803
Accrued interest receivable	2,747	10	-	2,757	-	-	2,757
Other assets	4,361	2	-	4,363	-	-	4,363
Total assets	<u>\$ 540,734</u>	<u>\$ 3,300</u>	<u>\$ (6,232)</u>	<u>\$ 537,802</u>	<u>\$ 43,226</u>	<u>\$ (43,226)</u>	<u>\$ 537,802</u>
LIABILITIES							
Deposits	\$ 359,100	\$ -	\$ -	\$ 359,100	\$ -	\$ -	\$ 359,100
FHLB advances and other borrowings	123,046	-	-	123,046	-	-	123,046
Official checks	4,328	-	-	4,328	-	-	4,328
Advance payments for taxes and insurance	1,996	-	-	1,996	-	-	1,996
Accrued interest payable	617	-	-	617	-	-	617
Intercompany advance	4,998	-	(2,961)	2,037	-	(2,037)	-
Accounts payable and other liabilities	5,575	30	-	5,605	741	-	6,346
Total liabilities	<u>499,660</u>	<u>30</u>	<u>(2,961)</u>	<u>496,729</u>	<u>741</u>	<u>(2,037)</u>	<u>495,433</u>
EQUITY							
Capital stock	-	82	(82)	-	1,009	-	1,009
Treasury stock	-	-	-	-	(2,480)	-	(2,480)
Additional paid-in capital	1,121	-	-	1,121	112	(1,121)	112
Retained earnings	40,068	3,189	(3,189)	40,068	43,844	(40,068)	43,844
Accumulated other comprehensive income (loss)	(115)	(1)	-	(116)	-	-	(116)
Total stockholders' equity	<u>41,074</u>	<u>3,270</u>	<u>(3,271)</u>	<u>41,073</u>	<u>42,485</u>	<u>(41,189)</u>	<u>42,369</u>
Total liabilities and stockholders' equity	<u>\$ 540,734</u>	<u>\$ 3,300</u>	<u>\$ (6,232)</u>	<u>\$ 537,802</u>	<u>\$ 43,226</u>	<u>\$ (43,226)</u>	<u>\$ 537,802</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, 2007

<i>(In thousands)</i>	Pioneer Bank	Pioneer Mortgage Company (1)	Eliminations	Pioneer Bank Consolidated	Pioneer Bancorp, Inc.	Eliminations	Pioneer Bancorp, Inc. Consolidated
Interest and dividend income							
Loans	\$ 21,485	\$ 585	\$ (306)	\$ 21,764	\$ -	\$ -	\$ 21,764
Mortgage securities	6,240	(16)	-	6,224	-	-	6,224
Investment securities and other	<u>1,391</u>	<u>-</u>	<u>-</u>	<u>1,391</u>	<u>-</u>	<u>-</u>	<u>1,391</u>
Total	29,116	569	(306)	29,379	-	-	29,379
Interest expense							
Deposits	9,686	-	-	9,686	-	-	9,686
FHLB advances and other borrowings	<u>4,985</u>	<u>306</u>	<u>(306)</u>	<u>4,985</u>	<u>-</u>	<u>-</u>	<u>4,985</u>
Total	<u>14,671</u>	<u>306</u>	<u>(306)</u>	<u>14,671</u>	<u>-</u>	<u>-</u>	<u>14,671</u>
Net interest income	14,445	263	-	14,708	-	-	14,708
Loan loss provision	<u>320</u>	<u>-</u>	<u>-</u>	<u>320</u>	<u>-</u>	<u>-</u>	<u>320</u>
Net interest income after loan loss provision	14,125	263	-	14,388	-	-	14,388
Other income							
Deposit account fees	2,209	-	-	2,209	-	-	2,209
Gain on sale of loans, net	976	600	-	1,576	-	-	1,576
Loan administration and service fees	1,228	117	-	1,345	-	-	1,345
Change in mortgage servicing rights impairment allowance	(73)	-	-	(73)	-	-	(73)
Equity earnings of subsidiary	376	-	(376)	-	3,844	(3,844)	-
Gain on sale of securities, net	684	-	-	684	-	-	684
Other	<u>214</u>	<u>-</u>	<u>-</u>	<u>214</u>	<u>-</u>	<u>(11)</u>	<u>203</u>
Total	5,614	717	(376)	5,955	3,844	(3,855)	5,944
Other expenses							
Compensation and employee benefits	8,107	235	-	8,342	-	-	8,342
Equipment	1,430	20	-	1,450	-	-	1,450
Data processing	1,265	10	-	1,275	-	-	1,275
Occupancy	1,057	31	-	1,088	-	-	1,088
Stationery, printing, and office supplies	371	15	-	386	7	-	393
Professional and supervisory	428	9	-	437	25	(11)	451
Postage and transportation	336	11	-	347	-	-	347
Advertising and public relations	420	30	-	450	-	-	450
Telephone	157	6	-	163	-	-	163
Other	<u>324</u>	<u>3</u>	<u>-</u>	<u>327</u>	<u>-</u>	<u>-</u>	<u>327</u>
Total	<u>13,895</u>	<u>370</u>	<u>-</u>	<u>14,265</u>	<u>32</u>	<u>(11)</u>	<u>14,286</u>
Income before income tax expense	5,844	610	(376)	6,078	3,812	(3,844)	6,046
Income tax expense	<u>2,000</u>	<u>234</u>	<u>-</u>	<u>2,234</u>	<u>(12)</u>	<u>-</u>	<u>2,222</u>
Net income	<u>3,844</u>	<u>376</u>	<u>(376)</u>	<u>3,844</u>	<u>3,824</u>	<u>(3,844)</u>	<u>3,824</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.
SELECTED FINANCIAL DATA - UNAUDITED
December 31, 2007

