PIONEER BANCORP, INC.

2011 ANNUAL REPORT

FINANCIAL HIGHLIGHTS (Unaudited)

(In thousands, except per share amounts)	2011/2010 Change	**2011**	2010	2009	2008	2007
AT YEAR-END						
Assets	+ 2%	**$ 593,469**	$ 579,159	$ 568,737	$ 551,344	$ 537,802
Loans	- 3%	**267,116**	274,583	270,450	300,147	311,045
Securities	+ 9%	**254,512**	234,442	230,089	197,043	180,741
Loans serviced for others	+ 8%	**685,675**	635,249	533,762	482,095	437,597
Deposits	+ 5%	**430,682**	408,970	360,609	365,418	359,100
Borrowings	- 13%	**86,987**	99,747	141,115	125,984	123,046
Stockholders' equity	+ 6%	**62,080**	58,612	54,942	45,532	42,369
FOR THE YEAR						
Interest and dividend income	- 7%	**21,229**	22,774	26,617	29,809	29,379
Interest expense	- 19%	**5,360**	6,649	7,768	11,426	14,671
Net interest income	- 2%	**15,869**	16,125	18,849	18,383	14,708
Loan loss provision	- 60%	**515**	1,280	3,364	1,246	320
Noninterest income	- 23%	**11,060**	14,401	11,575	5,893	5,944
Noninterest expense	- 5%	**19,154**	20,156	17,660	16,476	14,286
Net income (1)	- 20%	**7,260**	9,090	9,750	4,088	3,824
CAPITAL RATIOS						
Equity to assets		**10.5%**	10.1%	9.7%	8.3%	7.9%
Core capital		**9.6%**	9.5%	8.8%	7.9%	7.7%
Tier 1 risk-based capital		**22.8%**	20.5%	18.4%	16.1%	15.4%
Total risk-based capital		**24.0%**	21.2%	18.9%	16.7%	15.7%
PER SHARE						
Year-end book value	+ 8%	**67.56**	62.63	58.78	48.79	45.32
Earnings (1)	- 19%	**7.85**	9.72	10.43	4.38	4.06
Distributions (2)	+ 11%	**4.15**	3.74	4.73	0.83	1.10
Distribution payout ratio (2)		**52.9%**	38.5%	45.3%	18.9%	27.1%
PERFORMANCE RATIOS						
Return on average stockholders' equity (1)		**12.03%**	16.01%	19.41%	9.30%	9.42%
Return on average assets (1)		**1.24%**	1.58%	1.74%	0.75%	0.72%
Net interest margin		**2.88%**	2.98%	3.63%	3.52%	2.97%
Efficiency ratio		**71.13%**	66.03%	58.05%	67.87%	69.17%
SELECTED INFORMATION						
Average common shares *(in thousands)*		**925**	935	934	934	941
Full-time equivalent employees		**206**	210	210	195	189
Customer service facilities:						
Full-service facilities		**7**	7	7	7	7
Banking branches		**6**	6	6	5	5
Loan production offices		**2**	2	3	1	1
ATMs		**17**	16	16	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 Fellow Stockholders,

In 2011, economic conditions remained challenging; however, we are pleased to report that Pioneer Bancorp, Inc. had another profitable year. Featured on the cover of this year's report is our Carlsbad, New Mexico branch. We began an extensive remodel and expansion of the building in 2010 and are planning a grand reopening in April. While many in our industry talked about returning to the basics and rebuilding trust, we focused on taking good care of our customers and building new relationships.

Net income for the year ended December 31, 2011 was $7.3 million compared to $9.1 million for the year ended December 31, 2010. Total assets increased $14.3 million, or 2.5%, to $593.5 million at December 31, 2011 from $579.2 million at December 31, 2010. Mortgage loan production slowed during 2011 to $176.2 million, down 30.0% from an historic high of $251.6 million in 2010. Deposits continued to increase and were up $21.7 million, or 5.3%, to $430.7 million at December 31, 2011 from $409.0 million at December 31, 2010. Our High Performance Checking Program continues to be the focus of our marketing efforts and is responsible for the growth in our transaction accounts and increases in both fee and interchange income. Stockholders' equity increased $3.5 million, or 5.9%, to $62.1 million at December 31, 2011 from $58.6 million at December 31, 2010. Book value per share increased $4.93, or 7.9%, to $67.56 at December 31, 2011 from $62.63 at December 31, 2010.

As we look forward to 2012, we expect the operating environment will continue to be one of elevated risk. However, we have built a strong operational foundation and will continue to capitalize on our strengths. In 2012, mortgage loan production will likely be flat as refinance demand is dissipating and purchase activity remains moderate. Additionally, while our net interest income before provision was down just 1.6% in 2011, it will continue to narrow in 2012 due to lower yields on new and re-pricing assets.

Please plan to attend our annual meeting of stockholders which will be held at 10:30 a.m. on April 17, 2012 at our corporate headquarters, 3000 North Main Street, Roswell, New Mexico. On behalf of the Board of Directors, Officers and Employees, we thank you for your confidence and continued investment in Pioneer Bancorp, Inc. Please help us continue to profitably grow and enhance the value of our franchise by "telling a friend" about Pioneer. We will continue to work to earn your trust and to deliver solid results.

