PIONEER BANCORP, INC.

ANNUAL REPORT 2014

FINANCIAL HIGHLIGHTS (Unaudited)

(In thousands, except per share amounts)	**2014**	Change	2013	2012	2011	2010
AT YEAR-END						
Assets	$ **672,360**	+ 4%	$ 645,215	$ 615,313	$ 593,469	$ 579,159
Loans	**274,251**	- 5%	287,764	278,054	267,116	274,583
Securities	**327,686**	+ 15%	284,116	254,570	254,512	234,442
Loans serviced for others	**664,214**	- 3%	686,638	695,674	685,675	635,249
Deposits	**511,256**	+ 4%	493,308	470,765	430,682	408,970
Borrowings	**82,135**	- 0%	82,366	65,550	86,987	99,747
Stockholders' equity	**63,758**	+ 10%	58,029	65,792	62,080	58,612
FOR THE YEAR						
Interest and dividend income	**18,674**	- 1%	18,788	19,397	21,229	22,774
Interest expense	**1,848**	- 33%	2,773	3,565	5,360	6,649
Net interest income	**16,826**	+ 5%	16,015	15,832	15,869	16,125
Loan loss provision	**275**	- 21%	347	510	515	1,280
Noninterest income	**11,258**	- 1%	11,400	14,101	11,060	14,401
Noninterest expense	**22,654**	+ 2%	22,284	21,801	19,154	20,156
Net income	**5,155**	+ 8%	4,784	7,622	7,260	9,090
CAPITAL RATIOS						
Equity to assets	**9.5%**		9.0%	10.7%	10.5%	10.1%
Core capital (1)	**10.2%**		9.9%	10.0%	9.6%	9.5%
Tier 1 risk-based capital (1)	**23.5%**		22.4%	24.0%	22.8%	20.5%
Total risk-based capital (1)	**24.8%**		23.7%	25.2%	24.0%	21.2%
PER SHARE						
Year-end book value	**67.50**	+ 6%	63.75	72.47	67.56	62.63
Earnings	**5.59**	+ 6%	5.26	8.35	7.85	9.72
Distributions	**4.35**	+ 162%	1.66	3.60	4.15	3.74
Distribution payout ratio	**77.8%**		31.6%	43.1%	52.9%	38.5%
PERFORMANCE RATIOS						
Return on average stockholders' equity	**8.47%**		7.73%	11.92%	12.03%	16.01%
Return on average assets	**0.78%**		0.76%	1.26%	1.24%	1.58%
Net interest margin	**2.86%**		2.76%	2.80%	2.88%	2.98%
Efficiency ratio	**80.67%**		81.28%	72.83%	71.13%	66.03%
SELECTED INFORMATION						
Average common shares *(in thousands)*	**922**		910	912	925	935
Full-time equivalent employees	**207**		215	218	206	210
Customer service facilities:						
Full-service facilities	**7**		7	7	7	7
Banking branches	**9**		9	8	6	6
Loan production offices	**2**		2	2	2	2
ATMs	**21**		21	20	17	16

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

PIONEER BANCORP, INC.

Dear Fellow Stockholders,

For Pioneer, 2014 was a year of solid growth reflecting customer confidence in our Bank to provide exceptional service, technology, and access. Despite the headwinds of a sluggish economy, continued low interest rates and regulatory burden, I was very pleased with Pioneer's 2014 financial performance. Featured on the cover of this year's report is our new Hobbs branch which opened in March 2014. This second branch in Hobbs has allowed us to better serve our increasing customer base in this growing market.

Net income for the year ended December 31, 2014 was up 8% to $5.2 million compared to $4.8 million for the year ended December 31, 2013. The increase in net income can be attributed to a 33.4% decrease in interest expense in 2014. Total assets increased $27.1 million, or 4.2%, to $672.4 million at December 31, 2014 from $645.2 million at December 31, 2013. Deposits continued to increase and were up $17.9 million, or 3.6%, to $511.3 million at December 31, 2014 from $493.3 million at December 31, 2013. With this growth in deposits, our related fees increased $883 thousand, or 14.8%, in 2014. Stockholders' equity increased $5.7 million, or 9.9%, to $63.8 million at December 31, 2014 from $58.0 million at December 31, 2013. This was the result of a $2.5 million change in accumulated other comprehensive income, the sale of $2.0 million of Treasury Stock to the Pioneer Bank Employee Stock Ownership Plan (ESOP), and a $1.1 million increase in retained earnings. Book value per share increased $3.75, or 5.9%, to $67.50 at December 31, 2014 from $63.75 at December 31, 2013.

