PIONEER BANCORP, INC.

2023 ANNUAL REPORT

FINANCIAL HIGHLIGHTS (Unaudited)

(In thousands, except per share amounts)	**2023**	Change		2022	2021	2020	2019
AT YEAR-END							
Assets	**$ 990,187**	-	1%	$ 999,957	$ 990,606	$ 862,357	$ 813,601
Loans	**532,703**	-	5%	560,949	486,364	445,610	371,986
Securities	**339,582**	-	7%	363,488	358,066	235,559	350,882
Deposits	**773,002**	-	3%	793,267	801,483	666,969	571,281
Borrowings	**119,784**	-	5%	126,620	80,606	91,363	146,509
Unimpaired equity	**109,126**	+	9%	100,011	92,291	87,328	82,717
Stockholders' equity	**76,373**	+	28%	59,809	89,779	89,231	80,987
FOR THE YEAR							
Interest and dividend income	**50,185**	+	37%	36,641	28,792	24,639	27,115
Interest expense	**8,000**	+	320%	1,905	638	1,715	5,703
Net interest income	**42,185**	+	21%	34,736	28,154	22,924	21,412
Credit loss expense	**2,966**	+	135%	1,261	643	1,856	1,097
Noninterest income	**11,193**	+	6%	10,546	9,865	9,659	10,197
Noninterest expense	**28,743**	+	12%	25,582	23,646	23,064	22,591
Income before state income taxes	**21,669**	+	18%	18,439	13,730	7,663	7,921
State income tax	**1,280**			-	-	-	-
Net income after state income taxes	**20,389**	+	11%	18,439	13,730	7,663	7,921
CAPITAL RATIO							
Unimpaired equity to assets	**11.0%**			10.0%	9.3%	10.1%	10.2%
Stockholder's equity to assets	**7.7%**			6.0%	9.1%	10.3%	10.0%
PER SHARE							
Year-end unimpaired book value	**111.47**	+	8%	102.79	95.29	90.21	85.50
Year-end book value	**78.01**	+	27%	61.47	92.70	92.17	83.71
Earnings [1]	**22.17**	+	17%	18.97	14.18	7.92	8.19
Distributions [2]	**13.21**	+	15%	11.46	9.08	3.16	4.86
Distribution payout ratio [1]	**59.6%**			60.4%	64.0%	39.9%	59.3%
PERFORMANCE RATIOS							
Return on average stockholders' equity [1]	**31.82%**			24.65%	15.37%	9.00%	10.34%
Return on average assets [1]	**2.18%**			1.85%	1.48%	0.91%	0.97%
Net interest margin	**4.40%**			3.61%	3.19%	3.00%	2.77%
Efficiency ratio	**53.85%**			56.49%	62.20%	70.79%	71.47%
SELECTED INFORMATION							
Average common shares *(in thousands)*	**978**			972	968	967	968
Full-time equivalent employees	**159**			147	147	144	163
Customer service facilities:							
Full-service facilities	**6**			6	6	6	6
Banking branches	**5**			5	6	6	5
ATMs	**20**			21	21	22	21

[1] 2023 figures are based on Income before state income taxes

[2] 2023 Distributions per share include state income taxes paid on behalf of the Company's shareholders.

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, 2023 and 2022, 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note A to the consolidated financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

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.

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

Dallas, Texas
March 13, 2024

PIONEER BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022
(In thousands, except share amounts)

	Note	2023	2022
ASSETS			
Cash and cash equivalents	*B*	$ 55,466	$ 15,207
Securities:	*C*		
Available-for-sale, at fair value (amortized cost $360,392 and $390,558)		327,211	349,671
Held-to-maturity (fair value 2023 - $11,263; 2022 - $12,623)		11,499	12,957
Equity securities, at fair value		872	860
Loans	*D*	539,877	567,871
Allowance for Credit Losses	*D*	(7,174)	(6,922)
Loans, net	*D*	532,703	560,949
Federal Home Loan Bank (FHLB) stock		2,782	1,826
Other real estate owned		-	130
Premises and equipment, net	*E*	27,352	27,992
Accrued interest receivable		3,385	3,278
Bank-owned life insurance		26,159	23,929
Other assets		2,758	3,158
Total assets		$ 990,187	$ 999,957
LIABILITIES			
Deposits	*F*	$ 773,002	$ 793,267
FHLB advances and other borrowings	*G*	119,784	126,620
Official checks		1,849	2,793
Allowance for credit losses on off-balance sheet credit exposures		1,185	-
Accrued interest payable		734	18
Accounts payable and other liabilities		17,260	17,450
Total liabilities		913,814	940,148
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 (2023 - 29,953 shares; 2022 - 35,953 shares)		(1,796)	(2,155)
Additional paid-in capital		2,600	2,209
Retained earnings		107,313	98,948
Accumulated other comprehensive loss	M	(32,753)	(40,202)
Total stockholders' equity		76,373	59,809
Total liabilities and stockholders' equity		$ 990,187	$ 999,957

