PIONEER BANCORP, INC.

2018 ANNUAL REPORT

FINANCIAL HIGHLIGHTS (Unaudited)

(In thousands, except per share amounts)	**2018**	Change	2017	2016	2015	2014
AT YEAR-END						
Assets	**$ 820,562**	+ 0%	$ 817,949	$ 764,574	$ 737,315	$ 672,360
Loans	**359,292**	+ 5%	341,345	315,101	287,374	274,251
Securities	**382,398**	- 1%	387,912	365,578	378,304	327,686
Loans serviced for others	**41,639**	- 92%	543,440	569,098	615,968	664,214
Deposits	**519,780**	- 3%	537,951	540,782	540,723	511,256
Borrowings	**214,622**	+ 13%	190,233	141,187	114,065	82,135
Stockholders' equity	**72,218**	+ 1%	71,758	67,565	67,051	63,758
FOR THE YEAR						
Interest and dividend income	**24,748**	+ 8%	22,996	22,116	19,060	18,674
Interest expense	**4,858**	+ 64%	2,963	1,847	1,546	1,848
Net interest income	**19,890**	- 1%	20,033	20,269	17,514	16,826
Loan loss provision	**712**	+ 14%	625	481	247	275
Noninterest income	**11,285**	- 4%	11,701	10,781	10,666	11,258
Noninterest expense	**23,725**	+ 1%	23,502	23,066	23,456	22,654
Net income	**6,738**	- 11%	7,607	7,503	4,477	5,155
CAPITAL RATIO						
Equity to assets	**8.8%**		8.8%	8.8%	9.1%	9.5%
PER SHARE						
Year-end book value	**74.75**	+ 0%	74.53	70.92	70.61	67.50
Earnings	**6.97**	- 12%	7.93	7.88	4.72	5.59
Distributions	**5.70**	+ 25%	4.56	4.73	3.09	4.35
Distribution payout ratio	**81.8%**		57.5%	60.0%	65.5%	77.8%
PERFORMANCE RATIOS						
Return on average stockholders' equity	**9.36%**		10.60%	11.10%	6.85%	8.47%
Return on average assets	**0.82%**		0.93%	0.98%	0.64%	0.78%
Net interest margin	**2.64%**		2.64%	2.86%	2.74%	2.86%
Efficiency ratio	**76.10%**		74.06%	74.29%	83.24%	80.67%
SELECTED INFORMATION						
Average common shares *(in thousands)*	**966**		959	952	948	922
Full-time equivalent employees	**158**		197	203	204	207
Customer service facilities:						
Full-service facilities	**6**		7	7	7	7
Banking branches	**5**		7	7	9	9
Loan production offices	**1**		2	2	2	2
ATMs	**19**		21	22	21	21

Dear Fellow Stockholders,

We are pleased to report that Pioneer Bancorp, Inc. had a profitable 2018. This past year we also completed several strategic initiatives to position Pioneer for the future.

Net income for the year ended December 31, 2018 was $6.7 million compared to $7.6 million for the year ended December 31, 2017. Total assets increased $2.7 million to $820.6 million at December 31, 2018 from $817.9 million at December 31, 2017. The largest component of our asset growth occurred in commercial loans which increased $27.4 million, or 32.8% for the year. With the sale of our El Paso branches, deposits declined to $519.8 million compared to $538.0 million. Stockholders' equity increased $460 thousand to $72.2 million at December 31, 2018 from $71.8 million at December 31, 2017. Tangible book value per share increased $1.23 per share to $82.22 at December 31, 2018 while book value per share increased $0.22, to $74.75.

In 2018 the sale of our loans serviced for others portfolio was completed. Declining volumes, regulatory risk and agency servicing liability, led us to this difficult decision. However, we continue to be committed to originating mortgage loans, but those loans are sold servicing released, or if kept in our portfolio, are serviced on behalf of Pioneer by a sub-servicer.

The second initiative completed in 2018 was the sale of our branch operations in El Paso, Texas to Western Heritage Bank resulting in a $1.3 million gain on sale. We continue and will continue to lend in the market through a participation agreement with Western Heritage for the foreseeable future.

In December 2018, Chief Executive Officer, Stephen P. Puntch announced his retirement effective March 31, 2019 after 34 years of dedicated service to Pioneer Bank. CEO Puntch's retirement statement:

> "It has been a privilege to have had the opportunity to be associated with such a dynamic and resilient, community-centered financial institution. I look forward to the opportunity to continue to offer my input regarding the future course for Pioneer Bank as a voting member of the Board of Directors.
>
> In planning for the future, the Board of Directors has appointed an experienced and capable management team that will be led by CEO-elect and current President/Chief Operating Officer, Christopher G. Palmer."

Please plan to attend our annual meeting of stockholders which will be held at 10:30 a.m. on April 25, 2019 at our corporate headquarters, 3000 North Main Street, Roswell, New Mexico. On behalf of the Board of Directors, Officers and Team Pioneer, we thank you for your investment in Pioneer Bancorp, Inc. and the communities we serve.

Sincerely,

Stephen P. Puntch
Chief Executive Officer

Christopher G. Palmer
President and Chief Operating Officer

Roswell, New Mexico
March 25, 2019

Crowe LLP
Independent Member Crowe Global

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, 2018 and 2017, 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, 2018 and 2017, 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.

Crowe LLP

Crowe LLP

Oak Brook, Illinois
March 13, 2019

PIONEER BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017
(In thousands, except share amounts)

	Note	2018	2017
ASSETS			
Cash and cash equivalents	B	$ 17,471	$ 29,694
Securities:	C		
Available-for-sale		230,952	236,653
Held-to-maturity (fair value 2018 - $146,392; 2017 - $147,363)		151,446	151,259
Loans held for sale, net	D	3,953	2,591
Loans, net	D	355,339	301,730
Federal Home Loan Bank (FHLB) stock		8,925	6,741
Other real estate owned	E	595	595
Premises and equipment, net	F	26,256	26,735
Mortgage servicing rights, net	G	427	1,521
Accrued interest receivable		3,121	2,881
Bank-owned life insurance		18,359	15,651
Assets held for sale - El Paso	P	-	39,132
Other assets		3,718	2,766
Total assets		$ 820,562	$ 817,949
LIABILITIES			
Deposits	H	$ 519,780	$ 499,173
FHLB advances and other borrowings	I	214,622	190,233
Official checks		2,995	3,242
Advance payments for taxes and insurance		81	3,186
Accrued interest payable		220	185
Liabilities held for sale - El Paso	P	-	38,778
Accounts payable and other liabilities		10,646	11,394
Total liabilities		748,344	746,191
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 (2018 - 42,852 shares; 2017 - 46,086 shares)		(2,503)	(2,632)
Additional paid-in capital		1,980	1,885
Retained earnings		78,948	77,716
Accumulated other comprehensive loss		(7,216)	(6,220)
Total stockholders' equity		72,218	71,758
Total liabilities and stockholders' equity		$ 820,562	$ 817,949

