PIONEER BANCORP, INC.

Annual Report

2022

FINANCIAL HIGHLIGHTS (Unaudited)

(In thousands, except per share amounts)	**2022**	Change	2021	2020	2019	2018
AT YEAR-END						
Assets	**$ 999,957**	+ 1%	$ 990,606	$ 862,357	$ 813,601	$ 820,562
Loans	**560,949**	+ 15%	486,364	445,610	371,986	359,292
Securities	**363,488**	+ 2%	358,066	235,559	350,882	382,398
Deposits	**793,267**	- 1%	801,483	666,969	571,281	519,780
Borrowings	**126,620**	+ 57%	80,606	91,363	146,509	214,622
Stockholders' equity	**59,809**	- 33%	89,779	89,231	80,987	72,218
FOR THE YEAR						
Interest and dividend income	**36,641**	+ 27%	28,792	24,639	27,115	24,748
Interest expense	**1,905**	+ 199%	638	1,715	5,703	4,858
Net interest income	**34,736**	+ 23%	28,154	22,924	21,412	19,890
Loan loss provision	**1,261**	+ 96%	643	1,856	1,097	712
Noninterest income	**10,546**	+ 7%	9,865	9,659	10,197	11,285
Noninterest expense	**25,582**	+ 8%	23,646	23,064	22,591	23,725
Net income	**18,439**	+ 34%	13,730	7,663	7,921	6,738
CAPITAL RATIO						
Equity to assets	**6.0%**		9.1%	10.3%	10.0%	8.8%
PER SHARE						
Year-end book value	**61.47**	- 34%	92.70	92.17	83.71	74.75
Year-end tangible book value	**102.79**	+ 8%	95.29	90.21	85.50	82.22
Earnings	**18.97**	+ 34%	14.18	7.92	8.19	6.97
Distributions	**11.46**	+ 26%	9.08	3.16	4.86	5.70
Distribution payout ratio	**60.4%**		64.0%	39.9%	59.3%	81.8%
PERFORMANCE RATIOS						
Return on average stockholders' equity	**24.65%**		15.37%	9.00%	10.34%	9.36%
Return on average assets	**1.85%**		1.48%	0.91%	0.97%	0.82%
Net interest margin	**3.61%**		3.19%	3.00%	2.77%	2.64%
Efficiency ratio	**56.49%**		62.20%	70.79%	71.47%	76.10%
SELECTED INFORMATION						
Average common shares *(in thousands)*	**972**		968	967	968	966
Full-time equivalent employees	**147**		147	144	163	158
Customer service facilities:						
Full-service facilities	**6**		6	6	6	6
Banking branches	**5**		6	6	5	5
ATMs	**21**		21	22	21	19

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Pioneer Bancorp, Inc., which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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 consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Pioneer Bancorp, Inc. as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pioneer Bancorp, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pioneer Bancorp, Inc.'s ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pioneer Bancorp, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pioneer Bancorp, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Crowe LLP

Crowe LLP

Oak Brook, Illinois
March 10. 2023

PIONEER BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021
(In thousands, except share amounts)

	Note	2022	2021
ASSETS			
Cash and cash equivalents	*B*	$ 15,207	$ 89,894
Securities:	*C*		
Available-for-sale		349,671	343,498
Held-to-maturity (fair value 2022 - $12,623; 2021 - $14,184)		12,957	13,596
Equity securities, at fair value		860	972
Loans	*D*	567,871	492,410
Allowance for Loan Losses	*D*	(6,922)	(6,046)
Loans, net	*D*	560,949	486,364
Federal Home Loan Bank (FHLB) stock		1,826	1,174
Other real estate owned		130	106
Premises and equipment, net	*E*	27,992	28,522
Accrued interest receivable		3,278	2,224
Bank-owned life insurance		23,929	21,759
Other assets		3,158	2,497
Total assets		$ 999,957	$ 990,606
LIABILITIES			
Deposits	*F*	$ 793,267	$ 801,483
FHLB advances and other borrowings	*G*	126,620	80,606
Official checks		2,793	2,480
Accrued interest payable		18	2
Accounts payable and other liabilities		17,450	16,256
Total liabilities		940,148	900,827
Commitments and contingencies	*H*		
STOCKHOLDERS' EQUITY	*I*		
Capital stock, $1 par value; 2,000,000 shares authorized; 1,008,923 shares issued		1,009	1,009
Treasury stock (2022 - 35,953 shares; 2021 - 40,403 shares)		(2,155)	(2,421)
Additional paid-in capital		2,209	2,044
Retained earnings		98,948	91,659
Accumulated other comprehensive loss	M	(40,202)	(2,512)
Total stockholders' equity		59,809	89,779
Total liabilities and stockholders' equity		$ 999,957	$ 990,606

