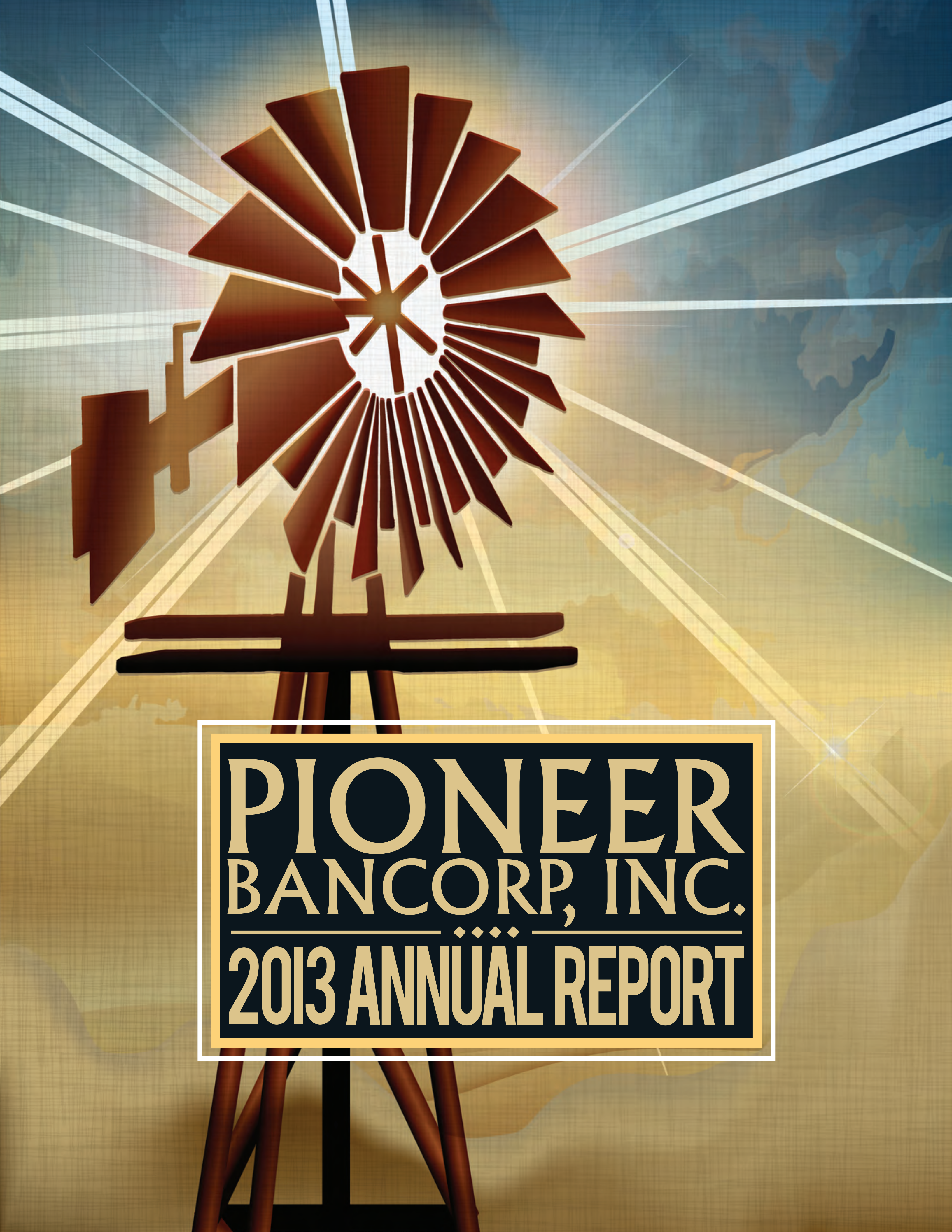


PIONEER BANCORP, INC.

2013 ANNUAL REPORT

FINANCIAL HIGHLIGHTS (Unaudited)

(In thousands, except per share amounts)	**2013**	Change	2012	2011	2010	2009
AT YEAR-END						
Assets	**$ 645,215**	+ 5%	$ 615,313	$ 593,469	$ 579,159	$ 568,737
Loans	**287,764**	+ 3%	278,054	267,116	274,583	270,450
Securities	**284,116**	+ 12%	254,570	254,512	234,442	230,089
Loans serviced for others	**686,638**	- 1%	695,674	685,675	635,249	533,762
Deposits	**493,308**	+ 5%	470,765	430,682	408,970	360,609
Borrowings	**82,366**	+ 26%	65,550	86,987	99,747	141,115
Stockholders' equity	**58,029**	- 12%	65,792	62,080	58,612	54,942
FOR THE YEAR						
Interest and dividend income	**18,788**	- 3%	19,397	21,229	22,774	26,617
Interest expense	**2,773**	- 22%	3,565	5,360	6,649	7,768
Net interest income	**16,015**	+ 1%	15,832	15,869	16,125	18,849
Loan loss provision	**347**	- 32%	510	515	1,280	3,364
Noninterest income	**11,400**	- 19%	14,101	11,060	14,401	11,575
Noninterest expense	**22,284**	+ 2%	21,801	19,154	20,156	17,660
Net income	**4,784**	- 37%	7,622	7,260	9,090	9,750
CAPITAL RATIOS						
Equity to assets	**9.0%**		10.7%	10.5%	10.1%	9.7%
Core capital (1)	**9.9%**		10.0%	9.4%	9.5%	8.8%
Tier 1 risk-based capital (1)	**22.4%**		24.0%	21.7%	20.5%	18.4%
Total risk-based capital (1)	**23.7%**		25.2%	23.0%	21.2%	18.9%
PER SHARE						
Year-end book value	**63.75**	- 12%	72.47	67.56	62.63	58.78
Earnings	**5.26**	- 37%	8.35	7.85	9.72	10.43
Distributions	**1.66**	- 54%	3.60	4.15	3.74	4.73
Distribution payout ratio	**31.6%**		43.1%	52.9%	38.5%	45.3%
PERFORMANCE RATIOS						
Return on average stockholders' equity	**7.73%**		11.58%	12.03%	16.01%	19.41%
Return on average assets	**0.76%**		1.24%	1.24%	1.58%	1.74%
Net interest margin	**2.76%**		2.80%	2.90%	2.98%	3.63%
Efficiency ratio	**81.28%**		72.83%	71.13%	66.03%	58.05%
SELECTED INFORMATION						
Average common shares *(in thousands)*	**910**		912	925	935	934
Full-time equivalent employees	**215**		218	206	210	210
Customer service facilities:						
Full-service facilities	**7**		7	7	7	7
Banking branches	**9**		8	6	6	6
Loan production offices	**2**		2	2	2	3
ATMs	**21**		20	17	16	16

(1) Capital ratios relate to Pioneer Bank only, refer to Note K.

PIONEER BANK

An Old Friend With New Ideas
Since 1901

Member FDIC

Dear Fellow Stockholders,

Despite continued economic and regulatory challenges and persistently low interest rates, Pioneer Bancorp, Inc. had a profitable 2013 with net income of $4.8 million. One of the highlights of 2013 was Pioneer's start of the construction of a new branch in Hobbs which will open in March. This branch will position us to better serve Hobbs and our increasing customer base in this vibrant market.