Mortgage loan demand continued to fall in 2014 as a result of the Qualified Mortgage and Ability-to-Repay regulations issued by the Consumer Financial Protection Bureau (CFPB). We expect 2015 mortgage loan production will be lackluster with the conclusion of the refinance boom and as further burdensome and costly CFPB rules go into effect. Other hurdles facing us in 2015 will come from our communities serving the oil patch which saw West Texas Intermediate prices fall 55% from their high in 2014 to a low in January 2015. We have begun seeing a number of layoffs in service related industries that will ripple through the rest of the economies in west Texas and southeastern New Mexico this year. However, Pioneer's loan delinquencies remain well below national averages and loan quality remains strong. Despite these challenges, we believe our continuing investments in technology to provide digital services and protection against cyber threats 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 21, 2015 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 20, 2015

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

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, 2014 and 2013, 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, 2014 and 2013, 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 2014 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 audit 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 2014 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
March 6, 2015

PIONEER BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013
(In thousands, except share amounts)

	Note	2014	2013
ASSETS			
Cash and cash equivalents	B	$ 15,879	$ 18,477
Securities:	C		
Available-for-sale		189,616	163,292
Held-to-maturity (fair value 2014 - $139,899; 2013 - $119,076)		138,070	120,824
Loans held for sale, net	D	5,085	5,761
Loans, net	D	269,166	282,003
Federal Home Loan Bank (FHLB) stock		3,176	3,256
Foreclosed assets	E	1,934	1,482
Premises and equipment, net	F	30,699	31,535
Mortgage servicing rights, net	G	5,931	6,341
Accrued interest receivable		1,855	1,778
Bank-owned life insurance		9,098	8,977
Other assets		1,851	1,489
Total assets		$ 672,360	$ 645,215
LIABILITIES			
Deposits	H	$ 511,256	$ 493,308
FHLB advances and other borrowings	I	82,135	82,366
Official checks		2,227	2,312
Advance payments for taxes and insurance		2,325	2,305
Accrued interest payable		66	96
Accounts payable and other liabilities		10,593	6,799
Total liabilities		608,602	587,186
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 (2014 - 64,299 shares; 2013 - 98,611 shares)		(2,482)	(3,793)
Additional paid-in capital		1,282	457
Retained earnings		69,962	68,882
Accumulated other comprehensive income/(loss)		(6,013)	(8,526)
Total stockholders' equity		63,758	58,029
Total liabilities and stockholders' equity		$ 672,360	$ 645,215

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2014 and 2013

(In thousands)

	Note	2014	2013
Interest and dividend income:			
Loans		$ 13,393	$ 13,326
Mortgage securities		1,277	1,664
Investment securities and other		4,004	3,798
Total		18,674	18,788
Interest expense:			
Deposits		1,056	1,284
FHLB advances and other borrowings		792	1,489
Total		1,848	2,773
Net interest income		16,826	16,015
Loan loss provision	D	275	347
Net interest income after loan loss provision		16,551	15,668
Noninterest income:			
Deposit account fees		6,858	5,975
Gain on sale of loans, net	D	2,577	3,477
Loan administration and service fees		1,607	1,598
Change in mortgage servicing rights impairment allowance	G	-	95
Other		216	255
Total		11,258	11,400
Noninterest expense:			
Compensation and employee benefits	M/N	10,952	11,067
Equipment		2,253	2,359
Data processing		3,632	2,770
Occupancy		2,019	1,930
Stationery, printing, and office supplies		415	531
Professional and supervisory		697	699
Federal deposit insurance		371	314
Postage and transportation		564	741
Advertising and public relations		915	1,020
Telephone		215	205
Other		621	648
Total		22,654	22,284
Net income		$ 5,155	$ 4,784

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2014 and 2013
(In thousands, except share amounts)

	Note	2014	2013
Weighted-average number of capital stock shares outstanding:			
Basic		922,272	910,044
Diluted		936,112	922,680
Earnings per share:			
Basic		$ 5.59	$ 5.26
Diluted		5.51	5.18

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2014 and 2013
(In thousands)

	Note	2014	2013
Net income		$ 5,155	$ 4,784
Other comprehensive income:			
Unrealized gains/(losses) on securities:			
Unrealized holding gain/(loss) arising during the period		2,436	(11,633)
Amortization of unrealized losses on held-to-maturity securities that were formerly available-for-sale		732	-
		3,168	(11,633)
Defined benefit pension plan:	*M*		
Net (loss)/gain arising during the period		(687)	66
Amortization of prior service cost included in net periodic pension cost		32	392
		(655)	458
Total other comprehensive income/(loss)		2,513	(11,175)
Comprehensive income/(loss)		$ 7,668	$ (6,391)

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2014 and 2013
(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, 2013	$ 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
Net income	-	-	-	5,155	-	5,155
Other comprehensive income	-	-	-	-	2,513	2,513
Purchase of treasury stock (369 shares)	-	(22)	-	-	-	(22)
Sale of treasury stock (31,581 shares)	-	1,215	743	-	-	1,958
Exercise of stock options (3,100 shares)	-	118	21	-	-	139
Stock-based compensation	-	-	61	-	-	61
Distributions - $4.35 per share	-	-	-	(4,075)	-	(4,075)
Balance, December 31, 2014	$ 1,009	$ (2,482)	$ 1,282	$ 69,962	$ (6,013)	$ 63,758

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013
(In thousands)