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2023 and 2022
(In thousands, except share amounts)

		2023	2022
Interest and dividend income:			
Loans		$ 39,848	$ 29,171
Mortgage securities		7,492	5,159
Investment securities and other		2,845	2,311
Total		50,185	36,641
Interest expense:			
Deposits		2,002	683
FHLB advances and other borrowings		5,998	1,222
Total		8,000	1,905
Net interest income		42,185	34,736
Credit loss expense - loans		2,217	-
Credit loss expense - off-balance sheet credit exposures		749	-
Credit loss expense	*D*	2,966	1,261
Net interest income after credit loss provision		39,219	33,475
Noninterest income:			
Deposit account fees		9,390	9,221
Loan administration and service fees		699	406
Loss on sale of securities		-	(50)
Unrealized loss on equity securities		(3)	(127)
Other		1,107	1,096
Total		11,193	10,546
Noninterest expense:			
Compensation and employee benefits	*K/L*	13,782	12,089
Equipment		1,350	1,268
Data processing		7,602	6,357
Occupancy		1,912	1,968
Stationery, printing, and office supplies		440	493
Professional and supervisory		783	738
Federal deposit insurance		652	475
Postage and transportation		471	394
Advertising and public relations		1,015	856
Telephone		51	69
Other		685	875
Total		28,743	25,582
Income before state income taxes		21,669	18,439
State income tax expense		1,280	-
Net income		$ 20,389	$ 18,439

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2023 and 2022
(In thousands, except share amounts)

	Note	2023	2022
Weighted-average number of capital stock shares outstanding:			
Basic		977,507	971,906
Diluted		977,950	972,073
Earnings per share:			
Basic		$ 20.86	$ 18.97
Diluted		20.85	18.97

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2023 and 2022
(In thousands)

	Note	2023	2022
Net income		$ 20,389	$ 18,439
Comprehensive income (loss):			
Unrealized gain (losses) on securities:			
Unrealized holding gain (losses) arising during the period		7,705	(39,584)
Reclassification adjustment for losses included in net income		-	50
		7,705	(39,534)
Defined benefit pension plan:	K		
Net gain (loss) arising during the period		(240)	1,860
Amortization of prior service cost included in net periodic pension cost		(16)	(16)
		(256)	1,844
Total other comprehensive income (loss)		7,449	(37,690)
Comprehensive income (loss)		$ 27,838	$ (19,251)

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2023 and 2022
(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, 2022	$ 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
Cumulative change in acccounting principle (Note A)	-	-	-	(394)	-	(394)
Balance, January 1, 2023	1,009	(2,155)	2,209	98,554	(40,202)	59,415
Net income	-	-	-	20,389	-	20,389
Other comprehensive income	-	-	-	-	7,449	7,449
Sale of treasury stock (6,000 shares)	-	359	331	-	-	690
Stock-basesd compensation	-	-	60	-	-	60
Distributions - $11.90 per share	-	-	-	(11,630)	-	(11,630)
Balance, December 31, 2023	$ 1,009	$ (1,796)	$ 2,600	$ 107,313	$ (32,753)	$ 76,373

See accompanying notes to consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and 2022
(In thousands, except share amounts)

	2023	2022
Cash flows from operating activities:		
Net income	$ 20,389	$ 18,439
Adjustments to reconcile net income to net cash from operating activities:		
Premiums and discounts on investments and mortgage securities, net	857	4,895
Equity securities fair value adjustment	3	127
Credit loss expense	2,966	1,261
Net (gain)/loss on sales and disposals of:		
Premises and equipment	-	(194)
Foreclosed assets	-	(16)
Securities available-for-sale	-	50
Stock baesd compensation expense	60	-
FHLB stock dividends	(97)	(4)
Depreciation of premises and equipment	1,566	1,495
Earnings on bank-owned life insurance	(905)	(687)
Changes in operating assets and liabilities:		
Accrued interest receivable	(107)	(1,054)
Other assets	400	(661)
Accrued interest payable	716	16
Accounts payable and other liabilities, net of distributions declared, not paid	681	1,417
Net cash from operating activities	26,529	25,084
Cash flows from investing activities:		
Loan originations and principal payments on loans, net	25,641	(75,976)
Securities:		
Available-for-sale:		
Purchases	(9,923)	(134,499)
Sales	-	10,000
Maturities, prepayments and calls	39,249	73,874
Held-to-maturity:		
Purchases	-	(2,740)
Maturities, prepayments and calls	1,424	3,338
Additions to premises and equipment	(926)	(771)
Purchases of FHLB stock	(859)	(648)
Purchases of bank-owned life insurance	(1,325)	(1,483)
Proceeds from sales of foreclosed assets	130	122
Net cash used in investing activities	53,411	(128,783)

(Continued)

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and 2022
(In thousands, except share amounts)