As reported above, net income for the year ended December 31, 2013 was $4.8 million compared to $7.6 million for the year ended December 31, 2012. The decline in net income can be attributed to a 28.9% decrease in mortgage loan production during 2013 from $194.0 million in 2012 to $137.9 million in 2013. Total assets increased $29.9 million, or 4.9%, to $645.2 million at December 31, 2013 from $615.3 million at December 31, 2012. Deposits continued to increase and were up $22.5 million, or 4.8%, to $493.3 million at December 31, 2013 from $470.8 million at December 31, 2012. With this growth in deposits, our related fees increased $171 thousand, or 2.9%, in 2013. Stockholders' equity decreased $7.8 million, or 11.8%, to $58.0 million at December 31, 2013 from $65.8 million at December 31, 2012. This was a result of an $11.2 million change in accumulated other comprehensive loss from a temporary decline in the market value of securities due to higher market interest rates. Book value per share decreased $8.72, or 12.0%, to $63.75 at December 31, 2013 from $72.47 at December 31, 2012. Excluding accumulated other comprehensive loss, book value per share was $73.11.

Looking forward to 2014, we expect the operating environment will continue to be a challenge in light of new regulations and onerous policy. Like so many other government solutions, the Dodd-Frank Act overreached and generated many unintended consequences. The Consumer Financial Protection Bureau (CFPB) continues to issue burdensome and costly rules without regard to the financial impact on our industry. We expect that 2014 mortgage loan production will continue to be anemic with the conclusion of the refinance boom and the CFPB encouraging stiff underwriting standards. Despite these hurdles, we believe our continuing investments in technology to provide digital services will allow us to serve our customers in a more cost effective manner to meet and exceed their expectations.

Please plan to attend our annual meeting of stockholders which will be held at 10:30 a.m. on April 15, 2014 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 investment in Pioneer Bancorp, Inc.

Sincerely,

Jon E. Hitchcock
President and Chief Executive Officer

Roswell, New Mexico
March 14, 2014

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Pioneer Bancorp, Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule I - consolidating balance sheet and schedule II – consolidating statement of income 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 audits of the consolidated financial statements and certain additional 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
February 25, 2014

PIONEER BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2013 and 2012
(In thousands, except share amounts)

	Note	2013	2012
ASSETS			
Cash and cash equivalents	*B*	$ 18,477	$ 31,345
Securities:	*C*		
Available-for-sale		163,292	254,570
Held-to-maturity (fair value 2013 - $119,076)		120,824	-
Loans held for sale, net	*D*	5,761	16,748
Loans, net	*D*	282,003	261,306
Federal Home Loan Bank (FHLB) Stock		3,256	3,269
Premises and equipment, net	*F*	31,535	31,819
Mortgage servicing rights, net	*G*	6,341	6,438
Foreclosed assets	*E*	1,482	1,453
Accrued interest receivable		1,778	1,597
Other assets		10,466	6,768
Total assets		$ 645,215	$ 615,313
LIABILITIES			
Deposits	*H*	$ 493,308	$ 470,765
FHLB advances and other borrowings	*I*	82,366	65,550
Official checks		2,312	2,990
Advance payments for taxes and insurance		2,305	2,298
Accrued interest payable		96	161
Accounts payable and other liabilities		6,799	7,757
Total liabilities		587,186	549,521
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 (2013 - 98,611 shares; 2012 - 101,018 shares)		(3,793)	(3,852)
Additional paid-in capital		457	377
Retained earnings		68,882	65,609
Accumulated other comprehensive income/(loss)		(8,526)	2,649
Total stockholders' equity		58,029	65,792
Total liabilities and stockholders' equity		$ 645,215	$ 615,313

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2013 and 2012

(In thousands)

	Note	2013	2012
Interest and dividend income:			
Loans		$ 13,326	$ 13,544
Mortgage securities		1,664	2,280
Investment securities and other		3,798	3,573
Total		18,788	19,397
Interest expense:			
Deposits		1,284	1,568
FHLB advances and other borrowings		1,489	1,997
Total		2,773	3,565
Net interest income		16,015	15,832
Loan loss provision	*D*	347	510
Net interest income after loan loss provision		15,668	15,322
Noninterest income:			
Deposit account fees		5,975	5,804
Gain on sale of loans, net	*D*	3,477	5,767
Loan administration and service fees		1,598	1,501
Change in mortgage servicing rights impairment allowance	*G*	95	705
Gain on sale of securities, net	*C*	-	-
Other		255	324
Total		11,400	14,101
Noninterest expense:			
Compensation and employee benefits	*M/N*	11,067	10,847
Equipment		2,359	2,364
Data processing		2,770	2,494
Occupancy		1,930	1,786
Stationery, printing, and office supplies		531	633
Professional and supervisory		699	568
Federal deposit insurance		314	344
Postage and transportation		741	620
Advertising and public relations		1,020	998
Telephone		205	201
Other		648	946
Total		22,284	21,801
Net income		$ 4,784	$ 7,622

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2013 and 2012
(In thousands, except share amounts)

	Note	2013	2012
Weighted-average number of capital stock shares outstanding:			
Basic		910,044	912,406
Diluted		922,680	926,754
Earnings per share:			
Basic		$ 5.26	$ 8.35
Diluted		5.18	8.22

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2013 and 2012
(In thousands)

	Note	2013	2012
Net income		$ 4,784	$ 7,622
Other comprehensive income:			
Unrealized gains on securities:			
Unrealized holding gain/(loss) arising during the period		(11,633)	4
Reclassification adjustment for (gains) included in net income		-	-
		(11,633)	4
Defined benefit pension plan:	M		
Net gain/(loss) arising during the period		66	(237)
Amortization of prior service cost included in net periodic pension cost		392	132
		458	(105)
Total other comprehensive income/(loss)		(11,175)	(101)
Comprehensive income/(loss)		$ (6,391)	$ 7,521

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2013 and 2012
(In thousands, except share amounts)

	Capital Stock $1 Par	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, January 1, 2012	$ 1,009	$ (3,240)	$ 289	$ 61,272	$ 2,750	$ 62,080
Net income	-	-	-	7,622	-	7,622
Other comprehensive (loss)	-	-	-	-	(101)	(101)
Purchase of treasury stock (15,062 shares)	-	(798)	-	-	-	(798)
Exercise of stock options (4,140 shares)	-	186	-	-	-	186
Stock-based compensation	-	-	88	-	-	88
Distributions - $3.60 per share	-	-	-	(3,285)	-	(3,285)
Balance, December 31, 2012	1,009	(3,852)	377	65,609	2,649	65,792
Net income	-	-	-	4,784	-	4,784
Other comprehensive (loss)	-	-	-	-	(11,175)	(11,175)
Purchase of treasury stock (1,568 shares)	-	(92)	-	-	-	(92)
Exercise of stock options (3,975 shares)	-	151	27	-	-	178
Stock-based compensation	-	-	53	-	-	53
Distributions - $1.66 per share	-	-	-	(1,511)	-	(1,511)
Balance, December 31, 2013	$ 1,009	$ (3,793)	$ 457	$ 68,882	$ (8,526)	$ 58,029

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012
(In thousands)

