PIONEER BANCORP, INC.

2010 ANNUAL REPORT

FINANCIAL HIGHLIGHTS (Unaudited)

(In thousands, except per share amounts)	2010/2009 Change	2010	2009	2008	2007	2006
FOR THE YEAR						
Interest and dividend income	- 14%	$ **22,774**	$ 26,617	$ 29,809	$ 29,379	$ 27,751
Interest expense	- 14%	**6,649**	7,768	11,426	14,671	13,317
Net interest income	- 14%	**16,125**	18,849	18,383	14,708	14,434
Loan loss provision	- 62%	**1,280**	3,364	1,246	320	201
Noninterest income	+ 24%	**14,401**	11,575	5,893	5,944	5,438
Noninterest expense	+ 14%	**20,156**	17,660	16,476	14,286	13,446
Net income (1)	- 7%	**9,090**	9,750	4,088	3,824	3,995
PER SHARE						
Earnings (1)	- 7%	**9.72**	10.43	4.38	4.06	4.19
Distributions (2)	- 21%	**3.74**	4.73	0.83	1.10	1.10
Year-end book value	+ 7%	**62.63**	58.78	48.79	45.32	40.89
AT YEAR-END						
Assets	+ 2%	**579,159**	568,737	551,344	537,802	522,846
Loans	+ 2%	**274,583**	270,450	300,147	311,045	303,002
Securities	+ 2%	**234,442**	230,089	197,043	180,741	169,000
Loans serviced for others	+ 19%	**635,249**	533,762	482,095	437,597	401,675
Deposits	+ 13%	**408,970**	360,609	365,418	359,100	349,731
Borrowings	- 29%	**99,747**	141,115	125,984	123,046	120,351
Stockholders' equity	+ 7%	**58,612**	54,942	45,532	42,369	38,848
PERFORMANCE RATIOS						
Return on average assets (1)		**1.58%**	1.74%	0.75%	0.72%	0.78%
Return on average stockholders' equity (1)		**16.01%**	19.41%	9.30%	9.42%	10.68%
Efficiency ratio		**66.03%**	58.05%	67.87%	69.17%	67.67%
Net interest margin		**2.98%**	3.63%	3.52%	2.97%	2.95%
CAPITAL RATIOS						
Equity to assets		**10.1%**	9.7%	8.3%	7.9%	7.4%
Core capital		**9.5%**	8.8%	7.9%	7.7%	7.4%
Tier 1 risk-based capital		**20.5%**	18.4%	16.1%	15.4%	15.4%
Total risk-based capital		**21.2%**	18.9%	16.7%	15.7%	15.6%
SELECTED INFORMATION						
Average common shares *(in thousands)*		**935**	934	934	941	954
Distribution payout ratio (2)		**38.48%**	45.34%	18.96%	26.99%	26.23%
Full-time equivalent employees		**210**	210	195	189	196
Customer service facilities						
Full-service facilities		**7**	7	7	7	7
Banking branches		**6**	6	5	5	5
Loan production offices		**2**	3	1	1	1
ATMs		**16**	16	14	14	14

(1) On January 1, 2009, the Company elected to be taxed under Subchapter S of the Internal Revenue Code.
(2) Since 2009, the Company has paid Subchapter S Distributions to Stockholders, qualified dividends were paid in previous years.

PIONEER BANCORP, INC.

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

Dear Pioneer Bancorp Stockholder:

We are pleased to report that in our second year as a Subchapter S Bank, Pioneer Bancorp, Inc. had another strong year. We continue to believe the election to Subchapter S will keep Pioneer a locally-owned independent Bank for the foreseeable future. We thank you again for your commitment to remain a Pioneer Stockholder.

In the midst of a challenging economy, net income decreased $660 thousand, or 6.8%, to $9.1 million for the year ended December 31, 2010 from $9.8 million for the year ended December 31, 2009. On a pretax basis, income was only down $310 thousand, or 3.3%. Total assets increased $10.4 million, or 1.8%, to $579.2 million at December 31, 2010 from $568.7 million at December 31, 2009. Low mortgage rates and expansion into southern Colorado resulted in historically high mortgage loan production of $251.6 million during 2010, up 26.3% from $199.2 million in 2009. Deposits increased $48.4 million, or 13.4%, to $409.0 million at December 31, 2010 from $360.6 million at December 31, 2009. Our competitive High Performance Checking Program continues to be responsible for a significant portion of our transaction account growth and increase in both fee income and interchange revenue. Stockholders' equity increased $3.7 million, or 6.7%, to $58.6 million at December 31, 2010 from $54.9 million at December 31, 2009. Book value per share increased $3.85, or 6.5%, to $62.63 at December 31, 2010 from $58.78 at December 31, 2009.

Looking forward to 2011, we continue to believe that we are well positioned to weather the current economic instability and to take advantage of opportunities as the economy begins to recover. In 2011, mortgage loan production will likely decline as refinance demand will dissipate and purchase activity slows as rates rise. Additionally, while we will continue to enjoy a strong interest margin in 2011, it will narrow when compared to 2010 due to lower yields on re-pricing long-term assets.

Please plan to attend our annual meeting of stockholders, which will be held at 10:30 a.m. on April 19, 2011 at our corporate headquarters, 3000 North Main Street, Roswell, New Mexico. On behalf of the Board of Directors, Officers and Employees of Pioneer, we thank you for your continued trust and support. Although the operating environment continues to be challenging, we believe our conservative approach to lending positions Pioneer to experience another solid year during 2011. Please help us continue to grow by "telling a friend" about Pioneer. As ever, we appreciate and value your feedback and suggestions. Please feel free to call or come by any of our offices at any time.

Sincerely,

PIONEER BANCORP, INC.