	2023	2022
Cash flows from financing activities:		
Net change in deposits	$ (20,265)	$ (8,216)
Proceeds from FHLB advances and other borrowings	1,442,591	163,119
Repayments on FHLB advances and other borrowings	(1,449,427)	(117,105)
Net change in official checks	(944)	313
Net change in advance payments for taxes and insurance	(104)	(65)
Sale of treasury shares, net	690	404
Proceeds from exercise of stock options	-	27
Payment of cash distributions	(12,222)	(9,465)
Net cash from financing activities	(39,681)	29,012
Net change in cash and cash equivalents	40,259	(74,687)
Cash and cash equivalents at beginning of year	15,207	89,894
Cash and cash equivalents at end of year	$ 55,466	$ 15,207
Supplemental cash flow information:		
Cash paid during the year for interest	$ 7,285	$ 1,889
Supplemental noncash disclosures:		
Distributions declared, not paid	$ 3,514	$ 4,106
Transfers from loans to foreclosed assets	-	130
Impact of adopting ASC 326 on loans	388	-
Impact of adopting ASC 326 on off balance sheet exposures	6	-
Impact of adopting ASC 326 on retained earnings	(394)	-

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 (20) 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 13, 2024, 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.

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 deposit accounts with no maturity date.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt 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.

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.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income.

Allowance for Credit Losses – Held-to Maturity Securities: Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities totaled $84.5 thousand at December 31, 2023 and is excluded from the estimate of credit losses.

The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Management classifies the held-to-maturity portfolio into the following major security types: Residential mortgage-backed securities and state and political subdivision securities.

All of the residential mortgage-backed securities held by the Company are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses.

Other securities are comprised of state and political subdivision securities located in New Mexico. At December 31, 2023, these securities were rated Aa2/Aa3 (defined as high quality and subject to very low credit risk).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Available-For-Sale Securities: For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, and changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaled $818.0 thousand at December 31, 2023 and is excluded from the estimate of credit losses.

Equity Securities: 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.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of deferred loan fees and costs. Accrued interest receivable totaled $2.5 million at December 31, 2023 and was reported in Accrued interest receivable and other assets on the consolidated balance sheets and is excluded from the estimate of credit 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 evaluated loans.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Allowance for Credit Losses - Loans: The allowance for credit losses (ACL) is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values or other relevant factors. Economic data such as housing starts, median home prices, and Real Gross Domestic Product are also utilized.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the following portfolio segments and measures the allowance for credit losses using the following methods:

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. These loan classes are further segmented by loan risk rating.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.

The remaining life method is utilized for all loan categories in calculating the expected loss rate. The remaining life method estimates expected credit losses by calculating an average annual loss rate and multiplying it by future outstanding balances each period based on contractual maturities and estimated prepayments. The annual loss rates are comprised of the Company's or Peer Group's historical loss experience from March 31, 2004 to September 30, 2023. Peer Group loss data is utilized when the Company's loss data is deemed to be inadequate. The Peer Group consists of five banks in New Mexico that range from $450 million to $1.4 billion in asset size. The Company utilizes Peer Group loss data for all loan categories except residential construction and consumer loans.

Qualitative Adjustments consist of the following risk factors: Changes in international, national, regional, and local conditions; changes in the value of underlying collateral for collateral dependent loans; the existence and effect of any concentrations of credit and changes in the levels of such concentrations; changes in lending policies and procedures, including changes in underwriting standards and collections, charge offs, and recovery practices; the effect of the level of watch, special mention, and substandard loans; changes in the quality of the organizations' loan review system; changes in the nature and volume of the portfolio and terms of loans; changes in the experience, depth, and ability of lending management; changes in the volume and severity of past due loans and other similar conditions; the effect of other external factors (competition, legal and regulatory requirements, etc.) on the level of estimated credit losses; the effect of critical loan file exception levels; and an economic forecast based on the growth of real (inflation-adjusted) gross domestic product.

The risk factor with the most weight is the changes in international, national, regional, and local conditions. This risk factor will adapt to economic trends. Most notably, the following economic indicator will be utilized to adjust this risk factor: New Privately-Owned Housing Units under Construction: Total Units. A secondary economic indicator that will be considered in adjusting the changes in the underlying collateral for collateral dependent loans is Median Home Prices of Houses Sold in the United States. A high volume of homes under construction indicates the construction industry will be active, which forecasts more jobs and an increase in GDP. In any scenario, a decline in housing construction or housing prices has a negative impact on the economy.

Management's current estimate of expected credit losses includes a factor based on reasonable and supportable forecasts, which is based on the projected change to the Real Gross Domestic Product in one year. The source of this forecast is the Congressional Budget Office. The forecast is applied to the qualitative adjustments and the adjustment is the same for all loan segments. Depending on the amount of the projected one year change in the real gross domestic product, the qualitative factor adjustment will range between -0.20 basis points to +0.20 basis points.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The level and significance of the changes in these three economic indicators will be evaluated to determine the adjustment to the Qualitative Factors in determining the ACL.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral and the reporting date, adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a modification under financial difficulty will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

<u>Allowance for Credit Losses on Off-Balance Sheet Credit Exposure</u>s: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

The loan categories and reserve loss rates used for loans is also used for off-balance sheet credit exposures.

