Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Brent W Woodruff
Name of the Holding Company Director and Official

President, COO and CFO
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

BWW
Signature of Holding Company Director and Official

02/13/2019
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID ________
C.I. ________

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2018
Month / Day / Year

549300HTV0IHSW60R297
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Pilgrim Bancorporation
Legal Title of Holding Company

2401 S Jefferson
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Mount Pleasant	TX	75455

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Sandy Moody — VP-Accounting Pilgrim Bank
Name / Title

903-575-2175
Area Code / Phone Number / Extension

903-575-0383
Area Code / FAX Number

smoody@pilgrimbank.com
E-mail Address

None
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes **0**

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... [ ]
2. a letter justifying this request has been provided separately ... [ ]

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

s for your depository institution: PILGRIM BANK (ID_RSSD: 911160).
n is held by PILGRIM BANCORPORATION (2098412) of MOUNT PLEASANT, TX.
/2018. Data reflects information that was received and processed through 01/06/2019.

ication Steps

ımn of each branch row, enter one or more of the actions specified below
late in the **Effective Date** column

ation is correct, enter 'OK' in the **Data Action** column.
ormation is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
vas sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
ch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

ay need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

end a saved copy to your FRB contact. See the detailed instructions on this site for more information.
o your FRB contact, put your institution name, city and state in the subject line of the e-mail.

orting requirements, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
e submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

lumber, and ID_RSSD columns are for reference only. Verification of these values is not required.

ate	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID
	Full Service (Head Office)	911160	PILGRIM BANK	145 EAST MARSHALL STREET	PITTSBURG	TX	75686	CAMP	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Full Service	2447122	ARCHER CITY BRANCH	201 S CENTER ST	ARCHER CITY	TX	76351	ARCHER	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Full Service	207564	CLARENDON BRANCH	123 EAST 3RD STREET	CLARENDON	TX	79226	DONLEY	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Full Service	4507217	DECATUR BRANCH	1405 WEST U.S. HIGHWAY 380	DECATUR	TX	76234	WISE	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Full Service	599157	ELECTRA BRANCH	100 N MAIN ST	ELECTRA	TX	76360-2413	WICHITA	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Full Service	2990226	HOLLIDAY BRANCH	400 S WALNUT ST	HOLLIDAY	TX	76366	ARCHER	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Full Service	588058	IOWA PARK BRANCH	104 WEST PARK STREET	IOWA PARK	TX	76367	WICHITA	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Full Service	2592901	MOUNT PLEASANT - SOUTH BRANCH	2401 SOUTH JEFFERSON AVENUE	MOUNT PLEASANT	TX	75455	TITUS	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Full Service	3546237	MOUNT PLEASANT NORTH BRANCH	112 WEST 16TH STREET	MOUNT PLEASANT	TX	75455	TITUS	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Limited Service	3929625	PITTSBURG BROOKSHIRE BRANCH	102 NORTH GREER BLVD.	PITTSBURG	TX	75686-1409	CAMP	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Full Service	3246368	SULPHUR SPRINGS BRANCH	1404 S BROADWAY	SULPHUR SPRINGS	TX	75482-4831	HOPKINS	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Full Service	3911479	VERNON BRANCH	901 HILLCREST DRIVE	VERNON	TX	76384	WILBARGER	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Full Service	2724832	WELLINGTON BRANCH	1705 EAST 15TH STREET	WELLINGTON	TX	79095	COLLINGSWORTH	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Limited Service	2990235	IOWA PARK ROAD BRANCH	2618 IOWA PARK ROAD	WICHITA FALLS	TX	76306	WICHITA	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Full Service	2990253	JACKSBORO HIGHWAY BRANCH	4301 JACKSBORO HIGHWAY	WICHITA FALLS	TX	76302	WICHITA	UNITED STATES	Not Required	Not Required	PILGRIM BANK	
	Full Service	214067	WINDTHORST BRANCH	19048 US HIGHWAY 281	WINDTHORST	TX	76389	ARCHER	UNITED STATES	Not Required	Not Required	PILGRIM BANK	

Form FR Y-6

Pilgrim Bancorporation
2401 S. Jefferson
Mt. Pleasant, TX 75455

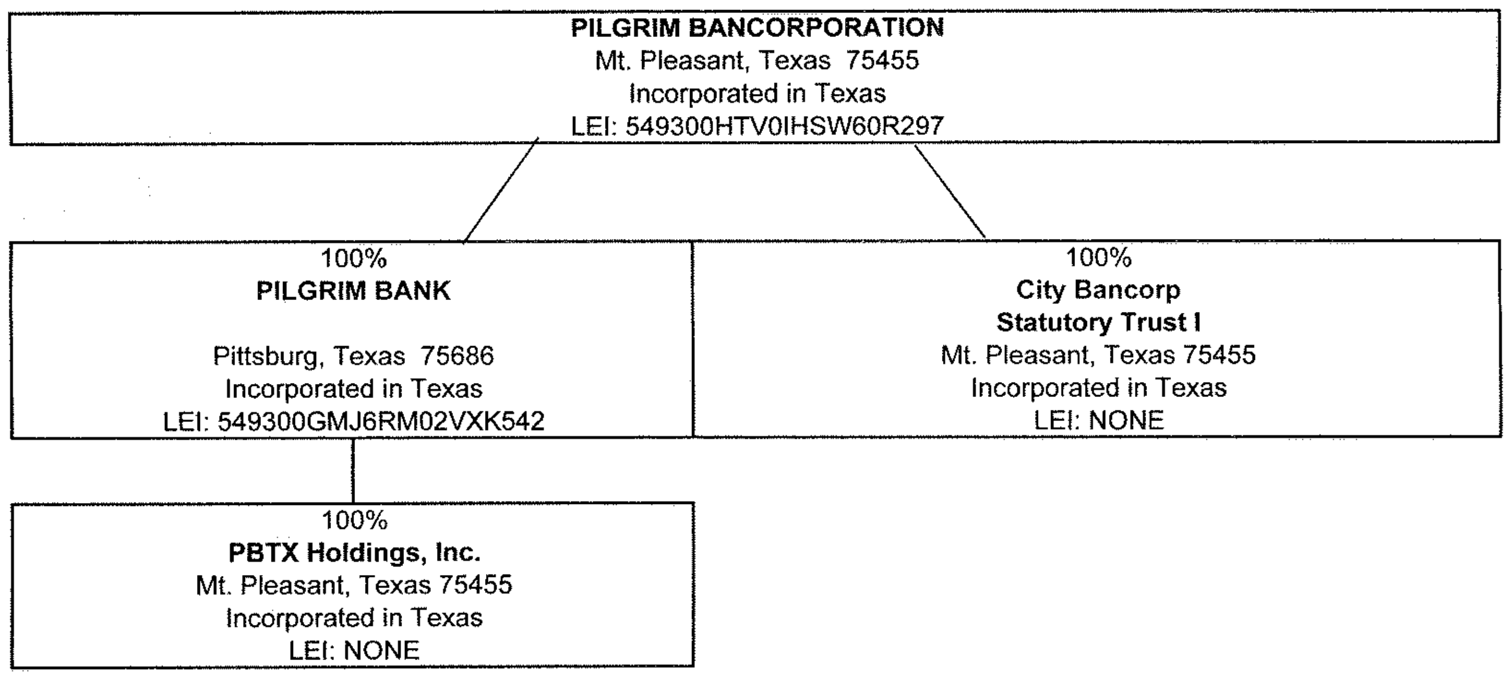
Fiscal Year Ending
December 31, 2018

Report Item 1:

1 a.) The BHC is not required to prepare form 10K with the SEC.

1 b.) The BHC does prepare an annual report for its shareholders.
Enclosed is a copy of the annual report.

Report Item 2a: Organizational Chart



Pilgrim Bancorporation
2401 S. Jefferson
Mt. Pleasant, TX 75455

Fiscal Year Ending
December 31, 2018

Report Item 3: Securities holders

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of 12-31-18

1 a.)	Lonnie A. Pilgrim Estate Pittsburg, TX 75686	1 b.)	Country of citizenship: U.S.A.	1 c.)	1,948,249 shares of Common Stock 87.05% ownership	

**Executors: Joe Nears, Lanny Brenner & Debe McGuire

Shareholders not listed that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-18

2 a.)	Steve Capps Mt. Pleasant, TX	2 b.)	Country of citizenship: U.S.A.	2 c.)	147,246 shares of Common Stock (1) 6.58% ownership
2 a.)	Lanny R. Brenner Pittsburg, TX 75686	2 b.)	Country of citizenship: U.S.A.	2 c.)	147,246 shares of Common Stock (2) 6.58% ownership
2 a.)	Lonnie K. Pilgrim Pittsburg, TX 75686	2 b.)	Country of citizenship: U.S.A.	2 c.)	191,847 shares of Common Stock (3) 8.57% ownership

(1) Includes 73,623 shares of common stock held by each of the the LKP 2012 GST TRUST and the GPO 2012 GST TRUST. Mr. Capps serves as the trustee of each of these trusts and has sole voting power with respect to the shares held by these trusts. Each of the two trusts listed above own 73,623 shares or 3.29% of the total.

(2) Includes 73,623 shares of common stock held by each of the LKP 2012 GST TRUST and the GPO 2012 GST TRUST. Mr. Brenner serves as the trustee of each of these trusts and but has no voting power with respect to the shares held by these trusts. Each of the two trusts listed above own 73,623 shares or 3.29% of the total.

(3) Includes 73,623 shares of common stock held by each of the LKP 2012 GST TRUST and the GPO 2012 GST TRUST. Mr. Pilgrim serves as the trustee of each of these trusts and but has no voting power with respect to the shares held by these trusts. Lonnie K. Pilgrim is the son of Lonnie A. Pilgrim. Also includes 42,586 shares of common stock held by Mr. Pilgrim individually; 1,008 shares held by Greta Gail Simpson, Mr. Pilgrim's daughter and 1,007 shares held by Lonnie J. Pilgrim, Mr. Pilgrim's son.
Each of the two trusts listed above own 73,623 shares or 3.29% of the total.