	2014	2013
Cash flows from operating activities:		
Net income	$ 5,155	$ 4,784
Adjustments to reconcile net income to net cash from operating activities:		
Amortization (accretion) of:		
Mortgage servicing rights	1,430	1,778
Premiums and discounts on investments and mortgage securities, net	252	331
Provision for loan losses	275	347
Change in mortgage servicing rights impairment allowance	-	(95)
Net (gain)/loss on sales and disposals of:		
Loans	(2,577)	(3,477)
Premises and equipment	(3)	-
Foreclosed assets	(20)	(12)
Foreclosed assets direct write-down expense	137	18
Stock-based compensation expense	61	53
FHLB stock dividends	(10)	(16)
Depreciation of premises and equipment	2,058	2,188
Origination of mortgage loans held for sale	(72,700)	(96,079)
Proceeds from sales of loans held for sale	74,933	108,957
Earnings on bank-owned life insurance	(121)	-
Changes in operating assets and liabilities:		
Accrued interest receivable	(77)	(181)
Other assets	(362)	1,302
Official checks	(85)	(678)
Accrued interest payable	(30)	(65)
Accounts payable and other liabilities, net of distributions declared, not paid	589	435
Net cash from operating activities	8,905	19,590
Cash flows from investing activities:		
Loan originations and principal payments on loans, net	7,661	(21,496)
Proceeds from sales of loans held for investment	3,662	-
Securities:		
Available-for-sale:		
Purchases	(47,185)	(95,922)
Sales	-	-
Maturities, prepayments and calls	23,395	54,412
Held-to-maturity:		
Purchases	(24,914)	-
Maturities, prepayments and calls	8,050	-
Additions to premises and equipment, net	(1,219)	(1,904)
Net sales (purchases) of FHLB stock	90	29
Improvements to foreclosed assets	(9)	(26)
Proceeds from sales of foreclosed assets	679	443
Purchase of bank-owned life insurance	-	(5,000)
Net cash from investing activities	(29,790)	(69,464)

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2014 and 2013
(In thousands)

	2014	2013
Cash flows from financing activities:		
Net change in deposits	$ 17,948	$ 22,543
Additions to FHLB advances and other borrowings	18,000	49,816
Payments on FHLB advances and other borrowings	(18,231)	(33,000)
Net change in advance payments for taxes and insurance	20	7
Sale (Purchase) of treasury shares, net	1,936	(92)
Proceeds from exercise of stock options	139	178
Payment of cash distributions	(1,525)	(2,446)
Net cash from financing activities	18,287	37,006
Net change in cash and cash equivalents	(2,598)	(12,868)
Cash and cash equivalents at beginning of year	18,477	31,345
Cash and cash equivalents at end of year	$ 15,879	$ 18,477
Supplemental cash flow information:		
Cash paid during the year for interest	$ 1,878	$ 2,838
Supplemental noncash disclosures:		
Distributions declared, not paid	$ 2,550	$ -
Transfer from loans to foreclosed assets	1,239	452
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.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 6, 2015, 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.

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.

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

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

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.

<u>Securitizations and Loans Held for Sale</u>: 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.

<u>Mortgage Banking Derivatives</u>: 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

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

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 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

(Continued)

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

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 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.

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

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 that have been identified for each loan segment are as follows:

- 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.

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

(Continued)

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

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 for 2013 is the amount of matching contributions.

Employee Stock Ownership Plan (ESOP): The Company maintains a non-contributory, non-leveraged ESOP. Contribution expense is based on the market price of shares as they are contributed to participant accounts. Distributions on allocated shares reduce retained earnings.

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 or penalties recorded in the income statement for the years ended December 31, 2014 and 2013. The Company is no longer subject to examination by taxing authorities for years before 2011.

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 13,840 shares at December 31, 2014 and 12,636 shares at December 31, 2013. 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 stockholders.

(Continued)

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

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.

Adoption of New Accounting Standards and Newly Issued Not Yet Effective Accounting Standards: The following provides a description of recently adopted or newly issued not yet effective accounting standards that could have a material effect on the Company's consolidated financial statements:

In January 2014, FASB issued ASU 2014-04, Receivables-Troubled Debt Restructurings by Creditors (ASC Topic 310-40), regarding guidance to reduce inconsistencies when derecognizing loan receivables and recording real estate recognized. A creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The guidance is effective for fiscal years beginning after December 15, 2014, and the interim periods within those fiscal years. An entity can elect to adopt the amendments using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. The Company anticipates adopting this update in the first quarter of 2015, and does not expect the adoption to have a material effect on the Company's consolidated financial condition, results of operations or cash flows.

In December 2013, FASB amended the Glossary of the Codification to include a single definition of a public business entity for future use in GAAP. The definition of a public business entity will be used in considering the scope of new financial guidance and will identify whether the guidance does or does not apply to public business entities. The amendment does not affect existing requirements and there is no effective date. The Company evaluated the amendment and determined the amendment will have no impact on the consolidated financial statements as the amendment does not apply to S-Corporations.

