

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A

CURRENT REPORT

**PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): **January 1, 2023**

BROOKLINE BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

0-23695
(Commission File No.)

04-3402944
(I.R.S. employer
Identification No.)

131 Clarendon Street, Boston Massachusetts
(Address of principal executive offices)

02116
(Zip Code)

(617) 425-4600
(Registrant's telephone number, including area code)

Not applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value of \$0.01 per share	BRKL	Nasdaq Global Select Market

Indicate by check mark if the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Explanatory Note

On January 5, 2023, Brookline Bancorp, Inc. (the “Company”) filed a Current Report on Form 8-K (the “Initial Filing”) to report that on January 1, 2023, the Company completed its previously announced acquisition of PCSB Financial Corporation (“PCSB”) through the merger of PCSB with and into the Company, with the Company as the surviving corporation (the “Merger”).

This amendment to the Initial Filing is being filed to provide such financial statements, which are attached as Exhibit 99.1 and Exhibit 99.2, and such pro forma financial information, which is attached as Exhibit 99.3.

Except as described above, no other changes have been made to the Initial Filing.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Business Acquired.

The audited consolidated financial statements of PCSB as of June 30, 2022 and 2021, and for each of the fiscal years ended June 30, 2022 and June 30, 2021 are filed as Exhibit 99.1 hereto and incorporated herein by reference.

The unaudited interim consolidated balance sheet of PCSB as of December 31, 2022 and 2021, unaudited interim consolidated statement of comprehensive income of PCSB for three months ended December 31, 2022, and the unaudited interim financial statements of PCSB for the three months ended September 30, 2022 are filed as exhibit 99.2 hereto and incorporated by reference herein by reference.

(b) Pro Forma Financial Information

The following unaudited pro forma combined condensed consolidated financial information giving effect to the Merger is furnished under this Item 9.01(b) as Exhibit 99.3 attached hereto, and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to liability of such section, not shall be deemed incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing, unless expressly incorporated by specific reference in such filing.

The unaudited pro forma condensed combined balance sheet of the Company as of December 31, 2022, giving effect to the Merger as if it occurred on December 31, 2022 and the unaudited pro forma condensed combined statements of income of the Company for the fiscal year ended December 31, 2022, giving effect to the Merger as if it occurred on January 1, 2022, are filed as Exhibit 99.3.

(d) Exhibits

Number	Description
<u>23.1</u>	Consent of Crowe LLP (with respect to PCSB Financial Corporation).
<u>99.1</u>	Audited consolidated financial statements of PCSB Financial Corporation as of June 30, 2022 and 2021, and for each of the fiscal years ended June 30, 2022 and June 30, 2021.
<u>99.2</u>	Unaudited interim consolidated balance sheet of PCSB as of December 31, 2022 and 2021, unaudited interim consolidated statement of comprehensive income of PCSB for three months ended December 31, 2022, and the unaudited interim financial statements of PCSB for the three months ended September 30, 2022.
<u>99.3</u>	Pro Forma Financial Information
104	Cover Page Interactive Data File (embedded within the XBRL document)

SIGNATURES

Pursuant to the requirements of the Exchange Act the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: March 20, 2023

BROOKLINE BANCORP, INC.

By: /s/ Carl M. Carlson

Carl M. Carlson

Co-President, Chief Financial & Strategy Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (No. 333-240013) on Form S-3 and Registration Statements (Nos. 333-197317, 333-175255, and 333-256081) on Form S-8 of Brookline Bancorp, Inc. of our report dated September 9, 2022 on the consolidated financial statements of PCSB Financial Corporation, which is included in this Current Report on Form 8-K/A.

/s/ Crowe LLP

Livingston, New Jersey
March 20, 2023

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended June 30, 2022

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File No. 001-38065

PCSB FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Maryland

**(State of Other Jurisdiction of
Incorporation or Organization)**

81-4710738

**(I.R.S. Employer
Identification No.)**

2651 Strang Blvd., Suite 100, Yorktown Heights, New York
(Address of Principal Executive Offices)

10598

(Zip Code)

(914) 248-7272
(Registrant's Telephone Number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	PCSB	The NASDAQ Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Smaller reporting company

Non-accelerated filer

Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of December 31, 2021, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the voting common equity held by non-affiliates of the Registrant was \$249.0 million. The registrant does not have any non-voting common equity.