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2018 and 2017
(In thousands, except share amounts)

	Note	2018	2017
Interest and dividend income:			
Loans		$ 16,583	$ 14,992
Mortgage securities		1,136	1,245
Investment securities and other		7,029	6,759
Total		24,748	22,996
Interest expense:			
Deposits		1,349	986
FHLB advances and other borrowings		3,509	1,977
Total		4,858	2,963
Net interest income		19,890	20,033
Loan loss provision	D	712	625
Net interest income after loan loss provision		19,178	19,408
Noninterest income:			
Deposit account fees		8,217	7,661
Gain on sale of loans, net	D	690	1,937
Loan administration and service fees		328	1,345
Gain on asset sale - El Paso		1,324	-
Other		726	758
Total		11,285	11,701
Noninterest expense:			
Compensation and employee benefits	M/N	11,524	11,805
Equipment		1,815	1,806
Data processing		4,831	4,316
Occupancy		1,820	2,023
Stationery, printing, and office supplies		439	497
Professional and supervisory		854	788
Federal deposit insurance		247	261
Postage and transportation		398	463
Advertising and public relations		896	887
Telephone		213	181
Other		688	475
Total		23,725	23,502
Net income		$ 6,738	$ 7,607

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2018 and 2017
(In thousands, except share amounts)

	Note	2018	2017
Weighted-average number of capital stock shares outstanding:			
Basic		966,063	959,356
Diluted		967,573	962,240
Earnings per share:			
Basic		$ 6.97	$ 7.93
Diluted		6.96	7.91

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2018 and 2017
(In thousands, except share amounts)

	Note	2018	2017
Net income		$ 6,738	$ 7,607
Other comprehensive income:			
Unrealized gains on securities:			
Unrealized holding gain (loss) arising during the period		(1,630)	917
Amortization of unrealized losses on held-to-maturity securities that were formerly available-for-sale		33	13
		(1,597)	930
Defined benefit pension plan:	*M*		
Net gain/(loss) arising during the period		485	(341)
Amortization of prior service cost included in net periodic pension cost		116	16
		601	(325)
Total other comprehensive income (loss)		(996)	605
Comprehensive income		$ 5,742	$ 8,212

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2018 and 2017
(In thousands, except share amounts)

	Capital Stock $1 Par	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Income/(Loss)	Total
Balance, January 1, 2017	$ 1,009	$ (2,775)	$ 1,658	$ 74,498	$ (6,825)	$ 67,565
Net income	-	-	-	7,607	-	7,607
Other comprehensive income	-	-	-	-	605	605
Purchase of treasury stock (4,168 shares)	-	(273)	-	-	-	(273)
Sale of treasury stock (5,000 shares)	-	250	125	-	-	375
Exercise of stock options (9,325 shares)	-	166	88	-	-	254
Stock-based compensation	-	-	14	-	-	14
Distributions - $4.56 per share	-	-	-	(4,389)	-	(4,389)
Balance, December 31, 2017	1,009	(2,632)	1,885	77,716	(6,220)	71,758
Net income	-	-	-	6,738	-	6,738
Other comprehensive loss	-	-	-	-	(996)	(996)
Purchase of treasury stock (2,563 shares)	-	(193)	-	-	-	(193)
Sale of treasury stock (4,700 shares)	-	268	118	-	-	386
Exercise of stock options (1,097 shares)	-	54	-	-	-	54
Stock-based compensation	-	-	(23)	-	-	(23)
Distributions - $5.70 per share	-	-	-	(5,506)	-	(5,506)
Balance, December 31, 2018	$ 1,009	$ (2,503)	$ 1,980	$ 78,948	$ (7,216)	$ 72,218

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017
(In thousands, except share amounts)

	2018	2017
Cash flows from operating activities:		
Net income	$ 6,738	$ 7,607
Adjustments to reconcile net income to net cash from operating activities:		
Amortization (accretion) of:		
Mortgage servicing rights	87	942
Premiums and discounts on investments and mortgage securities, net	(80)	276
Provision for loan losses	712	625
Net (gain)/loss on sales and disposals of:		
Loans	(690)	(1,937)
Mortgage servicing rights	(73)	(352)
Premises and equipment	(12)	3
Other real estate owned	-	18
Assets held for sale - El Paso	(1,324)	-
Other real estate owned fair value adjustment	-	(74)
Stock-based compensation expense	(23)	14
FHLB stock dividends	205	114
Depreciation of premises and equipment	1,798	1,776
Origination of mortgage loans held for sale	(29,416)	(55,262)
Proceeds from sales of loans held for sale	28,563	55,152
Earnings on bank-owned life insurance	(567)	(512)
Changes in operating assets and liabilities:		
Accrued interest receivable	(230)	(300)
Other assets	(952)	(634)
Accrued interest payable	35	102
Accounts payable and other liabilities, net of distributions declared, not paid	380	160
Net cash from operating activities	5,151	7,718
Cash flows from investing activities:		
Loan originations and principal payments on loans, net	(26,953)	(29,235)
Proceeds from sales of loans held for investment	2,559	3,538
Securities:		
Available-for-sale:		
Purchases	-	-
Sales	-	-
Maturities, prepayments and calls	4,156	9,788
Held-to-maturity:		
Purchases	(4,259)	(35,702)
Maturities, prepayments and calls	4,100	4,234
Additions to premises and equipment	(1,258)	(1,425)
Net sales (purchases) of FHLB stock	(2,389)	(433)
Proceeds from sale of mortgage servicing rights	1,261	3,347
Cash paid in branch sale	(29,648)	-
Improvements to other real estate owned	-	(5)
Purchase of bank owned life insurance	(2,141)	-
Proceeds from sales of foreclosed assets	-	20
Net cash from investing activities	(54,572)	(45,873)

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017
(In thousands, except share amounts)