Report Item 4: Insiders

1.) Name & Address	2.) Principal occupation, if other than with BHC	3 a.) Title or Position with the BHC	3 b.) Title or Position with Subsidiaries	3 c.) Title or Position with another company	4 a.) Percentage of voting shares in BHC	4 b.) Percentage of voting shares in subsidiaries	4 c.) Percentage of voting shares in another company (if 25% or more)	
Lanny R. Brenner Mt. Pleasant, TX	Banker	CEO/Director	CEO/Director (Pilgrim Bank)	VP/Director - Camp County Service Industries Executor - Lonnie A. Pilgrim Estate ** / ***	0.00% 87.05%	None		None
Fred Allen, Deceased Mt. Pleasant, TX	Investor	Director	Director (Pilgrim Bank)	Owner - Fred E and Mildred C Allen Charitable Foundation	0.04%	None	Fred E and Mildred C Allen Charitable Foundation	100%
Charles Black Mt. Pleasant, TX	Retired Bank Exec.	Director	Director (Pilgrim Bank)	Director Trustee-Charles L & M Hazel Black Trust A	0.03%	None		None
Richard W. Strudthoff Mt. Pleasant, TX	Banker	President/CLO & Director	President/CLO & Director (Pilgrim Bank)	President/PBTX Holdings,Inc. Partner - Snow Cat Ventures, LLC Board Member - East Texas 100 Club	0.00%	None	 Snow Cat Ventures, LLC	None 50%
Linda Grundish Pittsburg, TX	Real Estate Investment/ Car Wash Owner	Director	Director (Pilgrim Bank)	Partner - PKL Investments of Pittsburg, LLC Scrubbies Wash USA, Inc. IITFWI, LLC Scrubbies Oil & Gas, LLC Texabama White Sands Rentals, LLC	0.03%	None	 PKL Investments of Pittsburg, LLC Scrubbies Wash USA, Inc Scrubbies Oil & Gas, LLC Texabama White Sands Rentals, LLC	 33% 33% 33% 33%
Blair MacBeath Pittsburg, TX	M.D.	Director	Director (Pilgrim Bank)	Physician - UT Health Physicians Pittsburg	0.05%	None		None
Billy McMinn Pittsburg, TX	Farmer/Rancher	Director	Director (Pilgrim Bank)	Owner - McMinn Ranch Camp County Monument Co.	0.05%	None	 McMinn Ranch & Camp County Monument Co.	 100% 100%
Debe G. McGuire Mt. Pleasant, TX	Retired CPA	Director	Director (Pilgrim Bank)	Executrix - Lonnie A Pilgrim Estate	87.08%	None	None	
Kenneth Smith Pittsburg, TX	Home Builder	Director	Director (Pilgrim Bank)	Owner - Sunbelt Ready Built Homes SmithCo Smith Properties	0.16%	None	 Sunbelt Ready Built Homes SmithCo Smith Properties	 100% 51% 50%

Form FR Y-6

Pilgrim Bancorporation
2401 S. Jefferson
Mt. Pleasant, TX 75455

Fiscal Year Ending
December 31, 2018

1.) Name & Address	2.) Principal occupation, if other than with BHC	3 a.) Title or Position with the BHC	3 b.) Title or Position with Subsidiaries	3 c.) Title or Position with another company	4 a.) Percentage of voting shares in BHC	4 b.) Percentage of voting shares in subsidiaries	4 c.) Percentage of voting shares in another company (if 25% or more)	
Steven M. Capps Mt. Pleasant, TX	Owner/Agent	Director	Director (Pilgrim Bank)	Owner/Agent - Capps Insurance Agency-Mt. Pleasant/Capps Properties, Ltd., Capps Speciality Coverage, Ltd./Capps Holdings, Ltd., Capps Insurance Services/Steve Capps Agency, Ltd., Hughes Springs Insurance Agency/Capps General Agency, Ltd., Health Mgmnt Concepts, Inc Owner/President - Kingsway Property Inv. Inc./Clear View Land Mgmnt & Sales, Inc. VP Hope Ministries of Northeast Texas Trustee - The Steve and Judy Capps Family Trust The Capps Family Trust ** / ***	0.03%	None	Capps Insurance Agency-Mt. Pleasant/Capps Properties, Ltd., Capps Speciality Coverage, Ltd./Capps Holdings, Ltd., Capps Insurance Services/Steve Capps Agency, Ltd., Hughes Springs Insurance Agency/Capps General Agency, Ltd., Health Mgmnt Concepts, Inc Kingsway Property Inv. Inc./Clear View Land Mgmnt & Sales, Inc.	90% / 100% 100% / 100% 100% / 100% 100% / 100% 100% 51% / 51%
Jerry Webster Pittsburg, TX	Retired Banker	Director	Director (Pilgrim Bank)		0.00%	None		None
Lonnie Ken Pilgrim Pittsburg, TX	Personal Investments	Chairman	Chairman (Pilgrim Bank)	General Partner - Pilgrim Interests, Ltd. PFCP, Ltd. Owner - D&K Interests, LLC, KP Equipment & Repair, LLC, LKLJ Enterprises, LLC Trustee - Lonnie A. Pilgrim 1998 Revocable Trust L. Jaggers Pilgrim Trust Greta G.Pilgrim Monetary Trust Pilgrim Family Irrevocable Trust #1 & #2 The Nonexempt Residuary QTIP Trust u/t/a the Lonnie A. Pilgrim 1998 Rev. Tr. Patricia R. Pilgrim Revocable Trust Pilgrim Foundation Executor - Patricia R. Pilgrim Estate ** / ***	1.90%	None	Pilgrim Interests, Ltd. PFCP, Ltd. Pilgrim Foundation D&K Interests, LLC KP Equipment & Repair, LLC LKLJ Enterprises, LLC Patricia R. Pilgrim Estate	50% 50% 51%
Brent Woodruff Mt. Pleasant, TX	Banker	President/CFO/ COO/Director	President/CFO/ COO/Director (Pilgrim Bank)	CFO & COO PBTX Holdings, Inc.	0.00%	None		None
Joe Nears Mt. Pleasant, TX	CPA	N/A	Director	CPA, Pilgrim Interests, Ltd. Executor - Lonnie A Pilgrim Estate	87.05%	None	Lonnie A Pilgrim Estate	

** These 2 separate trusts, LKP 2012 GST Trust & GPO 2012 GST Trust, own 73,623 shares (3.29%) of Pilgrim Bancorporation stock. Steve Capps, Lanny R. Brenner and Lonnie K. Pilgrim are all three trustees of both trusts combined. Steve Capps is the only trustee with voting power.

*** Lanny Brenner, Steve Capps and Lonnie K. Pilgrim are trustees of the following trusts: LKP 2003 GST Trust, GPO 2003 GST Trust, LKP 1999 Issue Trust, and GPO 1999 Issue Trust.

February 8, 2019

Judd, Thomas, Smith & Company, P.C.
12222 Merit Drive, Suite 1900
Dallas, Texas 75251

This representation letter is provided in connection with your audit of the consolidated financial statements of Pilgrim Bancorporation and Subsidiaries, which comprise the balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the consolidated financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of February 8, 2019, the following representations made to you during your audit.

Financial Statements

1) *We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated October 29, 2018, including our responsibility for the preparation and fair presentation of the financial statements.*
2) *The financial statements referred to above are fairly presented in conformity with U.S. GAAP.*
3) *We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.*
4) *We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.*
5) *Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.*
6) *Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with U.S. GAAP.*
7) *All of the following have been properly recorded or disclosed in the financial statements as applicable:*

Pilgrim Bancorporation
2401 South Jefferson Avenue
Mount Pleasant, Texas 75455
903-575-2150 (Office)
903-575-0383 (Fax)

a) Related party relationships and transactions and related amounts receivable or payable, including loans, deposits, sales, purchases, transfers, leasing arrangements, and guarantees.

b) Contingent assets and liabilities, including loans charged off and outstanding letters of credit.

c) Commitments to originate, purchase, or sell loans and participations.

d) Commitments to purchase or sell securities, including commitments to purchase or sell securities under forward-placement, financial-futures contracts, and standby commitments.

e) Positions in financial futures contracts or other derivative securities.

f) The status of the institution's capital plan filed with regulators.

g) Sales of loans or other transfers of financial assets.

h) The following information about financial instruments with concentrations of credit risk:

   i) The common activity, region, or characteristic that identifies the concentration.

   ii) The maximum loss that could result if the counterparties completely failed to perform their obligations and any collateral for the amounts due were worthless to the institution.

   iii) The institution's policy of requiring collateral to minimize the risk, the nature of this collateral, and information about the institution's access to the collateral.

i) Lease obligations under long-term leases.

8) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

9) We have disclosed to you all of our—

   a) Nonperforming assets.

   b) Intentions to foreclose or repossess property.

10) If applicable, provision has been made for:

   a) Losses, costs, or expenses that may be incurred in the collection of securities, loans, leases, and real estate.

   b) Losses, costs, or expenses that may be incurred in the disposition of other real estate owned.

   c) Liabilities for interest on deposits and other indebtedness, including subordinated capital notes and participation loans.

   d) Other than temporary declines in the value of investment securities and other investment assets.

11) We agree with the findings of appraisers used and have adequately considered the qualifications of the appraisers in determining the amounts and disclosures in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to appraisers regarding the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the appraisers.

12) The classification of securities and other investment assets as held-to-maturity, available-for-sale, or trading correctly reflects management's ability and intent.

13) No transactions or activities are planned that would result in any recapture of the base-year, tax-basis bad debt reserve.

14) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

15) Material concentrations have been properly disclosed in accordance with U.S. GAAP.

16) Guarantees, whether written or oral, under which the institution is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

17) The institution has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Institution—Specific

18) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Information Provided

19) We have provided you with:

   a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.

   b) Additional information that you have requested from us for the purpose of the audit.

   c) Unrestricted access to persons within the institution from whom you determined it necessary to obtain audit evidence.

   d) Minutes of the meetings of stockholders, directors, committees of directors, credit/loan committee, asset/liability management committee, other relevant committees or summaries of actions of recent meetings for which minutes have not yet been prepared.

   e) All regulatory or examination reports, supervisory correspondence, and similar materials from applicable regulatory agencies, including communications about supervisory actions or noncompliance with, or deficiencies in, rules and regulations or supervisory actions.

20) All material transactions have been recorded in the accounting records and are reflected in the financial statements.