(Continued)

(In thousands)

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents, subject to regulatory reserve requirements of $1.1 million and $1.5 million at December 31, 2014 and 2013, consisted of the following:

	2014	2013
Cash and due from banks	$ 8,432	$ 7,937
Interest-bearing deposits	7,447	10,540
Total cash and cash equivalents	$ 15,879	$ 18,477

(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, 2014 and 2013 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income/(loss) and gross unrecognized gains and losses:

2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Government-sponsored agencies	$ 158,259	$ 71	$ (1,766)	$ 156,564
Residential mortgage-backed securities	30,272	1,787	-	32,059
Equity securities	1,000	-	(7)	993
Total available-for-sale	$ 189,531	$ 1,858	$ (1,773)	$ 189,616

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held-to-maturity				
U.S. Government-sponsored agencies	$ 122,246	$ 1,822	$ (77)	$ 123,991
Residential mortgage-backed securities	15,544	104	(19)	15,629
Collateralized mortgage obligations	71	-	(1)	70
Private-issue collateralized mortgage obligations	209	-	-	209
Total held-to-maturity	$ 138,070	$ 1,926	$ (97)	$ 139,899

(In thousands)

NOTE C - SECURITIES *(Continued)*

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 Gains	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

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 31,2014			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity				
Within one year	$ -	$ -	$ -	$ -
One to five years	148,492	147,029	3,186	3,194
Five to ten years	9,767	9,535	121,570	123,314
Beyond ten years	30,272	32,059	13,314	13,391
	$ 188,531	$ 188,623	$ 138,070	$ 139,899

Securities pledged to secure public deposits and repurchase agreements at December 31, 2014 and 2013 were approximately $98.4 million and $84.5 million at fair value.

(In thousands)

NOTE C - SECURITIES *(Continued)*

Securities with unrealized losses at December 31, 2014 and 2013, 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	
2014	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. Government-sponsored agencies	$ 50,278	$ (156)	$ 94,304	$ (1,610)	$ 144,582	$ (1,766)
Equity securities	993	(7)	-	-	993	(7)
	$ 51,271	$ (163)	$ 94,304	$ (1,610)	$ 145,575	$ (1,773)

	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	$ 13,306	$ (77)	$ -	$ -	$ 13,306	$ (77)
Residential mortgage-backed securities	2,908	(19)	-	-	2,908	(19)
Collateralized mortgage obligations	48	(1)	-	-	48	(1)
	$ 16,262	$ (97)	$ -	$ -	$ 16,262	$ (97)

	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)

At December 31, 2014 and 2013, 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. Accretion of $732 thousand was recognized in 2014. No accretion was recognized in 2013.

(In thousands)

NOTE D - LOANS

Loans, including residential real estate loans held for sale of $5.1 million and $5.8 million at December 31, 2014 and 2013, by major category consisted of the following:

	2014	2013
Loans secured by real estate:		
Residential construction	$ 26,119	$ 21,224
Nonresidential construction & land	7,042	5,678
Home equity lines of credit	872	883
Residential	182,199	204,717
Second mortgages	479	640
Multifamily	256	307
Commercial	37,394	32,790
Commercial & industrial	19,406	20,939
Consumer	3,945	4,025
Total loans	277,712	291,203
Allowance for loan losses	(3,461)	(3,439)
Loans, net	$ 274,251	$ 287,764

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

	2014	2013
Beginning balance	$ 3,439	$ 3,568
Charge-offs	(772)	(927)
Recoveries	519	451
Loan loss provision	275	347
Ending balance	$ 3,461	$ 3,439

Loans to executive officers, directors, and their affiliates were $3.1 million and $3.2 million at December 31, 2014 and 2013.

(In thousands)

NOTE D - LOANS *(Continued)*

The following tables present activity in the allowance for loan losses for the years ended December 31, 2014 and 2013:

2014	Beginning Balance	Loan Loss Provision	Charge-offs	Recoveries	Ending Balance
Loans secured by real estate:					
Residential construction	$ 173	$ 80	$ -	$ -	$ 253
Nonresidential construction & land	62	(26)	-	24	60
Home equity lines of credit	8	(2)	-	-	6
Residential	2,325	(6)	-	-	2,319
Second mortgages	3	(1)	-	-	2
Multifamily	-	1	-	-	1
Commercial	239	61	-	-	300
Commercial & industrial	293	(81)	-	-	212
Consumer	336	249	(772)	495	308
Total	$ 3,439	$ 275	$ (772)	$ 519	$ 3,461

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

(Continued)

(In thousands)

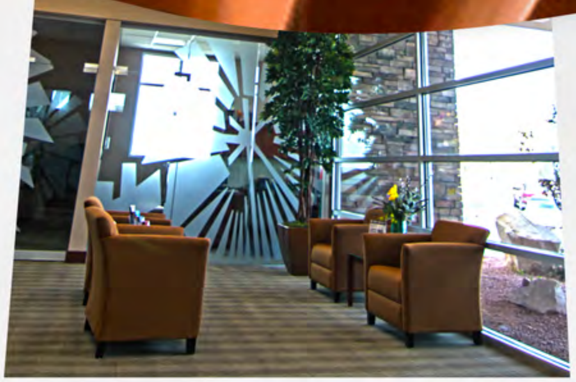
NOTE D - LOANS *(Continued)*

The following tables represent the balance in the allowance for loan losses and the recorded investment in loans investment in loans based on impairment method as of year-end 2014 and 2013:

2014	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	$ -	$ 26,119	$ 26,119	$ -	$ 253	$ 253
Nonresidential construction & land	-	7,042	7,042	-	60	60
Home equity lines of credit	-	872	872	-	6	6
Residential	-	182,199	182,199	-	2,319	2,319
Second mortgages	-	479	479	-	2	2
Multifamily	-	256	256	-	1	1
Commercial	-	37,394	37,394	-	300	300
Commercial & industrial	-	19,406	19,406	-	212	212
Consumer	-	3,945	3,945	-	308	308
Total	$ -	$ 277,712	$ 277,712	$ -	$ 3,461	$ 3,461

2013	Loan Balances: Individually Evaluated for Impairment	Loan Balances: Collectively Evaluated for Impairment	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

(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 2014 and 2013 by class of loans:

2014	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	$ -	$ -	$ -	$ -	$ 26,119	$ 26,119
Nonresidential construction & land	-	27	-	-	7,015	7,042
Home equity lines of credit	-	-	-	-	872	872
Residential	4,953	1,168	-	3,224	172,854	182,199
Second mortgages	2	-	-	-	477	479
Multifamily	-	-	-	-	256	256
Commercial	-	-	-	235	37,159	37,394
Commercial & industrial	-	-	-	-	19,406	19,406
Consumer	10	-	-	-	3,935	3,945
Total	$ 4,965	$ 1,195	$ -	$ 3,459	$ 268,093	$ 277,712

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

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.

(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 2014 and 2013, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

2014	Not Rated	Pass	Special Mention	Substandard	Doubtful	Total
Loans secured by real estate:						
Residential construction	$ -	$ 26,119	$ -	$ -	$ -	$ 26,119
Nonresidential construction & land	-	6,693	-	349	-	7,042
Home equity lines of credit	814	-	-	58	-	872
Residential	180,860	-	-	1,339	-	182,199
Second mortgages	477	-	-	2	-	479
Multifamily	-	256	-	-	-	256
Commercial	-	31,977	100	5,317	-	37,394
Commercial & industrial	-	19,369	-	37	-	19,406
Consumer	3,883	-	-	61	1	3,945
Total	$ 186,034	$ 84,414	$ 100	$ 7,163	$ 1	$ 277,712

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

Troubled debt restructurings are not material during any period presented.

(Continued)

(In thousands)

NOTE E - FORECLOSED ASSETS

Foreclosed assets activity was as follows:

	2014	2013
Balance at beginning of year	$ 1,482	$ 1,453
Transfers	1,239	452
Capitalized improvements	9	26
Write-downs	(137)	(18)
Proceeds from sales	(679)	(443)
Gain on sale, net	20	12
Balance at end of year	$ 1,934	$ 1,482

Proceeds from sales include $205 thousand in mortgage insurance payments.

Foreclosed assets at year-end 2014 included one parcel of land with a carrying value of $893 thousand, one commercial building with a carrying value of $807 thousand and one single-family residence with a total carrying value of $234 thousand.

Operating expenses related to foreclosed assets for the years ended December 31, 2014 and 2013 totaled $96 thousand and $35 thousand.

(Continued)

(In thousands)

NOTE F - PREMISES AND EQUIPMENT

Year-end premises and equipment consisted of:

	2014	2013
Land	$ 5,196	$ 5,196
Buildings and leasehold improvements	27,465	26,199
Furniture, equipment, and autos	9,619	14,453
Construction in progress	-	1,301
	42,280	47,149
Less accumulated depreciation and amortization	11,581	15,614
Premises and equipment, net	$ 30,699	$ 31,535

Depreciation expense was $2.1 million and $2.2 million for 2014 and 2013.

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 $155 thousand and $161 thousand for the years ended December 31, 2014 and 2013. Future lease payments for branch offices through 2017 do not exceed $150 thousand per year.

(In thousands)

NOTE G - MORTGAGE SERVICING RIGHTS AND LOAN SERVICING

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

	2014	2013
Mortgage loans underlying pass-through securities:		
GNMA	$ 286,050	$ 308,419
FNMA	164,256	190,023
FHLMC	19	32
	450,325	498,474
Mortgage loan portfolio service for:		
FNMA	195,255	163,188
FHLMC	1,198	1,443
Other investors	17,436	23,533
	213,889	188,164
	$ 664,214	$ 686,638

Custodial balances on deposit at the Bank, in connection with the foregoing loan servicing, amounted to $16.7 million and $12.1 million at December 31, 2014 and 2013.