	2018	2017
Cash flows from financing activities:		
Net change in deposits	$ 21,936	$ (2,831)
Additions to FHLB advances and other borrowings	31,389	90,046
Payments on FHLB advances and other borrowings	(7,000)	(41,000)
Net change in official checks	(247)	1,974
Net change in advance payments for taxes and insurance	(3,105)	700
Sale (purchase) of treasury shares, net	193	102
Proceeds from exercise of stock options	54	254
Payment of cash distributions	(6,022)	(4,906)
Net cash from financing activities	37,198	44,339
Net change in cash and cash equivalents	(12,223)	6,184
Cash and cash equivalents at beginning of year	29,694	23,510
Cash and cash equivalents at end of year	$ 17,471	$ 29,694
Supplemental cash flow information:		
Cash paid during the year for interest	$ 4,665	$ 2,861
Supplemental noncash disclosures:		
Distributions declared, not paid	$ 1,053	$ 1,569
Transfer from loans to other real estate owned	-	92
Transfer from accrued interest receivable to assets held for sale	-	152
Transfer from premises and equipment to assets held for sale	-	1,956
Transfer from portfolio loans to assets held for sale	-	37,024
Transfer from deposits to liabilities held for sale	-	38,778

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 the issued and outstanding shares of Pioneer Bank (the Bank). The Bank is a federal savings bank operating in Southern New Mexico. 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. The Company is not a public business entity (PBE) as defined by accounting standards.

Pioneer provides financial services through six (6) full customer service facilities, five (5) banking branches, one (1) loan production office, and a network of nineteen (19) ATMs. The Company 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 consumer 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 13, 2019, 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 (1) year and are carried at cost.

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

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities: Debt securities are classified as 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. Available-for-sale securities 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) mortgage-backed securities program or sells mortgage loans on an individual whole-loan basis to the Federal National Mortgage Association (FNMA). 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Individual mortgage loans held for sale may be sold servicing rights retained to FNMA or servicing rights released to whole-loan loan correspondent investors. 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 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 commitment 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.

<u>Loans</u>: 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 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 return to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 uncollectability 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 on loans individually identified as impaired.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The following portfolio segments have been identified: Loans secured by real estate, commercial and industrial, and consumer. Loans secured by real estate include the following classes: residential construction, nonresidential construction & land, home equity lines of credit, residential, second mortgages, multifamily, and commercial.

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.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

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

Servicing Rights: 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.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Servicing fee income, which is reported on the income statement as loan administration and service fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

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.

Other Real Estate Owned: 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. Physical possession of residential real property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. 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.

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 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.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: The Bancorp files a consolidated U.S. federal income tax return with its subsidiary, Pioneer Bank, and its subsidiary, Pioneer Mortgage Company. The Bancorp also files consolidated state income tax returns in New Mexico and Colorado and a franchise tax return in Texas. 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, 2018 and 2017. The Company is no longer subject to examination by taxing authorities for years before 2015.

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. ESOP shares are considered outstanding for this calculation unless unearned. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options which was 1,509 shares at December 31, 2018 and 2,884 shares at December 31, 2017. 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.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standards:

In May 2014, the FASB amended existing guidance related to revenue from contracts with customers (ASU 2014-09, Revenue From Contracts With Customers). This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. For non PBEs, the effective date is for the year ending December 31, 2019. The amendments allow for one of two transition methods: full retrospective or modified retrospective. The full retrospective approach requires application to all periods presented. The modified retrospective transition requires application to uncompleted contracts at the date of adoption. Periods prior to the date of adoption are not retrospectively revised, but a cumulative effect is recognized at the date of initial application on uncompleted contracts. The Company adopted ASU 2014-09 on January 1, 2019 and the new standard did not result in a material change for revenue because the majority of the Company's financial instruments are not within the scope of this topic.

In February 2016, the FASB issued ASU 2016 02, Lease Accounting. Under ASU 2016-02, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet. ASU 2016-02 will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. ASU 2016-02 will be effective for the Company on January 1, 2020. The Company is currently evaluating the effects of ASU 2016 02 on its consolidated financial statements and disclosures, and anticipates right of use assets and lease liabilities will be immaterial to the consolidated balance sheet.

On January 5, 2016, the FASB issued an update (ASU No. 2016-01, Financial Instruments – Recognition and Measurement of Financial Assets and Liabilities). The new guidance is intended to improve the recognition and measurement of financial instruments by requiring: equity investments (other than equity method or consolidation) to be measured at fair value with changes in fair value recognized in net income; public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

entities; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The new guidance is effective for non-public business entities for fiscal years beginning after December 15, 2018. The new guidance permits early adoption of the provision that exempts private companies from having to disclose fair value information about financial instruments measured at amortized cost. Accordingly, the Company has eliminated the disclosure of fair value of such financial instruments from these consolidated financial statements. Effective January 1, 2019, the Company reclassified equity securities from Available-for-Sale to Other Assets and will begin recognizing fair value adjustments through income in accordance with the standard.

On June 16, 2016, the FASB issued an accounting standard update (ASU No. 2016-13, Financial Instruments—Credit Losses). The updated standard is intended to improve reporting by requiring a timelier recording of credit losses against loans and other financial instruments held by financial institutions and other organizations. The new standard will require the use of forward-looking information by financial institutions and others to better inform their credit loss estimates by measuring all expected credit losses for financial assets held at the reporting date, based on historical experience, current conditions and reasonable and supportable forecasts. For all other organizations that are not U.S. Securities and Exchange Commission filers and/or public business entities, the new standard is effective for the year ended December 31, 2021 for calendar year end entities, at which time enhanced disclosures will be required in order to help investors and other financial statement users better understand significant estimates and judgements used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures, upon adoption, will include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. The Company has not yet assessed the impact of adopting this standard.

(In thousands, except share amounts)

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents, subject to regulatory reserve requirements of $0 and $703 thousand at December 31, 2018 and 2017, consisted of the following:

	2018	2017
Cash and due from banks	$ 12,354	$ 9,395
Interest-bearing deposits	5,117	20,299
Total cash and cash equivalents	$ 17,471	$ 29,694

(Continued)

(In thousands, except share amounts)

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, 2018 and 2017 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income/(loss) and gross unrecognized gains and losses:

2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Government-sponsored agencies	$ 222,175	$ -	$ (6,720)	$ 215,455
Residential mortgage-backed securities	14,251	472	(177)	14,546
Equity securities	1,000	-	(49)	951
Total available-for-sale	$ 237,426	$ 472	$ (6,946)	$ 230,952

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held-to-maturity				
U.S. Government-sponsored agencies	$ 124,140	$ -	$ (4,596)	$ 119,544
Residential mortgage-backed securities	21,499	102	(522)	21,079
Collateralized mortgage obligations	21	-	-	21
State and political subdivision	5,786	26	(64)	5,748
Total held-to-maturity	$ 151,446	$ 128	$ (5,182)	$ 146,392