Jon E. Hitchcock
President and CEO

Roswell, New Mexico
March 18, 2011

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Pioneer Bancorp, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pioneer Bancorp, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
February 25, 2011

PIONEER BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2010 and 2009
(In thousands, except share amounts)

	2010	2009
ASSETS		
Cash and cash equivalents (Note B)	$ 15,428	$ 11,463
Securities available-for-sale (Note C)	234,442	230,089
Loans held for sale, net (Note D)	16,235	17,217
Loans, net (Note D)	258,348	253,233
Federal Home Loan Bank Stock	5,015	6,595
Premises and equipment, net (Note F)	30,805	31,311
Mortgage servicing rights, net (Note G)	5,506	4,363
Foreclosed assets (Note E)	3,742	4,294
Accrued interest receivable	1,714	2,034
Other assets	7,924	8,138
Total assets	$ 579,159	$ 568,737
LIABILITIES		
Deposits (Note H)	$ 408,970	$ 360,609
FHLB advances and other borrowings (Note I)	99,747	141,115
Official checks	2,902	2,063
Advance payments for taxes and insurance	2,121	1,867
Accrued interest payable	297	357
Accounts payable and other liabilities	6,510	7,784
Total liabilities	520,547	513,795
Commitments and contingencies (Note K)		
STOCKHOLDERS' EQUITY (Note L)		
Capital stock, $1 par value; 2,000,000 shares authorized; 1,008,923 shares issued	1,009	1,009
Treasury stock (2010 - 73,009 shares; 2009 - 74,209 shares)	(2,428)	(2,481)
Additional paid-in capital	176	86
Retained earnings	57,852	52,260
Accumulated other comprehensive income	2,003	4,068
Total stockholders' equity	58,612	54,942
Total liabilities and stockholders' equity	$ 579,159	$ 568,737

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2010 and 2009
(In thousands, except share amounts)

	2010	2009
Interest and dividend income		
Loans	$ 15,667	$ 17,602
Mortgage securities	5,241	8,616
Investment securities and other	1,866	399
Total	22,774	26,617
Interest expense		
Deposits	3,207	4,177
FHLB advances and other borrowings	3,442	3,591
Total	6,649	7,768
Net interest income	16,125	18,849
Loan loss provision	1,280	3,364
Net interest income after loan loss provision	14,845	15,485
Noninterest income		
Deposit account fees	5,200	4,461
Gain on sale of loans, net (Note D)	5,397	1,609
Loan administration and service fees	1,534	378
Change in mortgage servicing rights impairment allowance (Note G)	450	1,978
Gain on sale of securities, net (Note C)	1,538	2,910
Other	282	239
	14,401	11,575
Noninterest expense		
Compensation and employee benefits (Note N)	9,614	9,184
Equipment	2,144	1,633
Data processing	1,895	1,509
Occupancy	1,681	1,237
Stationery, printing, and office supplies	638	513
Professional and supervisory	514	575
Federal deposit insurance	602	852
Postage and transportation	520	437
Advertising and public relations	1,083	982
Telephone	207	173
Other	1,258	565
	20,156	17,660
Income before income tax expense	9,090	9,400

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PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2010 and 2009
(In thousands, except share amounts)

	2010	2009
Income before income tax expense	9,090	9,400
Income tax expense/(benefit) (Note J)	-	(350)
Net income	$ 9,090	$ 9,750
Weighted-average number of capital stock shares outstanding:		
Basic	935,202	934,416
Diluted	935,202	936,723
Earnings per share:		
Basic	$ 9.72	$ 10.43
Diluted	9.72	10.41

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2010 and 2009
(In thousands, except share amounts)

	Capital Stock $1 Par	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2009	$ 1,009	$ (2,550)	$ -	$ 46,931	$ 142	$ 45,532
Comprehensive income						
Net income	-	-	-	9,750	-	9,750
Change in unrealized gain (loss) on securities available-for-sale	-	-	-	-	4,309	4,309
Adjustment to pension liability	-	-	-	-	(383)	(383)
Total comprehensive income						13,676
Sale of treasury stock (1,161 shares)	-	55	-	-	-	55
Exercise of stock options (300 shares)	-	14	-	-	-	14
Stock-based compensation	-	-	86	-	-	86
Distributions - $4.73 per share	-	-	-	(4,421)	-	(4,421)
Balance, December 31, 2009	1,009	(2,481)	86	52,260	4,068	54,942
Comprehensive income						
Net income	-	-	-	9,090	-	9,090
Change in unrealized gain (loss) on securities available-for-sale	-	-	-	-	(2,197)	(2,197)
Adjustment to pension liability	-	-	-	-	132	132
Total comprehensive income						7,025
Exercise of stock options (1,200 shares)	-	53	-	-	-	53
Stock-based compensation	-	-	90	-	-	90
Distributions - $3.74 per share	-	-	-	(3,498)	-	(3,498)
Balance, December 31, 2010	$ 1,009	$ (2,428)	$ 176	$ 57,852	$ 2,003	$ 58,612

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009
(In thousands, except share amounts)

	2010	2009
Cash flows from operating activities		
Net income	$ 9,090	$ 9,750
Adjustments to reconcile net income to net cash from operating activities		
Amortization (accretion) of		
Mortgage servicing rights	1,640	1,991
Premiums and discounts on investments and mortgage securities, net	(293)	(95)
Provision for loan losses	1,280	3,364
Deferred income tax expense	-	(342)
Change in mortgage servicing rights impairment allowance	(450)	(1,978)
Net (gain) loss on sales and disposals of		
Loans	(5,397)	(1,609)
Premises and equipment	22	29
Foreclosed assets	(72)	(51)
Securities available-for-sale	(1,538)	(2,910)
Foreclosed assets direct write-down expense	565	26
Stock-based compensation expense	90	86
Federal Home Loan Bank stock dividends	(25)	(15)
Depreciation of premises and equipment	2,091	1,366
Origination of mortgage loans held for sale	(183,322)	(22,424)
Proceeds from sales of loans held for sale	187,368	20,082
Changes in operating assets and liabilities		
Accrued interest receivable	320	346
Other assets	278	(2,962)
Official checks	839	(2,640)
Accrued interest payable	(60)	(195)
Accounts payable and other liabilities, net of distributions declared, not paid	(592)	(239)
Net cash from operating activities	11,834	1,580
Cash flows from investing activities		
Loan originations and principal payments on loans, net	(12,191)	4,848
Proceeds from sales of loans held for investment	5,549	18,213
Securities available-for-sale		
Purchases	(211,251)	(258,910)
Sales	25,446	159,144
Maturities, prepayments and calls	181,086	73,689
Additions to premises and equipment, net	(1,607)	(13,709)
Net sales (purchases) of FHLB stock	1,605	42
Proceeds from sales of foreclosed assets	374	1,091
Net cash from investing activities	(10,989)	(15,592)