Sincerely,

Jon E. Hitchcock
President and Chief Executive Officer

Roswell, New Mexico
March 16, 2012

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

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, 2011 and 2010, and the related consolidated statements of income, 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, 2011 and 2010, 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 basic 2011 audit was conducted for the purpose of forming an opinion on the 2011 consolidated financial statements as a whole. The schedule I - consolidating balance sheet and schedule II – consolidating statement of income as of and for the year ended December 31, 2011 are 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, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic 2011 consolidated financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
February 24, 2012

PIONEER BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2011 and 2010

(In thousands, except share amounts)

	Note	2011	2010
ASSETS			
Cash and cash equivalents	*B*	$ 17,115	$ 15,428
Securities available-for-sale	*C*	254,512	234,442
Loans held for sale, net	*D*	14,064	16,235
Loans, net	*D*	253,052	258,348
Federal Home Loan Bank Stock		5,268	5,015
Premises and equipment, net	*F*	31,614	30,805
Mortgage servicing rights, net	*G*	5,396	5,506
Foreclosed assets	*E*	1,363	3,742
Accrued interest receivable		1,754	1,714
Other assets		9,331	7,924
Total assets		$ 593,469	$ 579,159
LIABILITIES			
Deposits	*H*	$ 430,682	$ 408,970
FHLB advances and other borrowings	*I*	86,987	99,747
Official checks		3,611	2,902
Advance payments for taxes and insurance		2,078	2,121
Accrued interest payable		228	297
Accounts payable and other liabilities		7,803	6,510
Total liabilities		531,389	520,547
Commitments and contingencies	*J*		
STOCKHOLDERS' EQUITY	*K*		
Capital stock, $1 par value; 2,000,000 shares authorized; 1,008,923 shares issued		1,009	1,009
Treasury stock (2011 - 90,096 shares; 2010 - 73,009 shares)		(3,240)	(2,428)
Additional paid-in capital		289	176
Retained earnings		61,272	57,852
Accumulated other comprehensive income		2,750	2,003
Total stockholders' equity		62,080	58,612
Total liabilities and stockholders' equity		$ 593,469	$ 579,159

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2011 and 2010
(In thousands, except share amounts)

	Note	2011	2010
Interest and dividend income:			
Loans		$ 14,911	$ 15,667
Mortgage securities		2,988	5,241
Investment securities and other		3,330	1,866
Total		21,229	22,774
Interest expense:			
Deposits		2,251	3,207
FHLB advances and other borrowings		3,109	3,442
Total		5,360	6,649
Net interest income		15,869	16,125
Loan loss provision		515	1,280
Net interest income after loan loss provision		15,354	14,845
Noninterest income:			
Deposit account fees		5,391	5,200
Gain on sale of loans, net	*D*	3,941	5,397
Loan administration and service fees		1,702	1,534
Change in mortgage servicing rights impairment allowance	*G*	(545)	450
Gain on sale of securities, net	*C*	218	1,538
Other		353	282
Total		11,060	14,401
Noninterest expense:			
Compensation and employee benefits	*M/N*	9,868	9,614
Equipment		2,103	2,144
Data processing		1,926	1,895
Occupancy		1,639	1,681
Stationery, printing, and office supplies		539	638
Professional and supervisory		535	514
Federal deposit insurance		337	602
Postage and transportation		488	520
Advertising and public relations		894	1,083
Telephone		192	207
Other		633	1,258
Total		19,154	20,156
Net income		$ 7,260	$ 9,090

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2011 and 2010
(In thousands, except share amounts)

	2011	2010
Weighted-average number of capital stock shares outstanding:		
Basic	924,735	935,202
Diluted	932,328	935,202
Earnings per share:		
Basic	$ 7.85	$ 9.72
Diluted	7.79	9.72

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2011 and 2010
(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, 2010	$ 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
Comprehensive income:						
Net income	-	-	-	7,260	-	7,260
Change in unrealized gain/(loss) on securities available-for-sale	-	-	-	-	869	869
Adjustment to pension liability	-	-	-	-	(122)	(122)
Total comprehensive income						8,007
Purchase of treasury stock (17,537 shares)	-	(833)	-	-	-	(833)
Exercise of stock options (450 shares)	-	21	-	-	-	21
Stock-based compensation	-	-	113	-	-	113
Distributions - $4.15 per share	-	-	-	(3,840)	-	(3,840)
Balance, December 31, 2011	$ 1,009	$ (3,240)	$ 289	$ 61,272	$ 2,750	$ 62,080

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010
(In thousands, except share amounts)