(In thousands, except share amounts)

NOTE C - SECURITIES *(Continued)*

2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Government-sponsored agencies	$ 222,236	$ -	$ (5,373)	$ 216,863
Residential mortgage-backed securities	18,261	674	(117)	18,818
Equity securities	1,000	-	(28)	972
Total available-for-sale	$ 241,497	$ 674	$ (5,518)	$ 236,653

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held-to-maturity				
U.S. Government-sponsored agencies	$ 124,046	$ -	$ (3,856)	$ 120,190
Residential mortgage-backed securities	25,641	203	(173)	25,671
Collateralized mortgage obligations	31	-	-	31
State and political subdivision	1,541	-	(70)	1,471
Total held-to-maturity	$ 151,259	$ 203	$ (4,099)	$ 147,363

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, 2018			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity				
Within one year	$ 25,737	$ 25,464	$ 30	$ 30
One to five years	176,599	171,145	62,879	60,587
Five to ten years	19,839	18,847	69,328	66,997
Beyond ten years	14,251	14,545	19,209	18,778
	$ 236,426	$ 230,001	$ 151,446	$ 146,392

Securities pledged to secure public deposits and repurchase agreements at December 31, 2018 and 2017 were approximately $159.6 million and $109.1 million at fair value.

(In thousands, except share amounts)

NOTE C - SECURITIES *(Continued)*

Securities with unrealized losses at December 31, 2018 and 2017, 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	
2018	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. Government-sponsored agencies	$ -	$ -	$ 215,456	$ (6,720)	$ 215,456	$ (6,720)
Residential mortgage-backed securities	-	-	3,338	(177)	3,338	(177)
Equity Securities	-	-	951	(49)	951	(49)
	$ -	$ -	$ 219,745	$ (6,946)	$ 219,745	$ (6,946)

	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	$ -	$ -	$ 119,616	$ (4,596)	$ 119,616	$ (4,596)
Residential mortgage-backed securities	2,238	(27)	15,257	(495)	$ 17,495	$ (522)
State and political subdivision	-	-	1,465	(64)	1,465	(64)
	$ 2,238	$ (27)	$ 136,338	$ (5,155)	$ 138,576	$ (5,182)

	Less than 12 Months		12 Months or Longer		Total	
2017	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. Government-sponsored agencies	$ 10,022	$ (78)	$ 206,841	$ (5,295)	$ 216,863	$ (5,373)
Residential mortgage-backed securities	-	-	4,036	(117)	4,036	(117)
Equity securities	-	-	972	(28)	972	(28)
	$ 10,022	$ (78)	$ 211,849	$ (5,440)	$ 221,871	$ (5,518)

	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	$ 23,519	$ (235)	$ 96,671	$ (3,621)	$ 120,190	$ (3,856)
Residential mortgage-backed securities	$ 18,152	$ (173)	$ -	$ -	$ 18,152	$ (173)
State and political subdivision	-	-	1,471	(70)	1,471	(70)
	$ 41,671	$ (408)	$ 98,142	$ (3,691)	$ 139,813	$ (4,099)

At December 31, 2018 and 2017, 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 FreddieMac (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 is being accreted over the remaining life of the securities as a yield adjustment. Accretion of $33 thousand was recognized in 2018. Accretion of $13 thousand was recognized in 2017. The remaining amount to be accreted as of December 31, 2018 is $42 thousand.

(In thousands, except share amounts)

NOTE D - LOANS

Loans at December 31, 2018 and 2017, by major category consisted of the following:

	2018	2017
Loans secured by real estate:		
Residential construction	$ 27,727	$ 34,037
Nonresidential construction & land	9,954	11,398
Home equity lines of credit	1,154	772
Residential	185,081	197,889
Second mortgages	565	373
Multifamily	6,498	5,958
Commercial	79,269	60,560
Commercial & industrial	31,625	22,949
Consumer	17,557	8,779
Total loans	359,430	342,715
Allowance for loan losses	(4,091)	(3,961)
Loans, net of allowance for loan loss	$ 355,339	$ 338,754
Loans held for sale - El Paso (See Note P)	-	(37,024)
Loans, net	$ 355,339	$ 301,730

No past due loans, individually impaired loans, or loans classified as special mention, substandard, or doubtful are included in the Loans held for sale - El Paso at December 31, 2017.

Loans to executive officers, directors, and their affiliates were $2.7 million and $2.8 million at December 31, 2018 and 2017.

(Continued)

(In thousands, except share amounts)

NOTE D - LOANS *(Continued)*

The following tables present activity in the allowance for loan losses for the years ended December 31, 2018 and 2017:

2018	Beginning Balance	Loan Loss Provision	Charge-offs	Recoveries	Ending Balance
Loans secured by real estate:					
Residential construction	$ 179	$ 6	$ -	$ -	$ 185
Nonresidential construction & land	145	5	-	-	150
Home equity lines of credit	5	-	-	-	5
Residential	1,983	41	-	24	2,048
Second mortgages	3	-	-	-	3
Multifamily	19	-	-	-	19
Commercial	504	17	-	-	521
Commercial & industrial	377	17	(75)	70	389
Consumer	746	626	(1,038)	437	771
Total	$ 3,961	$ 712	$ (1,113)	$ 531	$ 4,091

2017	Beginning Balance	Loan Loss Provision	Charge-offs	Recoveries	Ending Balance
Loans secured by real estate:					
Residential construction	$ 171	$ 8	$ -	$ -	$ 179
Nonresidential construction & land	83	62	-	-	145
Home equity lines of credit	6	(1)	-	-	5
Residential	2,365	(406)	-	24	1,983
Second mortgages	2	1	-	-	3
Multifamily	3	16	-	-	19
Commercial	458	46	-	-	504
Commercial & industrial	227	168	(20)	2	377
Consumer	296	731	(622)	341	746
Total	$ 3,611	$ 625	$ (642)	$ 367	$ 3,961

(In thousands, except share amounts)

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 2018 and 2017:

	Loan Balances			Allowance for Loan Losses		
2018	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Recorded Investment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Loans secured by real estate:						
Residential construction	$ -	$ 27,727	$ 27,727	$ -	$ 185	$ 185
Nonresidential construction & land	-	9,954	9,954	-	150	150
Home equity lines of credit	-	1,154	1,154	-	5	5
Residential	-	185,081	185,081	-	2,048	2,048
Second mortgages	-	565	565	-	3	3
Multifamily	-	6,498	6,498	-	19	19
Commercial	1,306	77,963	79,269	204	317	521
Commercial & industrial	-	31,625	31,625	-	389	389
Consumer	-	17,557	17,557	-	771	771
Total	$ 1,306	$ 358,124	$ 359,430	$ 204	$ 3,887	$ 4,091