<u>Concentration of Credit Risk</u>: Most of the Company's business activity is with customers located within the State of New Mexico. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy in the State of New Mexico. The Company also purchases commercial loan participations with other banks outside the State of New Mexico, including Texas and Utah.

<u>Loan Commitments and Related Financial Instruments</u>: 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.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Company had no other real estate owned at year-end 2023.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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, 2023 and 2022. The Company is no longer subject to examination by taxing authorities for years before 2020.

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 443 shares at December 31, 2023 and 167 shares at December 31, 2022. 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 J. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards: On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities. Management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of $394 thousand for the cumulative effect of adopting ASC 326. The transition adjustment includes a $6 thousand impact to the OBS and $388 thousand to the ACL due to an increase in historical loan loss rates from the new CECL methodology.

As allowed by ASC 326, the Company elected to maintain pools of loans accounted for under ASC 310-30. In accordance with the standard, management did not reassess whether modifications to individual acquired financial assets accounted for in pools were troubled debt restructurings as of the date of adoption.

(In thousands, except share amounts)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table illustrates the impact of ASC 326.

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans secured by real estate:			
Residential construction	$ 913	$ 1,060	$ (147)
Nonresidential construction & land	837	780	57
Residential	801	802	(1)
Multifamily	308	281	27
Commercial	1,885	1,629	256
Commercial & industrial	2,292	2,084	208
Consumer	274	286	(12)
Allowance for credit losses on loans	7,310	6,922	388
Liabilities:			
Allowance for credit losses on OBS credit exposures	$ 435	$ 429	$ 6

In March 2022, the FASB issued ASU No. 2022-02 “Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.” The amendments in this update eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables-Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan. Additionally, for public business entities, the amendments in this update require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments-Credit Losses-Measured at Amortized Cost in the vintage disclosures required by paragraph 326-20-50-6. The adoption did not have a material impact on the consolidated financial statements.

(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, 2023 and 2022, consisted of the following:

	2023	2022
Cash and due from banks	$ 14,560	$ 13,310
Interest-bearing deposits	40,906	1,897
Total cash and cash equivalents	$ 55,466	$ 15,207

(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, 2023 and 2022 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income/(loss) and gross unrecognized gains and losses:

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Treasury securities	$ 14,740	$ -	$ (935)	$ 13,805
U.S. Government-sponsored agencies	19,757	-	(218)	19,539
Residential mortgage-backed securities	257,773	272	(28,991)	229,054
Commercial mortgage-backed securites	28,926	-	(1,545)	27,381
Collateralized mortgage obligations	39,196	-	(1,764)	37,432
Total available-for-sale	$ 360,392	$ 272	$ (33,453)	$ 327,211

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held-to-maturity				
Residential mortgage-backed securities	$ 4,597	$ -	$ (238)	$ 4,359
State and political subdivision	6,902	37	(35)	6,904
Total held-to-maturity	$ 11,499	$ 37	$ (273)	$ 11,263

All of the securities held in the Company's securities portfolio, with the exception of state and political subdivision securities, are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The Company monitors the state and political subdivision securites by reviewing the security ratings on a monthly basis. At December 31, 2023, the Company determined that no allowance for credit losses was required for the securities portfolio.

(Continued)

(In thousands, except share amounts)

NOTE C - SECURITIES *(Continued)*

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

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, 2023			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity				
Within one year	$ 29,100	$ 28,513	$ 924	$ 914
One to five years	27,574	25,977	1,861	1,845
Five to ten years	48,697	45,248	7,431	7,200
Beyond ten years	255,021	227,473	1,283	1,304
	$ 360,392	$ 327,211	$ 11,499	$ 11,263

Securities pledged to secure public deposits and repurchase agreements at December 31, 2023 and 2022 were approximately $257.2 million and $266.4 million at fair value.

At year-end 2023 and 2022, there were no holdings of securities of any one issuer, other than the U.S. Governement and its agencies, in an amount greater than 10% of shareholders' equity.

(In thousands, except share amounts)

NOTE C - SECURITIES *(Continued)*

As of December 31, 2023, the Company's security portfolio consisting of 163 securities, 147 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's mortgaged-collateralized mortgage obligations, as discussed below:

Mortgage-Backed Securities and Collateralized Mortgage Obligations

At December 31, 2023, all of the mortgage-backed securities and collateralized mortgage obligations held by the Company were issued by U.S. government-sponsored entities and agencies. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have to sell these mortgage-backed securities and collateralized mortgage obligations and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2023.