	2011	2010
Cash flows from operating activities:		
Net income	$ 7,260	$ 9,090
Adjustments to reconcile net income to net cash from operating activities:		
Amortization (accretion) of:		
Mortgage servicing rights	1,441	1,640
Premiums and discounts on investments and mortgage securities, net	122	(293)
Provision for loan losses	515	1,280
Change in mortgage servicing rights impairment allowance	545	(450)
Net (gain)/loss on sales and disposals of:		
Loans	(3,941)	(5,397)
Premises and equipment	1	22
Foreclosed assets	(118)	(72)
Securities available-for-sale	(218)	(1,538)
Foreclosed assets direct write-down expense	-	565
Stock-based compensation expense	113	90
FHLB stock dividends	(19)	(25)
Depreciation of premises and equipment	2,031	2,091
Origination of mortgage loans held for sale	(124,988)	(183,322)
Proceeds from sales of loans held for sale	129,224	187,368
Changes in operating assets and liabilities:		
Accrued interest receivable	(40)	320
Other assets	(1,407)	278
Official checks	709	839
Accrued interest payable	(69)	(60)
Accounts payable and other liabilities, net of distributions declared, not paid	265	(592)
Net cash from operating activities	11,426	11,834
Cash flows from investing activities:		
Loan originations and principal payments on loans, net	(1,773)	(12,191)
Proceeds from sales of loans held for investment	8,284	5,549
Securities available-for-sale:		
Purchases	(315,325)	(211,251)
Sales	3,626	25,446
Maturities, prepayments and calls	292,592	181,086
Additions to premises and equipment, net	(2,841)	(1,607)
Net sales (purchases) of FHLB stock	(234)	1,605
Improvements to foreclosed assets	(136)	-
Proceeds from sales of foreclosed assets	903	374
Net cash from investing activities	(14,904)	(10,989)

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010
(In thousands, except share amounts)

	2011	2010
Cash flows from financing activities:		
Net change in deposits	$ 21,712	$ 48,361
Additions to FHLB advances and other borrowings	5,240	13,932
Payments on FHLB advances and other borrowings	(18,000)	(55,300)
Net change in advance payments for taxes and insurance	(43)	254
Sale (purchase) of treasury shares	(833)	-
Proceeds from exercise of stock options	21	53
Payment of cash distributions	(2,932)	(4,180)
Net cash from financing activities	5,165	3,120
Net change in cash and cash equivalents	1,687	3,965
Cash and cash equivalents at beginning of year	15,428	11,463
Cash and cash equivalents at end of year	$ 17,115	$ 15,428
Supplemental cash flow information:		
Cash paid during the year for interest	$ 5,429	$ 6,709
Supplemental noncash disclosures:		
Distributions declared, not paid	$ 1,479	$ 571
Transfer from loans to foreclosed assets	-	1,349
Loans provide for sales of foreclosed assets	1,730	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 mortgage banking activities and 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 seventeen ATMs. The Bank 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 24, 2012, 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.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Securities: 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 securitizes 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. 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.

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.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 all classes of loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, all classes of loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. 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.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income for all classes of loans. 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.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. For all classes of loans, 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, multifamily, 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 determined by class and 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. The following portfolio segments have been identified: Loans secured by real estate, commercial and industrial, and consumer. Loans secured by real estate include the following classes: residential construction, nonresidential construction & land, home equity lines of credit, residential, second mortgages, multifamily, and commercial.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The Company considers loan performance and collateral values in assessing risk in the loan portfolio. The primary risk factors for each loan segment are: Loans secured by real estate are affected by the local real estate market, the local economy, and movement in interest rates. Appraisals are obtained to support the loan amount. For residential real estate, the Company evaluates the borrower's repayment ability through a review of credit scores and debt to income ratios. Commercial real estate loans are dependent on the industries tied to these loans. An evaluation of the entities cash flows is performed to evaluate the borrower's ability to repay the loan. Commercial and industrial loans are dependent on the strength of the industries of the related borrowers and the success of their businesses. Commercial loans are advanced for equipment purchases or to provide working capital or meet other financing needs of the business. These loans may be secured by accounts receivable, inventory, equipment or other business assets. Financial information is obtained from the borrower to evaluate the debt service coverage and ability to repay the loans. Consumer loans are dependent on the local economy, and are generally secured by consumer assets, but may be unsecured. The Company evaluates the borrower's repayment ability through a review of credit scores and an evaluation of debt to income ratios.

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.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

<u>Transfers of Financial Assets</u>: 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.

<u>Foreclosed Assets</u>: 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. These assets are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a write-down is recorded through expense. Operating costs after acquisition are expensed.

<u>Company Owned Life Insurance</u>: 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.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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. The Company is taxed under Subchapter S of the Internal Revenue Code, whereby the Company's taxable income is 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, 2011 and 2010. The Company is no longer subject to examination by taxing authorities for years before 2008.

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 which was 7,593 shares at December 31, 2011 and no shares at December 31, 2010. There were no antidilutive potential common shares.

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.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 L. 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.

Adoption of New Accounting Standards:

The Company adopted audit standard *ASU 2010-20, "Receivable (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses"*, which requires new and enhanced disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The new and amended disclosure requirements focus on such areas as nonaccrual and past due financing receivables, allowance for credit losses related to financing receivables, impaired loans, credit quality information and modifications. The ASU requires an entity to disaggregate new and existing disclosures based on how it develops its allowance for credit losses and how it manages credit exposures. For private entities, the disclosures were effective for reporting periods ending on or after December 15, 2011. See Note D to these Financial Statements for the required disclosures at year-end 2011.