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2022 and 2021
(In thousands, except share amounts)

	Note	2022	2021
Interest and dividend income:			
Loans		$ 29,171	$ 24,901
Mortgage securities		5,159	2,680
Investment securities and other		2,311	1,211
Total		36,641	28,792
Interest expense:			
Deposits		683	575
FHLB advances and other borrowings		1,222	63
Total		1,905	638
Net interest income		34,736	28,154
Loan loss provision	*D*	1,261	643
Net interest income after loan loss provision		33,475	27,511
Noninterest income:			
Deposit account fees		9,221	8,744
Gain on sale of loans, net	*D*	-	65
Loan administration and service fees		406	355
Loss on sale of securities		(50)	-
Unrealized loss on equity securities		(127)	(29)
Other		1,096	730
Total		10,546	9,865
Noninterest expense:			
Compensation and employee benefits	*K/L*	12,089	11,003
Equipment		1,268	1,418
Data processing		6,357	5,762
Occupancy		1,968	1,701
Stationery, printing, and office supplies		493	399
Professional and supervisory		738	743
Federal deposit insurance		475	484
Postage and transportation		394	368
Advertising and public relations		856	816
Telephone		69	102
Other		875	850
Total		25,582	23,646
Net income		$ 18,439	$ 13,730

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2022 and 2021
(In thousands, except share amounts)

	Note	2022	2021
Weighted-average number of capital stock shares outstanding:			
Basic		971,906	968,413
Diluted		972,073	968,580
Earnings per share:			
Basic		$ 18.97	$ 14.18
Diluted		18.97	14.18

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2022 and 2021
(In thousands)

	Note	2022	2021
Net income		$ 18,439	$ 13,730
Comprehensive loss:			
Unrealized (losses) on securities:			
Unrealized holding (losses) arising during the period		(39,584)	(4,934)
Reclassification adjustment for losses included in net income		50	-
		(39,534)	(4,934)
Defined benefit pension plan:	K		
Net gain arising during the period		1,860	535
Amortization of prior service cost included in net periodic pension cost		(16)	(16)
		1,844	519
Total other comprehensive loss		(37,690)	(4,415)
Comprehensive (loss) income		$ (19,251)	$ 9,315

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2022 and 2021
(In thousands, except share amounts)

	Capital Stock $1 Par	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2021	$ 1,009	$ (2,448)	$ 2,044	$ 86,723	$ 1,903	$ 89,231
Net income	-	-	-	13,730	-	13,730
Other comprehensive loss	-	-	-	-	(4,415)	(4,415)
Exercise of stock options (450 shares)	-	27	-	-	-	27
Distributions - $9.08 per share	-	-	-	(8,794)	-	(8,794)
Balance, December 31, 2021	1,009	(2,421)	2,044	91,659	(2,512)	89,779
Net income	-	-	-	18,439	-	18,439
Other comprehensive loss	-	-	-	-	(37,690)	(37,690)
Sale of treasury stock (4,000 shares)	-	239	165	-	-	404
Exercise of stock options (450 shares)	-	27	-	-	-	27
Distributions - $11.46 per share	-	-	-	(11,150)	-	(11,150)
Balance, December 31, 2022	$ 1,009	$ (2,155)	$ 2,209	$ 98,948	$ (40,202)	$ 59,809

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021
(In thousands, except share amounts)