	Loan Balances			Allowance for Loan Losses		
2017	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Recorded Investment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Loans secured by real estate:						
Residential construction	$ -	$ 34,037	$ 34,037	$ -	$ 179	$ 179
Nonresidential construction & land	-	11,398	11,398	-	145	145
Home equity lines of credit	-	772	772	-	5	5
Residential	-	197,889	197,889	-	1,983	1,983
Second mortgages	-	373	373	-	3	3
Multifamily	-	5,958	5,958	-	19	19
Commercial	-	60,560	60,560	-	504	504
Commercial & industrial	-	22,949	22,949	-	377	377
Consumer	-	8,779	8,779	-	746	746
Total	$ -	$ 342,715	$ 342,715	$ -	$ 3,961	$ 3,961

(Continued)

(In thousands, except share amounts)

NOTE D - LOANS *(Continued)*

The following tables present the aging of the recorded investment in past due loans as of year-end 2018 and 2017 by class of loans:

2018	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	$ 98	$ -	$ -	$ -	$ 27,629	$ 27,727
Nonresidential construction & land	270	-	-	142	9,542	9,954
Home equity lines of credit	-	-	-	-	1,154	1,154
Residential	3,770	1,537	-	3,792	175,982	185,081
Second mortgages	-	-	-	-	565	565
Multifamily	-	-	-	-	6,498	6,498
Commercial	87	-	-	194	78,988	79,269
Commercial & industrial	13	-	-	88	31,524	31,625
Consumer	5	70	-	-	17,482	17,557
Total	$ 4,243	$ 1,607	$ -	$ 4,216	$ 349,364	$ 359,430

2017	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	$ -	$ -	$ -	$ -	$ 34,037	$ 34,037
Nonresidential construction & land	55	-	-	-	11,343	11,398
Home equity lines of credit	-	-	-	-	772	772
Residential	3,992	1,397	782	3,593	188,125	197,889
Second mortgages	2	9	-	-	362	373
Multifamily	-	-	-	-	5,958	5,958
Commercial	2,328	-	-	-	58,232	60,560
Commercial & industrial	12	-	-	75	22,862	22,949
Consumer	25	-	-	4	8,750	8,779
Total	$ 6,414	$ 1,406	$ 782	$ 3,672	$ 330,441	$ 342,715

NOTE D - LOANS *(Continued)*

Troubled Debt Restructurings:

As of December 31, 2018 and 2017, the Company has a recorded investment in troubled debt restructurings of $2.4 million and $1.2 million, respectively. The company has allocated $204 thousand and $0 of specific allowance for those loans as of December 31, 2018 and 2017 and has committed to lend additional amounts totaling up to $0 and $0. There was no payment default within twelve months following the modification during the year ending December 31, 2018 and 2017.

The modification of the commercial loans during the year ended December 31, 2018 included an extension of the maturity date at a stated rate of interest lower than the current market rate. The extensions were for periods ranging from 11 months to 12 months. No permanent reduction was made to the recorded investment in the loans subsequent to restructure.

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, except share amounts)

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 2018 and 2017, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

2018	Not Rated	Pass	Special Mention	Substandard	Doubtful	Total
Loans secured by real estate:						
Residential construction	$ -	$ 27,727	$ -	$ -	$ -	$ 27,727
Nonresidential construction & land	-	9,954	-	-	-	9,954
Home equity lines of credit	1,154	-	-	-	-	1,154
Residential	183,968	-	130	983	-	185,081
Second mortgages	565	-	-	-	-	565
Multifamily	-	6,498	-	-	-	6,498
Commercial	-	77,831	630	760	48	79,269
Commercial & industrial	-	28,501	64	2,460	600	31,625
Consumer	17,431	-	17	29	80	17,557
Total	$ 203,118	$ 150,511	$ 841	$ 4,232	$ 728	$ 359,430

2017	Not Rated	Pass	Special Mention	Substandard	Doubtful	Total
Loans secured by real estate:						
Residential construction	$ -	$ 34,037	$ -	$ -	$ -	$ 34,037
Nonresidential construction & land	-	11,398	-	-	-	11,398
Home equity lines of credit	772	-	-	-	-	772
Residential	196,786	-	47	1,056	-	197,889
Second mortgages	373	-	-	-	-	373
Multifamily	-	5,953	-	5	-	5,958
Commercial	-	56,066	919	3,575	-	60,560
Commercial & industrial	-	19,579	131	3,239	-	22,949
Consumer	8,743	-	-	36	-	8,779
Total	$ 206,674	$ 127,033	$ 1,097	$ 7,911	$ -	$ 342,715

(In thousands, except share amounts)

NOTE E - OTHER REAL ESTATE OWNED

Other real estate owned activity was as follows:

	2018	2017
Balance at beginning of year	$ 595	$ 462
Transfers	-	92
Capitalized improvements	-	5
Fair value adjustment	-	74
Proceeds from sales	-	(20)
Gain/(loss) on sale, net	-	(18)
Balance at end of year	$ 595	$ 595

Other real estate owned at year-end 2018 included one parcel of land with a carrying value of $595 thousand.

Operating expenses related to other real estate owned for the years-ended December 31, 2018 and 2017 totaled $8 thousand and $9 thousand.

(In thousands, except share amounts)

NOTE F - PREMISES AND EQUIPMENT

Year-end premises and equipment consisted of:

	2018	2017
Land	$ 4,992	$ 5,196
Buildings and leasehold improvements	27,023	27,831
Furniture, equipment, and autos	11,246	11,598
Construction in progress	231	1,175
	43,492	45,800
Less accumulated depreciation and amortization	17,236	17,109
Premises and equipment, net	$ 26,256	$ 28,691
Premises and equipment held for sale - El Paso (See Note P)	-	(1,956)
Premises and equipment, net of held for sale - El Paso	$ 26,256	$ 26,735

Depreciation expense was $1.8 million for 2018 and 2017.

(In thousands, except share amounts)

NOTE G - MORTGAGE SERVICING RIGHTS AND LOAN SERVICING

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

	2018	2017
Mortgage loans underlying pass-through securities:		
GNMA	$ 9,156	$ 235,590
FNMA	42	89,727
	9,198	325,317
Mortgage loan portfolio serviced for:		
FNMA	26,386	208,024
FHLMC	546	663
Other investors	7,918	9,436
	34,850	218,123
	$ 44,048	$ 543,440

Custodial balances on deposit at the Bank, in connection with the foregoing loan servicing, amounted to $2.6 million and $12.2 million at December 31, 2018 and 2017.