21) We agree with the findings of specialists in evaluating the loan portfolio and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

22) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

23) We have no knowledge of any fraud or suspected fraud that affects the institution and involves:

   a) Management,

b) *Employees who have significant roles in internal control, or*

c) *Others where the fraud could have a material effect on the financial statements.*

24) *We have no knowledge of any allegations of fraud or suspected fraud affecting the institution's financial statements communicated by employees, former employees, analysts, regulators, or others.*

25) *We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.*

26) *We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations, or supervisory actions, whose effects should be considered when preparing financial statements.*

27) *We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.*

28) *We have disclosed to you the identity of the institution's related parties and all the related party relationships and transactions of which we are aware.*

29) *Related party transactions (including insider loans) have been entered into in compliance with existing regulations.*

30) *The institution has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral or deposited in escrow as security, except as made known to you and disclosed in the notes to the financial statements.*

31) *There are no regulatory examinations currently in progress for which we have not received examination reports.*

32) *We acknowledge our responsibility for presenting the consolidating balance sheets and statements of income and comprehensive income in accordance with U.S. GAAP, and we believe the consolidating balance sheets and statements of income and comprehensive income, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the consolidating balance sheets and statements of income and comprehensive income have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.*

Signature: ______________________
Lanny Brenner, CEO

Signature: ______________________
Brent Woodruff, President, COO & CFO

Signature: ______________________
Eva Thomas, Exec VP, Chief Compliance & Audit Officer

Pilgrim Bancorporation
2401 South Jefferson Avenue
Mount Pleasant, Texas 75455
903-575-2150 (Office)
903-575-0383 (Fax)

judd thomas
certified public accountants & advisors

Pilgrim Bancorporation and Subsidiaries

2018 Audit Reporting Package

Pilgrim Bancorporation and Subsidiaries

Contents

Required Communications

To the Audit Committee of the
Board of Directors of
Pilgrim Bancorporation and Subsidiaries:

We have audited the consolidated financial statements of Pilgrim Bancorporation and its subsidiaries for the year ended December 31, 2018 and have issued our report thereon dated February 8, 2019. Professional standards require that we provide you with the following information related to our audit:

Area	***Comments***
Auditors' Responsibilities Under United States Generally Accepted Auditing Standards	
In order for those charged with governance to understand the nature of assurance provided by an audit, the auditor should communicate their responsibilities under United States Generally Accepted Auditing Standards.	*As stated in our engagement letter dated October 29, 2018, our responsibility as described by professional standards, is to express an opinion about whether the consolidated financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with United States generally accepted accounting principles. Our audit of the consolidated financial statements does not relieve you or management of your responsibilities.*
Significant Auditing Findings *Qualitative Aspects of Accounting Practices*	
Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement contract, we will advise management about the appropriateness of accounting policies and their application.	*The Bank's significant accounting policies are described in the notes to the consolidated financial statements. As part of our audit, we reviewed the accounting policies followed by management in preparing the consolidated financial statements. We believe the accounting policies of the Bank are consistent with industry practice and are in accordance with generally accepted accounting principles.* *No new accounting policies of significance were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the Bank during 2018 for which there is a lack of authoritative guidance or consensus. In addition, we noted no significant transactions that have been recognized in the consolidated financial statements in a different period than when the transaction occurred.*
Accounting estimates are an integral part of the consolidated financial statements that require management's judgments based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive due to their significance to the consolidated financial statements and the possibility that future events affecting them may differ significantly from management's expectations.	*The most sensitive estimate(s) affecting the consolidated financial statements was (were):* • *We believe that the allowance for loan losses represents a particularly sensitive accounting estimate. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, including the nature of the loan portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions and other relevant factors. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for losses on loans. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.*

Area	Comments
Significant Auditing Findings - continued	
Qualitative Aspects of Accounting Practices - continued	
The disclosures in the consolidated financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users.	*The most sensitive disclosures affecting the consolidated financial statements were:* • *Regulatory Capital Requirements - the Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.*
Audit Adjustments	
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.	*There were no known or likely misstatements identified during the audit.*
Disagreements with Management	
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditors' report.	*We are pleased to report that no such disagreements arose during the course of our audit.*
Other Information in Documents Containing Audited Financial Statements	
The auditor has a responsibility with respect to information in a document prepared by the Bank that contains the audited consolidated financial statements.	*Our responsibility with respect to information in a document that contains the audited consolidated financial statements does not extend beyond the financial information identified in our report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents.*

Area	Comments
Planned Scope and Timing of the Audit	
It is the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence. However, communication with those charged with governance may assist in understanding better the consequences of the auditor's work for their oversight activities.	*We performed the audit according to the planned scope and timing previously communicated to you in our letter dated October 29, 2018.*
Consultation with Other Accountants	
In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the Bank's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.	*To our knowledge, there were no such consultations with other accountants.*
Other Audit Findings or Issues	
The auditor is required to inform those charged with governance of any major issues, including any discussions regarding the application of accounting principles or auditing standards that were discussed with management in connection with the initial or recurring retention of the auditor.	*There were no such matters discussed with management prior to our initial or recurring retention as the Bank's auditors.*

Area	Comments
Difficulties Encountered in Performing the Audit	
The auditor should inform those charged with governance of any difficulties encountered in dealing with management related to the performance and completion of the audit.	*We encountered no difficulties in dealing with management in performing and completing our audit. Management of the Bank did a commendable job in preparing for the audit. They prepared the requested schedules and documents in a timely manner and were available for questions at all times.*
Management Representations	
The auditor is required to inform those charged with governance that certain representations are being requested from management in connection with the audit.	*We have requested certain representations from management that are included in the management representation letter dated February 8, 2019.*

This information is intended solely for the use of the audit committee, Board of Directors, and management of the Bank and is not intended to be, and should not be, used by anyone other than these specified parties.

If you have any questions regarding the above, please do not hesitate to call.

Sincerely,

JUDD, THOMAS, SMITH & COMPANY, P.C.

Patrick J. Laubacher

Patrick J. Laubacher, CPA

Appendix B

In planning and performing our audit of the consolidated financial statements of Pilgrim Bancorporation and Subsidiaries as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Pilgrim Bancorporation and Subsidiaries' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, board of directors, and others within the Company, and is not intended to be, and should not be, used by anyone other than these specified parties.

Pilgrim Bancorporation and Subsidiaries
Judd, Thomas, Smith and Company, PC (JTS) Audit Management Comments
Audit Period December 31, 2018
Exit Meeting Date: February 1, 2019

ALLL

1. *Loan review was not performed by JTS. JTS places reliance on TIB for this function.*

2. *The Bank is utilizing SageWorks software for performing the ALLL calculation, which will also assist with the new Current Expected Credit Loss (CECL) requirements. The ALLL calculation using the new software was well done and well documented. JTS is reviewing the CECL ALLL calculation in a separate engagement to assure the methodology is in accordance with accounting professional standards, to review assumptions used and test validity of the data. A separate report will be issued.*

Internal Audit Function

3. *As part of the financial statement audit JTS briefly reviews the internal audit procedures, documents and reports. The Bank's internal audit function continues to be very good. In our experience bank examiners review the risk assessment in great detail.*

Federal Income Tax

4. *The taxable income of the Bank will be approximately $4,066,000 after subtracting from book income the income tax differences totaling $1,035,000.*

5. *The Tax Cuts and Jobs Act (TCJA) was passed in December 2017. The Bank's S Corporation structure still remains a good option, the amount that shareholders pay on their share of the income should decrease due to the new 20% deduction on qualified business income and the lower individual income tax rates. The income allocated to shareholders will be taxed at the highest rate of 29.6% (37% times 80%). This is more advantageous then the new corporate income tax rate of 21% because the 21% does not include the owner's tax on dividends received of between 15% to 23.8%.*

Texas Franchise Tax

6. *The Bank's state tax liability will be approximately $10,000; the maturities of AFS securities reduced the expense calculation by $91,000.*

Financial Statements

7. *The financial statements are those of the Bank. If you have any suggested changes that will provide for better understanding for the end user, please let us know.*

New or Emphasized Accounting and Regulatory Pronouncements

8. *ASU 2014-09 Revenue Recognition, will be effective for years in 2019. Income areas within scope include noninterest income revenue streams such as, service charges on deposit accounts, asset management fees, gains or losses on Other Real Estate Owned and Interchange Fees. The Bank's current method of recognizing revenue is in compliance with ASU 2014-09.*

9. *ASU 2016-01 Recognition and Measurement of Financial Assets and Financial Liabilities, issued in January 2016, will be effective for years beginning after 12/15/18. Changes in the fair market value of AFS equity securities will be adjusted through current earnings rather than through other comprehensive income. The Bank early adopted this pronouncement.*

10. *ASU 2016-02 Leases effective for years beginning after 12/15/19 - For operating leases an asset and liability are created on the balance sheet, "Right of Use Asset" separate from other assets and a "Lease Liability". Does not apply to leases 12 months or less. A template has been provided to management to assist with the calculation. The Bank early adopted this pronouncement.*

11. *ASU 2016-13 Current Expected Credit Loss (CECL) issued in June 2016 effective for years beginning after 12/15/21, early adoption is permitted for years beginning after 12/15/18. The Bank has purchased and is utilizing SageWorks to be in compliance with CECL.*

12. *ASU 2017-12 Hedging effective in 2020 simplifies derivative and hedge accounting. In community banks some of the more common derivatives noted are interest rate swaps or buy back provisions on loan sales.*

Accounting

13. *The accounting department is operating and performing its assigned functions well.*

14. *Accounting personnel have a good understanding of their related duties and general ledger accounting. Management has very good knowledge and provides detailed analysis of the Bank and the factors that affect it. Additionally, management is good at communicating their objectives and expectations. Management is providing hands on and detailed review of the accounting system and related reporting.*

15. *In comparing this Bank's accounting department to other banks one of the good things that stands out is a systematic approach to problem solving that is then constantly applied and improved. A good example of this is the CECL ALLL calculation and how far ahead the Bank is compared to other financial institutions.*

PILGRIM BANCORPORATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

TABLE OF CONTENTS

judd thomas
certified public accountants & advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Pilgrim Bancorporation and Subsidiaries

We have audited the accompanying consolidated financial statements of Pilgrim Bancorporation and Subsidiaries (a Texas corporation), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

12222 Merit Drive
Suite 1900
Dallas, TX 75251-3209

214.296.0900 Main
800.304.4887 Toll Free
972.661.3651 Fax

juddthomas.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pilgrim Bancorporation and Subsidiaries as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Judd, Thomas, Smith + Company, P.C.

Dallas, Texas
February 8, 2019

PILGRIM BANCORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

As of December 31, 2018 and 2017

ASSETS	2018	2017
Cash and due from banks	$ 8,135,300	$ 9,778,611
Cash and cash equivalents	8,135,300	9,778,611
Interest bearing deposits in other banks	2,767,371	1,641,445
Investment securities - Note 2		
Available-for-sale	189,723,094	186,565,073
Stock of Federal Home Loan Bank	3,014,700	2,612,700
Stock of TIB	101,845	101,845
Other investments	4,000	4,000
Loans, net - Note 5	325,258,281	337,706,124
Bank premises and equipment, net - Note 4	20,155,585	20,531,468
Intangible assets	1,848,000	2,156,000
Goodwill	8,538,727	8,538,727
Investment in Trust - Note 12	93,000	93,000
Bank owned life insurance	11,039,448	10,729,562
Other real estate owned	88,000	100,000
Accrued interest receivable	2,481,085	2,682,440
Other assets	542,780	602,355
Total assets	**$573,791,216**	**$583,843,350**

The accompanying notes are an integral part of these financial statements.