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PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009
(In thousands, except share amounts)

	2010	2009
Cash flows from financing activities		
Net change in deposits	$ 48,361	$ (4,809)
Additions to FHLB advances and other borrowings	13,932	28,631
Payments on FHLB advances and other borrowings	(55,300)	(13,500)
Net change in advance payments		
for taxes and insurance	254	47
Sale (purchase) of treasury shares	-	55
Proceeds from exercise of stock options	53	14
Payment of cash distributions	(4,180)	(3,429)
Net cash from financing activities	3,120	7,009
Net change in cash and cash equivalents	3,965	(7,003)
Cash and cash equivalents at beginning of year	11,463	18,466
Cash and cash equivalents at end of year	$ 15,428	$ 11,463
Supplemental cash flow information		
Cash paid during the year for		
Interest	$ 6,709	$ 7,963
Income taxes, net of refunds	-	1,181
Supplemental noncash disclosures		
Distributions declared, not paid	$ 571	$ 1,253
Transfer from loans to foreclosed assets	1,349	5,360
Loans provided for sales of foreclosed assets	1,102	-

See accompanying notes to consolidated financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosure through February 25, 2011, which is the date the financial statements were available to be issued.

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement; and 2) OTTI related to other factors, which is recognized in other comprehensive income. Credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

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

In addition, the Company will securitize mortgage loans originated and intended for sale into mortgage-backed securities through the Government National Mortgage Association (GNMA) or the Federal National Mortgage Association (FNMA) mortgage-backed securities programs. The Company adopted guidance relating to transfers of financial assets, including securitizations, as of January 1, 2010. As a result of this guidance management classifies securitized loan pools as loans held for sale. When these securitized loan pools are sold to third party investors, gains or losses are recognized in gain on sale of loans. Prior to adoption of the new guidance, these securitized loan pools were classified as available-for-sale securities and gains or losses were recognized in gain on sale of securities.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Mortgage Banking Derivatives: Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as derivatives. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest rate on the loan is locked. The Company enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into, in order to hedge the change in interest rates resulting from its commitments to fund the loans. Changes in the fair values of these derivatives are included in net gains on sales of loans and are not material.

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

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

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

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

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. The allowance consists of specific and

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Commercial, construction and land 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. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers nonimpaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is based on the actual loss history experienced by the Company. This actual loss experience is supplemented with other economic factors based on the risks present for the portfolio. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 5 to 39 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 12 years. Leasehold improvements are amortized over the life of the asset or the term of the lease, whichever is shorter. Repairs and maintenance not extending the useful life of the asset are expensed.

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

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

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

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Servicing fee income, which is reported on the income statement as loan administration and service fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Net servicing fees totaled $1.5 million and $378 thousand for the years ended December 31, 2010 and 2009. Late fees and ancillary fees related to loan servicing are not material.

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 write-down is recorded through expense. Operating costs after acquisition are expensed.

Treasury Stock: Treasury stock is carried at cost. No treasury stock was purchased during the years ended December 31, 2010 and 2009.

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

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

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

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

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: The Bancorp files a consolidated U.S. federal income tax return with its subsidiary, Pioneer Bank, and its subsidiary, Pioneer Mortgage Company. The Bancorp also files consolidated state income tax returns in New Mexico and Colorado and a franchise tax return in Texas. Effective January 1, 2009, the Company elected to be taxed under Subchapter S of the Internal Revenue Code. Upon election, deferred tax assets and liabilities were reversed through the consolidated statement of income. The effect of this election is that the Company's taxable income is now reported on the individual shareholders' tax returns.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. There were no interest and penalties recorded in the income statement for the years ended December 31, 2010 and 2009.

The Company is no longer subject to examination by taxing authorities for years before 2007.

Earnings 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 include the dilutive effect of additional potential common shares issuable under stock options.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company which will limit the ability of the holding company to pay distributions to shareholders.

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

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

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

(Continued)

(In thousands, except share amounts)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards:

In June 2009, the FASB amended previous guidance relating to transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. This guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. This guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative guidance was adopted as of January 1, 2010. As a result of the adoption, mortgage loans originated and securitized into mortgage-backed securities are classified as loans held for sale and gains or losses upon sale of the securitized loan pools to third party investors are recognized in gain on sale of loans. Prior to adoption of the new guidance, the securitized loan pools were classified as available-for-sale securities and gains or losses were recognized in gain on sale of securities. As of December 31, 2010, there were no securitized loan pools classified as loans. At year end 2010, gains on securitized loan pools classified as gain on sale of loans approximated $4.2 million. At year end 2009, gains on securitized loan pools classified as gain on sale of securities approximated $2.7 million.