The Company's securities portfolio contains securities that were issued by U.S. government entities and agencies. The state and political subdivison bonds held by the Company are of high investment grade and are monitored on a monthly basis. The Company did not make any allowance for credit loses for the securities portfolio at December 31, 2023.

Credit Quality Indicators

The Company monitors the credit quality of debt securites held-to-maturity through the use of credit rating. The Company monitors the credit rating on a monthly basis and at December 31, 2023. The following table summarizes the amortized cost of debt securities held-to-maturity at December 31, 2023, aggregated by credit quality indicator.

	Held-to-Maturity		
	Mortgage-backed Residential	State and Political Subdivision	Total
December 31, 2023			
AAA/AA/A	$ 4,597	$ 5,457	$ 10,054
Not Rated	-	1,445	1,445
Total	$ 4,597	$ 6,902	$ 11,499

There were no debt securities held-to-maturity that are past due or on non-accrual at December 31, 2023.

(In thousands, except share amounts)

NOTE C - SECURITIES *(Continued)*

Securities with unrealized losses at December 31, 2023 and 2022, 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	
2023	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. Treasury securities	$ -	$ -	$ 13,805	$ (935)	$ 13,805	$ (935)
U.S. Government-sponsored agencies	-	-	19,539	(218)	19,539	(218)
Residential mortgage-backed securities	-	-	218,571	(28,991)	218,571	(28,991)
Commercial mortgage-backed securities	-	-	27,381	(1,545)	27,381	(1,545)
Collateralized mortgage obligations	-	-	37,432	(1,764)	37,432	(1,764)
	$ -	$ -	$ 316,728	$ (33,453)	$ 316,728	$ (33,453)
Held-to-maturity						
Residential mortgage-backed securities	$ 5	$ (1)	$ 4,354	$ (237)	$ 4,359	$ (238)
State and political subdivision	2,760	(25)	909	(10)	3,669	(35)
	$ 2,765	$ (26)	$ 5,263	$ (247)	$ 8,028	$ (273)

	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)

At December 31, 2023 and 2022, 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 and illiquidity, and 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 as of December 31, 2023.

(In thousands, except share amounts)

NOTE D - LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans at December 31, 2023 and 2022, by major category consisted of the following:

	2023	2022
Loans secured by real estate:		
Residential construction	$ 73,682	$ 80,511
Nonresidential construction & land	67,794	59,350
Residential	65,783	76,596
Multifamily	28,856	26,640
Commercial	154,365	136,907
Commercial & industrial	140,683	178,651
Consumer	8,714	9,216
Total loans	539,877	567,871
Allowance for credit losses	(7,174)	(6,922)
Loans, net	$ 532,703	$ 560,949

Loans to executive officers, directors, and their affiliates were $1.9 million and $2.0 million at December 31, 2023 and 2022.

Included in commercial & industrial loans are $285 thousand and $571 thousand of loans made under the Payroll Protection Program (PPP) at December 31, 2023 and 2022, 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 $22 thousand and $353 thousand of fee income during 2023 and 2022 on the PPP loan originations.

(In thousands, except share amounts)

NOTE D - LOANS AND ALLOWANCE FOR CREDIT LOSSES *(Continued)*

The following table presents activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

2023	Beginning Balance	Impact of Adopting ASC 326	Credit Loss Provision	Charge-offs	Recoveries
Loans secured by real estate:					
Residential construction	$ 1,060	$ (147)	$ (325)	$ -	$ -
Nonresidential construction & land	780	57	(3)	-	-
Residential	802	(1)	53	-	-
Multifamily	281	27	224	(208)	-
Commercial	1,629	256	120	-	-
Commercial & industrial	2,084	208	1,804	(1,810)	13
Consumer	286	(12)	344	(674)	326
Total	$ 6,922	$ 388	$ 2,217	$ (2,692)	$ 339

The following table presents activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

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

(Continued)

(In thousands, except share amounts)

NOTE D - LOANS AND ALLOWANCE FOR CREDIT LOSSES *(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:

	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

(In thousands, except share amounts)

NOTE D - LOANS AND ALLOWANCE FOR CREDIT LOSSES *(Continued)*

The cumulative loss rate used as the basis of the estimate of credit losses is comprised of the Company's or Peer Group's historical loss experience from March 31, 2004 to September 30, 2023. No reversion adjustments were necessary, as the starting point for the Company's estimate was a cumulative loss rate covering the expected contractual term of the portfolio.

The Remaining Life Method is utlized for all loan categories in calculating the historical loss rate. The Remaining Life Method uses periodic charge-off rates and applies those rates to a projection of balances over the remaining life of an instrument. This method is adaptable to situations where loss experience can be lacking. Peer Bank Loss Data is utilized when the Company's loss data is deemed to be inadequate. The Company utilizes Peer Bank Loss Data for all loan categories except residential construction and consumer loans.