	2022	2021
Cash flows from operating activities:		
Net income	$ 18,439	$ 13,730
Adjustments to reconcile net income to net cash from operating activities:		
Amortization (accretion) of:		
Mortgage servicing rights	-	89
Premiums and discounts on investments and mortgage securities, net	4,895	(2,100)
Equity securities fair value adjustment	127	29
Loan loss provision	1,261	643
Net (gain)/loss on sales and disposals of:		
Loans	-	(65)
Premises and equipment	(194)	-
Foreclosed assets	(16)	(36)
Securities available-for-sale	50	-
FHLB stock dividends	(4)	(2)
Depreciation of premises and equipment	1,495	1,493
Origination of mortgage loans held for sale	-	(425)
Proceeds from sales of loans held for sale	-	1,834
Earnings on bank-owned life insurance	(687)	(553)
Changes in operating assets and liabilities:		
Accrued interest receivable	(1,054)	(5)
Other assets	(661)	498
Accrued interest payable	16	-
Accounts payable and other liabilities, net of distributions declared, not paid	1,417	1,370
Net cash from operating activities	25,084	16,500
Cash flows from investing activities:		
Loan originations and principal payments on loans, net	(75,976)	(42,847)
Net change in interest-bearing deposits in other financial institutions	-	500
Securities:		
Available-for-sale:		
Purchases	(134,499)	(187,320)
Sales	10,000	-
Maturities, prepayments and calls	73,874	57,942
Held-to-maturity:		
Purchases	(2,740)	-
Maturities, prepayments and calls	3,338	4,008
Additions to premises and equipment	(771)	(3,984)
Purchases of FHLB stock	(648)	(117)
Purchases of bank-owned life insurance	(1,483)	(2,613)
Proceeds from sales of foreclosed assets	122	631
Net cash used in investing activities	(128,783)	(173,800)

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021
(In thousands, except share amounts)

	2022	2021
Cash flows from financing activities:		
Net change in deposits	$ (8,216)	$ 134,514
Net change in short-term FHLB advances and other borrowings	46,014	(10,757)
Net change in official checks	313	447
Net change in advance payments for taxes and insurance	(65)	1,125
Sale of treasury shares, net	404	-
Proceeds from exercise of stock options	27	27
Payment of cash distributions	(9,465)	(7,273)
Net cash from financing activities	29,012	118,083
Net change in cash and cash equivalents	(74,687)	(39,217)
Cash and cash equivalents at beginning of year	89,894	129,111
Cash and cash equivalents at end of year	$ 15,207	$ 89,894
Supplemental cash flow information:		
Cash paid during the year for interest	$ 1,889	$ 638
Supplemental noncash disclosures:		
Distributions declared, not paid	$ 4,106	$ 2,421
Transfers from loans to foreclosed assets	130	106

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) 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), and PMC has one subsidiary, PPM, Inc., both of which are 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, and a network of twenty-one (21) ATMs. The Bank's primary deposit products are checking, savings, and term certificate accounts, and the Bank's primary lending products are commercial, consumer, and residential mortgage loans. Substantially all loans are secured by specific items of collateral including commercial and residential real estate, business assets, and consumer assets. 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. The Company engages in mortgage banking activities and, as such, originates and services one-to-four family residential mortgage loans.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 10, 2023, 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.

Interest-bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions consist of certificates of deposit with terms over three months.

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. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

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.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs, and allowance for loan losses. Interest income is accrued on the unpaid principal balance.

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. Loans may be placed on nonaccrual sooner based on management judgement. 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.

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.

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.

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. Other real estate owned at year-end 2022 included one residential property with a carrying value of $130 thousand.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Retirement Plans: Defined benefit pension plan expense is the net of service and interest cost and amortization of gains and losses not immediately recognized.

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

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

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

Income Taxes: The Bancorp files a consolidated U.S. federal income tax return with its subsidiary, Pioneer Bank, and its subsidiary, Pioneer Mortgage Company. The Bancorp also files a consolidated state income tax return in New Mexico 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, 2022 and 2021. The Company is no longer subject to examination by taxing authorities for years before 2019.

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 167 shares at December 31, 2022 and 2021. There were no antidilutive potential common shares.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note K. 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.

(In thousands, except share amounts)

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents, subject to regulatory reserve requirements of $0 and $0 at December 31, 2022 and 2021, consisted of the following:

	2022	2021
Cash and due from banks	$ 13,310	$ 13,361
Interest-bearing deposits	1,897	76,533
Total cash and cash equivalents	$ 15,207	$ 89,894

(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, 2022 and 2021 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income/(loss) and gross unrecognized gains and losses:

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Treasury securities	$ 14,649	$ -	$ (1,241)	$ 13,408
U.S. Government-sponsored agencies	19,773	-	(744)	19,029
Residential mortgage-backed securities	281,471	1	(34,689)	246,783
Commercial mortgage-backed securites	29,771	-	(2,223)	27,548
Collateralized mortgage obligations	44,894	-	(1,991)	42,903
Total available-for-sale	$ 390,558	$ 1	$ (40,888)	$ 349,671