As of September 9, 2022, there were 15,334,707 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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Forward Looking Statements

This annual report contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- extent, duration and severity of the COVID-19 pandemic and government action in response to the pandemic, including their impact on our business and operations, including the impact of lost fee revenue and operating expenses, as well as their effects on our customers and issuers of securities, including their ability to make timely payments on obligations, service providers and on economies and markets more generally;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and charge-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to continue to implement our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans we have made and make whether held in portfolio or sold in the secondary markets;
- adverse changes in the securities or credit markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to manage market risk, credit risk and operational risk in the current economic conditions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, or the Securities and Exchange Commission;
- our ability to retain key employees;
- our compensation expense associated with equity allocated or awarded to our employees; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. See "Risk Factors" contained in Item 1A. We do not undertake to update any forward-looking statements, except as may be required by applicable law or regulation.

PART I

Item 1. Business

PCSB Financial Corporation

PCSB Financial Corporation (“PCSB Financial” or the “Company”), a Maryland corporation, is the bank holding company for PCSB Bank (the “Bank”). On April 20, 2017, the Company completed its initial public offering in connection with the Bank’s conversion from a mutual savings bank to a stock savings bank. As of June 30, 2022, we had consolidated assets of \$1.99 billion, consolidated deposits of \$1.63 billion and consolidated equity of \$277.2 million. Other than holding the common stock of PCSB Bank, PCSB Financial has not engaged in any significant business to date. In the future, we may pursue other business activities, including mergers and acquisitions, investment alternatives and diversification of operations; however, there are no current agreements for these activities. The Company is subject to the financial reporting requirements of the Securities and Exchange Act of 1934, as amended and regulation and examination by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) and the New York State Department of Financial Services (the “NYSDFS”).

PCSB Bank

PCSB Bank is a New York-chartered commercial bank. We serve the banking needs of customers in the Lower Hudson Valley of New York State through our executive offices/headquarters and 14 banking offices located in Dutchess (2 offices), Putnam (3 offices), Rockland (1 office) and Westchester (8 offices) Counties, New York. Our primary business activity is attracting deposits from the general public and using those funds primarily to originate and purchase commercial real estate loans, business loans and one-to-four-family real estate loans and purchase investment securities. We are subject to comprehensive regulation and examination by the NYSDFS and by the Federal Deposit Insurance Corporation (the “FDIC”).

Our website address is www.pcsb.com. Information on our website is not and should not be considered a part of this annual report.

Proposed Acquisition by Brookline Bancorp, Inc.

As previously disclosed, on May 23, 2022, the Company and Brookline Bancorp, Inc. (“Brookline”), the holding company of Brookline Bank and Bank Rhode Island, entered into an Agreement and Plan of Merger (the “Merger Agreement”). Pursuant to the Merger Agreement, the Company will merge with and into Brookline, with Brookline as the surviving corporation (the “Merger”). Following the Merger, PCSB Bank will operate as a separate bank subsidiary of Brookline. The consummation of the Merger is subject to customary closing conditions, including the receipt of regulatory approvals and approval by the Company’s stockholders. The Merger is currently expected to be completed in the fourth quarter of 2022.

Market Area

Our primary market area encompasses all of Putnam and Westchester Counties and parts of Dutchess and Rockland Counties in New York, which are the counties in which our offices are located, and the surrounding areas. We view Westchester County, which borders the Bronx (New York City’s northernmost borough) and is more populous than the other counties, as a primary area for growth, particularly for commercial lending and deposit opportunities. Westchester County includes a high concentration of office, medical, retail, industrial, mixed use and multi-family real estate buildings and businesses. Our primary focus in this marketplace is small to middle market businesses in these segments. Rising real estate values and lack of available commercial space in Brooklyn and Manhattan have caused businesses to migrate to central and lower Westchester County, which has increased the demand for flex-industrial and multi-family property loans in our market area. Dutchess, Putnam and Rockland Counties offer similar commercial opportunities to Westchester County, but on a significantly smaller scale, and provide greater opportunities in residential mortgage lending and consumer lending and in retail deposit gathering. The close proximity of Bronx County, New York City, Fairfield County, Connecticut, and Bergen County, New Jersey, to our market area also creates a secondary area of opportunity for office, industrial and multi-family property loans. The COVID-19 pandemic has caused a significant migration of residents out of New York City and other urban areas into surrounding suburban areas, which includes a large portion of our primary market area, and has resulted in significant increases in residential real estate values.