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents, subject to regulatory reserve requirements of $1.1 million at December 31, 2010 and 2009, consisted of the following:

	2010	2009
Cash and due from banks	$ 7,920	$ 11,224
Interest-bearing deposits	7,508	239
Total cash and cash equivalents	$ 15,428	$ 11,463

(In thousands, except share amounts)

NOTE C - SECURITIES AVAILABLE-FOR-SALE

The amortized cost and fair value of the available-for-sale securities portfolio and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income/(loss) were as follows:

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government-sponsored agencies	$ 133,782	$ 468	$ (1,166)	$ 133,084
Residential mortgage-backed securities	91,308	3,772	(5)	95,075
Collateralized mortgage obligations	164	8	-	172
Private-issue collateralized mortgage obligations	4,965	154	-	5,119
Equity securities	1,000	-	(8)	992
Total securities available-for-sale	$ 231,219	$ 4,402	$ (1,179)	$ 234,442

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government-sponsored agencies	$ 60,725	$ 64	$ (137)	$ 60,652
Residential mortgage-backed securities	155,121	5,561	(1)	160,681
Collateralized mortgage obligations	194	1	(1)	194
Private-issue collateralized mortgage obligations	7,629	43	(93)	7,579
Equity securities	1,000	-	(17)	983
Total securities available-for-sale	$ 224,669	$ 5,669	$ (249)	$ 230,089

(Continued)

(In thousands, except share amounts)

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

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

	2010	2009
Gains	$ 1,538	$ 3,331
Losses	-	(421)
	$ 1,538	$ 2,910

The amortized cost and fair value of the available-for-sale securities portfolio by contractual maturity are shown below, except for Equity securities which have no maturity. The table below includes mortgage-backed securities maturing at the contractual maturity; however, expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties:

	December 31, 2010	
	Amortized Cost	Fair Value
Maturity		
Within one year	$ 3	$ 3
One to five years	51,780	52,116
Five to ten years	87,074	86,204
Beyond ten years	91,362	95,127
	$ 230,219	$ 233,450

Securities pledged to secure public deposits, repurchase agreements, and the treasury, tax, and loan account at December 31, 2010 and 2009 were approximately $40.7 million and $47.0 million at fair market value.

(In thousands, except share amounts)

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

Securities with unrealized losses at December 31, 2010 and 2009, aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2010						
U.S. Government-sponsored agencies	$ 61,217	$ (1,166)	$ -	$ -	$ 61,217	$ (1,166)
Residential mortgage-backed securities	321	(5)	-	-	321	(5)
Equity securities	992	(8)	-	-	992	(8)
	$ 62,530	$ (1,179)	$ -	$ -	$ 62,530	$ (1,179)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2009						
U.S. Government-sponsored agencies	$ 18,763	$ (137)	$ -	$ -	$ 18,763	$ (137)
Residential mortgage-backed securities	425	-	218	(1)	643	(1)
Collateralized mortgage obligations	-	-	60	(1)	60	(1)
Private-issue collateralized mortgage obligations	3,619	(93)	-	-	3,619	(93)
Equity securities	983	(17)	-	-	983	(17)
	$ 23,790	$ (247)	$ 278	$ (2)	$ 24,068	$ (249)

At December 31, 2010, unrealized losses on U.S. government-sponsored agencies and mortgage-backed securities held by the Company have not been recognized into income because the decline in fair value is attributable to changes in interest rates, not credit quality. The mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Ginnie Mae, Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the Company does not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2010.

(In thousands, except share amounts)

NOTE D - LOANS

Loans consisted of the following:

	2010	2009
Loans held for sale		
Mortgage loans held for sale		
Conventional	$ 6,664	$ 7,823
FHA insured and VA guaranteed	9,458	9,361
Deferred loan costs, net	113	33
Loans held for sale, net	$ 16,235	$ 17,217
Loans		
Mortgage loans held for investment		
Conventional	$ 149,528	$ 135,155
FHA insured and VA guaranteed	31,676	28,037
Commercial	30,711	28,781
Construction and land	26,665	37,222
Deferred loan fees, net	53	(47)
Mortgage loans held for investment, net	238,633	229,148
Consumer loans		
Installment and other loans	8,226	9,733
Second mortgages	1,774	2,690
Business	13,259	14,383
Unearned discounts	(22)	(38)
Consumer loans, net	23,237	26,768
Allowance for loan losses	(3,522)	(2,683)
Loans, net	$ 258,348	$ 253,233

Net gains from sales of loans were $5.4 million and $1.6 million in 2010 and 2009.

(In thousands, except share amounts)

NOTE D - LOANS (Continued)

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

	2010	2009
Balance at beginning of year	$ 2,683	$ 1,454
Loan loss provision	1,280	3,364
Recoveries	456	309
Charge-offs	(897)	(2,444)
Balance at end of year	$ 3,522	$ 2,683

Impaired loans with no allowance for loan loss allocated were $0 and $1.1 million at December 31, 2010 and 2009. Impaired loans with allocated allowance for loan losses were $0 and $252 thousand at December 31, 2010 and 2009. The amount of allowance allocated was $0 and $54 thousand at December 31, 2010 and 2009. Cash-basis interest income during impairment was not material.

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

	2010	2009
Loans past due over 90 days still on accrual	$ -	$ -
Nonaccrual loans	1,480	1,878

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.

The Company had no loans whose loan terms have been modified in troubled debt restructurings as of December 31, 2010. The 4 loans totaling $1.1 million identified as troubled debt restructurings as of December 31, 2009 paid off during 2010.

(Continued)

(In thousands, except share amounts)

NOTE E - FORECLOSED ASSETS

Foreclosed assets activity was as follows:

	2010	2009
Balance at beginning of year	$ 4,294	$ -
Transfers	1,349	5,360
Capitalized costs	68	-
Write-downs	(565)	(26)
Proceeds from sales	(1,476)	(1,091)
Gain/(loss) on sale	72	51
Balance at end of year	$ 3,742	$ 4,294

Foreclosed assets at year end included 2 parcels of land with a carrying value totaling $1.7 million, 6 duplex condominiums totaling $1.1 million, 1 commercial building totaling $450 thousand, and 3 single-family residences totaling $503 thousand.

Operating expenses related to foreclosed assets for the years ended December 31, 2010 and 2009 totaled $174 thousand, net of $18 thousand in rental income and $140 thousand, net of $26 thousand in rental income.

(In thousands, except share amounts)

NOTE F - PREMISES AND EQUIPMENT

Year-end premises and equipment consisted of:

	2010	2009
Land	$ 4,823	$ 4,694
Buildings and leasehold improvements	22,810	22,779
Furniture, equipment, and autos	12,082	12,143
Construction in progress	646	124
	40,361	39,740
Less accumulated depreciation and amortization	9,556	8,429
Premises and equipment, net	$ 30,805	$ 31,311

Depreciation expense was $2.1 million and $1.4 million for 2010 and 2009.