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

	2018	2017
Mortgage servicing rights		
Balance, beginning of year	$ 1,521	$ 4,452
Sold	(1,188)	(2,772)
Capitalized	181	783
Amortization	(87)	(942)
Balance, end of year	427	1,521
Impairment allowance	-	-
Year-end balance, net of impairment allowance	$ 427	$ 1,521

(In thousands, except share amounts)

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

On November 30, 2017, Pioneer Bank entered into a Servicing Rights Purchase and Sale Agreement to sell all of the FNMA and GNMA mortgage servicing rights held by the Bank on that date for $4.8 million. Seventy (70) percent of the sales price was received on November 30, 2017. The remaining amount was received in 2018, less a holdback amount of $223 thousand that is anticipated to be received in 2019. On the same date the Bank entered into an Interim Servicing Agreement whereby the Bank subserviced the loans sold until they were transferred in February 2018. As of December 31, 2017 the fair value of the mortgage servicing rights held for sale were $1.4 million.

In December 2017, Pioneer Bank entered into a Subservicing Agreement to have a subservicer service the existing residential mortgage loans held in the loan porfolio, as well as service future mortgage loans originated and held in the loan portfolio. The loan servicing transfer was completed in April 2018.

The estimated fair value of capitalized mortgage servicing rights was $602 thousand at year-end 2018. Fair value was determined using discount rates ranging from 9.88% to 10.71%, prepayment speeds ranging from 5.17% to 16.84% based on individual loan characteristics including gross coupon and age, and a weighted-average default rate of 0.40%.

The estimated fair value of capitilized mortgage servicing rights, excluding the $1.4 million held for sale was $393 thousand at year-end 2017. Fair value was determined using discount rates ranging from 9.25% to 11.00%, prepayment speeds ranging from 5.20% to 23.25% based on individual loan characteristics including gross coupon and age, and a weighted-average default rate of 0.66%.

The weighted-average amortization period is 5.42 years. Estimated amortization expense for each of the next five years follows:

2019	$	49
2020		44
2021		40
2022		35
2023		31

(In thousands, except share amounts)

NOTE H - DEPOSITS

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

	2018	2017
No contractual maturities	$ 418,996	$ 434,496
2018	-	73,786
2019	73,801	13,180
2020	14,361	7,654
2021	5,179	5,216
2022	2,819	3,619
2023	4,624	-
	$ 519,780	$ 537,951
Deposits held for sale - El Paso (See Note P)	-	(38,778)
Deposits net of deposits held for sale - El Paso	$ 519,780	$ 499,173

At December 31, 2018 and 2017, approximately $79.5 million and $64.8 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 $26.4 million and $23.0 million at year-end 2018 and 2017.

Deposits from executive officers, directors, and their affiliates at year-end 2018 and 2017 were $4.9 million and $4.3 million.

Deposits held for sale - El Paso include $33.6 million with no contractual maturities.

(In thousands, except share amounts)

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

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

	2018	2017
Maturities January 2019 through August 2020, at fixed rates from 1.17% to 2.65%, averaging 2.07%	$ 144,000	
Maturities January 2018 through August 2020, at fixed rates from 1.17% to 1.98%, averaging 1.35%		$ 147,000

Each advance is payable at its maturity date or on payment of a prepayment penalty for fixed rate advances. The advances were collateralized by $195.7 million and $194.5 million of eligible loans under a blanket lien arrangement at year-end 2018 and 2017. Based on this collateral, the Company's holdings of FHLB stock and securities held in safekeeping, the Company was eligible to borrow an additional $172.6 million at year-end 2018.

Required payments over the next three years are:

2019	$ 101,000
2020	43,000
2021	-

Other borrowings consist of customer repurchase sweep accounts with overnight maturities. Balances were $70.6 million and $43.2 million at year-end 2018 and 2017.

The fair value of securities pledged to secure repurchase agreements may decline. The Company manages this risk by pledging securities, typically valued at between 110% to 120% above the gross outstanding balance of repurchase agreements. Securities pledged to secure repurchase agreements were $79.2 million and $47.2 million at year-end 2018 and 2017 at fair value.

(In thousands, except share amounts)

NOTE J - COMMITMENTS AND CONTINGENCIES

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

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

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The approximate contract or notional amounts of financial instruments whose contract amounts represent credit risk are:

	2018	2017
Undisbursed lines of credit	$ 41,058	$ 45,293
Commitments to originate loans	20,566	8,285
Recourse on loans sold	2,392	2,392
Standby letters of credit	879	1,332
Commitments to sell mortgages and mortgage-backed securities	-	173

NOTE K - REGULATORY MATTERS

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes as of December 31, 2018 and 2017, the Bank met all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2018 and 2017, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following table provides the capital ratios of the Bank, along with the applicable regulatory capital requirements as of December 31, 2018 and 2017 which were calculated in accordance with the requirements of Basel III, which became effective January 1, 2015. The final rules of Basel III also established a "capital conservation buffer" of 2.5% above new regulatory minimum capital ratios, and when fully effective in 2019, will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 risk-based capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The capital conservation buffer is being phased in at the rate of 0.625% per year from 0.0% in 2015 to 2.50% on January 1, 2019. The capital conservation buffer for 2018 is 1.875% and for 2017 is 1.25%. An institution is subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such activities. At year-end 2018 and 2017, the Bank's actual capital levels and minimum required levels, including the capital conservation buffer, were as follows:

(In thousands, except share amounts)

NOTE K - REGULATORY MATTERS *(Continued)*

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
As of December 31, 2018						
Total capital (to risk-weighted assets)	$ 80,890	19.8%	$ 40,314	9.9%	$ 40,825	10.0%
Tier 1 capital (to risk-weighted assets)	76,600	18.8%	32,149	7.9%	32,660	8.0%
Common equity Tier 1 capital (to risk-weighted assets)	76,600	18.8%	26,026	6.4%	26,536	6.5%
Tier 1 capital (to average assets)	76,600	9.4%	32,681	4.0%	40,851	5.0%

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
As of December 31, 2017						
Total capital (to risk-weighted assets)	$ 80,050	21.1%	$ 35,026	9.3%	$ 37,866	10.0%
Tier 1 capital (to risk-weighted assets)	75,890	20.0%	27,452	7.3%	30,292	8.0%
Common equity Tier 1 capital (to risk-weighted assets)	75,890	20.0%	21,773	5.8%	24,613	6.5%
Tier 1 capital (to average assets)	75,890	9.1%	33,448	4.0%	41,810	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 2019, the Bank could, subject to no objection from regulators, declare dividends of approximately $3.8 million plus any 2019 net profits retained to the date of the dividend declaration.