Competition

We face significant competition for deposits and loans. Our most direct competition for deposits has historically come from the many financial institutions operating in our market area, many of which are significantly larger than we are and, therefore, have greater resources. We compete with these larger institutions particularly in our Westchester County market area. We also face competition for funds from other financial service companies such as brokerage firms, money market funds, mutual funds and other corporate and government securities issuers.

Competition for loans comes primarily from the many financial institutions operating in our market area. Our experience in recent years has been that many financial institutions in our market area, especially community banks and credit unions seeking to expand their commercial loan portfolios and institutions located in highly competitive Westchester County, have been willing to price commercial loans aggressively in order to gain market share. We also compete with Fintech companies, which can digitally deliver banking products and services without the expenses associated with physical branch offices and without the regulatory compliance obligations and expenses to which banks are subject.

Lending Activities

Commercial Real Estate Loans. At June 30, 2022, commercial real estate loans were \$942.1 million, or 70.4%, of total gross loans receivable. Our commercial real estate loans are generally secured by properties used for business purposes such as office buildings, industrial facilities and retail facilities, and multi-family properties. At June 30, 2022, multi-family residential real estate loans, which are described below, totaled \$213.2 million. Excluding multi-family loans, \$117.2 million of our commercial real estate portfolio was owner occupied real estate and \$611.7 million was secured by income producing, or non-owner occupied real estate.

At June 30, 2022, a substantial portion of our commercial real estate loans was secured by properties located in the lower Hudson Valley; however, we will originate commercial real estate loans on properties located outside this area based on an established relationship with a strong borrower. We intend to continue to grow our commercial real estate loan portfolio while maintaining prudent underwriting standards. In addition to originating these loans, we also purchase and participate in commercial real estate loans with other financial institutions. At June 30, 2022, we had \$122.1 million in commercial real estate loan participations and whole loan purchases, which constituted 13.0% of our commercial real estate loan portfolio, as compared with \$144.6 million, or 17.5%, at June 30, 2021. Such loans are independently underwritten according to our policies and require satisfactory documentation review by our legal counsel before we will purchase or participate in such loans.

We originate a variety of adjustable-rate commercial real estate loans with terms and amortization periods generally up to 25 years, which may include balloon payment loans. Interest rates and payments on our adjustable-rate loans adjust every five, seven or ten years and generally are indexed to the prime rate or the corresponding Treasury rate, plus a margin. We generally include pre-payment penalties on commercial real estate loans we originate. We may execute interest rate swaps with commercial lending customers in association with adjustable-rate loans to facilitate the customer's risk management strategies.

In underwriting commercial real estate loans, we consider a number of factors, which include the current and projected ratio of net cash flow to the loan's debt service requirement (generally requiring a minimum of 1.20x), the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Commercial real estate loans are generally originated in amounts up to 75% of the appraised value or the purchase price of the property securing the loan, whichever is lower. Generally, guarantees are obtained from commercial real estate customers. In addition, the borrower's and guarantor's financial information on such loans is monitored on an ongoing basis by requiring periodic financial statement updates. We encourage our commercial business borrowers to maintain their primary deposit accounts with us, which would enhance our interest rate spread and overall profitability.

If we foreclose on a commercial real estate loan, the marketing and liquidation period to convert the real estate asset to cash can be a lengthy process with substantial holding costs. In addition, vacancies, deferred maintenance, repairs and market stigma can result in prospective buyers expecting sale price concessions to offset their real or perceived economic losses for the time it takes them to return the property to profitability. Depending on the individual circumstances, initial charge-offs and subsequent losses on commercial real estate loans can be unpredictable and substantial.