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held-to-maturity				
Residential mortgage-backed securities	$ 5,839	$ -	$ (320)	$ 5,519
State and political subdivision	7,118	22	(36)	7,104
Total held-to-maturity	$ 12,957	$ 22	$ (356)	$ 12,623

(Continued)

(In thousands, except share amounts)

NOTE C - SECURITIES *(Continued)*

2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Government-sponsored agencies	$ 43,788	$ 798	$ -	$ 44,586
Residential mortgage-backed securities	245,585	679	(2,207)	244,057
Commercial mortgage-backed securites	33,398	130	(553)	32,975
Collateralized mortgage obligations	22,080	6	(206)	21,880
Total available-for-sale	$ 344,851	$ 1,613	$ (2,966)	$ 343,498

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held-to-maturity				
Residential mortgage-backed securities	8,014	262	(3)	8,273
State and political subdivision	5,582	329	-	5,911
Total held-to-maturity	$ 13,596	$ 591	$ (3)	$ 14,184

The amortized cost and fair value of the available-for sale and held-to-maturity securities portfolio by contractual maturity are shown below. 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, 2021			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity				
Within one year	$ -	$ -	$ 155	$ 154
One to five years	57,323	53,717	2,731	2,690
Five to ten years	57,966	52,944	6,734	6,446
Beyond ten years	275,269	243,010	3,337	3,333
	$ 390,558	$ 349,671	$ 12,957	$ 12,623

Securities pledged to secure public deposits and repurchase agreements at December 31, 2022 and 2021 were approximately $266.4 million and $201.2 million at fair value.

(In thousands, except share amounts)

NOTE C - SECURITIES *(Continued)*

Securities with unrealized losses at December 31, 2022 and 2021, 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	
2022	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. Treasury securities	$ 13,408	$ (1,241)	$ -	$ -	$ 13,408	$ (1,241)
U.S. Government-sponsored agencies	19,029	(744)	-	-	19,029	(744)
Residential mortgage-backed securities	75,237	(4,921)	171,146	(29,768)	246,383	(34,689)
Commercial mortgage-backed securities	10,807	(835)	16,741	(1,388)	27,548	(2,223)
Collateralized mortgage obligations	34,505	(912)	8,398	(1,079)	42,903	(1,991)
	$ 152,986	$ (8,653)	$ 196,285	$ (32,235)	$ 349,271	$ (40,888)
Held-to-maturity						
Residential mortgage-backed securities	$ 5,184	$ (312)	$ 298	$ (8)	$ 5,482	$ (320)
State and political subdivision	2,734	(36)	-	-	2,734	(36)
	$ 7,918	$ (348)	$ 298	$ (8)	$ 8,216	$ (356)

	Less than 12 Months		12 Months or Longer		Total	
2021	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
Residential mortgage-backed securities	$ 173,456	$ (1,685)	$ 21,953	$ (522)	$ 195,409	$ (2,207)
Commercial mortgage-backed securities	15,176	(257)	13,285	(296)	28,461	(553)
Collateralized mortgage obligations	2,095	(52)	9,566	(154)	11,661	(206)
	$ 190,727	$ (1,994)	$ 44,804	$ (972)	$ 235,531	$ (2,966)
Held-to-maturity						
Residential mortgage-backed securities	$ -	$ -	$ 373	$ (3)	$ 373	$ (3)

At December 31, 2022 and 2021, unrealized losses on U.S. Government-sponsored agencies and mortgage-backed securities held by the Company have not been recognized into income because the decline in fair value is attributable to changes in interest rates, not credit quality. The mortgage-backed securities held by the Company were issued by U.S. Government-sponsored entities and agencies, primarily Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC), institutions which the Government has affirmed its commitment to support. Because the Company does not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired.

(In thousands, except share amounts)

NOTE D - LOANS

Loans at December 31, 2022 and 2021, by major category consisted of the following:

	2022	2021
Loans secured by real estate:		
Residential construction	$ 80,511	$ 62,798
Nonresidential construction & land	59,350	53,532
Residential	76,596	89,205
Multifamily	26,640	28,370
Commercial	136,907	133,620
Commercial & industrial	178,651	115,209
Consumer	9,216	9,676
Total loans	567,871	492,410
Allowance for loan losses	(6,922)	(6,046)
Loans, net	$ 560,949	$ 486,364

Loans to executive officers, directors, and their affiliates were $2.0 million and $2.6 million at December 31, 2022 and 2021.