NOTE L - FAIR VALUE

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

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

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

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

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

Mortgage banking derivatives: The fair value of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

No assets/(liabilities) were measured at fair value on a non-recurring basis as of December 31, 2018 and 2017.

(In thousands, except share amounts)

NOTE L - FAIR VALUE *(Continued)*

Assets/(liabilities) measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements Using			
December 31, 2018	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	$ -	$ 215,455	$ -	$ 215,455
Residential mortgage-backed securities	-	14,546	-	14,546
Equity securities	951	-	-	951
Mortgage banking derivatives	-	2	-	2
December 31, 2017				
Assets/(liabilities) measured on a recurring basis:				
Securities available-for-sale:				
U.S. Government-sponsored agencies	$ -	$ 216,863	$ -	$ 216,863
Residential mortgage-backed securities	-	18,818	-	18,818
Equity securities	972	-	-	972
Mortgage banking derivatives	-	2	-	2

(In thousands, except share amounts)

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, 2018 were allocated to participants. The fair value of allocated shares subject to repurchase obligation at year-end 2018 was $3.8 million.

Contributions 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 2018 and 2017:

Year	Match	Compensation	Expense
2017	100%	5%	$ 291
2018	100%	5%	288

The Company also 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:

	2018	2017
Benefit obligation at beginning of year	$ 6,891	$ 6,341
Service cost	122	123
Interest cost	229	245
Plan amendments	-	-
Actuarial (gain)/loss	(364)	435
Benefits paid	(288)	(253)
Benefit obligation at end of year	$ 6,590	$ 6,891

Amounts recognized in accumulated other comprehensive income consist of:

	2018	2017
Net loss	$ 611	$ 1,096
Prior service cost	89	205
Total	$ 700	$ 1,301

(In thousands, except share amounts)

NOTE M - RETIREMENT PLANS *(Continued)*

The net periodic benefit cost was $589 thousand and $478 thousand for the years ended December 31, 2018 and 2017.

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, 2019 are $87 thousand and $116 thousand.

Estimated Future Payments

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

2019	$ 368
2020	395
2021	395
2022	395
2023	395
Years 2024-2028	2,071

The weighted-average discount rate used to determine benefit obligations and periodic benefit cost was 4.00% and 3.40% and 3.40% and 3.94% at year-end 2018 and 2017.

In 2016, the Company created an unfunded noncontributory defined contribution plan that covers certain senior executive officers whose benefits were frozen in the defined benefit plan or are new participants. The plan provides an annual accrual as a percentage of base salary subject to certain performance objectives. Total expense for the plan year ended December 31, 2018, and 2017 was $206 and $227 thousand.

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 ($23) thousand and $14 thousand for 2018 and 2017.

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 publically 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.

No options were granted in 2018 or 2017.

(In thousands, except share amounts)

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

A summary of the activity in the stock option plan for 2018 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	5,197	$ 52	
Granted	-	-	
Exercised	(1,097)	49	
Forfeited or expired	(1,200)	62	
Outstanding at end of year	2,900	$ 49	2.9
Vested or expected to vest	2,900	$ 49	2.9
Exercisable at end of year	2,900	$ 49	2.9

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

	2018	2017
Intrinsic value of options exercised	$ 36	$ 446
Cash received from option exercises	54	254
Intrinsic value of options outstanding	95	171
Weighted average fair value of options granted	-	-

As of December 31, 2018, there was no unrecognized compensation cost related to nonvested stock options granted under the plan.

(In thousands, except share amounts)

NOTE O - ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

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

	December 31, 2018	December 31, 2017
Unrealized gains (losses) on securities available-for-sale	$ (6,474)	$ (4,844)
Remaining unrealized (losses) on securities transferred to held-to-maturity	(42)	(75)
Employee pension plan	(700)	(1,301)
Total accumulated other comprehensive (loss)	$ (7,216)	$ (6,220)

(In thousands, except share amounts)

NOTE P - ASSETS AND LIABILITIES HELD FOR SALE

In January 2018, Pioneer Bank entered into an agreement to sell assets and liabilities related to the El Paso, Texas banking operations, including loans, related accrued interest, deposits, and fixed assets. The transaction closed on June 1, 2018. The sale of the deposits were funded by additional borrowings. The Bank purchased back most of the El Paso loans that were sold in the form of participations purchased.

The agreement called for a 3.5% premium on the El Paso deposit balances to be paid to Pioneer Bank on the date of the sale. This premium was recognized as income in 2018. Details regarding the assets and liabilities sold and gain recognized are noted below.

Fixed assets	$ 1,907
Loans	34,097
Participations purchased	(27,000)
Other assets	142
Total assets sold, net	9,146
Deposits	(40,107)
Other liabilities	(11)
Total liabilities sold	(40,118)
Net assets and liabilities sold	(30,972)
Net cash paid in branch sale	29,648
Gain on sale	$ (1,324)

PIONEER BANCORP, INC.
ANALYSIS OF INTEREST CHANGES DUE TO VOLUME AND RATE - UNAUDITED
December 31, 2018
(In thousands, except share amounts)

2018 Over 2017

	Average Balance		Interest		Average Rate		Total	Change due to	
	2018	2017	2018	2017	2018	2017	Change	Volume	Rate
Interest and dividend income									
Loans	$ 343,103	$ 334,922	$ 16,583	$ 14,992	4.83%	4.48%	$ 1,591	$ 395	$ 1,196
Mortgage securities	40,549	47,526	1,136	1,245	2.80%	2.62%	(109)	(195)	86
Investment securities and other	368,923	376,187	7,029	6,759	1.91%	1.80%	270	(138)	408
Total interest-earnings assets	$ 752,575	$ 758,635	$ 24,748	$ 22,996	3.29%	3.03%	$ 1,752	$ 62	$ 1,690
Interest expense									
Deposits	$ 531,188	$ 551,422	$ 1,349	$ 986	0.25%	0.18%	$ 363	$ (51)	$ 414
FHLB advances and other borrowings	204,109	178,863	3,509	1,977	1.72%	1.11%	1,532	434	1,098
Total interest-bearing liabilities	$ 735,297	$ 730,285	$ 4,858	$ 2,963	0.66%	0.41%	$ 1,895	$ 383	$ 1,512
Net interest spread and income			$ 19,890	$ 20,033	2.63%	2.63%			
Ratio of net interest income to average interest-earning assets			2.64%	2.64%					