	2013	2012
Cash flows from operating activities:		
Net income	$ 4,784	$ 7,622
Adjustments to reconcile net income to net cash from operating activities:		
Amortization (accretion) of:		
Mortgage servicing rights	1,778	1,957
Premiums and discounts on investments and mortgage securities, net	331	59
Provision for loan losses	347	510
Change in mortgage servicing rights impairment allowance	(95)	(705)
Net (gain)/loss on sales and disposals of:		
Loans	(3,477)	(5,767)
Premises and equipment	-	3
Foreclosed assets	(12)	(88)
Securities available-for-sale	-	-
Foreclosed assets direct write-down expense	18	333
Stock-based compensation expense	53	88
FHLB stock dividends	(16)	(19)
Depreciation of premises and equipment	2,188	2,152
Origination of mortgage loans held for sale	(96,079)	(145,098)
Proceeds from sales of loans held for sale	108,957	145,887
Changes in operating assets and liabilities:		
Accrued interest receivable	(181)	157
Other assets	1,302	2,563
Official checks	(678)	(621)
Accrued interest payable	(65)	(67)
Accounts payable and other liabilities, net of distributions declared, not paid	435	393
Net cash from operating activities	19,590	9,359
Cash flows from investing activities:		
Loan originations and principal payments on loans, net	(21,496)	(20,258)
Proceeds from sales of loans held for investment	-	10,582
Securities:		
Available-for-sale:		
Purchases	(95,922)	(397,450)
Sales	-	-
Maturities, prepayments and calls	54,412	397,337
Held-to-maturity:		
Purchases	-	-
Maturities, prepayments and calls	-	-
Additions to premises and equipment, net	(1,904)	(2,360)
Net sales (purchases) of FHLB stock	29	2,018
Improvements to foreclosed assets	(26)	-
Proceeds from sales of foreclosed assets	443	577
Purchase of bank-owned life insurance	(5,000)	-
Proceeds from deposits assumed in branch purchase	-	18,160
Net cash from investing activities	(69,464)	8,606

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2013 and 2012
(In thousands)

	2013	2012
Cash flows from financing activities:		
Net change in deposits	$ 22,543	$ 21,923
Additions to FHLB advances and other borrowings	49,816	4,000
Payments on FHLB advances and other borrowings	(33,000)	(25,437)
Net change in advance payments for taxes and insurance	7	220
Purchase of treasury shares	(92)	(798)
Proceeds from exercise of stock options	178	186
Payment of cash distributions	(2,446)	(3,829)
Net cash from financing activities	37,006	(3,735)
Net change in cash and cash equivalents	(12,868)	14,230
Cash and cash equivalents at beginning of year	31,345	17,115
Cash and cash equivalents at end of year	$ 18,477	$ 31,345
Supplemental cash flow information:		
Cash paid during the year for interest	$ 2,838	$ 3,632
Supplemental noncash disclosures:		
Distributions declared, not paid	$ -	$ 935
Transfer from loans to foreclosed assets	452	912
Loans provided for sales of foreclosed assets	-	-
Transfer available-for-sale securities to held-to-maturity	126,110	-

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 and balances are eliminated in consolidation.

Pioneer provides financial services through seven full customer service facilities, nine banking branches, two loan production offices, and a network of twenty-one 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.

During 2012, the Company purchased two branches in El Paso, Texas, assuming $18.2 million of deposits and purchasing $861 thousand of premises and equipment.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through February 25, 2014, 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, mortgage banking derivatives, 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, and federal funds purchased and repurchase agreements. Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

(Continued)

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

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

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 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

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

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: The Company enters into commitments, known as interest rate locks, with borrowers whereby the interest rate on loans is determined prior to funding. Interest rate locks on mortgage loans that are to be sold into the secondary market are considered to be free standing derivatives and are recorded at fair value with changes in fair value recorded in net gains on sales of loans. The Bank estimates the fair value of the interest rate locks based upon the terms of the underlying mortgage loan and the probability that the loan will fund within the terms of the interest rate lock. The fair value of the underlying mortgage loan is based upon quoted sales commitments prices. Closing ratios derived from the Company's historical data are used to estimate the quantity of mortgage loans that will fund within the terms of the interest rate locks. Interest rate locks expose the Bank to interest rate risk. The Bank sometimes 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 gains on sales of loans.

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

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

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 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 a 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

(Continued)

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

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.

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 entity's 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.

<u>Federal Home Loan Bank (FHLB) Stock</u>: 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.

<u>Premises and Equipment</u>: 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.

(Continued)

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

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: When mortgage loans are sold with servicing retained, 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 rights 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.

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. These assets are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. If fair

(Continued)

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

value declines subsequent to foreclosure, a write-down is recorded through expense. Operating costs after acquisition are expensed.

Bank-Owned Life Insurance: The Bank has purchased life insurance policies on certain key executives. Bank-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.

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 stockholders' 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, 2013 and 2012. The Company is no longer subject to examination by taxing authorities for years before 2010.

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 12,636 shares at December 31, 2013 and 14,348 shares at December 31, 2012. There were no antidilutive potential common shares.

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

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 stockholders.

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 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 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. Reclassifications had no effect on prior year net income or stockholders' equity.

(Continued)

(In thousands)

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents, subject to regulatory reserve requirements of $1.5 million and $0 at December 31, 2013 and 2012, consisted of the following:

	2013	2012
Cash and due from banks	$ 7,937	$ 8,727
Interest-bearing deposits	10,540	22,618
Total cash and cash equivalents	$ 18,477	$ 31,345

(Continued)

(In thousands)

NOTE C - SECURITIES

The following table summarizes the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at December 31, 2013 and 2012 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income/(loss) and gross unrecognized gains and losses:

2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Government-sponsored agencies	$ 128,478	$ -	$ (4,406)	$ 124,072
Residential mortgage-backed securities	36,165	2,085	-	38,250
Equity securities	1,000	-	(30)	970
Total available-for-sale	$ 165,643	$ 2,085	$ (4,436)	$ 163,292

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held-to-maturity				
U.S. Government-sponsored agencies	$ 101,760	$ -	$ (1,625)	$ 100,135
Residential mortgage-backed securities	18,567	6	(129)	18,444
Collateralized mortgage obligations	93	-	-	93
Private-issue collateralized mortgage obligations	404	-	-	404
Total held-to-maturity	$ 120,824	$ 6	$ (1,754)	$ 119,076

(Continued)

(In thousands)

NOTE C - SECURITIES *(Continued)*

2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Government-sponsored agencies	$ 179,566	$ 374	$ (46)	$ 179,894
Residential mortgage-backed securities	68,106	3,637	(9)	71,734
Collateralized mortgage obligations	109	3	-	112
Private-issue collateralized mortgage obligations	1,695	103	-	1,798
Equity securities	1,000	32	-	1,032
Total available-for-sale	$ 250,476	$ 4,149	$ (55)	$ 254,570

The amortized cost and fair value of the available-for-sale and held-to-maturity 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 31,2013			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity				
Within one year	$ -	$ -	$ -	$ -
One to five years	48,629	47,588	-	-
Five to ten years	79,849	76,484	102,832	101,206
Beyond ten years	36,165	38,250	17,992	17,871
	$ 164,643	$ 162,322	$ 120,824	$ 119,077

Securities pledged to secure public deposits and repurchase agreements at December 31, 2013 and 2012 were approximately $84.5 million and $40.3 million at fair value.

(In thousands)

NOTE C - SECURITIES *(Continued)*

Securities with unrealized losses at December 31, 2013 and 2012, 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	
2013	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. Government-sponsored agencies	$ 120,166	$ (4,004)	$ 3,906	$ (402)	$ 124,072	$ (4,406)
Equity securities	970	(30)	-	-	970	(30)
	$ 121,136	$ (4,034)	$ 3,906	$ (402)	$ 125,042	$ (4,436)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Held-to-maturity						
U.S. Government-sponsored agencies	$ 95,489	$ (1,551)	$ 4,646	$ (74)	$ 100,135	$ (1,625)
Residential mortgage-backed securities	13,448	(128)	566	(1)	14,014	(129)
	$ 108,937	$ (1,679)	$ 5,212	$ (75)	$ 114,149	$ (1,754)

	Less than 12 Months		12 Months or Longer		Total	
2012	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. Government-sponsored agencies	$ 9,255	$ (46)	$ -	$ -	$ 9,255	$ (46)
Residential mortgage-backed securities	173	(1)	735	(8)	908	(9)
	$ 9,428	$ (47)	$ 735	$ (8)	$ 10,163	$ (55)

At December 31, 2013 and 2012, 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 (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC), 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.