The Company leases office space for certain branch offices under various operating leases with terms ranging through 2013. Lease payments included in occupancy expense totaled $126 thousand and $289 thousand for the years ended December 31, 2010 and 2009. Future lease payments for branch offices are estimated to be $67 thousand per year.

(In thousands, except share amounts)

NOTE G - MORTGAGE SERVICING RIGHTS AND LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans are:

	2010	2009
Mortgage loans underlying pass-through securities		
GNMA	$ 266,986	$ 203,886
FNMA	250,268	201,160
FHLMC	98	114
	517,352	405,160
Mortgage loan portfolio serviced for		
FNMA	64,158	59,377
FHLMC	2,840	3,344
Other investors	50,899	65,881
	117,897	128,602
	$ 635,249	$ 533,762

Custodial balances on deposit at the Bank, in connection with the foregoing loan servicing, amounted to $15.7 million and $12.2 million at December 31, 2010 and 2009.

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

	2010	2009
Mortgage servicing rights		
Balance, beginning of year	$ 5,068	$ 5,196
Capitalized	2,333	1,863
Amortization	(1,640)	(1,991)
Balance, end of year	5,761	5,068
Impairment allowance	(255)	(705)
Balance, end of year, net of impairment allowance	$ 5,506	$ 4,363
Valuation allowance		
Beginning of year	$ 705	$ 2,683
Additions expensed	-	-
Reductions credited to income	(450)	(1,978)
End of year	$ 255	$ 705

(Continued)

(In thousands, except share amounts)

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

The fair value of capitalized mortgage servicing rights was $5.8 million and $4.4 million at year-end 2010 and 2009. Fair value was determined using discount rates ranging from 9.95% to 30.45%, prepayment speeds ranging from 10.20% to 27.64%, depending on the grouping of the specific right, and a weighted average default rate of 1.10%.

The weighted average amortization period is 4.54 years. Estimated amortization expense for each of the next five years follows:

2011	$	1,551
2012		1,249
2013		966
2014		752
2015		586

(In thousands, except share amounts)

NOTE H - DEPOSITS

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

	2010	2009
No contractual maturities	$ 225,783	$ 198,925
2010	-	130,084
2011	146,050	13,058
2012	12,874	5,387
2013	7,317	5,516
2014	7,544	7,639
2015	9,402	-
	$ 408,970	$ 360,609

At December 31, 2010 and 2009, approximately $30.4 million and $33.4 million of residential mortgage-backed and U.S. Government-sponsored agency securities were pledged to secure public unit deposits.

Time deposits of $100,000 or more were $84.6 million and $64.7 million at year-end 2010 and 2009.

(In thousands, except share amounts)

NOTE I - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

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

	2010	2009
Maturities March 2011 through September 2015, at fixed rates from 1.70% to 4.99%, averaging 3.66%	$ 92,000	$ 137,300

Each advance is payable at its maturity date or on payment of a prepayment penalty for fixed rate advances. The advances were collateralized by $174.1 million and $173.1 million of eligible loans under a blanket lien arrangement at year-end 2010 and 2009. Based on this collateral, the Company's holdings of FHLB stock and securities held in safekeeping, the Company was eligible to borrow an additional $238.0 million at year-end 2010.

Required payments over the next five years are:

2011	$ 18,000
2012	25,000
2013	31,000
2014	10,000
2015	8,000

Other borrowings consist of customer repurchase sweep accounts and the balance in the treasury, tax, and loan account. Balances were $7.7 million and $3.8 million at year-end 2010 and 2009.

(In thousands, except share amounts)

NOTE J - INCOME TAXES

The Company elected to be taxed as an S Corporation effective in 2009; accordingly, on January 1, 2009, the Company eliminated all deferred tax assets and liabilities and recognized $342 thousand of income. Beginning in 2009, the Company is not subject to federal or state tax. The Company may be subject to built-in gains taxes at the maximum corporate rate if certain assets are sold at a gain for a 10-year period following the election.

Total income tax benefit in the accompanying consolidated statements of income was:

	2010	2009
Current	$ -	$ (8)
Deferred	-	-
Effect of change in tax status	-	(342)
	$ -	$ (350)

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:

	2010	2009
Computed "expected" tax expense	$ -	$ -
State income taxes	-	(8)
Other	-	-
Effect of change in tax status	-	(342)
	$ -	$ (350)

(In thousands, except share amounts)

NOTE K - COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company may become a party to certain claims and legal actions. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the consolidated balance sheets of the Company.

Also, the Company has various outstanding commitments and contingent assets and liabilities that are not reflected in the accompanying consolidated financial statements. Those financial instruments with off-balance-sheet risk are used to meet the financial needs of the Company's customers and include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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:

	2010	2009
Undisbursed lines of credit and loans in process	$ 21,927	$ 20,128
Commitments to originate loans	4,609	2,178
Loans sold with recourse	3,793	7
Standby letters of credit	985	784
Commitments to sell mortgages and mortgage-backed securities	18,000	6,273

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, 2010, commitments to make loans at fixed rates totaled $55 thousand. The fixed rate commitments had interest rates ranging from 7.88% to 8.15%.

NOTE L - 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, 2010 and 2009, that the Bank met all regulatory capital adequacy requirements to which it is subject.