(In thousands, except share amounts)

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents, subject to regulatory reserve requirements of $1.1 million at December 31, 2011 and 2010, consisted of the following:

	2011	2010
Cash and due from banks	$ 7,169	$ 4,629
Interest-bearing deposits	9,946	10,799
Total cash and cash equivalents	$ 17,115	$ 15,428

(Continued)

(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, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government-sponsored agencies	$ 162,522	$ 387	$ (35)	$ 162,874
Residential mortgage-backed securities	83,854	3,662	(9)	87,507
Collateralized mortgage obligations	134	3	-	137
Private-issue collateralized mortgage obligations	2,912	60	-	2,972
Equity securities	1,000	22	-	1,022
Total securities available-for-sale	$ 250,422	$ 4,134	$ (44)	$ 254,512

	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

(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:

	2011	2010
Gains	$ 218	$ 1,538
Losses	-	-
	$ 218	$ 1,538

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, 2011	
	Amortized Cost	Fair Value
Maturity:		
Within one year	$ -	$ -
One to five years	25,049	25,078
Five to ten years	140,488	140,878
Beyond ten years	83,885	87,534
	$ 249,422	$ 253,490

Securities pledged to secure public deposits, repurchase agreements, and the treasury, tax, and loan account at December 31, 2011 and 2010 were approximately $46.8 million and $40.7 million at fair value.

(In thousands, except share amounts)

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

Securities with unrealized losses at December 31, 2011 and 2010, 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
2011						
U.S. Government-sponsored agencies	$ 21,729	$ (35)	$ -	$ -	$ 21,729	$ (35)
Residential mortgage-backed securities	722	(6)	222	(3)	944	(9)
	$ 22,451	$ (41)	$ 222	$ (3)	$ 22,673	$ (44)

	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)

At December 31, 2011, 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, 2011.

(Continued)

(In thousands, except share amounts)

NOTE D - LOANS

Loans, including residential real estate loans held for sale of $14.1 million and $16.2 million at December 31, 2011 and 2010, by major category consisted of the following:

	2011	2010
Loans secured by real estate:		
Residential construction	$ 18,182	$ 18,236
Nonresidential construction & land	6,418	8,344
Home equity lines of credit	1,942	2,330
Residential	195,582	197,641
Second mortgages	1,090	1,761
Multifamily	1,033	1,176
Commercial	29,023	29,471
Commercial & industrial	12,347	13,259
Consumer	5,069	5,887
Total loans	270,686	278,105
Allowance for loan losses	(3,570)	(3,522)
Loans, net	$ 267,116	$ 274,583

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

	2011	2010
Beginning balance	$ 3,522	$ 2,683
Loan loss provision	515	1,280
Charge-offs	(1,169)	(897)
Recoveries	702	456
Ending balance	$ 3,570	$ 3,522

Loans to executive officers, directors, and their affiliates were $1.6 million and $1.8 million at December 31, 2011 and 2010.

(In thousands, except share amounts)

NOTE D - LOANS *(Continued)*

The following table presents the activity in the allowance for loan losses for the year ended 2011:

	Beginning Balance	Loan Loss Provision	Charge-offs	Recoveries	Ending Balance
Loans secured by real estate:					
Residential construction	$ 600	$ -	$ -	$ 29	$ 629
Nonresidential construction & land	550	-	-	12	562
Home equity lines of credit	50	50	(46)	-	54
Residential	500	45	(45)	-	500
Second mortgages	100	-	-	1	101
Multifamily	50	-	-	-	50
Commercial	400	30	(28)	-	402
Commercial & industrial	900	-	-	-	900
Consumer	372	390	(1,050)	660	372
Total	$ 3,522	$ 515	$ (1,169)	$ 702	$ 3,570

The following table represents the balance in the allowance for loan losses and the recorded investment in loans based on impairment method as of year-end 2011:

	Loan Balances			Allowance for Loan Losses		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Recorded Investment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Loans secured by real estate:						
Residential construction	$ -	$ 18,182	$ 18,182	$ -	$ 629	$ 629
Nonresidential construction & land	130	6,288	6,418	-	562	562
Home equity lines of credit	-	1,942	1,942	-	54	54
Residential	-	195,582	195,582	-	500	500
Second mortgages	-	1,090	1,090	-	101	101
Multifamily	-	1,033	1,033	-	50	50
Commercial	495	28,528	29,023	-	402	402
Commercial & industrial	-	12,347	12,347	-	900	900
Consumer	29	5,040	5,069	-	372	372
Total	$ 654	$ 270,032	$ 270,686	$ -	$ 3,570	$ 3,570

No loans were individually evaluated for impairment as of year-end 2010.

(Continued)

(In thousands, except share amounts)

NOTE D - LOANS *(Continued)*

The following table presents the aging of the recorded investment in past due loans as of year-end 2011 by class of loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or more Past Due Still on Accrual	Nonaccrual	Loans Not Past Due	Total
Loans secured by real estate:						
Residential construction	$ -	$ -	$ -	$ -	$ 18,182	$ 18,182
Nonresidential construction & land	51	9	-	-	6,358	6,418
Home equity lines of credit	10	-	-	-	1,932	1,942
Residential	2,492	488	208	2,740	189,654	195,582
Second mortgages	-	-	-	-	1,090	1,090
Multifamily	-	-	-	-	1,033	1,033
Commercial	37	-	-	458	28,528	29,023
Commercial & industrial	-	-	-	-	12,347	12,347
Consumer	64	-	-	4	5,001	5,069
Total	$ 2,654	$ 497	$ 208	$ 3,202	$ 264,125	$ 270,686

Nonaccrual loans and loans past due 90 days or more and still on accrual at year-end 2010 were $1.5 million and $0. Nonaccrual loans and loans past due 90 days or more and still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Credit Quality Indicators:

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans.