Included in commercial & industrial loans are $571 thousand and $8.7 million of loans made under the Payroll Protection Program (PPP) at December 31, 2022 and 2021, which are guaranteed by the Small Business Administration (SBA). The loans have a term of 24 or 60 months but are eligible for forgiveness by the SBA. The Company recognized $353 thousand and $1.7 million of fee income during 2022 and 2021 on the PPP loan originations.

(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, 2022 and 2021:

2022	Beginning Balance	Loan Loss Provision	Charge-offs	Recoveries	Ending Balance
Loans secured by real estate:					
Residential construction	$ 608	$ 452	$ -	$ -	$ 1,060
Nonresidential construction & land	674	106	-	-	780
Residential	1,220	(545)	(30)	157	802
Multifamily	156	125	-	-	281
Commercial	1,526	103	-	-	1,629
Commercial & industrial	1,504	703	(123)	-	2,084
Consumer	358	317	(694)	305	286
Total	$ 6,046	$ 1,261	$ (847)	$ 462	$ 6,922

2021	Beginning Balance	Loan Loss Provision	Charge-offs	Recoveries	Ending Balance
Loans secured by real estate:					
Residential construction	$ 438	$ 170	$ -	$ -	$ 608
Nonresidential construction & land	625	49	-	-	674
Residential	1,908	(712)	-	24	1,220
Multifamily	32	124	-	-	156
Commercial	1,469	58	(2)	1	1,526
Commercial & industrial	708	796	-	-	1,504
Consumer	451	158	(667)	416	358
Total	$ 5,631	$ 643	$ (669)	$ 441	$ 6,046

(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 2022 and 2021:

	Loan Balances			Allowance for Loan Losses		
2022	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	$ -	$ 80,511	$ 80,511	$ -	$ 1,060	$ 1,060
Nonresidential construction & land	-	59,350	59,350	-	780	780
Residential	-	76,596	76,596	-	802	802
Multifamily	-	26,640	26,640	-	281	281
Commercial	-	136,907	136,907	-	1,629	1,629
Commercial & industrial	-	178,651	178,651	-	2,084	2,084
Consumer	-	9,216	9,216	-	286	286
Total	$ -	$ 567,871	$ 567,871	$ -	$ 6,922	$ 6,922

	Loan Balances			Allowance for Loan Losses		
2021	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	$ -	$ 62,798	$ 62,798	$ -	$ 608	$ 608
Nonresidential construction & land	-	53,532	53,532	-	674	674
Residential	-	89,205	89,205	-	1,220	1,220
Multifamily	-	28,370	28,370	-	156	156
Commercial	-	133,620	133,620	-	1,526	1,526
Commercial & industrial	-	115,209	115,209	-	1,504	1,504
Consumer	-	9,676	9,676	-	358	358
Total	$ -	$ 492,410	$ 492,410	$ -	$ 6,046	$ 6,046

(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 2022 and 2021 by class of loans:

2022	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	$ 503	$ -	$ -	$ -	$ 80,008	$ 80,511
Nonresidential construction & land	22	-	-	-	59,328	59,350
Residential	2,451	540	-	770	72,835	76,596
Multifamily	-	-	-	-	26,640	26,640
Commercial	-	-	-	-	136,907	136,907
Commercial & industrial	1,079	258	-	-	177,314	178,651
Consumer	24	15	-	-	9,177	9,216
Total	$ 4,079	$ 813	$ -	$ 770	$ 562,209	$ 567,871

2021	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	$ 321	$ -	$ -	$ -	$ 62,477	$ 62,798
Nonresidential construction & land	-	-	-	-	53,532	53,532
Residential	2,019	306	-	4,254	82,626	89,205
Multifamily	-	-	-	-	28,370	28,370
Commercial	8,872	-	-	-	124,748	133,620
Commercial & industrial	624	153	-	632	113,800	115,209
Consumer	49	12	17	-	9,598	9,676
Total	$ 11,885	$ 471	$ 17	$ 4,886	$ 475,151	$ 492,410

NOTE D - LOANS *(Continued)*

Troubled Debt Restructurings:

As of December 31, 2022 and 2021, the Company has a recorded investment in troubled debt restructurings of $466 thousand and $586 thousand, respectively. The company has allocated $0 thousand and $0 thousand of specific allowance for those loans as of December 31, 2022 and 2021 and has committed to lend additional amounts totaling up to $0 and $0. There was one payment default within twelve months following the modification during the year ending December 31, 2022. There was no payment default within twelve months following the modification during the year ending December 31, 2021.