At June 30, 2022, our largest non-multi-family commercial real estate loan had an outstanding balance of \$19.8 million and is secured by a multi-tenant office property, a portion of which serves as the Company's headquarters. At June 30, 2022, this loan was performing according to its original terms.

Multi-Family Residential Real Estate Loans. At June 30, 2022, multi-family real estate loans were \$213.2 million, or 15.9%, of total gross loans receivable. Our multi-family real estate loans are generally secured by properties consisting of five to 100 rental units in our market area. In addition to originating these loans, we also purchase and participate in multi-family residential real estate loans with other financial institutions. At June 30, 2022, we had \$65.8 million in multi-family residential real estate loan purchases and participations, which constituted 30.9% of our multi-family residential real estate loan portfolio, as compared with \$84.4 million, or 40.0%, at June 30, 2021. Such loans are independently underwritten according to our policies and require satisfactory documentation review by our legal counsel before we will purchase or participate in such loans.

We originate a variety of adjustable-rate multi-family residential real estate loans with terms and amortization periods generally up to 30 years, which may include balloon payment loans. Interest rates and payments on our adjustable-rate loans adjust every five, seven or ten years and generally are indexed to the prime rate or the corresponding Treasury rate, plus a margin. We generally include pre-payment penalties on multi-family residential real estate loans we originate.

In underwriting multi-family residential real estate loans, we consider a number of factors, which include the current and projected ratio of net cash flow to the loan's debt service requirement (generally requiring a minimum of 1.20x), the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Multi-family residential real estate loans are generally originated in amounts up to 75% of the appraised value or the purchase price of the property securing the loan, whichever is lower. Generally, guarantees are obtained from multi-family residential real estate customers. In addition, the borrower's and guarantor's financial information on such loans is monitored on an ongoing basis by requiring periodic financial statement updates. We encourage our commercial business borrowers to maintain their primary deposit accounts with us, which would enhance our interest rate spread and overall profitability.

At June 30, 2022, our largest multi-family residential real estate loan had an outstanding balance of \$23.5 million and is secured by a 76-unit apartment complex. At June 30, 2022, this loan was performing according to its original terms.

Commercial Loans. We originate commercial term loans and adjustable rate lines of credit to a variety of small and medium sized businesses in our market area. These loans are generally secured by business assets, and we may support this collateral with junior liens on real property. At June 30, 2022, the outstanding balance of commercial loans was \$136.3 million, or 10.2% of total gross loans receivable, as compared with \$150.7 million, or 12.2%, at June 30, 2021. Customers for our commercial loans include professional businesses, multi-generational family-owned businesses, and not for profit businesses. We encourage our commercial business borrowers to maintain their primary deposit accounts with us, which would enhance our interest rate spread and overall profitability.

Commercial loans as of June 30, 2022 included \$1.9 million of loans originated under the Small Business Administration's ("SBA") Payroll Protection Program ("PPP") established by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), as compared to \$37.0 million as of June 30, 2021. PPP loans are fully guaranteed by the SBA and are subject to forgiveness by the SBA, upon application by the borrower, to the extent that loan proceeds were utilized by the borrower for qualifying expenses under the PPP. Any loan, or portion thereof, that is not forgiven by the SBA will bear an interest rate of 1% per annum for a term ranging from 24 months to 60 months.

As of June 30, 2022, commercial loans include a \$7.2 million loan to a third-party originator secured by 169 individual loans primarily to medical professionals. The underlying loans are independently underwritten according to our policies and require satisfactory documentation review by our legal counsel. The Company services the underlying loans and maintains a 50% loss-sharing agreement with the third-party originating institution.

The commercial loans we offer include term loans and revolving lines of credit. Commercial loans and lines of credit are made with either fixed or adjustable rates of interest. Adjustable rates are based on the prime rate, plus a margin. Commercial loans typically have shorter terms to maturity and higher interest rates than commercial real estate loans, and may involve more credit risk because of the type and nature of the collateral.

When underwriting commercial loans, we consider the financial statements of the borrower, our lending history with the borrower, the debt service capabilities and global cash flows of the borrower and guarantors, the projected cash flows of the business and the value of the collateral, accounts receivable, inventory and equipment. Depending on the collateral used to secure the loans, commercial loans are generally made in amounts of up to 75% of the value of the collateral securing the loan.