Management's current estimate of expected credit losses includes a factor based on reasonable and supportable forecasts about the future. This forecast is based on the projected change to the real gross domestic product in one year. This forecast is applied to the qualitative adjustments and the adjustment is the same for all loan segments. Depending on the amount of the projected one year change in the real gross domestic product, the qualitative factor adjustment will range between -0.20 basis points to +0.20 basis points.

The level and significance of the changes in these three economic indicators will be evaluated to determine the adjustment to the Qualitative Factors in determining the ACL.

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2023:

	Nonaccrual With No Allowance For Credit Loss	Nonaccrual	Loans Past Due Over 89 days Still Accruing
Loans secured by real estate:			
Residential construction	$ -	$ -	$ -
Nonresidential construction & land	-	-	-
Residential	-	695	-
Multifamily	-	160	-
Commercial	-	4,963	-
Commercial & industrial	-	14,264	-
Consumer	-	-	-
Total	$ -	$ 20,082	$ -

The Company recognized $85.9 thousand of interest income on nonaccrual loans during the year ended December 31, 2023.

(In thousands, except share amounts)

NOTE D - LOANS AND ALLOWANCE FOR CREDIT LOSSES *(Continued)*

The following table presents the recorded investment in nonaccrual and loans past due over 89 days still on accrual by class of loans as of December 31, 2022:

	Nonaccrual	Loans Past Due Over 89 days Still Accruing
Loans secured by real estate:		
Residential construction	$ -	$ -
Nonresidential construction & land	-	-
Residential	770	-
Multifamily	-	-
Commercial	-	-
Commercial & industrial	-	-
Consumer	-	-
Total	$ 770	$ -

The following tables present the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	Industrial Building	Office Building	Inventory & Equipment
Loans secured by real estate:			
Residential construction	$ -	$ -	$ -
Nonresidential construction & land	-	-	-
Residential	-	-	-
Multifamily	-	-	-
Commercial	594	4,455	-
Commercial & industrial	-	-	1,997
Consumer	-	-	-
Total	$ 594	$ 4,455	$ 1,997

(In thousands, except share amounts)

NOTE D - LOANS AND ALLOWANCE FOR CREDIT LOSSES *(Continued)*

The following tables present the aging of the amortized cost basis in past due loans as of year-end 2023 and 2022 by class of loans:

2023	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Loans secured by real estate:						
Residential construction	$ -	$ -	$ -	$ -	$ 73,682	$ 73,682
Nonresidential construction & land	-	-	-	-	67,794	67,794
Residential	1,728	645	695	3,068	62,715	65,783
Multifamily	-	-	160	160	28,696	28,856
Commercial	81	170	3,500	3,751	150,614	154,365
Commercial & industrial	4,880	464	1,997	7,341	133,342	140,683
Consumer	16	-	42	58	8,656	8,714
Total	$ 6,705	$ 1,279	$ 6,394	$ 14,378	$ 525,499	$ 539,877

2022	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Loans secured by real estate:						
Residential construction	$ 503	$ -	$ -	$ 503	$ 80,008	$ 80,511
Nonresidential construction & land	22	-	-	22	59,328	59,350
Residential	2,451	540	770	3,761	72,835	76,596
Multifamily	-	-	-	-	26,640	26,640
Commercial	-	-	-	-	136,907	136,907
Commercial & industrial	1,079	258	-	1,337	177,314	178,651
Consumer	24	15	-	39	9,177	9,216
Total	$ 4,079	$ 813	$ 770	$ 5,662	$ 562,209	$ 567,871

NOTE D - LOANS AND ALLOWANCE FOR CREDIT LOSSES *(Continued)*

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgivenss, may be granted.

The Company had two commercial real estate loans that were both experiencing financial difficulty and modified during the year ended December 31, 2023. One loan in the amount of $864 thousand had both a term extension and an interest rate reduction. The second loan in the amount of $686 thousand had a term extension. The Company has not committed to lend any additional amounts to these two borrowers. Both credits are current and there were no defaults within 12 months of the modifications. There were no loans modified in 2022 based on borrowers experiencing financial difficulty.

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Credit Quality Indicators:

The Company 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 Company 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. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

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 AND ALLOWANCE FOR CREDIT LOSSES *(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 2023 and 2022, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

2023	Not Rated	Pass	Special Mention	Substandard	Doubtful	Total
Loans secured by real estate:						
Residential construction	$ -	$ 73,437	$ -	$ 245	$ -	$ 73,682
Nonresidential construction & land	-	67,794	-	-	-	67,794
Residential	63,706	-	176	1,901	-	65,783
Multifamily	-	28,696	-	160	-	28,856
Commercial	-	140,680	1,562	12,123	-	154,365
Commercial & industrial	-	119,193	673	20,817	-	140,683
Consumer	8,401	-	200	66	47	8,714
Total	$ 72,107	$ 429,800	$ 2,611	$ 35,312	$ 47	$ 539,877

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

(In thousands, except share amounts)

NOTE E - PREMISES AND EQUIPMENT

Year-end premises and equipment consisted of:

	2023	2022
Land	$ 4,641	$ 4,891
Buildings and leasehold improvements	32,957	32,062
Furniture, equipment, and autos	14,004	13,589
Construction in progress	306	440
	51,908	50,982
Less accumulated depreciation and amortization	24,556	22,990
Premises and equipment, net	$ 27,352	$ 27,992

Depreciation expense was $1.6 million for 2023 and $1.5 million for 2022.