In 2022 there was no modification of loans as trouble debt restructurings. In 2021 there was one loan in the amount of $68 thousand modified as a trouble debt restructuring.

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 indivudually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans.

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

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

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

(Continued)

(In thousands, 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 2022 and 2021, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

2022	Not Rated	Pass	Special Mention	Substandard	Doubtful	Total
Loans secured by real estate:						
Residential construction	$ -	$ 80,511	$ -	$ -	$ -	$ 80,511
Nonresidential construction & land	-	59,350	-	-	-	59,350
Residential	75,350	-	415	831	-	76,596
Multifamily	-	26,640	-	-	-	26,640
Commercial	-	122,834	5,405	8,668	-	136,907
Commercial & industrial	-	176,806	984	861	-	178,651
Consumer	8,905	-	-	296	15	9,216
Total	$ 84,255	$ 466,141	$ 6,804	$ 10,656	$ 15	$ 567,871

2021	Not Rated	Pass	Special Mention	Substandard	Doubtful	Total
Loans secured by real estate:						
Residential construction	$ -	$ 62,798	$ -	$ -	$ -	$ 62,798
Nonresidential construction & land	-	53,532	-	-	-	53,532
Residential	87,958	-	-	1,247	-	89,205
Multifamily	-	28,370	-	-	-	28,370
Commercial	-	128,279	85	5,256	-	133,620
Commercial & industrial	-	113,977	222	1,010	-	115,209
Consumer	9,572	-	-	87	17	9,676
Total	$ 97,530	$ 386,956	$ 307	$ 7,600	$ 17	$ 492,410

(In thousands, except share amounts)

NOTE E - PREMISES AND EQUIPMENT

Year-end premises and equipment consisted of:

	2022	2021
Land	$ 4,891	$ 4,992
Buildings and leasehold improvements	32,062	29,115
Furniture, equipment, and autos	13,589	12,593
Construction in progress	440	3,445
	50,982	50,145
Less accumulated depreciation and amortization	22,990	21,623
Premises and equipment, net	$ 27,992	$ 28,522

Depreciation expense was $1.5 million for 2022 and $1.5 million for 2021.

(In thousands, except share amounts)

NOTE F - DEPOSITS

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

	2022	2021
No contractual maturities	$ 719,094	$ 715,496
2022	-	64,771
2023	54,769	10,553
2024	10,181	3,632
2025	4,480	4,332
2026	2,259	2,699
2027	2,484	-
	$ 793,267	$ 801,483

At December 31, 2022 and 2021, approximately $146.8 million and $119.6 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 $20.0 million and $25.0 million at year-end 2022 and 2021.

Deposits from executive officers, directors, and their affiliates at year-end 2022 and 2021 were $15.8 million and $7.3 million.

(Continued)

(In thousands, except share amounts)

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

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

	2022	2021
Maturities through January 2023, at fixed rates from 4.75% to 4.75%, averaging 4.75%	$ 13,200	$ -

Each advance is payable at its maturity date or on payment of a prepayment penalty for fixed rate advances. The advances were collateralized by $211.4 million and $185.6 million of eligible loans under a blanket lien arrangement at year-end 2022 and 2021. Based on this collateral, the Company's holdings of FHLB stock and securities held in safekeeping, the Company was eligible to borrow an additional $234.0 million at year-end 2022.

Payments over the next five years are as follows:

2023	$ 13,200
2024	-
2025	-
2026	-
2027	-

Other borrowings consist of customer repurchase sweep accounts with overnight maturities. Balances were $113.4 million and $80.6 million at year-end 2022 and 2021.

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 $119.5 million and $81.6 million at year-end 2022 and 2021 at fair value.