During the fourth quarter of 2013, the Company transferred securities with a fair value of $119.1 million from available-for-sale to held-to-maturity, which is the new cost basis. As of the date of the transfer, the resulting unrealized holding loss continues to be reported as a separate component of stockholders' equity in accumulated other comprehensive loss. The related unrealized loss of $5.2 million will be accreted over the remaining life of the securities as a yield adjustment. No accretion was recognized in 2013.

(In thousands)

NOTE D - LOANS

Loans, including residential real estate loans held for sale of $5.8 million and $16.7 million at December 31, 2013 and 2012, by major category consisted of the following:

	2013	2012
Loans secured by real estate:		
Residential construction	$ 21,224	$ 19,297
Nonresidential construction & land	5,678	7,317
Home equity lines of credit	883	1,266
Residential	204,717	207,208
Second mortgages	640	790
Multifamily	307	1,089
Commercial	32,790	29,629
Commercial & industrial	20,939	10,572
Consumer	4,025	4,454
Total loans	291,203	281,622
Allowance for loan losses	(3,439)	(3,568)
Loans, net	$ 287,764	$ 278,054

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

	2013	2012
Beginning balance	$ 3,568	$ 3,570
Charge-offs	(927)	(936)
Recoveries	451	424
Loan loss provision	347	510
Ending balance	$ 3,439	$ 3,568

Loans to executive officers, directors, and their affiliates were $3.2 million and $2.0 million at December 31, 2013 and 2012.

(Continued)

(In thousands)

NOTE D - LOANS *(Continued)*

The following tables present activity in the allowance for loan losses for the years ended December 31, 2013 and 2012:

2013	Beginning Balance	Loan Loss Provision	Charge-offs	Recoveries	Ending Balance
Loans secured by real estate:					
Residential construction	$ 180	$ (7)	$ -	$ -	$ 173
Nonresidential construction & land	64	(19)	(1)	18	62
Home equity lines of credit	8	-	-	-	8
Residential	2,412	71	(158)	-	2,325
Second mortgages	3	-	-	-	3
Multifamily	-	-	-	-	-
Commercial	248	24	(33)	-	239
Commercial & industrial	304	(11)	-	-	293
Consumer	349	289	(735)	433	336
Total	$ 3,568	$ 347	$ (927)	$ 451	$ 3,439

2012	Beginning Balance	Loan Loss Provision	Charge-offs	Recoveries	Ending Balance
Loans secured by real estate:					
Residential construction	$ 180	$ 191	$ (228)	$ 37	$ 180
Nonresidential construction & land	64	(23)	-	23	64
Home equity lines of credit	8	-	-	-	8
Residential	2,414	(2)	-	-	2,412
Second mortgages	3	-	(1)	1	3
Multifamily	-	-	-	-	-
Commercial	248	61	(61)	-	248
Commercial & industrial	304	-	-	-	304
Consumer	349	283	(646)	363	349
Total	$ 3,570	$ 510	$ (936)	$ 424	$ 3,568

In 2013 the Company changed its methodology for allocating the allowance. The 2012 table above has been adjusted to be consistent with the new allocation methodology.

(Continued)

(In thousands)

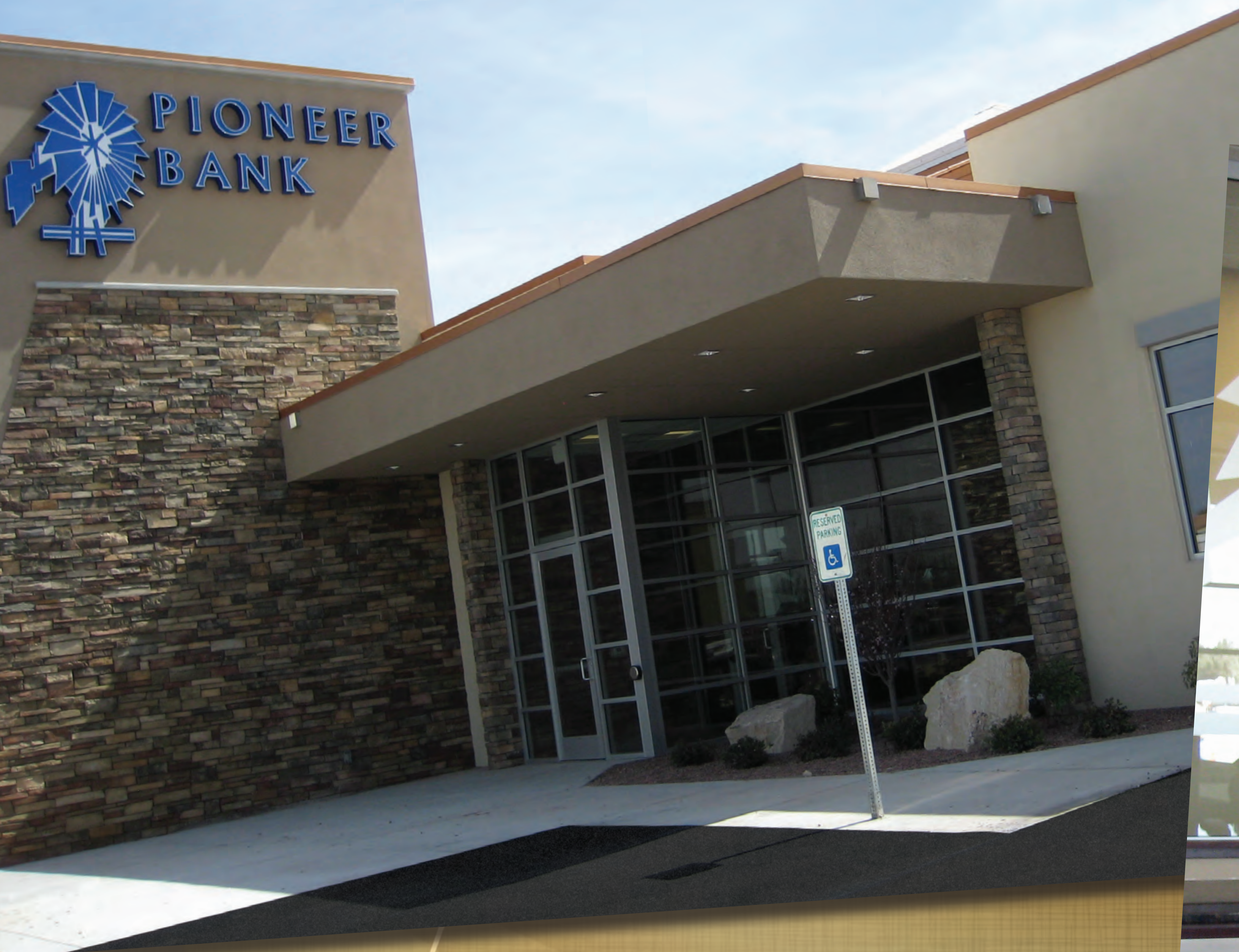
NOTE D - LOANS *(Continued)*

The following tables represent the balance in the allowance for loan losses and the recorded investment in loans based on impairment method as of year-end 2013 and 2012:

2013	Loan Balances: Individually Evaluated for Impairment	Loan Balances: Collectively Evaluated for Impairment	Loan Balances: Total Recorded Investment	Allowance for Loan Losses: Individually Evaluated for Impairment	Allowance for Loan Losses: Collectively Evaluated for Impairment	Allowance for Loan Losses: Total
Loans secured by real estate						
Residential construction	$ -	$ 21,224	$ 21,224	$ -	$ 173	$ 173
Nonresidential construction & land	-	5,678	5,678	-	62	62
Home equity lines of credit	-	883	883	-	8	8
Residential	-	204,717	204,717	-	2,325	2,325
Second mortgages	-	640	640	-	3	3
Multifamily	-	307	307	-	-	-
Commercial	-	32,790	32,790	-	239	239
Commercial & industrial	-	20,939	20,939	-	293	293
Consumer	-	4,025	4,025	-	336	336
Total	$ -	$ 291,203	$ 291,203	$ -	$ 3,439	$ 3,439

2012	Loan Balances: Individually Evaluated for Impairment	Loan Balances: Collectively Evaluated for Impairment	Loan Balances: Total Recorded Investment	Allowance for Loan Losses: Individually Evaluated for Impairment	Allowance for Loan Losses: Collectively Evaluated for Impairment	Allowance for Loan Losses: Total
Loans secured by real estate						
Residential construction	$ -	$ 19,297	$ 19,297	$ -	$ 180	$ 180
Nonresidential construction & land	-	7,317	7,317	-	64	64
Home equity lines of credit	-	1,266	1,266	-	8	8
Residential	-	207,208	207,208	-	2,412	2,412
Second mortgages	-	790	790	-	3	3
Multifamily	-	1,089	1,089	-	-	-
Commercial	-	29,629	29,629	-	248	248
Commercial & industrial	-	10,572	10,572	-	304	304
Consumer	-	4,454	4,454	-	349	349
Total	$ -	$ 281,622	$ 281,622	$ -	$ 3,568	$ 3,568

(Continued)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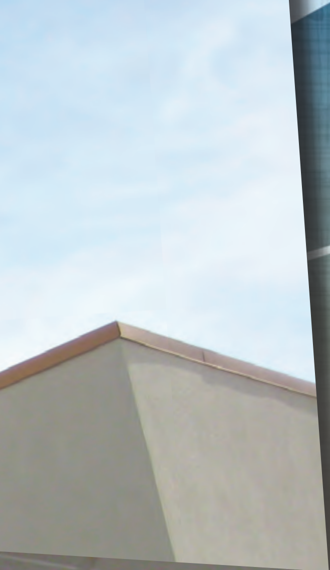

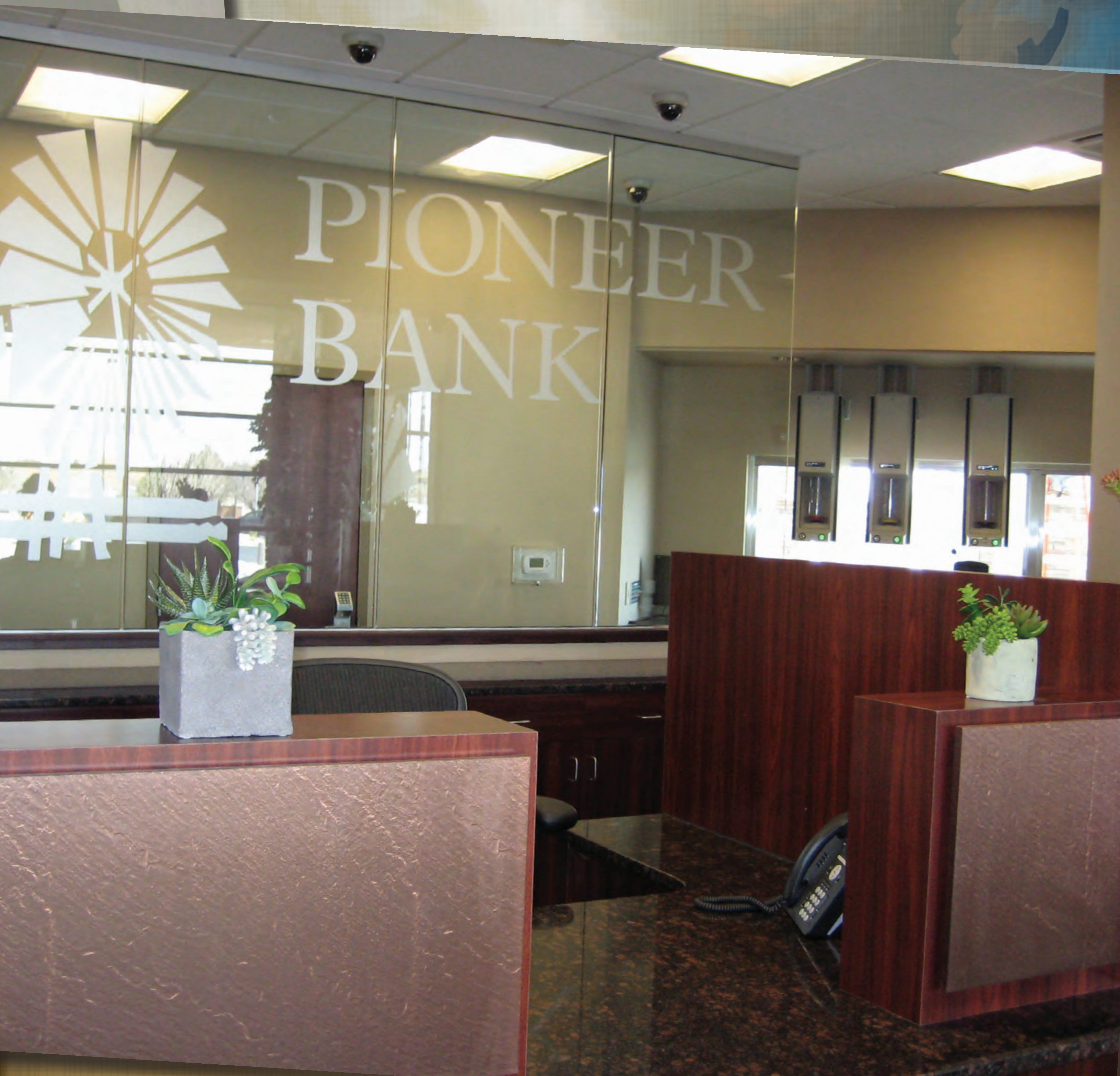

(In thousands)

NOTE D - LOANS *(Continued)*

The following tables present the aging of the recorded investment in past due loans as of year-end 2013 and 2012 by class of loans:

2013	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	$ -	$ -	$ -	$ -	$ 21,224	$ 21,224
Nonresidential construction & land	31	-	-	-	5,647	5,678
Home equity lines of credit	-	-	-	-	883	883
Residential	3,392	1,088	-	3,456	196,781	204,717
Second mortgages	18	-	-	-	622	640
Multifamily	-	-	-	-	307	307
Commercial	-	-	5	-	32,785	32,790
Commercial & industrial	-	-	-	-	20,939	20,939
Consumer	18	-	-	-	4,007	4,025
Total	$ 3,459	$ 1,088	$ 5	$ 3,456	$ 283,195	$ 291,203

2012	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	$ -	$ -	$ -	$ -	$ 19,297	$ 19,297
Nonresidential construction & land	-	-	-	-	7,317	7,317
Home equity lines of credit	-	4	-	-	1,262	1,266
Residential	1,748	516	-	4,306	200,638	207,208
Second mortgages	-	-	-	22	768	790
Multifamily	-	-	-	-	1,089	1,089
Commercial	-	-	-	-	29,629	29,629
Commercial & industrial	-	-	-	-	10,572	10,572
Consumer	40	-	-	-	4,414	4,454
Total	$ 1,788	$ 520	$ -	$ 4,328	$ 274,986	$ 281,622

NOTE D - LOANS *(Continued)*

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.