(Continued)

(In thousands, except share amounts)

NOTE L - REGULATORY MATTERS (Continued)

The most recent notifications from the OTS as of December 31, 2010 and 2009 categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total Risk-Based, Tier 1 Risk-Based, and Core Capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category. The Bank's actual capital amounts and ratios are also presented in the table:

	Actual		Amount Needed to Be Considered Adequately Capitalized		Amount Needed to Be Considered Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2010						
Total Risk-Based Capital (to risk-weighted assets)	$ 56,840	21.2%	$ 21,461	8.0%	$ 26,826	10.0%
Tier 1 Risk-Based Capital (to risk-weighted assets)	54,840	20.5%	10,730	4.0%	16,095	6.0%
Core Capital (to adjusted total assets)	54,840	9.5%	22,973	4.0%	28,716	5.0%
As of December 31, 2009						
Total Risk-Based Capital (to risk-weighted assets)	$ 50,683	18.9%	$ 21,423	8.0%	$ 26,779	10.0%
Tier 1 Risk-Based Capital (to risk-weighted assets)	49,352	18.4%	10,711	4.0%	16,067	6.0%
Core Capital (to adjusted total assets)	49,352	8.8%	22,465	4.0%	28,081	5.0%

(Continued)

NOTE M - FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

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

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

Securities available-for-sale: The fair values of securities available-for-sale are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

Loans held for sale: Loans held for sale are carried at the lower of cost or fair value, as determined by outstanding commitments, from third party investors (Level 2).

Impaired loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Servicing rights: The fair value of servicing rights is based on a valuation model that calculates the present value of estimated future net servicing income, a Level 2 classification.

Foreclosed assets: Nonrecurring adjustments to certain commercial and residential real estate properties classified as foreclosed assets are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

(Continued)

(In thousands, except share amounts)

NOTE M - FAIR VALUE (Continued)

Assets measured at fair value are summarized below:

	Fair Value Measurements at December 31, 2010 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets measured on a recurring basis:				
Securities available-for-sale:				
U.S. Governement-sponsored agencies	$ -	$ 133,084	$ -	$ 133,084
Residential mortgage-backed securities	-	95,075	-	95,075
Collateralized mortgage obligations	-	172	-	172
Private-issue collateralized mortgage obligations	-	5,119	-	5,119
Equity securities	992	-	-	992
Total securities available-for-sale	$ 992	$ 233,450	$ -	$ 234,442
Assets measured on a non-recurring basis:				
Loans held for sale	$ -	$ 16,235	$ -	$ 16,235
Servicing rights	-	5,506	-	5,506
Foreclosed assets	-	-	3,742	3,742

	Fair Value Measurements at December 31, 2009 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets measured on a recurring basis:				
Securities available-for-sale:				
U.S. Governement-sponsored agencies	$ -	$ 60,652	$ -	$ 60,652
Residential mortgage-backed securities	-	160,681	-	160,681
Collateralized mortgage obligations	-	194	-	194
Private-issue collateralized mortgage obligations	-	7,579	-	7,579
Equity securities	983	-	-	983
Total securities available-for-sale	$ 983	$ 229,106	$ -	$ 230,089
Assets measured on a non-recurring basis:				
Loans held for sale	$ -	$ 17,217	$ -	$ 17,217
Impaired loans	-	-	198	198
Servicing rights	-	4,363	-	4,363
Foreclosed assets	-	-	4,294	4,294

(Continued)

(In thousands, except share amounts)

NOTE M - FAIR VALUE (Continued)

Loans held for sale were carried at fair value of $16.2 million and $17.2 million at December 31, 2010 and 2009, which included a $155 thousand and $252 thousand valuation for forward sales of mortgage-backed securities, resulting in a gain/(loss) recognized in income of $(97) thousand and $191 thousand for the years ended December 31, 2010 and 2009.

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal amount of $0 and $252 thousand, with a valuation allowance of $0 and $54 thousand at December 31, 2010 and 2009, resulting in additional provision for loan losses of $0 and $54 thousand for the years ended December 31, 2010 and 2009.

Servicing rights, which are carried at lower of cost or fair value, were carried at fair value of $5.5 million and $4.4 million, which was made up of the outstanding balances of $5.8 million and $5.1 million, net of valuation allowances of $255 thousand and $705 thousand at December 31, 2010 and 2009, which resulted in a reduction of the allowance credited to income of $450 thousand and $2.0 million for the years ended December 31, 2010 and 2009.

Foreclosed assets were carried at fair value less costs to sell of $3.7 million and $4.3 million at December 31, 2010 and 2009, which is net of direct write-down expense of $565 thousand and $26 thousand in 2010 and 2009.

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

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	$ 15,428	$ 15,428	$ 11,463	$ 11,463
Loans, net (including impaired)	258,348	264,899	253,233	257,404
FHLB stock	5,015	N/A	6,595	N/A
Accrued interest receivable	1,714	1,714	2,034	2,034
Financial Liabilities				
Deposits	$ 408,970	$ 409,546	$ 360,609	$ 360,902
FHLB advances and other borrowings	99,747	103,359	141,115	144,115
Advance payments for taxes and insurance	2,121	2,121	1,867	1,867
Accrued interest payable	297	297	357	357

NOTE M - FAIR VALUE (Continued)

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

The carrying amount is the estimated fair value for cash and cash equivalents, short-term borrowings, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. 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. The fair value of mortgage banking derivatives is not material. The fair value of debt is based on current rates for similar financing. It was not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair value of commitments is based on current fees or cost that would be charged to enter into or terminate such arrangements. The fair value of commitments is not material.

(In thousands, except share amounts)

NOTE N - 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 2010 and 2009:

Year	Match	Compensation	Expense
2010	100%	5%	$ 264
2009	100%	5%	255

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

Information about changes in obligations of the defined benefit plan follows:

	2010	2009
Benefit obligation at beginning of year	$ 3,778	$ 3,572
Service cost	34	33
Interest cost	223	211
Plan amendments	-	-
Actuarial (gain)/loss	226	11
Benefits paid	(49)	(49)
Benefit obligation at end of year	$ 4,212	$ 3,778

Amounts recognized in accumulated other comprehensive income consist of:

	2010	2009
Net (gain)/loss	$ 26	$ (220)
Prior service cost	1,321	1,453
Total	$ 1,347	$ 1,233

The estimated net loss and prior service cost for the benefit plan that will be amortized from accumulated other comprehensive income into net periodic benefit costs during the year ending December 31, 2011 are $3 thousand and $132 thousand.