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

(Continued)


Memphis
Toronto
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N.J. Nets
$25
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sports SCORES
NBA Friday Pro Basketball
Memphis 102 F
Toronto 99
Boston 107 F
N.J. Nets 94
EXIT

(In thousands, except share amounts)

NOTE D - LOANS *(Continued)*

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be pass rated loans. Loans listed as not rated are included in groups of homogeneous loans. Management evaluates the risk category of these unrated loans when a loan becomes delinquent or a borrower requests a concession. As of year-end 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Not Rated	Pass	Special Mention	Substandard	Doubtful	Total
Loans secured by real estate:						
Residential construction	$ -	$ 17,902	$ -	$ 280	$ -	$ 18,182
Nonresidential construction & land	793	4,865	-	760	-	6,418
Home equity lines of credit	1,932	-	-	10	-	1,942
Residential	195,055	-	-	527	-	195,582
Second mortgages	1,078	-	-	12	-	1,090
Multifamily	-	1,033	-	-	-	1,033
Commercial	-	26,722	-	2,301	-	29,023
Commercial & industrial	-	12,279	-	68	-	12,347
Consumer	5,019	-	-	46	4	5,069
Total	$ 203,877	$ 62,801	$ -	$ 4,004	$ 4	$ 270,686

Troubled Debt Restructurings:

The Company has allocated $0 of specific reserves on $159 thousand of loans to customers whose loan terms have been modified in troubled debt restructurings as of year-end 2011. The Company has committed to lend no additional amounts to these customers as of year-end 2011. The Company has no troubled debt restructurings at year-end 2010. The modifications of terms of these loans included interest rate reductions. The loans have been performing since modification in 2011.

(In thousands, except share amounts)

NOTE E - FORECLOSED ASSETS

Foreclosed assets activity was as follows:

	2011	2010
Balance at beginning of year	$ 3,742	$ 4,294
Transfers	-	1,349
Capitalized improvements	136	68
Write-downs	-	(565)
Proceeds from sales	(2,633)	(1,476)
Gain on sale, net	118	72
Balance at end of year	$ 1,363	$ 3,742

Foreclosed assets at year end included one parcel of land with a carrying value of $1.4 million.

Operating expenses related to foreclosed assets for the years ended December 31, 2011 and 2010 totaled $30 thousand and $174 thousand, net of $0 and $18 thousand in rental income.

(In thousands, except share amounts)

NOTE F - PREMISES AND EQUIPMENT

Year-end premises and equipment consisted of:

	2011	2010
Land	$ 4,823	$ 4,823
Buildings and leasehold improvements	22,701	22,810
Furniture, equipment, and autos	12,320	12,082
Construction in progress	3,134	646
	42,978	40,361
Less accumulated depreciation and amortization	11,364	9,556
Premises and equipment, net	$ 31,614	$ 30,805

Depreciation expense was $2.0 million and $2.1 million for 2011 and 2010.

In 2011, the Company began a remodel/expansion of the branch office in Carlsbad, New Mexico. Construction in progress includes $2.5 million of expenditures related to this project. Estimated remaining costs to complete this project during the first quarter of 2012 are $248 thousand.

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 $71 thousand and $126 thousand for the years ended December 31, 2011 and 2010. Future lease payments for branch offices are estimated to be $73 thousand per year.

(In thousands, except share amounts)

NOTE G - MORTGAGE SERVICING RIGHTS AND LOAN SERVICING

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

	2011	2010
Mortgage loans underlying pass-through securities:		
GNMA	$ 306,555	$ 266,986
FNMA	264,426	250,268
FHLMC	83	98
	571,064	517,352
Mortgage loan portfolio service for:		
FNMA	71,652	64,158
FHLMC	2,236	2,840
Other investors	40,723	50,899
	114,611	117,897
	$ 685,675	$ 635,249

Custodial balances on deposit at the Bank, in connection with the foregoing loan servicing, amounted to $14.7 million and $15.7 million at December 31, 2011 and 2010.

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

	2011	2010
Mortgage servicing rights:		
Balance, beginning of year	$ 5,761	$ 5,068
Capitalized	1,876	2,333
Amortization	(1,441)	(1,640)
Balance, end of year	6,196	5,761
Impairment allowance	(800)	(255)
Balance, end of year, net of impairment allowance	$ 5,396	$ 5,506
Valuation allowance:		
Beginning of year	$ 255	$ 705
Additions expensed	545	-
Reductions credited to income	-	(450)
End of year	$ 800	$ 255

(Continued)

(In thousands, except share amounts)

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

The fair value of capitalized mortgage servicing rights was $5.4 million and $5.8 million at year-end 2011 and 2010. Fair value was determined using discount rates ranging from 8.50% to 25.50%, prepayment speeds ranging from 13.73% to 28.12%, depending on the grouping of the specific right, and a weighted-average default rate of 1.18%.