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.

(Continued)

(In thousands)

NOTE D - LOANS *(Continued)*

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. Nonaccrual loans guaranteed by the Government are not rated. As of year-end 2013 and 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

2013	Not Rated	Pass	Special Mention	Substandard	Doubtful	Total
Loans secured by real estate:						
Residential construction	$ -	$ 20,849	$ 375	$ -	$ -	$ 21,224
Nonresidential construction & land	479	4,777	-	422	-	5,678
Home equity lines of credit	883	-	-	-	-	883
Residential	203,994	-	-	723	-	204,717
Second mortgages	543	-	15	82	-	640
Multifamily	-	307	-	-	-	307
Commercial	-	28,923	1,580	2,287	-	32,790
Commercial & industrial	-	20,934	5	-	-	20,939
Consumer	3,973	-	10	42	-	4,025
Total	$ 209,872	$ 75,790	$ 1,985	$ 3,556	$ -	$ 291,203

2012	Not Rated	Pass	Special Mention	Substandard	Doubtful	Total
Loans secured by real estate:						
Residential construction	$ -	$ 19,145	$ 152	$ -	$ -	$ 19,297
Nonresidential construction & land	479	6,114	233	491	-	7,317
Home equity lines of credit	1,253	-	-	13	-	1,266
Residential	206,566	-	-	642	-	207,208
Second mortgages	773	-	-	17	-	790
Multifamily	-	1,089	-	-	-	1,089
Commercial	-	26,309	2,150	1,170	-	29,629
Commercial & industrial	-	10,517	8	47	-	10,572
Consumer	4,281	-	6	167	-	4,454
Total	$ 213,352	$ 63,174	$ 2,549	$ 2,547	$ -	$ 281,622

Troubled debt restructurings are not material during any period presented.

(Continued)

(In thousands)

NOTE E - FORECLOSED ASSETS

Foreclosed assets activity was as follows:

	2013	2012
Balance at beginning of year	$ 1,453	$ 1,363
Transfers	452	912
Capitalized improvements	26	-
Write-downs	(18)	(333)
Proceeds from sales	(443)	(577)
Gain on sale, net	12	88
Balance at end of year	$ 1,482	$ 1,453

Foreclosed assets at year-end 2013 included one parcel of land with a carrying value of $1.0 million and two single-family residences with a total carrying value of $452 thousand.

Operating expenses related to foreclosed assets for the years ended December 31, 2013 and 2012 totaled $35 thousand and $48 thousand.

(In thousands)

NOTE F - PREMISES AND EQUIPMENT

Year-end premises and equipment consisted of:

	2013	2012
Land	$ 5,196	$ 4,823
Buildings and leasehold improvements	26,199	25,897
Furniture, equipment, and autos	14,453	14,242
Construction in progress	1,301	284
	47,149	45,246
Less accumulated depreciation and amortization	15,614	13,427
Premises and equipment, net	$ 31,535	$ 31,819

Depreciation expense was $2.2 million and $2.2 million for 2013 and 2012.

The Company leases office space for certain branch offices under various operating leases with terms expiring through 2017. Lease payments included in occupancy expense totaled $161 thousand and $115 thousand for the years ended December 31, 2013 and 2012. Future lease payments for branch offices through 2017 do not exceed $163 thousand per year.

(In thousands)

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:

	2013	2012
Mortgage loans underlying pass-through securities:		
GNMA	$ 308,419	$ 312,841
FNMA	190,023	238,231
FHLMC	32	66
	498,474	551,138
Mortgage loan portfolio service for:		
FNMA	163,188	111,978
FHLMC	1,443	1,948
Other investors	23,533	30,610
	188,164	144,536
	$ 686,638	$ 695,674

Custodial balances on deposit at the Bank, in connection with the foregoing loan servicing, amounted to $12.1 million and $20.5 million at December 31, 2013 and 2012.

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

	2013	2012
Mortgage servicing rights		
Balance, beginning of year	$ 6,533	$ 6,196
Capitalized	1,586	2,294
Amortization	(1,778)	(1,957)
Balance, end of year	6,341	6,533
Impairment allowance	-	(95)
Balance, end of year, net of impairment allowance	$ 6,341	$ 6,438
Valuation allowance		
Beginning of year	$ 95	$ 800
Additions expensed	-	-
Reductions credited to income	(95)	(705)
End of year	$ -	$ 95

(Continued)

(In thousands)

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

The estimated fair value of capitalized mortgage servicing rights was $9.8 million at year-end 2013. Fair value was determined using discount rates ranging from 10.00% to 14.50%, prepayment speeds ranging from 4.70% to 30.00% based on individual loan characteristics including gross coupon and age, and a weighted-average default rate of 0.76%.

The estimated fair value of capitalized mortgage servicing rights was $6.4 million at year-end 2012. Fair value was determined using discount rates ranging from 8.50% to 13.00%, prepayment speeds ranging from 9.43% to 22.20%, depending on the grouping of the specific right, and a weighted-average default rate of 0.75%.

The weighted-average amortization period is 4.80 years. Estimated amortization expense for each of the next five years follows:

2014	$	827
2015		724
2016		633
2017		555
2018		488

(In thousands)

NOTE H - DEPOSITS

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

	2013	2012
No contractual maturities	$ 352,179	$ 318,393
2013	-	116,302
2014	106,023	14,316
2015	17,399	10,697
2016	7,248	6,301
2017	4,266	4,756
2018	6,193	-
	$ 493,308	$ 470,765

At December 31, 2013 and 2012, approximately $41.8 million and $23.8 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 $67.2 million and $69.3 million at year-end 2013 and 2012.

Deposits from executive officers, directors, and their affiliates at year-end 2013 and 2012 were $6.1 million and $5.6 million.

(Continued)

(In thousands)

NOTE I - FEDERAL HOME LOAN BANK ADVANCES (FHLB) AND OTHER BORROWINGS

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

	2013	2012
Maturities January 2014 through November 2018, at fixed rates from 1.19% to 3.22%, averaging 2.01%	$ 54,000	
Maturities May 2013 through April 2016, at fixed rates from 1.19% to 4.99%, averaging 3.21%		$ 58,000

Each advance is payable at its maturity date or on payment of a prepayment penalty for fixed rate advances. The advances were collateralized by $172.2 million and $167.4 million of eligible loans under a blanket lien arrangement at year-end 2013 and 2012. Based on this collateral, the Company's holdings of FHLB stock and securities held in safekeeping, the Company was eligible to borrow an additional $226.8 million at year-end 2013.

Required payments over the next five years are:

2014	$ 13,000
2015	8,000
2016	4,000
2017	22,000
2018	7,000

Other borrowings consist of customer repurchase sweep accounts with overnight maturities. Balances were $28.4 million and $7.6 million at year-end 2013 and 2012.

(In thousands)

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:

	2013	2012
Undisbursed lines of credit	$ 21,268	$ 20,845
Commitments to originate loans	3,176	5,752
Recourse on loans sold	3,788	3,788
Standby letters of credit	694	1,315
Commitments to sell mortgages and mortgage-backed securities	9,576	12,818

(Continued)

NOTE K - REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios to Total and Tier 1 Capital (as defined by regulation) to Risk-Weighted Assets (as defined) and Core Capital (as defined) to Adjusted Total Assets (as defined). Management believes, as of December 31, 2013 and 2012, that the Bank met all regulatory capital adequacy requirements to which it is subject.