(In thousands, except share amounts)

NOTE N - RETIREMENT PLANS (Continued)

Estimated Future Payments

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

2011	$ 49
2012	48
2013	69
2014	175
2015	275
Years 2016-2020	1,737

The weighted average discount rate used to determine benefit obligations and periodic benefit cost was 5.54% and 5.94% at year-end 2010 and 2009.

NOTE O - RELATED PARTY TRANSACTIONS

Loans to executive officers, directors, and their affiliates were $1.8 million and $2.3 million at December 31, 2010 and 2009.

Deposits from executive officers, directors, and their affiliates at year-end 2010 and 2009 were $1.7 million and $2.2 million.

(In thousands, except share amounts)

NOTE P - STOCK-BASED COMPENSATION

The Company has a stock option plan as described below. Total compensation cost that has been charged against income for that plan was $90 thousand and $86 thousand for 2010 and 2009.

The Company's 2007 Stock Option Plan, which is stockholder-approved, permits the grant of stock 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 stockholders. 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 4-5 years and have 10-year contractual terms. The Company's policy is to use shares held as treasury shares to satisfy expected stock option exercises.

Currently the Company has a sufficient number of treasury shares to satisfy expected stock 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. There were no options granted in 2009.

	2010
Risk-free interest rate	2.33%
Expected term	7.00
Expected stock price volatility	26.24%
Dividend yield	0.53%

(In thousands, except share amounts)

NOTE P - STOCK-BASED COMPENSATION (Continued)

A summary of the activity in the stock option plan for 2010 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	43,840	$ 45	
Granted	15,200	45	
Exercised	(1,200)	45	
Forfeited or expired	-	45	
Outstanding at end of year	57,840	$ 45	7.3
Vested or expected to vest	57,840	$ 45	7.3
Exercisable at end of year	24,520	$ 45	6.4

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

	2010	2009
Intrinsic value of options exercised	$ -	$ 2
Cash received from option exercises	53	14
Weighted-average fair value of options granted	14	-
Intrinsic value of options outstanding	-	219

As of December 31, 2010, there was $338 thousand of total unrecognized compensation cost related to nonvested stock options granted under the plan. The cost is expected to be recognized over a weighted-average period of 3.9 years.

(In thousands, except share amounts)

NOTE Q - OTHER COMPREHENSIVE INCOME/(LOSS)

Other comprehensive income/(loss) components were as follows:

	2010	2009
Unrealized holding gains/(losses) on securities available-for-sale	$ (659)	$ 4,515
Reclassification adjustment for gains realized in income	(1,538)	(206)
Net unrealized gains/(losses)	(2,197)	4,309
Net gain and prior service cost arising during the year on employee pension plan	132	(383)
Total other comprehensive income/(loss)	$ (2,065)	$ 3,926

Following is a summary of the accumulated other comprehensive income balances:

	December 31,	
	2010	2009
Unrealized gains/(losses) on securities available-for-sale	$ 3,223	$ 5,418
Employee pension plan	(1,220)	(1,350)
Total accumulated other comprehensive income	$ 2,003	$ 4,068

PIONEER BANCORP, INC.
SCHEDULE I - CONSOLIDATING BALANCE SHEET
December 31, 2010
(In thousands, except share amounts)

	Pioneer Bank	Pioneer Mortgage Company (1)	Eliminations	Pioneer Bank Consolidated	Pioneer Bancorp, Inc.	Eliminations	Pioneer Bancorp, Inc. Consolidated
ASSETS							
Cash and cash equivalents	$ 15,428	$ -	$ -	$ 15,428	$ -	$ -	$ 15,428
Securities available-for-sale	233,202	1,240	-	234,442	-	-	234,442
Loans held for sale, net	16,235	-	-	16,235	-	-	16,235
Loans, net	258,348	-	-	258,348	-	-	258,348
FHLB, stock	5,015	-	-	5,015	-	-	5,015
Investment in subsidiary	5,297	-	(5,297)	-	55,104	(55,104)	-
Intercompany advance	-	4,058	(4,058)	-	2,076	(2,076)	-
Premises and equipment, net	30,780	25	-	30,805	-	-	30,805
Mortgage servicing rights, net	5,506	-	-	5,506	-	-	5,506
Foreclosed assets	3,742	-	-	3,742	-	-	3,742
Accrued interest receivable	1,704	10	-	1,714	-	-	1,714
Other assets	7,923	1	-	7,924	-	-	7,924
Total assets	$ 583,180	$ 5,334	$ (9,355)	$ 579,159	$ 57,180	$ (57,180)	$ 579,159
LIABILITIES							
Deposits	$ 408,970	$ -	$ -	$ 408,970	$ -	$ -	$ 408,970
FHLB advances and other borrowings	99,747	-	-	99,747	-	-	99,747
Official checks	2,902	-	-	2,902	-	-	2,902
Advance payments for taxes and insurance	2,121	-	-	2,121	-	-	2,121
Accrued interest payable	297	-	-	297	-	-	297
Intercompany advance	6,135	-	(4,058)	2,077	-	(2,077)	-
Accounts payable and other liabilities	5,939	-	-	5,939	571	-	6,510
Total liabilities	526,111	-	(4,058)	522,053	571	(2,077)	520,547
STOCKHOLDERS' EQUITY							
Capital stock	-	82	(82)	-	1,009	-	1,009
Treasury stock	-	-	-	-	(2,428)	-	(2,428)
Additional paid-in capital	1,386	-	-	1,386	176	(1,386)	176
Retained earnings	53,717	5,215	(5,215)	53,717	57,852	(53,717)	57,852
Accumulated other comprehensive income/(loss)	1,966	37	-	2,003	-	-	2,003
Total stockholders' equity	57,069	5,334	(5,297)	57,106	56,609	(55,103)	58,612
Total liabilities and stockholders' equity	$ 583,180	$ 5,334	$ (9,355)	$ 579,159	$ 57,180	$ (57,180)	$ 579,159

(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, 2010
(In thousands, except share amounts)