2017 Over 2016

	Average Balance		Interest		Average Rate		Total	Change due to	
	2017	2016	2017	2016	2017	2016	Change	Volume	Rate
Interest and dividend income									
Loans	$ 334,922	$ 297,393	$ 14,992	$ 13,238	4.48%	4.45%	$ 1,754	$ 1,680	$ 74
Mortgage securities	47,526	35,082	1,245	903	2.62%	2.57%	342	326	16
Investment securities and other	376,187	375,494	6,759	7,975	1.80%	2.12%	(1,216)	12	(1,228)
Total interest-earnings assets	$ 758,635	$ 707,969	$ 22,996	$ 22,116	3.03%	3.12%	$ 880	$ 2,018	$ (1,138)
Interest expense									
Deposits	$ 551,422	$ 546,190	$ 986	$ 852	0.18%	0.16%	$ 134	$ 9	$ 125
FHLB advances and other borrowings	178,863	135,036	1,977	995	1.11%	0.74%	982	484	498
Total interest-bearing liabilities	$ 730,285	$ 681,226	$ 2,963	$ 1,847	0.41%	0.27%	$ 1,116	$ 494	$ 622
Net interest spread and income			$ 20,033	$ 20,269	2.63%	2.85%			
Ratio of net interest income to average interest-earning assets			2.64%	2.86%					

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 residential, commercial, and consumer loans primarily in Southern New Mexico. 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

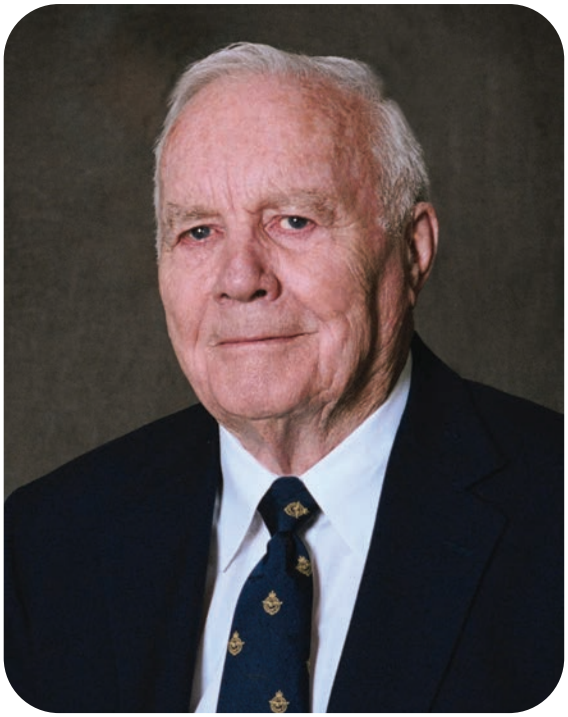
Pioneer Bancorp, Inc.

ANNUAL MEETING

The annual meeting of stockholders of Pioneer Bancorp, Inc. will be held at 10:30 a.m. on April 25, 2019 at the Corporate Headquarters, 3000 North Main Street, Roswell, New Mexico.

Rendering of Pioneer's branch located at 306 N. Pennsylvania Ave,

Roswell, New Mexico. Remodel to be completed summer 2019.



ROBERT H. BECK

May 24, 1921 – August 24, 2018

IN MEMORIAM

The Board of Directors and Management of Pioneer Bank would like to dedicate the 2018 Annual Report to former Board Member, Robert H. Beck. Mr. Beck was a member of the Board of Directors from 1977-1988. Mr. Beck was a passionate businessman who loved flying and traveling the world. Mr. Beck served in the royal Canadian Air Force and U.S. Air Force as a pilot - being awarded with the Distinguished Flying Cross and Air Medal. As owner, President and Director of the Roswell Daily Record, Mr. Beck positively impacted the community of Roswell. Mr. Beck will be remembered for his dedication and service.

DEBORAH M. WAGNER

February 22, 1955 – January 30, 2019

IN MEMORIAM

The Board of Directors and Management would like to dedicate the 2018 Annual Report to former employee Deborah M. Wagner. Debe joined Pioneer Bank in 1980 and went on to have a successful 36-year career with the Bank where she was Vice President/Branch Manager in Carlsbad, New Mexico. Debe was actively involved in her community and was known for her warm, loving, and infectious personality. Debe will be remembered for her kind spirit and dedication to Pioneer Bank.

PIONEER BANCORP, INC.

BOARD OF DIRECTORS

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President
Cooper & Amador, CPA's, PC

Ronald L. Miller, CPA
Investments

Stephen P. Puntch
Chief Executive Officer
Pioneer Bank

Jon E. Hitchcock, CPA
Chairman of the Board
Pioneer Bank

George W. Mitchell
Investments

Christopher Clay Bush
Chief Executive Officer
Bush, Inc.

Timothy Z. Jennings
Agribusiness

Christopher G. Palmer, CPA
President and
Chief Operating Officer
Pioneer Bank

Mikell A. Tomlinson
Senior Vice President
TIB - The Independent BankersBank

PIONEER BANK

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Nancy L. Smith
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Stephen P. Puntch

President and Chief Operating Officer
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Executive Vice President
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Aaron M. Emmert

Senior Vice President
Scott E. Mohrhauser

Market President - Las Cruces
Kiel A. Hoffman

Corporate Secretary
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Eric R. Ehler
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Evelyn Renaye Medina
Melody E. Parra
Jessica M. Ponce
Jacob D. Reese
Susan L. Roe
Mary R. Skinner
Kimberly K. Wing

PIONEER BANK

www.pioneerbnk.com

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300 South Sunset Avenue, Roswell, New Mexico

3831 East Lohman Avenue, P.O. Box 609, Las Cruces, New Mexico 88004
705 East University Avenue, Las Cruces, New Mexico 88001
2900 Roadrunner Parkway, Las Cruces, New Mexico 88011
(575) 532-7500

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1020 North Turner Street, P.O. Box 177, Hobbs, New Mexico 88241
1600 West Joe Harvey Boulevard, Hobbs, New Mexico 88240
(575) 391-5800

1020 Tenth Street, P.O. Box 1707, Alamogordo, New Mexico 88311
(575) 439-6040

111 North Canal Street, P.O. Box S, Carlsbad, New Mexico 88221
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