PILGRIM BANCORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

As of December 31, 2018 and 2017

	2018	2017
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 28,047,705	$ 29,075,514
Interest-bearing demand	11,750,607	9,574,217
Money market and savings	274,542,422	286,226,208
Time, Jumbo	37,783,927	38,337,352
Other time	103,369,071	104,298,435
Total deposits	455,493,732	467,511,726
Notes payable - Note 3	47,050,000	47,075,000
Trust preferred payable	3,093,000	3,093,000
Accrued interest payable	327,607	221,372
Other liabilities	1,213,203	939,875
Total liabilities	**$ 507,177,542**	**$ 518,840,973**
STOCKHOLDERS' EQUITY		
Common stock - $1 par value; authorized 4,000,000 shares in 2018 and 2017, respectively; 2,237,967 shares issued and outstanding in 2018 and 2017, respectively	$ 2,237,967	$ 2,237,967
Additional paid-in capital	27,562,785	27,562,785
Retained earnings	41,667,242	38,786,381
Unrealized gains (losses) on investment securities considered available-for-sale - Note 2	(4,854,320)	(3,584,756)
Total stockholders' equity	**66,613,674**	**65,002,377**
Total liabilities and stockholders' equity	**$ 573,791,216**	**$ 583,843,350**

The accompanying notes are an integral part of these financial statements.

PILGRIM BANCORPORATION AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2018 and 2017

	2018	2017
Interest income		
Interest and fees on loans	$ 18,201,220	$ 17,458,868
Interest on investment securities - taxable	3,758,819	2,790,455
Interest on investment securities - non taxable	40,753	90,518
Interest on other investments	152,505	99,379
	22,153,297	20,439,220
Interest expense		
Interest on deposits		
Interest-bearing demand	96,781	38,696
Money market and savings	1,160,482	992,795
Time, Jumbo	544,398	431,085
Other time	1,414,591	1,118,268
Interest on federal funds purchased	2,385	563
Interest on notes payable	1,217,798	740,642
	4,436,435	3,322,049
Net interest income	17,716,862	17,117,171
Provision for loan losses - Note 4	425,000	355,000
Net interest income after provision for loan losses	17,291,862	16,762,171
Other income		
Service fees	735,812	771,215
Gain (loss) on sale of securities	(4,980)	155,345
Gain on sale of loans	635	10,903
Loss on sale of other real estate owned	(1,778)	(95,925)
Other	1,782,175	2,136,938
	2,511,864	2,978,476
Other expense		
Salaries and employee benefits	7,191,535	7,169,504
Occupancy expense	3,243,904	3,173,630
Data processing	853,164	859,281
Other real estate and repossessed assets	4,766	32,954
Other	3,409,496	3,445,404
	14,702,865	14,680,773
Income before income taxes	5,100,861	5,059,874
Income tax expense - Note 1	-	-
Net income	5,100,861	5,059,874
Other comprehensive income (loss)		
Reclassification adjustment for gains realized	(4,980)	155,345
Changes in net unrealized gains (losses) on securities available-for-sale	(1,264,584)	(286,766)
Total comprehensive income	**$ 3,831,297**	**$ 4,928,453**

The accompanying notes are an integral part of these financial statements.

PILGRIM BANCORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2018 and 2017

	Common Stock	Paid-in Capital	Retained Earnings	Unrealized Loss on Investment Securities	Total
Balance, December 31, 2016	**$ 2,237,967**	**$ 27,562,785**	**$ 36,068,507**	**$ (3,453,335)**	**$ 62,415,924**
Comprehensive income					
Other comprehensive income (loss) (Note 15)	-	-	-	(131,421)	(131,421)
Net income	-	-	5,059,874	-	5,059,874
Total comprehensive income					4,928,453
Shareholder distributions	-	-	(2,342,000)	-	(2,342,000)
Balance, December 31, 2017	**2,237,967**	**27,562,785**	**38,786,381**	**(3,584,756)**	**65,002,377**
Comprehensive income					
Other comprehensive income (loss) (Note 15)	-	-	-	(1,269,564)	(1,269,564)
Net income	-	-	5,100,861	-	5,100,861
Total comprehensive income					3,831,297
Shareholder distributions	-	-	(2,220,000)	-	(2,220,000)
Balance, December 31, 2018	**$ 2,237,967**	**$ 27,562,785**	**$ 41,667,242**	**$ (4,854,320)**	**$ 66,613,674**

The accompanying notes are an integral part of these financial statements.

PILGRIM BANCORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net income	$ 5,100,861	$ 5,059,874
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,294,961	1,288,708
Amortization and accretion of securities	1,660,823	2,106,674
Amortization of intangible assets	361,022	374,598
Provision for loan losses	425,000	355,000
Loss on sale and writedowns of other real estate	1,778	95,925
Loss on sale of premises and equipment	4,437	-
(Gain) loss on available-for-sale securities	4,980	(155,345)
Gain on sale of loans	(635)	(10,903)
Stock dividend from FHLB	(69,500)	(45,600)
Change in:		
Accrued interest receivable	201,355	(121,157)
Other assets	69,545	12,116
Accrued interest payable	106,235	53,960
Other liabilities	273,328	224,191
Net cash provided by operating activities	9,434,190	9,238,041
Cash flows from investing activities:		
Net change in interest bearing deposits in other banks	(1,125,926)	392,240
Purchase of available-for-sale investment securities	(212,770,677)	(159,613,692)
Proceeds from principal payments and maturities of available-for-sale investment securities	206,677,289	173,440,076
Purchase of Federal Home Loan Bank stock	(332,500)	(84,400)
Purchase of Country Club stock	-	(4,000)
Net proceeds from sales of other real estate owned	10,222	1,084,528
Net change in loans	12,023,478	(24,760,887)
Proceeds from sale of premises and equipment	18,168	-
Purchase of premises and equipment	(941,683)	(614,054)
Purchase of bank owned insurance	(309,886)	(325,065)
Purchase of other intangible assets	(62,992)	(43,547)
Net cash provided by (used in) investing activities	3,185,493	(10,528,801)

The accompanying notes are an integral part of these financial statements.

PILGRIM BANCORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

	2018	2017
Cash flows from financing activities:		
Net change in demand and savings deposits	$ (10,535,205)	$ 3,995,820
Net change in time deposits	(1,482,789)	7,258,710
Net (payments) proceeds from notes payable and FHLB advances	(25,000)	(6,325,000)
Distributions to shareholders	(2,220,000)	(2,342,000)
Net cash provided by (used in) financing activities	(14,262,994)	2,587,530
Net increase (decrease) in cash and cash equivalents	(1,643,311)	1,296,770
Cash and cash equivalents at beginning of year	9,778,611	8,481,841
Cash and cash equivalents at end of year	**$ 8,135,300**	**$ 9,778,611**
Supplemental disclosure of cash flow information - Cash paid during the year for:		
Interest	$ 4,330,200	$ 3,268,089
Income taxes	$ -	$ -
Supplemental schedule of noncash investing and financing activities:		
Real estate acquired in foreclosure or settlement of loans	$ -	$ 100,000

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

Nature of Operations

The accounting and reporting policies of Pilgrim Bancorporation (the Company) and subsidiaries conform to U.S. generally accepted accounting principles and to general practices within the banking industry. The consolidated financial statements include the accounts of the Company, the Company's wholly-owned subsidiaries, Pilgrim Bank and PBTX Holding, Inc., collectively referred to as "the Bank". Intercompany accounts, transactions and earnings have been eliminated in consolidation.

The Bank generates commercial, mortgage, and consumer loans and receives deposits from customers located primarily in North East and North West Texas and the surrounding areas. The Bank operates under a state bank charter and provides full banking services. As a state bank, the Bank is subject to regulation by the Texas Department of Banking and the Federal Deposit Insurance Corporation.

Effective January 8, 2015, the Bank purchased North Central Texas Bancshares, Inc. and Subsidiary, State National Bank of Texas. State National Bank of Texas operates nine community banks, predominately in the West Texas region.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

1. Summary of Significant Accounting Policies (continued)

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Investment Securities

Debt securities are classified as held-to-maturity when the Bank has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities classified as available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income.

Realized gains (losses) on securities available for sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available for sale securities, below their cost that are other than temporary, result in write-downs of the individual securities to their fair value. The related write- downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

According to ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, changes in the fair market value of available for sale equity securities will be adjusted through current earnings rather than through other comprehensive income. This is effective for years beginning after December 15, 2018. The Bank early adopted this standard as of January 1, 2018.

1. Summary of Significant Accounting Policies (continued)

Restricted stock is stock from the Federal Home Loan Bank of Dallas ("FHLB"), TIB The Independent BankersBank, and others which are restricted as to their marketability. Because no ready market exists for these investments and they have no quoted market value, the Bank's investment in these stocks are carried at cost. A determination as to whether there has been an impairment of a restricted stock investment is performed on a quarterly basis and includes a review of the current financial condition of the issuer.

Loans

The Bank grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout East and North West Texas. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans are stated at unpaid principal balances, less the allowance for loan losses and deferred loan fees. Loan fee income and costs associated with originating loans have been recognized in the period in which the fees were received and the costs were incurred.

Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

1. Summary of Significant Accounting Policies (continued)

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. 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.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. 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. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

1. Summary of Significant Accounting Policies (continued)

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Premises and Equipment

Premises and equipment are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line method based principally on the estimated useful lives of the assets ranging from three to forty years. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance of loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount which the carrying amount of a property exceeds its fair value. Costs of significant property improvements, if any, are capitalized whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Goodwill

The Bank had $285,000 of goodwill on the books as a result of a branch purchase in 1997. Goodwill had been fully amortized using the straight-line method.

The Bank has $8,538,727 of goodwill on the books as a result of the purchase of Community Bank in November 2007. The Company uses Financial Accounting Standards Board Accounting Standard codification (FASB ASC) 350-20-35, "Goodwill and Other Intangible Assets", to account for its goodwill. Goodwill should be tested for impairment annually, or more frequently if circumstances warrant.

1. Summary of Significant Accounting Policies (continued)

The bargain purchase of North Central Texas Bancshares, Inc. and Subsidiary, State National Bank of Texas, resulted in negative goodwill of $1,824,075. In accordance with FAS 805-30, the negative goodwill was recognized as a gain in the current year. The Company paid $24,000,000 for the acquisition of assets with a fair market value of $242,699,092 and liabilities of $216,875,017.

Additionally, core deposit intangibles totaling $4,278,000 were booked at the date of the purchases. The core deposit intangibles are amortized over ten years and are included in other assets, net of amortization, at a net value of $1,848,000 and $2,156,000 at December 31, 2018 and 2017, respectively.

Income Taxes

Effective January 1, 2012 the Company elected S corporation status, as of December 31, 2011 all deferred tax asset and liability balances have been eliminated. Earnings and losses are included in the personal income tax returns of the stockholders and taxed depending on their personal tax strategies. Accordingly, the Company will not incur Federal income tax obligations, and the financial statements will not include a provision for Federal income taxes.

The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2015.