	Pioneer Bank	Pioneer Mortgage Company (1)	Eliminations	Pioneer Bank Consolidated	Pioneer Bancorp, Inc.	Eliminations	Pioneer Bancorp, Inc. Consolidated
Interest and dividend income							
Loans	$ 15,475	$ 225	$ (33)	$ 15,667	$ -	$ -	$ 15,667
Mortgage securities	5,198	43	-	5,241	-	-	5,241
Investment securities and other	1,866	-	-	1,866	-	-	1,866
Total	22,539	268	(33)	22,774	-	-	22,774
Interest expense							
Deposits	3,207	-	-	3,207	-	-	3,207
FHLB advances and other borrowings	3,442	33	(33)	3,442	-	-	3,442
Total	6,649	33	(33)	6,649	-	-	6,649
Net interest income	15,890	235	-	16,125	-	-	16,125
Loan loss provision	1,280	-	-	1,280	-	-	1,280
Net interest income after loan loss provision	14,610	235	-	14,845	-	-	14,845
Noninterest income							
Deposit account fees	5,200	-	-	5,200	-	-	5,200
Gain on sale of loans, net	4,193	1,204	-	5,397	-	-	5,397
Loan administration and service fees	1,142	392	-	1,534	-	-	1,534
Change in mortgage servicing rights impairment allowance	450	-	-	450	-	-	450
Equity earnings of subsidiary	940	-	(940)	-	9,115	(9,115)	-
Gain on sale of securities, net	1,538	-	-	1,538	-	-	1,538
Other	292	-	-	292	-	(10)	282
Total	13,755	1,596	(940)	14,411	9,115	(9,125)	14,401
Noninterest expense							
Compensation and employee benefits	9,038	576	-	9,614	-	-	9,614
Equipment	2,100	44	-	2,144	-	-	2,144
Data processing	1,880	15	-	1,895	-	-	1,895
Occupancy	1,570	111	-	1,681	-	-	1,681
Stationery, printing, and office supplies	615	18	-	633	5	-	638
Professional and supervisory	499	5	-	504	20	(10)	514
Federal deposit insurance	602	-	-	602	-	-	602
Postage and transportation	484	36	-	520	-	-	520
Advertising and public relations	1,039	44	-	1,083	-	-	1,083
Telephone	186	21	-	207	-	-	207
Other	1,237	21	-	1,258	-	-	1,258
Total	19,250	891	-	20,141	25	(10)	20,156
Income before income tax expense	9,115	940	(940)	9,115	9,090	(9,115)	9,090
Income tax expense	-	-	-	-	-	-	-
Net income	$ 9,115	$ 940	$ (940)	$ 9,115	$ 9,090	$ (9,115)	$ 9,090

(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, 2010

(In thousands, except share amounts)

2010 Compared to 2009

	Average Balance		Average Rate		Interest				
	2010	2009	2010	2009	2010	2009	Interest Variance	Volume	Rate
Interest and dividend income									
Loans	$ 270,805	$ 292,677	5.79%	6.01%	$ 15,667	$ 17,602	$ (1,935)	$ (1,265)	$ (670)
Mortgage securities	135,313	194,937	3.87%	4.42%	5,241	8,616	(3,375)	(2,309)	(1,066)
Investment securities and other	129,958	24,563	1.44%	1.62%	1,866	399	1,467	1,513	(46)
Total interest-earning assets	$ 536,076	$ 512,177	4.25%	5.20%	$ 22,774	$ 26,617	$ (3,843)	$ (2,061)	$ (1,782)
Interest expense									
Deposits	$ 388,646	$ 368,516	0.83%	1.13%	$ 3,207	$ 4,177	$ (970)	$ 166	$ (1,136)
FHLB advances and other borrowings	134,719	127,248	2.55%	2.82%	3,442	3,591	(149)	191	(340)
Total interest-bearing liabilities	$ 523,365	$ 495,764	1.27%	1.57%	$ 6,649	$ 7,768	$ (1,119)	$ 357	$ (1,476)
Net interest spread and income			2.98%	3.63%	$ 16,125	$ 18,849			
Ratio of net interest income to average interest-earning assets					3.01%	3.68%			

2009 Compared to 2008

	Average Balance		Average Rate		Interest Interest				
	2009	2008	2009	2008	2009	2008	Interest Variance	Volume	Rate
Interest and dividend income									
Loans	$ 292,677	$ 309,706	6.01%	6.62%	$ 17,602	$ 20,503	$ (2,901)	$ (1,024)	$ (1,877)
Mortgage securities	194,937	191,921	4.42%	4.66%	8,616	8,949	(333)	133	(466)
Investment securities and other	24,563	11,159	1.62%	3.20%	399	357	42	218	(176)
Total interest-earning assets	$ 512,177	$ 512,786	5.20%	5.81%	$ 26,617	$ 29,809	$ (3,192)	$ (673)	$ (2,519)
Interest expense									
Deposits	$ 368,516	$ 354,887	1.13%	1.92%	$ 4,177	$ 6,799	$ (2,622)	$ 154	$ (2,776)
FHLB advances and other borrowings	127,248	143,097	2.82%	3.23%	3,591	4,627	(1,036)	(447)	(589)
Total interest-bearing liabilities	$ 495,764	$ 497,984	1.57%	2.29%	$ 7,768	$ 11,426	$ (3,658)	$ (293)	$ (3,365)
Net interest spread and income			3.63%	3.52%	$ 18,849	$ 18,383			
Ratio of net interest income to average interest-earning assets					3.68%	3.58%			

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 in West Texas and Colorado.

CORPORATE OFFICES

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3000 North Main Street
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INDEPENDENT PUBLIC ACCOUNTANTS

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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 10:30 a.m. on April 19, 2011 at the Corporate Headquarters, 3000 North Main Street, Roswell, New Mexico.

PIONEER BANCORP, INC.

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Martin B. Cooper, CPA PC

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PIONEER BANK

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Debra M. Young

PIONEER MORTGAGE COMPANY

Vice President
Lisa D. Hagee

d/b/a **Liberty Home Financial**

President
David L. Karger

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