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

	2014	2013
Mortgage servicing rights		
Balance, beginning of year	$ 6,341	$ 6,533
Capitalized	1,020	1,586
Amortization	(1,430)	(1,778)
Balance, end of year	5,931	6,341
Impairment allowance	-	-
Balance, end of year, net of impairment allowance	$ 5,931	$ 6,341
Valuation allowance		
Beginning of year	$ -	$ 95
Additions expensed	-	-
Reductions credited to income	-	(95)
End of year	$ -	$ -

(Continued)

(In thousands)

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

The estimated fair value of capitalized mortgage servicing rights was $8.5 million at year-end 2014. Fair value was determined using discount rates ranging from 9.50% to 14.00%, prepayment speeds ranging from 5.15% to 38.48% 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 $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 weighted-average amortization period is 4.40 years. Estimated amortization expense for each of the next five years follows:

2015	$	905
2016		770
2017		654
2018		557
2019		475

(In thousands)

NOTE H - DEPOSITS

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

	2014	2013
No contractual maturities	$ 387,698	$ 352,179
2014	-	106,023
2015	91,498	17,399
2016	13,591	7,248
2017	4,570	4,266
2018	5,748	6,193
2019	8,151	-
	$ 511,256	$ 493,308

At December 31, 2014 and 2013, approximately $55.0 million and $41.8 million of residential mortgage-backed and U.S. Government-sponsored agency securities were pledged to secure public unit deposits.

Time deposits of $250,000 or more (the federally insured amount) were $19.6 million and $28.0 million at year-end 2014 and 2013.

Deposits from executive officers, directors, and their affiliates at year-end 2014 and 2013 were $6.9 million and $6.1 million.

(In thousands)

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

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

	2014	2013
Maturities January 2015 through November 2018, at fixed rates from 0.05% to 3.22%, averaging 1.29%	$ 59,000	
Maturities January 2014 through November 2018, at fixed rates from 1.19% to 3.22%, averaging 2.01%		$ 54,000

Each advance is payable at its maturity date or on payment of a prepayment penalty for fixed rate advances. The advances were collateralized by $151.1 million and $172.2 million of eligible loans under a blanket lien arrangement at year-end 2014 and 2013. Based on this collateral, the Company's holdings of FHLB stock and securities held in safekeeping, the Company was eligible to borrow an additional $233.9 million at year-end 2014.

Required payments over the next four years are:

2015	$ 26,000
2016	4,000
2017	22,000
2018	7,000

Other borrowings consist of customer repurchase sweep accounts with overnight maturities. Balances were $23.1 million and $28.4 million at year-end 2014 and 2013.

(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:

	2014	2013
Undisbursed lines of credit	$ 19,637	$ 21,268
Commitments to originate loans	6,573	3,176
Recourse on loans sold	3,788	3,788
Standby letters of credit	241	694
Commitments to sell mortgages and mortgage-backed securities	1,000	3,000

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 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, 2014 and 2013, 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, 2014 and 2013 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, 2014						
Total Risk-Based Capital (to risk-weighted assets)	$ 72,510	24.8%	$ 23,431	8.0%	$ 29,289	10.0%
Tier 1 Risk-Based Capital (to risk-weighted assets)	68,849	23.5%	11,716	4.0%	17,573	6.0%
Core Capital (to adjusted total assets)	68,849	10.2%	27,103	4.0%	33,879	5.0%
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%

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 2015, the Bank could, subject to no objection from regulators, declare dividends of approximately $6.6 million plus any 2015 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.

<u>Securities available-for-sale</u>: 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).

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

<u>Derivatives</u>: The fair value of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

<u>Impaired loans</u>: 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. The fair value of impaired loans is not deemed material for disclosure at December 31, 2014.

<u>Foreclosed assets</u>: 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. The fair value of foreclosed assets is not deemed material for disclosure at December 31, 2014.

(In thousands)

NOTE L - FAIR VALUE *(Continued)*

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

	Fair Value Measurements at December 31, 2014 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	$ -	$ 156,564	$ -	$ 156,564
Residential mortgage-backed securities	-	32,059	-	32,059
Equity securities	993	-	-	993
Mortgage banking derivatives	-	33	-	33

	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

(Continued)

(In thousands)

NOTE L - FAIR VALUE *(Continued)*

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

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 15,879	$ 15,879	$ 18,477	$ 18,477
Securities held-to-maturity	138,070	139,899	120,824	119,076
Loans and loans held for sale, net	274,251	281,700	287,764	295,198
FHLB stock	3,176	N/A	3,256	N/A
Accrued interest receivable	1,855	1,855	1,778	1,778
Financial Liabilities:				
Deposits	$ 511,256	$ 490,941	$ 493,308	$ 470,928
FHLB advances and other borrowings	82,135	82,591	82,366	82,876
Advance payments for taxes and insurance	2,325	2,325	2,305	2,305
Accrued interest payable	66	66	96	96

(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 both a qualified 401(k) retirement savings plan and an Employee Stock Ownership Plan (ESOP).

In 2013, stockholders approved the Pioneer Bank Employee Stock Ownership Plan. In 2014, Pioneer transferred approximately $2.0 million of the matching contribution account held in the 401(k) Plan to the ESOP in order to establish the initial ESOP fund. The Bank then applied the amount transferred to the purchase of 31,581 shares of Pioneer Bancorp, Inc. common stock from Pioneer Bancorp, Inc. treasury shares at $62 per share, the appraised value of the stock on August 15, 2014, the date of the transfer.