(In thousands, except share amounts)

NOTE H - 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:

	2022	2021
Undisbursed lines of credit	$ 132,237	$ 125,309
Commitments to originate loans	11,444	20,913
Recourse on loans sold	200	2,392
Standby letters of credit	719	580

(Continued)

NOTE I - 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 net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes as of December 31, 2022 and 2021, 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 2022 and 2021, 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, 2022 and 2021 which were calculated in accordance with the requirements of Basel III, which included a "capital conservation buffer" of 2.5% above new regulatory minimum capital ratios, resulting 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 for 2022 and 2021 is 2.50%. 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 2022 and 2021, the Bank's actual capital levels and minimum required levels, including the capital conservation buffer, were as follows:

(In thousands, except share amounts)

NOTE I - 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, 2022						
Total capital						
(to risk-weighted assets)	$ 106,759	15.1%	$ 74,283	10.5%	$ 70,746	10.0%
Tier 1 capital						
(to risk-weighted assets)	99,408	14.1%	60,134	8.5%	56,597	8.0%
Common equity Tier 1 capital						
(to risk-weighted assets)	99,408	14.1%	49,522	7.0%	45,985	6.5%
Tier 1 capital						
(to average assets)	99,408	9.7%	40,834	4.0%	51,042	5.0%

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
As of December 31, 2021						
Total capital						
(to risk-weighted assets)	$ 97,701	16.0%	$ 63,969	10.5%	$ 60,923	10.0%
Tier 1 capital						
(to risk-weighted assets)	91,451	15.0%	51,784	8.5%	48,738	8.0%
Common equity Tier 1 capital						
(to risk-weighted assets)	91,451	15.0%	42,646	7.0%	39,600	6.5%
Tier 1 capital						
(to average assets)	91,451	9.4%	38,920	4.0%	48,650	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 2023, the Bank could, subject to no objection from regulators, declare dividends of approximately $13.2 million plus any 2023 net profits retained to the date of the dividend declaration.

NOTE J - FAIR VALUE

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

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

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

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

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

No assets/(liabilities) were measured at fair value on a non-recurring basis as of December 31, 2022 and 2021.

(In thousands, except share amounts)

NOTE J - FAIR VALUE *(Continued)*

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

	Fair Value Measurements Using			
December 31, 2022	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. Treasury securities	$ -	$ 13,408	$ -	$ 13,408
U.S. Government-sponsored agencies	-	19,029	-	19,029
Residential mortgage-backed securities	-	246,783	-	246,783
Commercial mortgage-backed securities	-	27,548	-	27,548
Collateralized mortgage obligations	-	42,903	-	42,903
Equity securities	860	-	-	860
December 31, 2021				
Assets/(liabilities) measured on a recurring basis:				
Securities available-for-sale:				
U.S. Government-sponsored agencies	$ -	$ 44,586	$ -	$ 44,586
Residential mortgage-backed securities	-	244,057	-	244,057
Commercial mortgage-backed securities	-	32,975	-	32,975
Collateralized mortgage obligations	-	21,880	-	21,880
Equity securities	972	-	-	972

(In thousands, except share amounts)

NOTE K - 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, 2022 were allocated to participants. The fair value of allocated shares subject to repurchase obligation at year-end 2022 was $6.5 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 2022 and 2021:

Year	Match	Compensation	Expense
2021	100%	5%	$ 241
2022	100%	5%	245

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:

	2022	2021
Benefit obligation at beginning of year	$ 7,518	$ 7,942
Service cost	94	99
Interest cost	191	170
Actuarial (gain)	(1,699)	(333)
Benefits paid	(360)	(360)
Benefit obligation at end of year	$ 5,744	$ 7,518

Amounts recognized in accumulated other comprehensive income consist of:

	2022	2021
Net loss/(gain)	$ (574)	$ 1,286
Prior service cost	(111)	(127)
Total	$ (685)	$ 1,159

(Continued)

(In thousands, except share amounts)

NOTE K - RETIREMENT PLANS *(Continued)*

The net periodic benefit cost was $430 thousand and $456 thousand for the years ended December 31, 2022 and 2021.

The estimated net loss (gain) and prior service cost (credit) for the benefit plan that will be amortized from accumulated other comprehensive income into net periodic benefit costs during the year ending December 31, 2023 are ($82) thousand and ($16) thousand.

Estimated Future Payments

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

2023	$	359
2024		358
2025		355
2026		353
2027		364
Years 2028-2032		2,152

The weighted-average discount rate used to determine benefit obligations and periodic benefit cost was 4.95% and 2.60% and 2.60% and 2.20% at year-end 2022 and 2021.

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, 2022, and 2021 was $274 and $361 thousand.