Statements of Cash Flows

The Bank considers all cash and amounts due from depository institutions to be cash equivalents for purposes of the statements of cash flows. The Bank maintains balances at financial institutions in excess of federally insured limits.

Bank Owned Life Insurance

The Bank purchased single-premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policies is classified as noninterest income. These insurance policies can be surrendered subject to certain surrender penalties applied by the insurance carriers, as well as potential income taxes to be paid.

1. Summary of Significant Accounting Policies (continued)

Fair Values of Financial Instruments

FASB ASC 825-10-50, "Disclosures about Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. FASB ASC 825-10-50 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Bank.

The following methods and assumptions were used by the Bank in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported for cash and cash equivalents approximate those assets' fair values.

Time deposits: Fair values for time deposits are estimated using a discounted cash flow analysis that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit equity. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. The carrying amount of accrued interest receivable approximates its fair value.

1. Summary of Significant Accounting Policies (continued)

Deposits: The fair values disclosed for demand deposits (for example, interest bearing checking accounts and savings accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates fair value.

Short-term borrowings and notes payable: The carrying amounts of short-term borrowings and notes payable approximate their fair values.

Other liabilities: Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit-worthiness of the counterparties.

Classification of Prior Year Amounts

Certain prior period amounts have been reclassified to conform to current year presentation.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through February 8, 2019, the date which the financial statements were available to be issued.

2. Investment Securities

The amortized cost of securities and their approximate fair values are as follows:

Securities Available for Sale

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
December 31, 2018				
Mortgage backed securities	$ 188,943,864	$ -	$ (4,902,927)	$ 184,040,937
Municipal bonds	975,000	27,300	-	1,002,300
Taxable municipal bonds	430,000	43,866	-	473,866
SBAs	4,183,535	-	(22,559)	4,160,976
Corporate stock	14,640	30,375	-	45,015
	$ 194,547,039	**$ 101,541**	**$ (4,925,486)**	**$ 189,723,094**

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
December 31, 2017				
Mortgage backed securities	$ 184,967,606	$ -	$ (3,659,848)	$ 181,307,758
Municipal bonds	1,245,000	47,510	-	1,292,510
Taxable municipal bonds	465,000	52,645	-	517,645
SBAs	3,457,583	-	(48,953)	3,408,630
Corporate stock	14,640	23,890	-	38,530
	$ 190,149,829	**$ 124,045**	**$ (3,708,801)**	**$ 186,565,073**

2. Investment Securities (continued)

The amortized cost and estimated fair value of securities, by contractual maturity, at December 31, 2018 are as follows:

Securities Available for Sale

	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	$ 23,659,172	$ 22,926,022
After one year to five years	70,567,354	68,536,528
After five years to ten years	37,705,894	36,642,646
After ten years	62,614,619	61,617,898
	$ 194,547,039	**$ 189,723,094**

The maturities of the Mortgage backed securities may differ from contractual maturities because borrowers have the right to prepay obligations without penalties.

Securities with carrying values of $71,289,342 and $79,107,680 at December 31, 2018 and 2017, respectively, were pledged to secure a line of credit and other public funds as required or permitted by law.

Net unrealized losses on available for sale securities amounted to $(4,854,320) and $(3,584,756) at December 31, 2018 and 2017, respectively, and were recognized as a decrease to stockholders' equity.

Due to the early adoption of ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, the unrealized gain on corporate stock in the amount of $30,376, was adjusted through current earnings rather than through other comprehensive income.

3. Notes Payable

The Bank has several notes payable to the Federal Home Loan Bank (FHLB). The loans are payable in either monthly installments or with a lump sum amount at maturity and have fixed interest rates. The Bank is required to maintain a minimum amount of FHLB capital stock. The following is a summary of the notes payable as of December 31, 2018:

Original Amount of Note	Maturity Date	Interest Rate	Outstanding Balance at December 31, 2018
$ 2,000,000	February 2019	1.417	$ 2,000,000
5,000,000	March 2019	2.343	5,000,000
2,000,000	April 2019	1.576	2,000,000
3,000,000	June 2019	2.542	3,000,000
1,000,000	September 2019	1.805	1,000,000
3,000,000	November 2019	2.126	3,000,000
1,000,000	December 2019	2.138	1,000,000
3,025,000	December 2019	1.728	3,025,000
1,000,000	March 2020	1.925	1,000,000
2,000,000	March 2020	2.586	2,000,000
1,000,000	March 2020	1.844	1,000,000
5,000,000	March 2020	2.572	5,000,000
4,000,000	April 2020	2.831	4,000,000
1,000,000	June 2020	2.829	1,000,000
3,025,000	June 2020	1.816	3,025,000
1,000,000	September 2020	2.126	1,000,000
2,000,000	September 2020	3.018	2,000,000
1,000,000	September 2020	3.018	1,000,000
2,500,000	December 2020	2.915	2,500,000
3,500,000	March 2021	2.791	3,500,000
$ 47,050,000			**$ 47,050,000**

Principal maturity by year of all the notes as of December 31, 2018 are as follows:

2019	$ 20,025,000
2020	23,525,000
2021	3,500,000
	$ 47,050,000

4. Bank Premises and Equipment

A summary of premises and equipment at December 31, 2018 and 2017 follows:

	2018	2017
Land	$ 3,564,294	$ 3,589,975
Buildings and improvements	20,595,539	20,551,410
Furniture, fixtures and equipment	6,522,386	5,942,736
Automobiles	247,947	237,567
Right of use asset	231,359	-
Gross bank premises and equipment	31,161,525	30,321,688
Less: accumulated depreciation	(11,005,940)	(9,790,220)
Net bank premises and equipment	**$ 20,155,585**	**$ 20,531,468**

Total depreciation expense for premises and equipment for 2018 and 2017 was approximately $1,294,961 and $1,288,708, respectively.

5. Loans and Allowance for Loan Losses

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

	2018	2017
Commercial loans	$ 23,602,056	$ 17,046,911
Agriculture loans	12,213,387	21,272,164
Local government loans	10,326,252	17,396,954
Lease finance receivable	2,904,221	3,054,000
Consumer loans	6,184,012	5,912,454
Real estate loans	272,589,599	275,662,221
Overdrafts	24,624	22,076
Loan discount	-	-
Gross loans	327,844,151	340,366,780
Allowance for loan losses	(2,585,870)	(2,660,656)
Net loans	**$ 325,258,281**	**$ 337,706,124**

5. Loans and Allowance for Loan Losses (continued)

An analysis of the allowance account as of December 31, 2018 and 2017 is presented as follows:

Allowance for Loan and Lease Losses (ALLL) activity:

	December 31, 2018						
	Commercial loans	Agriculture loans	Local Govt loans	Lease Finance Receivable	Consumer loans	Real estate loans	Total Allowance
ALLL, January 1	$ 403,094	$ 138,909	$ 101,649	$ 23,000	$ 51,641	$ 1,942,363	$ 2,660,656
Charge-offs	-	-	-	-	(17,211)	(496,348)	(513,559)
Recoveries	7,585	-	-	-	6,188	-	13,773
Provision for loan and lease losses	(218,727)	(45,659)	(17,207)	(1,668)	17,879	690,382	425,000
ALLL, December 31	$ 191,952	$ 93,250	$ 84,442	$ 21,332	$ 58,497	$ 2,136,397	$ 2,585,870

	Commercial loans	Agriculture loans	Local Govt loans	Local Govt loans	Consumer loans	Real estate loans	Total
Impaired loans and troubled debt restructurings							
ALLL	$ 20,000	$ -	$ -	$ -	$ -	$ 224,000	$ 244,000
Carrying value	67,365	-	-	-	-	833,276	900,641
Allowance as a percentage of outstanding loans	29.69%	0.00%	0.00%	0.00%	0.00%	26.88%	27.09%
Collectively evaluated for impairment							
ALLL	$ 171,952	$ 93,250	$ 84,442	$ 21,332	$ 58,497	$ 1,912,397	$ 2,341,870
Carrying value	23,534,691	12,213,387	10,326,252	2,904,221	6,208,636	271,756,323	326,943,510
Allowance as a percentage of outstanding loans	0.73%	0.76%	0.82%	0.73%	0.94%	0.70%	0.72%
Total							
ALLL	$ 191,952	$ 93,250	$ 84,442	$ 21,332	$ 58,497	$ 2,136,397	$ 2,585,870
Carrying value	23,602,056	12,213,387	10,326,252	2,904,221	6,208,636	272,589,599	327,844,151
Allowance as a percentage of outstandings	0.81%	0.76%	0.82%	0.73%	0.94%	0.78%	0.79%

	December 31, 2017						
	Commercial loans	Agriculture loans	Local Govt loans	Lease Finance Receivable	Consumer loans	Real estate loans	Total Allowance
ALLL, January 1	$ 360,755	$ 153,041	$ 130,680	$ -	$ 63,393	$ 1,595,110	$ 2,302,979
Charge-offs	-	-	-	-	(24,962)	-	(24,962)
Recoveries	5,400	16	-	-	22,092	131	27,639
Provision for loan and lease losses	36,939	(14,148)	(29,031)	23,000	(8,882)	347,122	355,000
ALLL, December 31	$ 403,094	$ 138,909	$ 101,649	$ 23,000	$ 51,641	$ 1,942,363	$ 2,660,656

	Commercial loans	Agriculture loans	Local Govt loans	Local Govt loans	Consumer loans	Real estate loans	Total
Impaired loans and troubled debt restructurings							
ALLL	$ 19,000	$ -	$ -	$ -	$ -	$ 6,000	$ 25,000
Carrying value	94,880	-	-	-	-	1,215,400	1,310,280
Allowance as a percentage of outstanding loans	20.03%	0.00%	0.00%	0.00%	0.00%	0.49%	1.91%
Collectively evaluated for impairment							
ALLL	$ 384,094	$ 138,909	$ 101,649	$ 23,000	$ 51,641	$ 1,936,363	$ 2,635,656
Carrying value	16,952,031	21,272,164	17,396,954	3,054,000	5,934,530	274,446,821	339,056,500
Allowance as a percentage of outstanding loans	2.27%	0.65%	0.58%	0.75%	0.87%	0.71%	0.78%
Total							
ALLL	$ 403,094	$ 138,909	$ 101,649	$ 23,000	$ 51,641	$ 1,942,363	$ 2,660,656
Carrying value	17,046,911	21,272,164	17,396,954	3,054,000	5,934,530	275,662,221	340,366,780
Allowance as a percentage of outstandings	2.36%	0.65%	0.58%	0.75%	0.87%	0.70%	0.78%

5. Loans and Allowance for Loan Losses (continued)

Impaired Loans:

	December 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no recorded allowance					
Commercial loans	$ -	$ -	$ -	$ -	$ -
Agriculture loans	-	-	-	-	-
Local Govt loans	-	-	-	-	-
Lease Finance Receivable	-	-	-	-	-
Consumer loans	-	-	-	-	-
Real estate loans	833,276	833,276	224,000	1,018,276	-
With an allowance recorded					
Commercial loans	67,365	67,365	20,000	81,123	-
Agriculture loans	-	-	-	-	-
Local Govt loans	-	-	-	-	-
Lease Finance Receivable	-	-	-	-	-
Consumer loans	-	-	-	-	-
Real estate loans	-	-	-	6,062	-
Total					
Commercial loans	67,365	67,365	20,000	81,123	-
Agriculture loans	-	-	-	-	-
Local Govt loans	-	-	-	-	-
Lease Finance Receivable	-	-	-	-	-
Consumer loans	-	-	-	-	-
Real estate loans	833,276	833,276	224,000	1,024,338	-

	December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no recorded allowance					
Commercial loans	$ -	$ -	$ -	$ -	$ -
Agriculture loans	-	-	-	-	-
Local Govt loans	-	-	-	-	-
Lease Finance Receivable					
Consumer loans	-	-	-	-	-
Real estate loans	1,203,276	1,203,276	-	1,277,024	-
With an allowance recorded					
Commercial loans	94,880	94,880	-	47,440	-
Agriculture loans	-	-	-	-	-
Local Govt loans	-	-	-	-	-
Lease Finance Receivable					
Consumer loans	-	-	-	-	-
Real estate loans	12,124	12,124	6,000	13,858	-
Total					
Commercial loans	94,880	94,880	-	47,440	-
Agriculture loans	-	-	-	-	-
Local Govt loans	-	-	-	-	-
Lease Finance Receivable					
Consumer loans	-	-	-	-	-
Real estate loans	1,215,400	1,215,400	6,000	1,290,882	-

5. Loans and Allowance for Loan Losses (continued)

Loan Classification Status:

	December 31, 2018						
	Commercial loans	Agriculture loans	Local Govt loans	Lease Finance Receivable	Consumer loans	Real estate loans	Total
Pass	$ 23,410,817	$ 10,761,882	$ 10,326,252	$ 2,904,221	$ 6,208,636	$ 265,310,290	$ 318,922,098
Special Mention	-	1,386,344	-	-	-	5,949,775	7,336,119
Substandard	191,239	65,161	-	-	-	1,329,534	1,585,934
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	**$ 23,602,056**	**$ 12,213,387**	**$ 10,326,252**	**$ 2,904,221**	**$ 6,208,636**	**$ 272,589,599**	**$ 327,844,151**

	December 31, 2017						
	Commercial loans	Agriculture loans	Local Govt loans	Lease Finance Receivable	Consumer loans	Real estate loans	Total
Pass	$ 16,699,354	$ 20,450,139	$ 11,453,604	$ 3,054,000	$ $ 5,931,996	$ 265,989,528	$ 323,578,621
Special Mention	56,552	744,390	5,943,350	-	2,534	2,769,594	9,516,420
Substandard	291,005	77,635	-	-	-	6,903,099	7,271,739
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	**$ 17,046,911**	**$ 21,272,164**	**$ 17,396,954**	**$ 3,054,000**	**$ 5,934,530**	**$ 275,662,221**	**$ 340,366,780**

Nonaccrual Loans:

	Nonaccrual Loans		Accruing Past Due 90 Days or More	
	December 31		December 31	
	2018	2017	2018	2017
Commercial loans	$ -	$ -	$ -	$ -
Agriculture loans	-	77,635	-	-
Local Govt loans	-	-	-	-
Lease Finance Receivable	-	-	-	-
Consumer loans	-	-	-	-
Real estate loans	833,276	3,761,997	-	-
Total loans	**$ 833,276**	**$3,839,632**	**$ -**	**$ -**

5. Loans and Allowance for Loan Losses (continued)

Aging of Past Due Loans:

	December 31, 2018				
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due 30 Days or More	Total Current or Less Than 30 Days Past Due	Total Outstandings
Commercial loans	$ -	$ -	$ -	$ 23,602,056	$ 23,602,056
Agriculture loans	-	-	-	12,213,387	12,213,387
Local Govt loans	-	-	-	10,326,252	10,326,252
Lease Finance Receivable	-	-	-	2,904,221	2,904,221
Consumer loans	14,365	-	14,365	6,194,271	6,208,636
Real estate loans	804,326	-	804,326	271,785,273	272,589,599
Total loans	**$ 818,691**	**$ -**	**$ 818,691**	**$ 327,025,460**	**$327,844,151**
Percentage of outstandings	0.25%	0.00%	0.25%	99.75%	100.00%

	December 31, 2017				
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due 30 Days or More	Total Current or Less Than 30 Days Past Due	Total Outstandings
Commercial loans	$ 17,034	$ -	$ 17,034	$ 17,029,877	$ 17,046,911
Agriculture loans	-	77,635	77,635	21,194,529	21,272,164
Local Govt loans	-	-	-	17,396,954	17,396,954
Lease Finance Receivable	-	-	-	3,054,000	3,054,000
Consumer loans	7,534	-	7,534	5,926,996	5,934,530
Real estate loans	1,030,184	3,999,182	5,029,366	270,632,855	275,662,221
Total loans	**$1,054,752**	**$4,076,817**	**$5,131,569**	**$ 335,235,211**	**$340,366,780**
Percentage of outstandings	0.31%	1.20%	1.51%	98.49%	100.00%

5. Loans and Allowance for Loan Losses (continued)

Troubled Debt Restructurings

	2018			2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial loans	1	$ 135,000	$ 67,365	-	$ 135,000	$ 94,880
Agriculture loans	-	-	-	-	-	-
Local Govt loans	-	-	-	-	-	-
Lease Finance Receivable	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-
Real estate loans	1	1,401,756	833,276	-	1,401,756	1,203,276
Total loans	2	$ 1,536,756	$ 900,641	-	$ 1,536,756	$ 1,298,156

Troubled Debt Restructurings that Subsequently Defaulted

	2018		2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial loans	-	$ -	-	$ -
Agriculture loans	-	-	-	-
Local Govt loans	-	-	-	-
Lease Finance Receivable	-	-	-	-
Consumer loans	-	-	-	-
Real estate loans	-	-	-	-
Total loans	-	$ -	-	$ -

Loan participations sold and serviced by the Bank totaled approximately $3,038,059 and $887,785 as of December 31, 2018 and 2017, respectively.

6. Deposits

Year-end deposits consisted of the following:

	2018	2017
Noninterest bearing	$ 28,047,705	$ 29,075,514
Interest-bearing demand	11,750,607	9,574,217
Money market and savings	274,542,422	286,226,208
Time, Jumbo	37,783,927	38,337,352
Other time	103,369,071	104,298,435
	$ 455,493,732	**$ 467,511,726**

Certificates mature in the years following as of December 31, 2018:

One year or less	$ 84,849,192
One year to three years	47,759,973
Over three years	8,543,833
	$ 141,152,998

7. Related Party Transactions

In the ordinary course of business, the Bank has and expects to continue to have transactions, including borrowings, with its employees, officers, directors, shareholders, and their affiliates. In the opinion of management, such transactions are on the same terms as comparable transactions with unaffiliated persons.

Loans to related parties totaled $8,633,071 and $7,817,929 at December 31, 2018 and 2017, respectively. During 2018, new loans made to such related parties amounted to $1,267,088 and payments amounted to $457,947.

The Bank held related party deposits of approximately $15,950,711 and $18,187,841 at December 31, 2018 and 2017, respectively.

8. Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amount of those instruments reflects the extent of involvement the Bank has in particular classes of financial instruments.

The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the statements of financial condition.

Financial instruments whose contract amount represents credit risk were as follows:

	2018	2017
Commitments to extend credit on unfunded loans	$ 19,268,088	$ 32,733,529
Standby letters of credit and financial guarantees written	786,800	836,800

Commitments to extend credit are agreements to lend to a customer if there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of the collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies but may include customer deposits, accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

8. Financial Instruments with Off-Balance-Sheet Risk (continued)

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The Bank obtained a line-of-credit with the Federal Home Loan Bank in the amount of \$142,259,933 and \$150,402,783 at December 31, 2018 and 2017, respectively. The agreement allows the Bank to draw secured advances based upon 75% of one to four single family loans, 75% of multifamily loans, 60% of small business loans and 40% of small farms loans. As part of the agreement, the Bank is required to own stock of the Federal Home Loan Bank. The Bank held \$3,014,700 and \$2,612,700 of stock in 2018 and 2017, respectively. The Bank also has an unsecured line-of-credit with TIB in the amount of \$17,500,000.

9. Commitments and Contingent Liabilities

The Bank is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Bank.

The Bank leases space under an operating lease. The building lease has a term of five years beginning November 2015. The Bank recorded building rental expense of \$69,752 and \$53,657 during 2018 and 2017, respectively.

The following is a schedule as of December 31, 2018 of future minimum lease payments under the lease:

2019	$ 63,219
2020	60,960
2021	48,000
2022	48,000
2023	48,000
Thereafter	8,000
	$ 276,179

The Bank has early adopted ASU 2016-02, Leases (Topic 842), which requires recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements.

10. 401(k) Profit Sharing Plan

The Bank has a 401(k) profit sharing plan. Eligible employees are employees that have completed three months of service and that have attained the age of 21. Eligible employees covered by the plan may elect a dollar amount, not to exceed limits set by law to contribute through salary deferrals. Contributions by the Bank are discretionary, and are 100% vested after three years. The charge to expense in connection with the plan for 2018 and 2017 was $157,811 and $235,200, respectively.

11. Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation (FDIC). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators, that if undertaken, could have a direct material effect on the Bank and the financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Banks assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: common equity Tier 1 capital, total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations), and Tier 1 capital to average total assets (as defined). Management believes, as of December 31, 2018 and 2017, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2018 and 2017, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized; the Bank will have to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

11. Regulatory Capital (continued)

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

Pilgrim Bancorporation

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Common Equity Tier 1 capital to risk weighted assets	$ 64,081	17.2%	$ 16,777	4.5%	$ 24,233	6.5%
Total capital to risk weighted assets	66,667	17.9%	29,825	8.0%	37,281	10.0%
Tier 1 capital to risk weighted assets	64,081	17.2%	22,369	6.0%	29,825	8.0%
Tier 1 capital to average assets	64,081	11.2%	22,985	4.0%	28,732	5.0%
December 31, 2017						
Common Equity Tier 1 capital to risk weighted assets	$ 60,892	15.9%	$ 17,257	4.5%	$ 24,927	6.5%
Total capital to risk weighted assets	63,564	16.6%	30,679	8.0%	38,349	10.0%
Tier 1 capital to risk weighted assets	60,892	15.9%	23,009	6.0%	30,679	8.0%
Tier 1 capital to average assets	60,892	10.7%	22,771	4.0%	28,464	5.0%

Pilgrim Bank

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Common Equity Tier 1 capital to risk weighted assets	$ 63,809	17.3%	$ 16,564	4.5%	$ 23,926	6.5%
Total capital to risk weighted assets	66,395	18.0%	29,448	8.0%	36,810	10.0%
Tier 1 capital to risk weighted assets	63,809	17.3%	22,086	6.0%	29,448	8.0%
Tier 1 capital to average assets	63,809	11.1%	23,002	4.0%	28,753	5.0%
December 31, 2017						
Common Equity Tier 1 capital to risk weighted assets	$ 60,464	15.8%	$ 17,253	4.5%	$ 24,921	6.5%
Total capital to risk weighted assets	63,136	16.5%	30,672	8.0%	38,340	10.0%
Tier 1 capital to risk weighted assets	60,464	15.8%	23,004	6.0%	23,004	8.0%
Tier 1 capital to average assets	60,464	10.6%	22,781	4.0%	28,476	5.0%

Effective January 1, 2015 and phasing in through 2019, the Bank was required to adhere to new capital requirements under Basel III. Basel III will require higher minimum capital requirements, redefine Tier 1 capital, require a capital conservation buffer, increase risk weights for certain loans and disallow certain instruments into the Tier 1 capital calculation.