Participant stock will be repurchased by the Company at the end of employment. All shares held by the ESOP at December 31, 2014 were allocated to participants. The fair value of allocated shares subject to repurchase obligation at year-end 2014 was $2.0 million.

Contributions to the 401(k) and beginning in 2014 to the ESOP 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 2014 to the ESOP and 2013 to the 401(k):

Year	Match	Compensation	Expense
2014	100%	5%	$ 245
2013	100%	5%	291

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:

	2014	2013
Benefit obligation at beginning of year	$ 4,949	$ 5,361
Service cost	183	59
Interest cost	230	238
Plan amendments	-	(402)
Actuarial (gain)/loss	738	(258)
Benefits paid	(49)	(49)
Benefit obligation at end of year	$ 6,051	$ 4,949

Amounts recognized in accumulated other comprehensive income consist of:

	2014	2013
Net loss	$ 1,151	$ 464
Prior service cost	491	523
Total	$ 1,642	$ 987

(Continued)

(In thousands)

NOTE M - RETIREMENT PLANS *(Continued)*

The net periodic benefit cost was $497 thousand and $514 thousand for the years ended December 31, 2014 and 2013.

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, 2015 are $144 thousand and $32 thousand.

Estimated Future Payments

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

2015	$	49
2016		74
2017		204
2018		327
2019		323
Years 2020-2024		2,184

The weighted-average discount rate used to determine benefit obligations and periodic benefit cost was 3.72% and 4.68% and 4.68% and 4.47% at year-end 2014 and 2013.

(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 $61 thousand and $53 thousand for 2014 and 2013.

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.

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

	2014	2013
Risk-free interest rate	1.99%	2.13%
Expected term	7.00	7.00
Expected stock price volatility	31.24%	37.61%
Dividend yield	-	-

(In thousands, except share amounts)

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

A summary of the activity in the stock option plan for 2014 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	50,475	$ 45	
Granted	2,400	62	
Exercised	(3,100)	45	
Forfeited or expired	-	-	
Outstanding at end of year	49,775	$ 46	3.6
Vested or expected to vest	49,775	$ 46	3.6
Exercisable at end of year	46,475	$ 45	3.2

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

	2014	2013
Intrinsic value of options exercised	$ 53	$ 77
Cash received from option exercises	139	178
Intrinsic value of options outstanding	789	689
Weighted average fair value of options granted	22.86	25.24

As of December 31, 2014, there was $72 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 2.8 years.

(In thousands)

NOTE O - ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

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

	December 31, 2014	December 31, 2013
Unrealized gains/(losses) on securities available-for-sale	$ 85	$ (2,351)
Remaining unrealized (losses) on securities transferred to held-to-maturity	(4,456)	(5,188)
Employee pension plan	(1,642)	(987)
Total accumulated other comprehensive income	$ (6,013)	$ (8,526)

PIONEER BANCORP, INC.
SCHEDULE I - CONSOLIDATING BALANCE SHEET
December 31, 2014
(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	$ 15,879	$ -	$ -	$ 15,879	$ -	$ -	$ 15,879
Securities:							
Available-for-sale	188,770	846	-	189,616	-	-	189,616
Held-to-maturity	137,539	531	-	138,070	-	-	138,070
Loans held for sale, net	5,085	-	-	5,085	-	-	5,085
Loans, net	269,166	-	-	269,166	-	-	269,166
FHLB Stock	3,176	-	-	3,176	-	-	3,176
Investment in subsidiary	7,556	-	(7,556)	-	62,842	(62,842)	-
Intercompany advance	-	6,159	(6,159)	-	3,467	(3,467)	-
Premises and equipment, net	30,685	14	-	30,699	-	-	30,699
Mortgage servicing rights, net	5,931	-	-	5,931	-	-	5,931
Foreclosed assets	1,934	-	-	1,934	-	-	1,934
Accrued interest receivable	1,844	11	-	1,855	-	-	1,855
Bank-owned life insurance	9,098	-	-	9,098	-	-	9,098
Other assets	1,848	3	-	1,851	-	-	1,851
Total assets	$ 678,511	$ 7,564	$ (13,715)	$ 672,360	$ 66,309	$ (66,309)	$ 672,360
LIABILITIES							
Deposits	$ 511,256	$ -	$ -	$ 511,256	$ -	$ -	$ 511,256
FHLB advances and other borrowings	82,135	-	-	82,135	-	-	82,135
Official checks	2,227	-	-	2,227	-	-	2,227
Advance payments for taxes and insurance	2,325	-	-	2,325	-	-	2,325
Accrued interest payable	66	-	-	66	-	-	66
Intercompany advance	9,628	-	(6,159)	3,469	-	(3,469)	-
Accounts payable and other liabilities	8,042	-	(1)	8,041	2,551	1	10,593
Total liabilities	615,679	-	(6,160)	609,519	2,551	(3,468)	608,602
STOCKHOLDERS' EQUITY							
Capital stock	-	82	(82)	-	1,009	-	1,009
Treasury stock	-	-	-	-	(2,482)	-	(2,482)
Additional paid-in capital	1,700	-	-	1,700	1,282	(1,700)	1,282
Retained earnings	67,154	7,473	(7,473)	67,154	69,962	(67,154)	69,962
Accumulated other comprehensive income	(6,022)	9	-	(6,013)	(6,013)	6,013	(6,013)
Total stockholders' equity	62,832	7,564	(7,555)	62,841	63,758	(62,841)	63,758
Total liabilities and stockholders' equity	$ 678,511	$ 7,564	$ (13,715)	$ 672,360	$ 66,309	$ (66,309)	$ 672,360