(In thousands, except share amounts)

NOTE F - DEPOSITS

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

	2023	2022
No contractual maturities	$ 715,112	$ 719,094
2023	-	54,769
2024	41,815	10,181
2025	9,476	4,480
2026	2,494	2,259
2027	2,204	2,484
2028	1,901	-
	$ 773,002	$ 793,267

At December 31, 2023 and 2022, approximately $152.7 million and $146.8 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 $12.1 million and $20.0 million at year-end 2023 and 2022.

Deposits from executive officers, directors, and their affiliates at year-end 2023 and 2022 were $18.2 million and $15.8 million.

(In thousands, except share amounts)

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

At year-end, advances from the FHLB and the Federal Reserve Bank were as follows:

	2023	2022
Federal Reserve Bank maturities through March 2024, at fixed rates from 4.39% to 4.39%, averaging 4.39%	$ 20,000	
FHLB maturities through January 2023, at fixed rates from 4.75% to 4.75%, averaging 4.75%		$ 13,200

Each FHLB advance is payable at its maturity date or on payment of a prepayment penalty for fixed rate advances. The advances were collateralized by $233.6 million and $211.4 million of eligible loans under a blanket lien arrangement at year-end 2023 and 2022. Based on this collateral, the Company's holdings of FHLB stock and securities held in safekeeping, the Company was eligible to borrow an additional $239.1 million at year-end 2023.

Each Federal Reserve Bank advance is payable at its maturity date or may be prepaid at any time with no penalty. The advances were collateralized by $68.4 million and $49.9 million of eligible securities at year-end 2023 and 2022. Based on this collateral, the Company was eligible to borrow an additional $48.4 million at year-end 2023.

Payments over the next five years are as follows:

2024	$ 20,000
2025	-
2026	-
2027	-
2028	-

Other borrowings consist of customer repurchase sweep accounts with overnight maturities. Balances were $99.8 million and $113.4 million at year-end 2023 and 2022.

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 $104.6 million and $119.5 million at year-end 2023 and 2022 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:

	2023	2022
Undisbursed lines of credit	$ 134,334	$ 132,237
Commitments to originate loans	8,375	11,444
Recourse on loans sold	200	200
Standby letters of credit	1,460	719

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, 2023 and 2022, 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 2023 and 2022, 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, 2023 and 2022 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 2023 and 2022 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 2023 and 2022, 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, 2023						
Total capital (to risk-weighted assets)	$ 116,790	16.6%	$ 73,660	10.5%	$ 70,152	10.0%
Tier 1 capital (to risk-weighted assets)	108,431	15.5%	59,629	8.5%	56,122	8.0%
Common equity Tier 1 capital (to risk-weighted assets)	108,431	15.5%	49,107	7.0%	45,599	6.5%
Tier 1 capital (to average assets)	108,431	10.6%	40,978	4.0%	51,223	5.0%

	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%

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 2024, the Bank could, subject to no objection from regulators, declare dividends of approximately $17.3 million plus any 2024 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.

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).

No assets/(liabilities) were measured at fair value on a non-recurring basis as of December 31, 2023 and 2022.

(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, 2023	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	$ -	$ 13,805	$ -	$ 13,805
U.S. Government-sponsored agencies	-	19,539	-	19,539
Residential mortgage-backed securities	-	229,054	-	229,054
Commercial mortgage-backed securities	-	27,381	-	27,381
Collateralized mortgage obligations	-	37,432	-	37,432
Equity securities	872	-	-	872
December 31, 2022				
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

(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, 2023 were allocated to participants. The fair value of allocated shares subject to repurchase obligation at year-end 2023 was $7.5 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 2023 and 2022:

Year	Match	Compensation	Expense
2022	100%	5%	$ 245
2023	100%	5%	292

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:

	2023	2022
Benefit obligation at beginning of year	$ 5,744	$ 7,518
Service cost	66	94
Interest cost	276	191
Actuarial (gain) loss	158	(1,699)
Benefits paid	(360)	(360)
Benefit obligation at end of year	$ 5,884	$ 5,744

Amounts recognized in accumulated other comprehensive income consist of:

	2023	2022
Net loss/(gain)	$ (334)	$ (574)
Prior service cost	(95)	(111)
Total	$ (429)	$ (685)

(Continued)

(In thousands, except share amounts)

NOTE K - RETIREMENT PLANS *(Continued)*

The net periodic benefit cost was $244 thousand and $430 thousand for the years ended December 31, 2023 and 2022.