12. Trust Preferred Securities Payable

The Company has a liability for Trust Preferred securities of City Bancorp Statutory Trust I, a trust formed under the laws of the State of Delaware (the Trust). The Trust issued $3,093,000 of 6.30% fixed rate for the first five years and a variable rate at the 3 month Libor plus 2.00% thereafter. The Trust invested the proceeds thereof in Junior Subordinated deferrable Interest Debentures (the Junior Subordinated Debentures) issued by the Company with the same interest rates as the Trust Preferred Securities. The Junior Subordinated Debentures will mature on June 15, 2035, which date may be shortened to, at the Company's option, to a date not earlier than June 15, 2010 if certain conditions are met, including the Company having received prior approval of the Federal Reserve and any other required approvals.

13. Fair Value Measurements

FASB ASC 825, Financial Instruments, permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes must be recorded in earnings.

FASB ASC 820, Fair Value Measurement, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Level 1 - Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

13. Fair Value Measurements (continued)

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by this guidance, the Company does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

13. Fair Value Measurements (continued)

Impaired loans are evaluated and valued at the time the loan is identified as impaired, using the present value of expected cash flows, the loan's observable market price or the fair value of the collateral (less cost to sell) if the loans are collateral dependent. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Company. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Discounts applied to appraisals have been in the range of 0% to 50%. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Foreclosed properties are adjusted to fair value upon transfer of the loans to foreclosed properties. Subsequently, foreclosed properties are carried at the lower of carrying value or fair value. The estimated fair value for foreclosed properties included in Level 3 is determined by independent market based appraisals and other available market information. Discounts applied to appraisals have predominantly been in the range of 0% to 50%; however, in certain cases the discounts have ranged up to 75%, which include estimated costs to sell or other reductions based on market expectations or an executed sales contract. If fair value of the collateral deteriorates subsequent to initial recognition, the Company records the foreclosed properties as a nonrecurring Level 3 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

13. Fair Value Measurements (continued)

The following tables set forth the Company's assets and liabilities that were accounted for or disclosed at fair value on a recurring basis as of December 31, 2018 and 2017.

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Securities available for sale:				
Mortgage backed securities	$ 184,040,937	$ 184,040,937	$ -	$ -
Municipal bonds	1,002,300	1,002,300	-	-
Taxable municipal bonds	473,866	473,866	-	-
SBAs	4,160,976	4,160,976	-	-
Corporate stock	45,015	45,015	-	-
Total	**$ 189,723,094**	**$ 189,723,094**	**$ -**	**$ -**
December 31, 2017				
Securities available for sale:				
Mortgage backed securities	$ 181,307,758	$ 181,307,758	$ -	$ -
Municipal bonds	1,292,510	1,292,510	-	-
Taxable municipal bonds	517,645	517,645	-	-
SBAs	3,408,630	3,408,630	-	-
Corporate stock	38,530	38,530	-	-
Total	**$ 186,565,073**	**$ 186,565,073**	**$ -**	**$ -**

13. Fair Value Measurements (continued)

The following tables set forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis as of December 31, 2018 and 2017.

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Impaired loans:				
Real estate loans	$ 833,276	-	$ -	$ 833,276
Commercial loans	67,365	-	-	67,365
Total impaired loans	**$ 900,641**	**-**	**$ -**	**$ 900,641**
Foreclosed properties:				
Real estate loans	$ 88,000	-	$ -	$ 88,000
Total foreclosed properties	**$ 88,000**	**-**	**$ -**	**$ 88,000**
December 31, 2017				
Impaired loans:				
Real estate loans	$ 1,215,400	$ -	$ -	$ 1,215,400
Commercial loans	94,880	-	-	94,880
Total impaired loans	**$ 1,310,280**	**$ -**	**$ -**	**$ 1,310,280**
Foreclosed properties:				
Real estate loans	$ 100,000	$ -	$ -	$ 100,000
Total foreclosed properties	**$ 100,000**	**$ -**	**$ -**	**$ 100,000**

14. Fair Value Measurements of Financial Instruments

In accordance with the disclosure requirements of FASB ASC 825, Financial Instruments, the estimated fair values of the Company's financial instruments are as follows:

			Fair Value Measurements at Reporting Date Using		
December 31, 2018	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Cash and due from banks	$ 8,135,300	$ 8,135,300	$ 8,135,300	$ -	$ -
Interest bearing deposits in other banks	2,767,371	2,767,371	2,767,371	-	-
Investment securities-available for sale	189,723,094	189,723,094	189,723,094	-	-
Stock of Federal Home Loan Bank	3,014,700	3,014,700	3,014,700	-	-
Stock of TIB	101,845	101,845	101,845	-	-
Loans, net	325,258,281	323,154,130	-	-	323,154,130
Financial Liabilities					
Noninterest bearing demand deposits	$ 28,047,705	$ 28,047,705	$ -	$ -	$ 28,047,705
Interest-bearing demand deposits	11,750,607	11,750,607	-	-	11,750,607
Money market and savings	274,542,422	274,542,422	-	-	274,542,422
Time, $100,000 and over	37,783,927	37,751,000	-	-	37,751,000
Time, less than $100,000	103,369,071	103,277,000	-	-	103,277,000
Notes payable	47,050,000	47,050,000	-	-	47,050,000
Trust preferred payable	3,093,000	3,093,000	-	-	3,093,000
December 31, 2017					
Financial Assets					
Cash and due from banks	$ 9,778,611	$ 9,778,611	$ 9,778,611	$ -	$ -
Interest bearing deposits in other banks	1,641,445	1,641,445	1,641,445	-	-
Investment securities-available for sale	186,565,073	186,565,073	186,565,073	-	-
Stock of Federal Home Loan Bank	2,612,700	2,612,700	2,612,700	-	-
Stock of TIB	101,845	101,845	101,845	-	-
Loans, net	337,706,124	335,479,344	-	-	335,479,344
Financial Liabilities					
Noninterest bearing demand deposits	$ 29,075,514	$ 29,075,514	$ -	$ -	$ 29,075,514
Interest-bearing demand deposits	9,574,217	9,574,217	-	-	9,574,217
Money market and savings	286,226,208	286,226,208	-	-	286,226,208
Time, $100,000 and over	38,337,352	38,354,000	-	-	38,354,000
Time, less than $100,000	104,298,435	104,345,000	-	-	104,345,000
Notes payable	47,075,000	47,075,000	-	-	47,075,000
Trust preferred payable	3,093,000	3,093,000	-	-	3,093,000

14. Fair Value Measurements of Financial Instruments (continued)

The following methods and assumptions were used to estimate the fair value disclosures for financial instruments as of December 31, 2018 and 2017:

Cash and cash equivalents:

The fair value of cash and cash equivalents is estimated to approximate the carrying amounts.

Investment securities and restricted stock:

Fair values are based on quoted market prices, except for certain restricted stocks where fair value equals par value because of certain redemption restrictions.

Loans:

Fair values are estimated for portfolios of loans with similar financial characteristics. Each portfolio is further segmented into fixed and adjustable rate interest terms by performing and non-performing categories.

The fair value of performing loans is calculated by discounting estimated cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The estimated cash flows do not anticipate prepayments.

Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented for loans would be indicative of the value negotiated in an actual sale.

Deposits:

The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

14. Fair Value Measurements of Financial Instruments (continued)

Short-term borrowings:

The fair value of short-term borrowings is determined using rates currently available to the Company for debt with similar terms and remaining maturities.

FHLB advances:

The fair value of the FHLB advances is determined using rates currently available to the Company for debt with similar terms and remaining maturities.

Junior subordinated debentures:

The junior subordinated debentures are unsecured obligations of the Company and are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. The Company has entered into a guarantee, which together with its obligations under the junior subordinated debentures and the declaration of trust governing the Trust provides a full and unconditional guarantee of the Trust's preferred securities. The fair value of junior subordinated debentures is determined using rates currently available to the Company for debt with similar terms and remaining maturities. See Note 8 for additional disclosures.

15. Components of Other Comprehensive Income

The following table presents the components of other comprehensive income (loss) for the years ended December 31, 2018 and 2017:

	2018	2017
Reclassification adjustment for gains realized	$ (4,980)	$ 155,345
Changes in net unrealized gains (losses) on securities available-for-sale	(1,264,584)	(286,766)
Other comprehensive income (loss)	**$ (1,269,564)**	**$ (131,421)**

16. Concentrations of Credit

Most of the Bank's business activity is with customers located in the North East and North West Texas area. The Bank also maintains deposits with other financial institutions in amounts that exceed FDIC insurance coverage. The Bank has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.