The weighted-average amortization period is 3.68 years. Estimated amortization expense for each of the next five years follows:

2012	$ 1,917
2013	1,469
2014	1,071
2015	780
2016	568

(In thousands, except share amounts)

NOTE H - DEPOSITS

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

	2011	2010
No contractual maturities	$ 264,986	$ 225,783
2011	-	146,050
2012	126,084	12,874
2013	15,666	7,317
2014	8,073	7,544
2015	9,391	9,402
2016	6,482	-
	$ 430,682	$ 408,970

At December 31, 2011 and 2010, approximately $26.1 million and $30.4 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 $74.7 million and $84.6 million at year-end 2011 and 2010.

Deposits from executive officers, directors, and their affiliates at year-end 2011 and 2010 were $3.4 million and $1.7 million.

(Continued)

(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:

	2011	2010
Maturities January 2012 through September 2015, at fixed rates from 1.52% to 4.99%, averaging 3.24%	$ 79,000	$ -
Maturities March 2011 through September 2015, at fixed rates from 1.70% to 4.99%, averaging 3.66%	-	92,000

Each advance is payable at its maturity date or on payment of a prepayment penalty for fixed rate advances. The advances were collateralized by $178.8 million and $174.1 million of eligible loans under a blanket lien arrangement at year-end 2011 and 2010. Based on this collateral, the Company's holdings of FHLB stock and securities held in safekeeping, the Company was eligible to borrow an additional $238.6 million at year-end 2011.

Required payments over the next five years are:

2012	$ 25,000
2013	33,000
2014	13,000
2015	8,000
2016	-

Other borrowings consist of customer repurchase sweep accounts and the balance in the treasury, tax, and loan account. Balances were $8.0 million and $7.7 million at year-end 2011 and 2010.

(In thousands, except share amounts)

NOTE J - COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company may become 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:

	2011	2010
Undisbursed lines of credit	$ 19,340	$ 21,927
Commitments to originate loans	5,736	4,609
Recourse on loans sold	3,788	3,793
Standby letters of credit	976	985
Commitments to sell mortgages and mortgage-backed securities	11,500	18,000

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 judgements 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, 2011 and 2010, that the Bank met all regulatory capital adequacy requirements to which it is subject.

(Continued)

(In thousands, except share amounts)

NOTE K - REGULATORY MATTERS *(Continued)*

The most recent notifications from regulators as of December 31, 2011 and 2010 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	
As of December 31, 2011						
Total Risk-Based Capital (to risk-weighted assets)	$ 61,100	24.0%	$ 20,358	8.0%	$ 25,448	10.0%
Tier 1 Risk-Based Capital (to risk-weighted assets)	57,904	22.8%	10,179	4.0%	15,269	6.0%
Core Capital (to adjusted total assets)	57,904	9.6%	24,177	4.0%	30,221	5.0%
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%

The Company's principal source of funds for distribution payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid is limited to the retained net profits of the preceding two years, subject to the capital requirements described above. During 2012, the Bank could, subject to no objection from regulators, declare dividends of approximately $9.0 million plus any 2012 net profits retained to the date of the dividend declaration.

NOTE L - 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: Loan 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 L - FAIR VALUE *(Continued)*

Assets measured at fair value are summarized below:

	Fair Value Measurements at December 31, 2011 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. Government-sponsored agencies	$ -	$ 162,874	$ -	$ 162,874
Residential mortgage-backed securities	-	87,507	-	87,507
Collateralized mortgage obligations	-	137	-	137
Private-issue collateralized mortgage obligations	-	2,972	-	2,972
Equity securities	1,022	-	-	1,022
Total securities available-for-sale	$ 1,022	$ 253,490	$ -	$ 254,512
Assets measured on a non-recurring basis:				
Loans held for sale	$ -	$ 14,064	$ -	$ 14,064
Servicing rights	-	5,396	-	5,396

	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. Government-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

(Continued)

(In thousands, except share amounts)

NOTE L - FAIR VALUE *(Continued)*

Loans held for sale were carried at fair value of $14.1 million and $16.2 million at December 31, 2011 and 2010, which included a $360 thousand and $155 thousand valuation for forward sales of mortgage-backed securities, resulting in a gain/(loss) recognized in income of $206 thousand and $(97) thousand for the years ended December 31, 2011 and 2010.

Servicing rights, which are carried at lower of cost or fair value, were carried at fair value of $5.4 million and $5.5 million, which was made up of the outstanding balances of $6.2 million and $5.8 million, net of valuation allowances of $800 thousand and $255 thousand at December 31, 2011 and 2010, which resulted in an increase in the allowance charged to income of $545 thousand and a reduction of the allowance credited to income of $450 thousand for the years ended December 31, 2011 and 2010.

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

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

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 17,115	$ 17,115	$ 15,428	$ 15,428
Loans, net	253,052	260,358	258,348	264,899
FHLB stock	5,268	N/A	5,015	N/A
Accrued interest receivable	1,754	1,754	1,714	1,714
Financial Liabilities:				
Deposits	$ 430,682	$ 428,997	$ 408,970	$ 409,546
FHLB advances and other borrowings	86,987	89,328	99,747	103,359
Advance payments for taxes and insurance	2,078	2,078	2,121	2,121
Accrued interest payable	228	228	297	297

NOTE L - 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 costs that would be charged to enter into or terminate such arrangements. The fair value of commitments is not material.