(Continued)

(In thousands)

NOTE K - REGULATORY MATTERS *(Continued)*

The most recent notifications from regulators as of December 31, 2013 and 2012 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, 2013						
Total Risk-Based Capital (to risk-weighted assets)	$ 67,949	23.7%	$ 22,966	8.0%	$ 28,708	10.0%
Tier 1 Risk-Based Capital (to risk-weighted assets)	64,359	22.4%	11,483	4.0%	17,225	6.0%
Core Capital (to adjusted total assets)	64,359	9.9%	26,111	4.0%	32,639	5.0%
As of December 31, 2012						
Total Risk-Based Capital (to risk-weighted assets)	$ 64,738	25.2%	$ 20,515	8.0%	$ 25,644	10.0%
Tier 1 Risk-Based Capital (to risk-weighted assets)	61,512	24.0%	10,258	4.0%	15,386	6.0%
Core Capital (to adjusted total assets)	61,512	10.0%	24,610	4.0%	30,763	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 2014, the Bank could, subject to no objection from regulators, declare dividends of approximately $6.5 million plus any 2014 net profits retained to the date of the dividend declaration.

(Continued)

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).

Derivatives: The fair value of derivatives are based on valuation models using observable market data as of the measurement date (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)

NOTE L - FAIR VALUE *(Continued)*

Assets/(liabilities) measured at fair value are summarized below:

	Fair Value Measurements at December 31, 2013 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets/(liabilities) measured on a recurring basis:				
Securities available-for-sale:				
U.S. Government-sponsored agencies	$ -	$ 124,072	$ -	$ 124,072
Residential mortgage-backed securities	-	38,250	-	38,250
Equity securities	970	-	-	970
Mortgage banking derivatives	-	58	-	58

	Fair Value Measurements at December 31, 2012 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets/(liabilities) measured on a recurring basis:				
Securities available-for-sale:				
U.S. Government-sponsored agencies	$ -	$ 179,894	$ -	$ 179,894
Residential mortgage-backed securities	-	71,734	-	71,734
Collateralized mortgage obligations	-	112	-	112
Private-issue collateralized mortgage obligations	-	1,798	-	1,798
Equity securities	1,032	-	-	1,032
Mortgage banking derivatives	-	219	-	219
Assets/(liabilities) measured on a non-recurring basis:				
Servicing rights	-	1,392	-	1,392
Foreclosed assets	-	-	1,030	1,030

(In thousands)

NOTE L - FAIR VALUE *(Continued)*

Impaired tranches of servicing rights, which are carried at lower of cost or fair value, were carried at fair value of $1.5 million, which was made up of the outstanding balance of $2.5 million, net of a valuation allowance of $95 thousand at December 31, 2012, which resulted in a reduction of the allowance of $705 thousand for the year ended December 31, 2012.

Foreclosed assets were carried at fair value less costs to sell of $1.0 million at December 31, 2012, which is net of direct write-down expense of $333 thousand in 2012.

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

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 18,477	$ 18,477	$ 31,345	$ 31,345
Securities held-to-maturity	120,824	119,076	-	-
Loans and loans held for sale, net	282,003	289,437	261,306	270,307
FHLB stock	3,256	N/A	3,269	N/A
Accrued interest receivable	1,778	1,778	1,597	1,597
Financial Liabilities:				
Deposits	$ 493,308	$ 470,928	$ 470,765	$ 471,929
FHLB advances and other borrowings	82,366	82,876	65,550	66,797
Advance payments for taxes and insurance	2,305	2,305	2,298	2,298
Accrued interest payable	96	96	161	161

(Continued)

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 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 not material.

(In thousands)

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 2013 and 2012:

Year	Match	Compensation	Expense
2013	100%	5%	$ 291
2012	100%	5%	270

In 2013 stockholders approved the Pioneer Bank Employee Stock Ownership Plan (ESOP). In 2014 Pioneer intends to transfer all or a portion of the matching contribution account currently held in the 401(k) Plan to the ESOP in order to establish the initial ESOP fund. The Bank will then apply the amount transferred to the purchase of Pioneer Bancorp, Inc. common stock from Pioneer Bancorp, Inc. treasury shares. Thereafter, matching contributions will be made to the ESOP in lieu of making such matching contributions to the 401(k).

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:

	2013	2012
Benefit obligation at beginning of year	$ 5,361	$ 4,704
Service cost	59	48
Interest cost	238	239
Plan amendments	(402)	-
Actuarial (gain)/loss	(258)	419
Benefits paid	(49)	(49)
Benefit obligation at end of year	$ 4,949	$ 5,361

Amounts recognized in accumulated other comprehensive income consist of:

	2013	2012
Net loss	$ 464	$ 530
Prior service cost	523	915
Total	$ 987	$ 1,445

(In thousands)

NOTE M - RETIREMENT PLANS *(Continued)*

The net periodic benefit cost was $514 thousand and $451 thousand for the years ended December 31, 2013 and 2012.

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, 2014 are $52 thousand and $32 thousand.

Estimated Future Payments

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

2014	$ 49
2015	48
2016	73
2017	203
2018	326
Years 2019-2023	2,061

The weighted-average discount rate used to determine benefit obligations and periodic benefit cost was 4.68% and 4.47% and 4.47% and 5.10% at year-end 2013 and 2012.

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 $53 thousand and $88 thousand for 2013 and 2012.

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. Because the Company's stock is not actively traded, expected volatilities are based on a group of publicly traded peers. 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.

(Continued)

(In thousands, except share amounts)

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

A summary of the activity in the stock option plan for 2013 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	53,250	$ 45	
Granted	1,200	59	
Exercised	(3,975)	45	
Forfeited or expired	-	-	
Outstanding at end of year	50,475	$ 45	4.3
Vested or expected to vest	50,475	$ 45	4.3
Exercisable at end of year	45,475	$ 45	4.0

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

	2013	2012
Intrinsic value of options exercised	$ 77	$ 62
Cash received from option exercises	178	186
Intrinsic value of options outstanding	689	799

As of December 31, 2013, there was $78 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 1.6 years.

(In thousands)

NOTE O - ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

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

	December 31, 2013	December 31, 2012
Unrealized gains/(losses) on securities available-for-sale	$ (2,351)	$ 4,094
Remaining unrealized (losses) on securities transferred to held-to-maturity	(5,188)	-
Employee pension plan	(987)	(1,445)
Total accumulated other comprehensive income	$ (8,526)	$ 2,649

PIONEER BANCORP, INC.
SCHEDULE I - CONSOLIDATING BALANCE SHEET
December 31, 2013
(In thousands)