ADDITIONAL INFORMATION

**INDEPENDENT AUDITOR'S REPORT
ON ADDITIONAL INFORMATION**

To the Board of Directors and Stockholders
of Pilgrim Bancorporation and Subsidiaries

We have audited the consolidated financial statements of Pilgrim Bancorporation and Subsidiaries as of and for the years ended December 31, 2018 and 2017, and our report thereon dated February 8, 2019, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Judd, Thomas, Smith + Company, P.C.
Dallas, Texas
February 8, 2019

12222 Merit Drive
Suite 1900
Dallas, TX 75251-3209

214.296.0900 **Main**
800.304.4887 **Toll Free**
972.661.3651 **Fax**

juddthomas.com

PILGRIM BANCORPORATION AND SUBSIDIARIES

Consolidating Balance Sheet

As of December 31, 2018

	Pilgrim Bancorporation	Pilgrim Bank	Eliminating Entries	Consolidated Balance
Assets				
Cash and due from banks	$ 486,264	$ 8,135,300	$ (486,264)	$ 8,135,300
Interest-bearing deposits in other banks	-	2,767,371	-	2,767,371
Investment securities available-for-sale	-	189,723,094	-	189,723,094
Stock of Federal Home Loan Bank	-	3,014,700	-	3,014,700
Stock of TIB	-	101,845	-	101,845
Other investments	-	4,000	-	4,000
Loans, net	-	325,258,281	-	325,258,281
Bank premises and equipment, net	-	20,155,585	-	20,155,585
Accrued interest receivable	-	2,481,085	-	2,481,085
Other real estate owned	-	88,000	-	88,000
Bank owned life insurance	-	11,039,448	-	11,039,448
Other assets	-	542,780	-	542,780
Intangible assets	-	1,848,000	-	1,848,000
Goodwill	-	8,538,727	-	8,538,727
Investment in Bancorp Statutory Trust	93,000	-	-	93,000
Investment in Pilgrim Bank	69,342,376	-	(69,342,376)	-
Total assets	**$ 69,921,640**	**$ 573,698,216**	**$ (69,828,640)**	**$ 573,791,216**
Liabilities and Stockholders' Equity				
Deposits:				
Noninterest-bearing demand	$ -	$ 28,533,969	$ (486,264)	$ 28,047,705
Interest-bearing demand	-	11,750,607	-	11,750,607
Money market and savings	-	274,542,422	-	274,542,422
Time, Jumbo	-	37,783,927	-	37,783,927
Other time	-	103,369,071	-	103,369,071
Total deposits	-	**455,979,996**	**(486,264)**	**455,493,732**
Notes payable	-	47,050,000	-	47,050,000
Trust preferred payable	3,093,000	-	-	3,093,000
Accrued interest payable	6,436	321,171	-	327,607
Other liabilities	208,530	1,004,673	-	1,213,203
Total liabilities	**3,307,966**	**504,355,840**	**(486,264)**	**507,177,542**
Stockholders' equity				
Common stock	2,237,967	1,586,455	(1,586,455)	2,237,967
Additional paid-in capital	27,562,785	53,393,837	(53,393,837)	27,562,785
Retained earnings	41,667,242	19,216,404	(19,216,404)	41,667,242
Unrealized gains (losses) on investment securities considered available-for-sale (Note 2)	(4,854,320)	(4,854,320)	4,854,320	(4,854,320)
Total stockholders' equity	**66,613,674**	**69,342,376**	**(69,342,376)**	**66,613,674**
Total liabilities and stockholders' equity	**$ 69,921,640**	**$ 573,698,216**	**$ (69,828,640)**	**$ 573,791,216**

PILGRIM BANCORPORATION AND SUBSIDIARIES

Consolidating Balance Sheet

As of December 31, 2017

	Pilgrim Bancorporation	Pilgrim Bank	Eliminating Entries	Consolidated Balance
Assets				
Cash and due from banks	$ 695,923	$ 9,778,611	$ (695,923)	$ 9,778,611
Interest-bearing deposits in other banks	-	1,641,445	-	1,641,445
Investment securities available-for-sale	-	186,565,073	-	186,565,073
Stock of Federal Home Loan Bank	-	2,612,700	-	2,612,700
Stock of TIB	-	101,845	-	101,845
Other investments		4,000	-	4,000
Loans, net	-	337,706,124	-	337,706,124
Bank premises and equipment, net	-	20,531,468	-	20,531,468
Accrued interest receivable	-	2,682,440	-	2,682,440
Other real estate owned	-	100,000	-	100,000
Bank owned life insurance	-	10,729,562	-	10,729,562
Other assets	-	602,355	-	602,355
Intangible assets	-	2,156,000	-	2,156,000
Goodwill	-	8,538,727	-	8,538,727
Investment in Bancorp Statutory Trust	93,000	-	-	93,000
Investment in Pilgrim Bank	67,574,599	-	(67,574,599)	-
Total assets	**$ 68,363,522**	**$ 583,750,350**	**$ (68,270,522)**	**$ 583,843,350**
Liabilities and Stockholders' Equity				
Deposits:				
Noninterest-bearing demand	$ -	$ 29,771,437	$ (695,923)	$ 29,075,514
Interest-bearing demand	-	9,574,217	-	9,574,217
Money market and savings	-	286,226,208	-	286,226,208
Time, Jumbo	-	38,337,352	-	38,337,352
Other time	-	104,298,435	-	104,298,435
Total deposits	-	**468,207,649**	**(695,923)**	**467,511,726**
Notes payable	-	47,075,000	-	47,075,000
Trust preferred payable	3,093,000	-	-	3,093,000
Accrued interest payable	4,988	216,384	-	221,372
Other liabilities	263,157	676,718	-	939,875
Total liabilities	**3,361,145**	**516,175,751**	**(695,923)**	**518,840,973**
Stockholders' equity				
Common stock	2,237,967	1,586,455	(1,586,455)	2,237,967
Additional paid-in capital	27,562,785	53,393,837	(53,393,837)	27,562,785
Retained earnings	38,786,381	16,179,063	(16,179,063)	38,786,381
Unrealized gains (losses) on investment securities considered available-for-sale (Note 2)	(3,584,756)	(3,584,756)	3,584,756	(3,584,756)
Total stockholders' equity	**65,002,377**	**67,574,599**	**(67,574,599)**	**65,002,377**
Total liabilities and stockholders' equity	**$ 68,363,522**	**$ 583,750,350**	**$ (68,270,522)**	**$ 583,843,350**

PILGRIM BANCORPORATION AND SUBSIDIARIES

Consolidating Statement of Income and Comprehensive Income

For the Year Ended December 31, 2018

	Pilgrim Bancorporation	Pilgrim Bank	Eliminating Entries	Consolidated Balance
Interest income				
Interest and fees on loans	$ -	$ 18,201,220	$ -	$ 18,201,220
Interest on investment securities - taxable	-	3,758,819	-	3,758,819
Interest on investment securities - non taxable	-	40,753	-	40,753
Interest on other investments	3,888	148,617	-	152,505
Total interest income	**3,888**	**22,149,409**	**-**	**22,153,297**
Interest expense				
Interest-bearing demand	-	96,781	-	96,781
Money market and savings	-	1,160,482	-	1,160,482
Time, Jumbo	-	544,398	-	544,398
Other time	-	1,414,591	-	1,414,591
Federal funds purchased	-	2,385	-	2,385
Notes payable	130,739	1,087,059	-	1,217,798
Total interest expense	**130,739**	**4,305,696**	**-**	**4,436,435**
Net interest income (expense)	(126,851)	17,843,713	-	17,716,862
Provision for loan losses	-	425,000	-	425,000
Net interest income after provision for loan losses	(126,851)	17,418,713	-	17,291,862
Other income				
Undistributed income from subsidiary	3,037,340	-	(3,037,340)	-
Dividends from subsidiary	2,650,000	-	(2,650,000)	-
Service fees	-	735,812	-	735,812
Gain (loss) on sale of securities	-	(4,980)	-	(4,980)
Gain on sale of loans	-	635	-	635
Gain (loss) on sale of other real estate owned	-	(1,778)	-	(1,778)
Other	-	1,782,175	-	1,782,175
Total other income	**5,687,340**	**2,511,864**	**(5,687,340)**	**2,511,864**
Other expense				
Salaries and employee benefits	199,811	6,991,724	-	7,191,535
Occupancy expense	-	3,243,904	-	3,243,904
Data processing	-	853,164	-	853,164
Other real estate and repossessed assets	-	4,766	-	4,766
Other	259,817	3,149,679	-	3,409,496
Total other expense	**459,628**	**14,243,237**	**-**	**14,702,865**
Income before income taxes	5,100,861	5,687,340	(5,687,340)	5,100,861
Income tax expense	-	-	-	-
Net income	5,100,861	5,687,340	(5,687,340)	5,100,861
Other comprehensive income (loss)				
Reclassification adjustment for gains realized	(4,980)	(4,980)	4,980	(4,980)
Changes in net unrealized gains (losses) on securities available-for-sale	(1,264,584)	(1,264,584)	1,264,584	(1,264,584)
Total comprehensive income	**$ 3,831,297**	**$ 4,417,776**	**$ (4,417,776)**	**$ 3,831,297**

PILGRIM BANCORPORATION AND SUBSIDIARIES

Consolidating Statement of Income and Comprehensive Income

For the Year Ended December 31, 2017

	Pilgrim Bancorporation	Pilgrim Bank	Eliminating Entries	Consolidated Balance
Interest income				
Interest and fees on loans	$ -	$ 17,458,868	$ -	$ 17,458,868
Interest on investment securities - taxable	-	2,790,455	-	2,790,455
Interest on investment securities - non taxable	-	90,518	-	90,518
Interest on other investments	2,985	96,394	-	99,379
Total interest income	**2,985**	**20,436,235**	**-**	**20,439,220**
Interest expense				
Interest-bearing demand	-	38,696	-	38,696
Money market and savings	-	992,795	-	992,795
Time, Jumbo	-	431,085	-	431,085
Other time	-	1,118,268	-	1,118,268
Federal funds purchased	-	563	-	563
Notes payable	100,189	640,453	-	740,642
Total interest expense	**100,189**	**3,221,860**	**-**	**3,322,049**
Net interest income	(97,204)	17,214,375	-	17,117,171
Provision for loan losses	-	355,000	-	355,000
Net interest income after provision for loan losses	(97,204)	16,859,375	-	16,762,171
Other income				
Undistributed income from subsidiary	2,585,427	-	(2,585,427)	-
Dividends from subsidiary	3,050,000	-	(3,050,000)	-
Service fees	-	771,215	-	771,215
Gain on sale of securities	-	155,345	-	155,345
Gain on sale of loans	-	10,903	-	10,903
Gain (loss) on sale of other real estate owned	-	(95,925)	-	(95,925)
Other	-	2,136,938	-	2,136,938
Total other income	**5,635,427**	**2,978,476**	**(5,635,427)**	**2,978,476**
Other expense				
Salaries and employee benefits	277,200	6,892,304	-	7,169,504
Occupancy expense	-	3,173,630	-	3,173,630
Data processing	-	859,281	-	859,281
Other real estate and repossessed assets	-	32,954	-	32,954
Other	201,149	3,244,255	-	3,445,404
Total other expense	**478,349**	**14,202,424**	**-**	**14,680,773**
Income before income taxes	5,059,874	5,635,427	(5,635,427)	5,059,874
Income tax expense	-	-	-	-
Net income	5,059,874	5,635,427	(5,635,427)	5,059,874
Other comprehensive income (loss)				
Reclassification adjustment for gains realized	155,345	155,345	(155,345)	155,345
Changes in net unrealized gains (losses) on securities available-for-sale	(286,766)	(286,766)	286,766	(286,766)
Total comprehensive income	**$ 4,928,453**	**$ 5,504,006**	**$ (5,504,006)**	**$ 4,928,453**