(Continued)

(In thousands, except share amounts)

NOTE M - RETIREMENT PLANS

The Bank has a qualified 401(k) retirement savings plan for employees. Contributions are optional at the discretion of the Board of Directors. The level of matching contributions as a percentage of eligible employee compensation and plan expenses were as follows for 2011 and 2010:

Year	Match	Compensation	Expense
2011	100%	5%	$ 245
2010	100%	5%	$ 264

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:

	2011	2010
Benefit obligation at beginning of year	$ 4,212	$ 3,778
Service cost	40	34
Interest cost	232	223
Plan amendments	-	-
Actuarial loss	269	226
Benefits paid	(49)	(49)
Benefit obligation at end of year	$ 4,704	$ 4,212

Amounts recognized in accumulated other comprehensive income consist of:

	2011	2010
Net (gain)/loss	$ 293	$ 26
Prior service cost	1,047	1,194
Total	$ 1,340	$ 1,220

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, 2012 are $33 thousand and $132 thousand.

(In thousands, except share amounts)

NOTE M - RETIREMENT PLANS *(Continued)*

Estimated Future Payments

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

2012	$ 49
2013	69
2014	175
2015	276
2016	273
Years 2017-2021	1,842

The weighted-average discount rate used to determine benefit obligations and periodic benefit cost was 5.10% and 5.54% and 5.54% and 5.94% at year-end 2011 and 2010.

(In thousands, except share amounts)

NOTE N - 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 $113 thousand and $90 thousand for 2011 and 2010.

The Company's 2007 Stock Option Plan, which is stock-holder 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 2011.

	2011	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 N - STOCK-BASED COMPENSATION *(Continued)*

A summary of the activity in the stock option plan for 2011 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	57,840	$ 45	
Granted	-	-	
Exercised	(450)	45	
Forfeited or expired	-	-	
Outstanding at end of year	57,390	$ 45	6.3
Vested or expected to vest	57,390	$ 45	6.3
Exercisable at end of year	36,930	$ 45	5.8

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

	2011	2010
Intrinsic value of options exercised	$ 3	$ -
Cash received from option exercises	21	53
Weighted-average fair value of options granted	-	14
Intrinsic value of options outstanding	390	-

As of December 31, 2011, there was $192 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 2.9 years.

(In thousands, except share amounts)

NOTE O - OTHER COMPREHENSIVE INCOME/(LOSS)

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

	2011	2010
Unrealized holding gains/(losses) on securities available-for-sale	$ 1,087	$ (659)
Reclassification adjustment for gains realized in income	(218)	(1,538)
Net unrealized gains/(losses)	869	(2,197)
Net gain/(loss) and prior service cost arising during the year on employee pension plan	(122)	132
Total other comprehensive income/(loss)	$ 747	$ (2,065)

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

	December 31, 2011	December 31, 2010
Unrealized gains/(losses) on securities available-for-sale	$ 4,090	$ 3,223
Employee pension plan	(1,340)	(1,220)
Total accumulated other comprehensive income	$ 2,750	$ 2,003

PIONEER BANCORP, INC.
SCHEDULE I - CONSOLIDATING BALANCE SHEET
December 31, 2011
(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	$ 17,115	$ -	$ -	$ 17,115	$ -	$ -	$ 17,115
Securities available-for-sale	253,440	1,072	-	254,512	-	-	254,512
Loans held for sale, net	14,064	-	-	14,064	-	-	14,064
Loans, net	253,052	-	-	253,052	-	-	253,052
FHLB Stock	5,268	-	-	5,268	-	-	5,268
Investment in subsidiary	5,922	-	(5,922)	-	58,422	(58,422)	-
Intercompany advance	-	4,859	(4,859)	-	2,387	(2,387)	-
Premises and equipment, net	31,596	18	-	31,614	-	-	31,614
Mortgage servicing rights, net	5,396	-	-	5,396	-	-	5,396
Foreclosed assets	1,363	-	-	1,363	-	-	1,363
Accrued interest receivable	1,745	10	-	1,755	-	(1)	1,754
Other assets	9,329	2	-	9,331	-	-	9,331
Total assets	$ 598,290	$ 5,961	$ (10,781)	$ 593,470	$ 60,809	$ (60,810)	$ 593,469
LIABILITIES							
Deposits	$ 430,682	$ -	$ -	$ 430,682	$ -	$ -	$ 430,682
FHLB advances and other borrowings	86,987	-	-	86,987	-	-	86,987
Official checks	3,611	-	-	3,611	-	-	3,611
Advance payments for taxes and insurance	2,078	-	-	2,078	-	-	2,078
Accrued interest payable	228	-	-	228	-	-	228
Intercompany advance	7,247	-	(4,859)	2,388	-	(2,388)	-
Accounts payable and other liabilities	6,324	-	-	6,324	1,479	-	7,803
Total liabilities	537,157	-	(4,859)	532,298	1,479	(2,388)	531,389
STOCKHOLDERS' EQUITY							
Capital stock	-	82	(82)	-	1,009	-	1,009
Treasury stock	-	-	-	-	(3,240)	-	(3,240)
Additional paid-in capital	1,499	-	-	1,499	289	(1,499)	289
Retained earnings	56,923	5,840	(5,840)	56,923	61,272	(56,923)	61,272
Accumulated other comprehensive income	2,711	39	-	2,750	-	-	2,750
Total stockholders' equity	61,133	5,961	(5,922)	61,172	59,330	(58,422)	62,080
Total liabilities and stockholders' equity	$ 598,290	$ 5,961	$ (10,781)	$ 593,470	$ 60,809	$ (60,810)	$ 593,469