At June 30, 2022, our largest commercial loan was a \$25.0 million working capital line of credit to a construction manager and general contractor and no outstanding balance. As of June 30, 2022, this loan was performing according to its original terms.

Construction Loans. We originate loans to finance the construction of one-to-four-family residential properties, and commercial and multi-family properties. At June 30, 2022, the outstanding balance of construction and land development loans was \$20.9 million, or 1.6% of total gross loans receivable, consisting of \$3.7 million of one-to-four-family residential construction loans and \$17.2 million of commercial and multi-family real estate construction loans. The majority of these loans are secured by properties located in our primary market area.

Most of our construction loans are interest-only loans that provide for the payment of interest during the construction phase, which is usually up to 24 months. Interest is generally an adjustable rate based on the prime rate, plus a margin. At the end of the construction phase, the loan may convert to a permanent mortgage loan or the loan may be payable in full. Loans generally can be made with a maximum loan-to-value ratio of 75% of the appraised market value upon completion of the project. Before making a commitment to fund a construction loan, we generally require an appraisal of the property by an independent licensed appraiser. We also generally require an inspection of the property before disbursement of funds during the term of the construction loan. Loan proceeds are disbursed periodically in increments as construction progresses and as inspection by our approved inspectors warrant.

At June 30, 2022, our largest construction and land development loan had a total exposure of \$13.0 million and an outstanding balance of \$5.7 million and is secured by a multi-family development. At June 30, 2022, this loan was performing according to its original terms.

Residential Mortgage Loans. Our one-to-four-family residential loan portfolio consists of mortgage loans that enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. At June 30, 2022, one-to-four-family residential real estate loans were \$214.2 million, or 16.0% of total gross loans receivable, consisting of \$184.6 million of fixed-rate loans and \$29.6 million of adjustable-rate loans. In addition to originating these loans, we also purchase and participate in residential mortgage loans from other financial institutions. At June 30, 2022, purchased and participated loans totaled \$17.7 million, or 8.3% of the residential mortgage loan portfolio, as compared to \$25.4 million, or 11.3%, at June 30, 2021.

We offer fixed-rate and adjustable-rate residential mortgage loans with maturities up to 30 years. Some of the properties include two-to-four-unit properties, all of which are classified as residential mortgage loans. Our one-to-four-family residential mortgage loans that we originate or purchase are generally underwritten according to Fannie Mae and Freddie Mac guidelines, and we refer to loans that conform to such guidelines as "conforming loans." We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency. We also originate loans above the conforming limits, which are referred to as "jumbo loans." We generally underwrite jumbo loans, whether originated or purchased, in a manner similar to conforming loans. Jumbo loans are common in our market area. We generally retain one-to-four-family residential mortgage loans in our portfolio, however, we have the ability to sell originated or refinanced loans in the secondary mortgage market.

We originate our adjustable-rate one-to-four-family residential mortgage loans with initial interest rate adjustment periods of one, three, five, seven or ten years, based on changes in a designated market index. These loans are limited to a 200 basis point initial increase in their interest rate, a 200 basis point increase in their interest rate annually after the initial adjustment, and a maximum upward adjustment of 400 to 600 basis points over the life of the loan. We determine whether a borrower qualifies for an adjustable-rate mortgage loan in conformance with the underwriting guidelines set forth by Fannie Mae and Freddie Mac in the secondary mortgage market. In particular, we determine whether a borrower qualifies for an adjustable-rate mortgage loan with an initial fixed-rate period of five years or less based on the ability to repay both principal and interest using an interest rate which is 2.0% above the initial interest rate, including a reasonable estimate of real estate taxes and insurance, and taking into account the maximum debt-to-income ratio stipulated in the underwriting guidelines in the secondary mortgage market. The qualification for an adjustable-rate mortgage loan with an initial fixed-rate period exceeding five years is based on the borrower's ability to repay at the initial fixed interest rate.

We will originate one-to-four-family residential mortgage loans with loan-to-value ratios up to 80% without private mortgage insurance. We will originate loans with loan-to-value ratios of up to 95% with private mortgage insurance and where the borrower's debt service does not exceed 45% of the borrower's monthly cash flow. To encourage lending to low-and moderate-income home buyers, we have several in-house developed programs which can include low down payments, lender-paid PMI, a lower than market interest rate, or a grant to be used towards closing costs.