[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, 2014
(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	$ 13,227	$ 182	$ (16)	$ 13,393	$ -	$ -	$ 13,393
Mortgage securities	1,242	35	-	1,277	-	-	1,277
Investment securities and other	4,004	-	-	4,004	-	-	4,004
Total	18,473	217	(16)	18,674	-	-	18,674
Interest expense:							
Deposits	1,056	-	-	1,056	-	-	1,056
FHLB advances and other borrowings	792	16	(16)	792	-	-	792
Total	1,848	16	(16)	1,848	-	-	1,848
Net interest income	16,625	201	-	16,826	-	-	16,826
Loan loss provision	275	-	-	275	-	-	275
Net interest income after loan loss provision	16,350	201	-	16,551	-	-	16,551
Noninterest income:							
Deposit account fees	6,858	-	-	6,858	-	-	6,858
Gain on sale of loans, net	1,617	960	-	2,577	-	-	2,577
Loan administration and service fees	1,487	120	-	1,607	-	-	1,607
Change in mortgage servicing rights impairment allowance	-	-	-	-	-	-	-
Equity earnings of subsidiary	577	-	(577)	-	5,171	(5,171)	-
Gain on sale of securities, net	-	-	-	-	-	-	-
Other	225	1	-	226	-	(10)	216
Total	10,764	1,081	(577)	11,268	5,171	(5,181)	11,258
Noninterest expense:							
Compensation and employee benefits	10,465	487	-	10,952	-	-	10,952
Equipment	2,217	36	-	2,253	-	-	2,253
Data processing	3,618	14	-	3,632	-	-	3,632
Occupancy	1,939	80	-	2,019	-	-	2,019
Stationery, printing and office supplies	401	8	-	409	6	-	415
Professional and supervisory	692	5	-	697	10	(10)	697
Federal deposit insurance	371	-	-	371	-	-	371
Postage and transportation	558	6	-	564	-	-	564
Advertising and public relations	893	22	-	915	-	-	915
Telephone	193	22	-	215	-	-	215
Other	596	25	-	621	-	-	621
Total	21,943	705	-	22,648	16	(10)	22,654
Net income	$ 5,171	$ 577	$ (577)	$ 5,171	$ 5,155	$ (5,171)	$ 5,155

[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, 2014
(In thousands)

2014 Over 2013

	Average Balance		Interest		Average Rate		Total	Change due to	
	2014	2013	2014	2013	2014	2013	Change	Volume	Rate
Interest and dividend income									
Loans	$ 292,673	$ 287,535	$ 13,393	$ 13,326	4.58%	4.63%	$ 67	$ 235	$ (168)
Mortgage securities	54,073	67,219	1,277	1,664	2.36%	2.48%	(387)	(310)	(77)
Investment securities and other	241,048	226,363	4,004	3,798	1.66%	1.68%	206	244	(38)
Total interest-earning assets	$ 587,794	$ 581,117	$ 18,674	$ 18,788	3.18%	3.23%	$ (114)	$ 169	$ (283)
Interest expense									
Deposits	$ 511,342	$ 475,367	$ 1,056	$ 1,284	0.21%	0.27%	$ (228)	$ 74	$ (302)
FHLB advances and other borrowings	68,384	100,355	792	1,489	1.16%	1.48%	(697)	(370)	(327)
Total interest-bearing liabilities	$ 579,726	$ 575,722	$ 1,848	$ 2,773	0.32%	0.48%	$ (925)	$ (296)	$ (629)
Net interest spread and income			$ 16,826	$ 16,015	2.86%	2.75%			
Ratio of net interest income to average interest-earning assets			2.86%	2.76%					

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%					

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

Pioneer Bancorp, Inc.
3000 North Main Street
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Roswell, New Mexico 88202-0130

INDEPENDENT AUDITORS

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P.O. Box 3697
Oak Brook, Illinois 60522-3697

GENERAL COUNSEL

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701 West Country Club Road
P.O. Box 550
Roswell, New Mexico 88202-0550

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 21, 2015 at the Corporate Headquarters, 3000 North Main Street, Roswell, New Mexico.

PIONEER BANCORP, INC.

BOARD OF DIRECTORS

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Cooper & Amador, CPA's, PC

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Chairman, President and CEO
Pioneer Bank

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Investments

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TIB - The Independent BankersBank

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Susan L. Roe
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PIONEER MORTGAGE COMPANY

Vice President
Martin L. Hladyniuk

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

President
David L. Karger

PIONEER BANK

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