(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, 2011
(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	$ 14,751	$ 183	$ (23)	$ 14,911	$ -	$ -	$ 14,911
Mortgage securities	2,953	35	-	2,988	-	-	2,988
Investment securities and other	3,330	-	-	3,330	-	-	3,330
Total	21,034	218	(23)	21,229	-	-	21,229
Interest expense:							
Deposits	2,251	-	-	2,251	-	-	2,251
FHLB advances and other borrowings	3,109	23	(23)	3,109	-	-	3,109
Total	5,360	23	(23)	5,360	-	-	5,360
Net interest income	15,674	195	-	15,869	-	-	15,869
Loan loss provision	515	-	-	515	-	-	515
Net interest income after loan loss provision	15,159	195	-	15,354	-	-	15,354
Noninterest income:							
Deposit account fees	5,391	-	-	5,391	-	-	5,391
Gain on sale of loans, net	2,887	1,054	-	3,941	-	-	3,941
Loan administration and service fees	1,472	230	-	1,702	-	-	1,702
Change in mortgage servicing rights impairment allowance	(545)	-	-	(545)	-	-	(545)
Equity earnings of subsidiary	625	-	(625)	-	7,305	(7,305)	-
Gain on sale of securities, net	218	-	-	218	-	-	218
Other	364	(1)	-	363	-	(10)	353
Total	10,412	1,283	(625)	11,070	7,305	(7,315)	11,060
Noninterest expense:							
Compensation and employee benefits	9,306	562	-	9,868	-	-	9,868
Equipment	2,051	52	-	2,103	-	-	2,103
Data processing	1,893	33	-	1,926	-	-	1,926
Occupancy	1,563	76	-	1,639	-	-	1,639
Stationery, printing and office supplies	518	16	-	534	5	-	539
Professional and supervisory	502	10	-	512	33	(10)	535
Federal deposit insurance	337	-	-	337	-	-	337
Postage and transportation	468	20	-	488	-	-	488
Advertising and public relations	859	35	-	894	-	-	894
Telephone	173	19	-	192	-	-	192
Other	596	30	-	626	7	-	633
Total	18,266	853	-	19,119	45	(10)	19,154
Net income	$ 7,305	$ 625	$ (625)	$ 7,305	$ 7,260	$ (7,305)	$ 7,260

(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.
ANALYSIS OF INTEREST CHANGES DUE TO VOLUME AND RATE - UNAUDITED
December 31, 2011

(In thousands, except share amounts)

2011 Over 2010

	Average Balance		Interest		Average Rate		Total	Change due to	
	2011	2010	2011	2010	2011	2010	Change	Volume	Rate
Interest and dividend income:									
Loans	$ 273,621	$ 270,805	$ 14,911	$ 15,667	5.45%	5.79%	$ (756)	$ 153	$ (909)
Mortgage securities	96,856	135,313	2,988	5,241	3.08%	3.87%	(2,253)	(1,186)	(1,067)
Investment securities and other	175,875	129,958	3,330	1,866	1.89%	1.44%	1,464	869	595
Total interest-earnings assets	$ 546,352	$ 536,076	$ 21,229	$ 22,774	3.89%	4.25%	$ (1,545)	$ (164)	$ (1,381)
Interest expense:									
Deposits	$ 424,083	$ 388,646	$ 2,251	$ 3,207	0.53%	0.83%	$ (956)	$ 188	$ (1,144)
FHLB advances and other borrowings	107,540	134,719	3,109	3,442	2.89%	2.55%	(333)	(786)	453
Total interest-bearing liabilities	$ 531,623	$ 523,365	$ 5,360	$ 6,649	1.01%	1.27%	$ (1,289)	$ (598)	$ (691)
Net interest spread and income			$ 15,869	$ 16,125	2.88%	2.98%			
Ratio of net interest income to average interest-earning assets			2.90%	3.01%					

2010 Over 2009

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

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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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 17, 2012 at the Corporate Headquarters, 3000 North Main Street, Roswell, New Mexico.

PIONEER BANCORP, INC.

BOARD OF DIRECTORS

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President
Martin B. Cooper, CPA PC

Jon E. Hitchcock, CPA
Chairman, President and CEO
Pioneer Bank

Timothy Z. Jennings
State Senator and Rancher

Ronald L. Miller, CPA
Partner
Accounting & Consulting Group, LLP

George W. Mitchell
Investments

Stephen P. Puntch
Executive Vice President
Pioneer Bank

C.W. "Buddy" Ritter
President
Ritter Enterprises, Inc.

Mikell A. Tomlinson
Partner
Shay Financial Services, Inc.

ADVISORY DIRECTORS

G. Eugene Bell
Retired
Bell Gas, Inc.

Patricia J. Cooper
Partner
Johnson Enterprises

PIONEER BANK

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President and Chief Executive Officer
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Market President - Las Cruces, NM
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Sabrina M. Russell
Alma Salas
Debra M. Young

PIONEER MORTGAGE COMPANY

Vice President
Lisa D. Hagee

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

President
David L. Karger

PIONEER BANK

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