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, 2024 are ($56) thousand and ($16) thousand.

<u>Estimated Future Payments</u>

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

2024	$	359
2025		357
2026		355
2027		366
2028		431
Years 2029-2033		2,213

The weighted-average discount rate used to determine benefit obligations and periodic benefit cost was 4.74% and 4.95% and 4.95% and 2.60% at year-end 2023 and 2022.

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, 2023, and 2022 was $480 and $274 thousand.

(In thousands, except share amounts)

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 $61 thousand and $0 thousand for 2023 and 2022.

The Company's 2023 Equity Incentive Plan, which is stock-holder approved, permits the grant of stock options to its officers, employees, and directors for up to 80 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 three to five 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.

Options granted in 2023 and 2022 were 25,500 and zero.

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

	2023
Risk-free interest rate	4.88%
Expected term	7 years
Expected stock price volatility	26.88%
Dividend yield	0.00%

(In thousands, except share amounts)

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

A summary of the activity in the equity incentive plan for 2023 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	-	$ -	
Granted	25,500	117	
Exercised	-	-	
Forfeited or expired	-	-	
Outstanding at end of year	25,500	$ 117	9.8
Vested or expected to vest	-	$ -	-
Exercisable at end of year	-	$ -	-

Information related to the 2023 employee incentive plan for the year follows:

	2023
Intrinsic value of options exercised	$ -
Cash received from option exercises	-
Intrinsic value of options outstanding	30
Weighted average fair value of options granted	47.83

Information related to the 2007 stock option plan for the year follows:

	2023	2022
Intrinsic value of options exercised	$ -	$ 36
Cash received from option exercises	-	27
Intrinsic value of options outstanding	-	-
Weighted average fair value of options granted	-	-

As of December 31, 2023, there is $1.2 million in total unrecognized compensation cost related to nonvested stock options granted under the 2023 Equity Incentive Plan. The cost is expected to be recognized over a weighted-average period of 4.2 years.

NOTE M - ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

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

	December 31,	
	2023	2022
Unrealized gains (losses) on securities available-for-sale	$ (33,182)	$ (40,887)
Employee pension plan	429	685
Total accumulated other comprehensive (loss)	$ (32,753)	$ (40,202)

PIONEER BANCORP, INC.
ANALYSIS OF INTEREST CHANGES DUE TO VOLUME AND RATE - UNAUDITED
December 31, 2023
(In thousands, except share amounts)

2023 Over 2022

	Average Balance		Interest		Average Rate		Total	Change due to	
	2023	2022	2023	2022	2023	2022	Change	Volume	Rate
Interest and dividend income									
Loans	$ 574,426	$ 516,200	$ 39,850	$ 29,173	6.94%	5.65%	$ 10,677	$ 4,039	$ 6,638
Mortgage securities	305,424	311,868	7,492	5,159	2.45%	1.65%	2,333	(158)	2,491
Investment securities and other	75,744	121,642	2,748	1,850	3.63%	1.52%	898	(1,665)	2,563
Total interest-earnings assets	$ 955,594	$ 949,710	$ 50,090	$ 36,182	5.24%	3.81%	$ 13,908	$ 2,216	$ 11,692
Interest expense									
Deposits	$ 783,061	$ 839,144	$ 2,002	$ 683	0.26%	0.08%	$ 1,319	$ (143)	$ 1,462
FHLB advances and other borrowings	156,993	87,676	5,998	1,222	3.82%	1.39%	4,776	2,648	2,128
Total interest-bearing liabilities	$ 940,054	$ 926,820	$ 8,000	$ 1,905	0.85%	0.21%	$ 6,095	$ 2,505	$ 3,590
Net interest spread and income			$ 42,090	$ 34,277	4.39%	3.60%			
Ratio of net interest income to average interest-earning assets			4.40%	3.61%					

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	$ 27,957	3.60%	3.18%			
Ratio of net interest income to average interest-earning assets			3.61%	3.19%					

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

Pioneer Bancorp, Inc.
3000 North Main Street
PO. Box 130
Roswell, New Mexico 88202-0130

INDEPENDENT AUDITORS

Crowe LLP
2200 Ross Ave, Suite 4600E
Dallas, Texas 75201

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 21, 2024 at the Corporate Headquarters, 3000 North Main Street, Roswell, New Mexico.

PIONEER BANCORP, INC.

BOARD OF DIRECTORS

Christopher C. Bush
Chief Executive Officer
Bush, Inc.

Timothy Z. Jennings
Agribusiness

Stephen P. Puntch
Investments

Martin B. Cooper, CPA
President
Cooper & Amador, CPA's, PC

Ronald L. Miller, CPA (Retired)
Investments

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

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

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

Tammi L. Westall
IOTG U.S. Technical Sales
Intel

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