2007 Compared to 2006
(\$ in thousands)

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

2006 Compared to 2005
(\$ in thousands)

	Average Balance		Average Rate		Interest		Interest		
	2006	2005	2006	2005	2006	2005	Variance	Volume	Rate
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	<u>\$ 479,766</u>	<u>\$ 451,700</u>	<u>5.78%</u>	<u>5.24%</u>	<u>\$ 27,751</u>	<u>\$ 23,659</u>	<u>\$ 4,092</u>	<u>\$ 1,683</u>	<u>\$ 2,409</u>
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	<u>\$ 469,877</u>	<u>\$ 442,165</u>	<u>2.83%</u>	<u>2.22%</u>	<u>\$ 13,317</u>	<u>\$ 9,817</u>	<u>\$ 3,500</u>	<u>\$ 775</u>	<u>\$ 2,725</u>
Net interest spread and income			<u>2.95%</u>	<u>3.02%</u>	<u>\$ 14,434</u>	<u>\$ 13,842</u>			
Ratio of net interest income to average interest-earning assets					<u>3.01%</u>	<u>3.06%</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 and mortgage banking. The Bank is a federal savings bank which provides depository services and originates and services residential, commercial, and consumer loans primarily in southern New Mexico and West Texas. The Bank has one subsidiary, Pioneer Mortgage Company, which is involved in residential construction and mortgage lending, primarily in West Texas.

CORPORATE OFFICES

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

INDEPENDENT PUBLIC ACCOUNTANTS

Crowe 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 22, 2008 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 \$45.00 per share. As of December 31, 2007, there were approximately 309 holders of record of Pioneer capital stock. Dividends of \$1.10 and \$1.10 per share were declared in 2007 and 2006.

PIONEER BANCORP, INC.

BOARD OF DIRECTORS

G. Eugene Bell

Vice President
Bell Gas, Inc.

Patricia J. Cooper

Partner - Johnson Enterprises

George W. Mitchell

Investments

James L. Bruin

Retired Attorney
Sanders, Bruin, Coll & Worley, PA

Jon E. Hitchcock, CPA

Chairman, President and 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. "Buddy" Ritter

President
Ritter Enterprises, Inc.

Arthur R. McQuiddy

President - McQuiddy
Communications & Energy, Inc.

OFFICERS

PIONEER BANK

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President and Chief Executive Officer

Jon E. Hitchcock, CPA

Vice President

Davis E. Bennett
Kathleen M. Carrillo
David L. Chavez
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
Roselyn Robinson
Nancy L. Smith
Pamela A. Sparks
Rebecca E. Underation
Michael R. Vineyard
Debe M. Wagner

Executive Vice President

Stephen P. Puntch

Senior Vice President

Britt Donaldson
Christopher G. Palmer, CPA

President - Las Cruces, NM

Kiel A. Hoffman

President - Hobbs, NM

Joe Henderson

President - El Paso, TX

Aaron M. Emmert

Corporate Secretary

Anna K. Ritchey

Assistant Secretary

Staci D. Carrasco
Kathleen Fiel
Mary R. Skinner

Assistant Vice President

Esther M. Aviles
Tanya L. Crowder
Rose M. Dick
Jesse B. French
Suzy K. Glass
Marilyn J. Gunsenhouser
Bridget M. Lara
Charlee R. Merchant
Nancy J. Montgomery
Betty J. Naegele
Yvette Ornelas-Almanza
Melody E. Parra
Kyle W. Rind
Sabrina M. Russell
Michelle M. Wilson
Debra M. Young
Beth E. Zigmund

PIONEER MORTGAGE COMPANY

Vice President

Tena G. Waggoner

Assistant Vice President

Sharon K. McKandles
Becky L. Vines

PIONEER BANK

www.pioneerbnk.com

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

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

1020 Tenth Street, P.O. Box 1707, Alamogordo, New Mexico 88310
(575) 437-9075

111 North Canal Street, P.O. Box S, Carlsbad, New Mexico 88220
(575) 887-6551

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

1095 Mechem Drive, P.O. Box 910, Ruidoso, New Mexico 88345
(575) 258-5858

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

www.pioneerelpaso.com

PIONEER MORTGAGE COMPANY

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

www.pioneermidland.com