	Pioneer Bank	Pioneer Mortgage Company (1)	Eliminations	Pioneer Bank Consolidated	Pioneer Bancorp, Inc.	Eliminations	Pioneer Bancorp, Inc. Consolidated
ASSETS							
Cash and cash equivalents	$ 18,477	$ -	$ -	$ 18,477	$ -	$ -	$ 18,477
Securities:							
Available-for-sale	162,400	892	-	163,292	-	-	163,292
Held-to-maturity	120,258	566	-	120,824	-	-	120,824
Loans held for sale, net	5,761	-	-	5,761	-	-	5,761
Loans, net	282,003	-	-	282,003	-	-	282,003
FHLB Stock	3,256	-	-	3,256	-	-	3,256
Investment in subsidiary	6,979	-	(6,979)	-	56,497	(56,497)	-
Intercompany advance	-	5,553	(5,553)	-	1,532	(1,532)	-
Premises and equipment, net	31,528	8	-	31,536	-	(1)	31,535
Mortgage servicing rights, net	6,341	-	-	6,341	-	-	6,341
Foreclosed assets	1,482	-	-	1,482	-	-	1,482
Accrued interest receivable	1,766	12	-	1,778	-	-	1,778
Other assets	10,464	2	-	10,466	-	-	10,466
Total assets	$ 650,715	$ 7,033	$ (12,532)	$ 645,216	$ 58,029	$ (58,030)	$ 645,215
LIABILITIES							
Deposits	$ 493,308	$ -	$ -	$ 493,308	$ -	$ -	$ 493,308
FHLB advances and other borrowings	82,366	-	-	82,366	-	-	82,366
Official checks	2,312	-	-	2,312	-	-	2,312
Advance payments for taxes and insurance	2,305	-	-	2,305	-	-	2,305
Accrued interest payable	96	-	-	96	-	-	96
Intercompany advance	7,086	-	(5,553)	1,533	-	(1,533)	-
Accounts payable and other liabilities	6,799	-	-	6,799	-	-	6,799
Total liabilities	594,272	-	(5,553)	588,719	-	(1,533)	587,186
STOCKHOLDERS' EQUITY							
Capital stock	-	82	(82)	-	1,009	-	1,009
Treasury stock	-	-	-	-	(3,793)	-	(3,793)
Additional paid-in capital	1,640	-	-	1,640	457	(1,640)	457
Retained earnings	63,383	6,897	(6,897)	63,383	68,882	(63,383)	68,882
Accumulated other comprehensive income	(8,580)	54	-	(8,526)	(8,526)	8,526	(8,526)
Total stockholders' equity	56,443	7,033	(6,979)	56,497	58,029	(56,497)	58,029
Total liabilities and stockholders' equity	$ 650,715	$ 7,033	$ (12,532)	$ 645,216	$ 58,029	$ (58,030)	$ 645,215

(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, 2013
(In thousands)

	Pioneer Bank	Pioneer Mortgage Company (1)	Eliminations	Pioneer Bank Consolidated	Pioneer Bancorp, Inc.	Eliminations	Pioneer Bancorp, Inc. Consolidated
Interest and dividend income:							
Loans	$ 13,239	$ 96	$ (9)	$ 13,326	$ -	$ -	$ 13,326
Mortgage securities	1,636	28	-	1,664	-	-	1,664
Investment securities and other	3,798	-	-	3,798	-	-	3,798
Total	18,673	124	(9)	18,788	-	-	18,788
Interest expense:							
Deposits	1,284	-	-	1,284	-	-	1,284
FHLB advances and other borrowings	1,489	9	(9)	1,489	-	-	1,489
Total	2,773	9	(9)	2,773	-	-	2,773
Net interest income	15,900	115	-	16,015	-	-	16,015
Loan loss provision	347	-	-	347	-	-	347
Net interest income after loan loss provision	15,553	115	-	15,668	-	-	15,668
Noninterest income:							
Deposit account fees	5,975	-	-	5,975	-	-	5,975
Gain on sale of loans, net	2,616	861	-	3,477	-	-	3,477
Loan administration and service fees	1,433	165	-	1,598	-	-	1,598
Change in mortgage servicing rights impairment allowance	95	-	-	95	-	-	95
Equity earnings of subsidiary	314	-	(314)	-	4,814	(4,814)	-
Gain on sale of securities, net	-	-	-	-	-	-	-
Other	264	1	-	265	-	(10)	255
Total	10,697	1,027	(314)	11,410	4,814	(4,824)	11,400
Noninterest expense:							
Compensation and employee benefits	10,476	591	-	11,067	-	-	11,067
Equipment	2,324	35	-	2,359	-	-	2,359
Data processing	2,753	17	-	2,770	-	-	2,770
Occupancy	1,844	86	-	1,930	-	-	1,930
Stationery, printing and office supplies	513	6	-	519	12	-	531
Professional and supervisory	687	12	-	699	10	(10)	699
Federal deposit insurance	314	-	-	314	-	-	314
Postage and transportation	730	11	-	741	-	-	741
Advertising and public relations	985	35	-	1,020	-	-	1,020
Telephone	185	20	-	205	-	-	205
Other	625	15	-	640	8	-	648
Total	21,436	828	-	22,264	30	(10)	22,284
Net income	$ 4,814	$ 314	$ (314)	$ 4,814	$ 4,784	$ (4,814)	$ 4,784

(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, 2013
(In thousands)

2013 Over 2012

	Average Balance		Interest		Average Rate		Total	Change due to	
	2013	2012	2013	2012	2013	2012	Change	Volume	Rate
Interest and dividend income									
Loans	$ 287,535	$ 272,533	$ 13,326	$ 13,544	4.63%	4.97%	$ (218)	$ 695	$ (913)
Mortgage securities	67,219	86,890	1,664	2,280	2.48%	2.62%	(616)	(487)	(129)
Investment securities and other	226,363	205,977	3,798	3,573	1.68%	1.73%	225	342	(117)
Total interest-earning assets	$ 581,117	$ 565,400	$ 18,788	$ 19,397	3.23%	3.43%	$ (609)	$ 550	$ (1,159)
Interest expense									
Deposits	$ 475,367	$ 450,289	$ 1,284	$ 1,568	0.27%	0.35%	$ (284)	$ 68	$ (352)
FHLB advances and other borrowings	100,355	97,705	1,489	1,997	1.48%	2.04%	(508)	39	(547)
Total interest-bearing liabilities	$ 575,722	$ 547,994	$ 2,773	$ 3,565	0.48%	0.65%	$ (792)	$ 107	$ (899)
Net interest spread and income			$ 16,015	$ 15,832	2.75%	2.78%			
Ratio of net interest income to average interest-earning assets			2.76%	2.80%					

2012 Over 2011

	Average Balance		Interest		Average Rate		Total	Change due to	
	2012	2011	2012	2011	2012	2011	Change	Volume	Rate
Interest and dividend income									
Loans	$ 272,533	$ 273,621	$ 13,544	$ 14,911	4.97%	5.45%	$ (1,367)	$ (54)	$ (1,313)
Mortgage securities	86,890	96,856	2,280	2,988	2.62%	3.08%	(708)	(262)	(446)
Investment securities and other	205,977	175,875	3,573	3,330	1.73%	1.89%	243	522	(279)
Total interest-earning assets	$ 565,400	$ 546,352	$ 19,397	$ 21,229	3.43%	3.89%	$ (1,832)	$ 206	$ (2,038)
Interest expense									
Deposits	$ 450,289	$ 424,083	$ 1,568	$ 2,251	0.35%	0.53%	$ (683)	$ 91	$ (774)
FHLB advances and other borrowings	97,705	107,540	1,997	3,109	2.04%	2.89%	(1,112)	(201)	(911)
Total interest-bearing liabilities	$ 547,994	$ 531,623	$ 3,565	$ 5,360	0.65%	1.01%	$ (1,795)	$ (110)	$ (1,685)
Net interest spread and income			$ 15,832	$ 15,869	2.78%	2.88%			
Ratio of net interest income to average interest-earning assets			2.80%	2.90%					

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 stockholders of Pioneer Bancorp, Inc. will be held at 10:30 a.m. on April 15, 2014 at the Corporate Headquarters, 3000 North Main Street, Roswell, New Mexico.

PIONEER BANCORP, INC.

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Agribusiness

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Assistant Vice President
Becky L. Vines

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

President
David L. Karger

PIONEER BANK

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