NOTE L - 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 $0 thousand for 2022 and 2021.

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 2022 or 2021.

(In thousands, except share amounts)

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

A summary of the activity in the stock option plan for 2021 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	450	$ 59	
Granted	-	-	
Exercised	(450)	59	
Forfeited or expired	-	-	
Outstanding at end of year	-	$ -	-
Vested or expected to vest	-	$ -	-
Exercisable at end of year	-	$ -	-

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

	2022	2021
Intrinsic value of options exercised	$ 36	$ 16
Cash received from option exercises	27	27
Intrinsic value of options outstanding	-	16
Weighted average fair value of options granted	-	-

As of December 31, 2022, there was no unrecognized compensation cost related to nonvested stock options granted under the plan.

(In thousands, except share amounts)

NOTE M - ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

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

	December 31, 2022	December 31, 2021
Unrealized gains (losses) on securities available-for-sale	$ (40,887)	$ (1,353)
Employee pension plan	685	(1,159)
Total accumulated other comprehensive (loss)	$ (40,202)	$ (2,512)

PIONEER BANCORP, INC.
ANALYSIS OF INTEREST CHANGES DUE TO VOLUME AND RATE - UNAUDITED
December 31, 2022
(In thousands, except share amounts)

2022 Over 2021

	Average Balance		Interest		Average Rate		Total	Change due to	
	2022	2021	2022	2021	2022	2021	Change	Volume	Rate
Interest and dividend income									
Loans	$ 516,200	$ 460,370	$ 29,173	$ 24,705	5.65%	5.37%	$ 4,468	$ 3,155	$ 1,313
Mortgage securities	311,868	248,149	5,159	2,680	1.65%	1.08%	2,479	1,054	1,425
Investment securities and other	121,642	169,075	1,850	1,210	1.52%	0.72%	640	(721)	1,361
Total interest-earnings assets	$ 949,710	$ 877,594	$ 36,182	$ 28,595	3.81%	3.26%	$ 7,587	$ 3,488	$ 4,099
Interest expense									
Deposits	$ 839,144	$ 757,816	$ 683	$ 575	0.08%	0.08%	$ 108	$ 66	$ 42
FHLB advances and other borrowings	87,676	78,734	1,222	63	1.39%	0.08%	1,159	125	1,034
Total interest-bearing liabilities	$ 926,820	$ 836,550	$ 1,905	$ 638	0.21%	0.08%	$ 1,267	$ 191	$ 1,076
Net interest spread and income			$ 34,277	$ 27,597	3.60%	3.18%			
Ratio of net interest income to average interest-earning assets			3.61%	3.19%					

2021 Over 2020

	Average Balance		Interest		Average Rate		Total	Change due to	
	2021	2020	2021	2020	2021	2020	Change	Volume	Rate
Interest and dividend income									
Loans	$ 460,370	$ 421,185	$ 24,705	$ 20,410	5.37%	4.85%	$ 4,295	$ 2,103	$ 2,175
Mortgage securities	248,149	126,419	2,680	1,946	1.08%	1.54%	734	1,315	(582)
Investment securities and other	169,075	216,582	1,210	2,283	0.72%	1.05%	(1,073)	(340)	(724)
Total interest-earnings assets	$ 877,594	$ 764,186	$ 28,595	$ 24,639	3.26%	3.22%	$ 3,956	$ 3,077	$ 869
Interest expense									
Deposits	$ 757,816	$ 634,603	$ 575	$ 1,134	0.08%	0.18%	$ (559)	$ 93	$ (661)
FHLB advances and other borrowings	78,734	91,636	63	581	0.08%	0.63%	(518)	(10)	(504)
Total interest-bearing liabilities	$ 836,550	$ 726,239	$ 638	$ 1,715	0.08%	0.24%	$ (1,077)	$ 83	$ (1,165)
Net interest spread and income			$ 27,957	$ 22,924	3.18%	2.99%			
Ratio of net interest income to average interest-earning assets			3.19%	3.00%					

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 community banking. The Bank is a Federal Savings Bank which provides depository services and originates commercial, residential, and consumer loans primarily in Southern New Mexico.

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 May 16, 2023 at the Corporate Headquarters, 3000 North Main Street, Roswell, New Mexico.

PIONEER BANCORP, INC.

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Bush, Inc.

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Agribusiness

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PIONEER BANK

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