We generally do not offer “interest only” mortgage loans on one-to-four-family residential properties. We do not offer loans that provide for negative amortization of principal, such as “Option ARM” loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. Additionally, outside of the loan programs mentioned previously, we do not offer “subprime loans” (loans that are made with low down-payments to borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (defined as loans having less than full documentation).

Home Equity Lines of Credit. At June 30, 2022, the outstanding balance owed on home equity lines of credit was \$23.7 million, or 1.8% of total gross loans receivable. Home equity lines of credit have adjustable rates of interest that are indexed to the prime rate, plus a margin.

The procedures for underwriting home equity lines of credit include an assessment of the applicant’s payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although the applicant’s creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral to the proposed loan amount.

The home equity lines of credit that we originate are revolving lines of credit which generally have a term of 25 years, with draws available for the first ten years. Our 25-year lines of credit are interest only during the first ten years and amortize on a fifteen-year basis thereafter. We generally originate home equity lines of credit with loan-to-value ratios of up to 75% when combined with the principal balance of the existing first mortgage loan, although loan-to-value ratios may occasionally exceed 75% on a case-by-case basis. Maximum loan-to-value ratios are determined based on an applicant’s credit score, property value, loan amount and debt-to-income ratio. Rates are adjusted monthly based on changes in a designated market index.

Other Loans. We offer consumer and deposit overdraft loans. At June 30, 2022, other loans were \$594,000 and included \$351,000 of personal loans and \$243,000 of overdrafts. The procedures for underwriting these loans include an assessment of the applicant’s and guarantor’s, if applicable, payment history on other debts and ability to meet existing obligations and payments on the proposed loan.

Loan Underwriting Risks

Commercial and Multi-Family Real Estate Loans. Loans secured by commercial and multi-family real estate generally have larger balances and involve a greater degree of risk than one-to-four-family residential mortgage loans. Of primary concern in commercial and multi-family real estate lending is the borrower’s creditworthiness and the feasibility and cash flow potential of the property. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject, to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we require borrowers and loan guarantors, if any, to provide annual financial statements on commercial and multi-family real estate loans. In reaching a decision on whether to make a commercial or multi-family real estate loan, we consider and review a global cash flow analysis of the borrower and consider the net operating income of the property, the borrower’s expertise, credit history and profitability, and the value of the underlying property. We generally require that the properties securing these real estate loans have debt service coverage ratios (the ratio of net operating income before debt service to debt service) of at least 1.20x. An environmental report is obtained for all commercial and multi-family real estate loans.

Construction Loans. Our construction loans are based upon estimates of costs and values and the absorption associated with the completed project. Underwriting is focused on borrowers’ financial strength, credit history and demonstrated ability to produce a quality product and effectively market and manage their operations. All construction loans require an unlimited guarantee of completion (including certificate of occupancy) for the project.

Construction lending involves additional risks when compared with permanent residential lending because funds are advanced upon the security of the project, which is of uncertain value before its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of state and local governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. In addition, generally during the term of a construction loan, interest may be funded by the borrower or disbursed from an interest reserve set aside from the construction loan budget. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If the appraised value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. Typically, for-rent commercially occupied properties require minimum pre-leasing; and for condominiums or cooperative for sale development loans, the project is underwritten as a multi-family rental property. Our ability to continue to originate a significant amount of construction loans is dependent on the strength of the housing and commercial real estate markets in our market areas.

Commercial Loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business as the collateral securing these loans may fluctuate in value. Our commercial business loans are originated primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral consists of real estate, accounts receivable, inventory or equipment. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any. As a result, the availability of funds for the repayment of commercial business loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Adjustable-Rate Loans. While we anticipate that adjustable-rate loans will better offset the adverse effects of an increase in interest rates as compared to fixed-rate loans, an increased monthly payment required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate loans make our asset base more responsive to changes in interest rates, the extent of this interest sensitivity is somewhat limited by the annual and lifetime interest rate adjustment limits on residential loans.

Consumer Loans. Consumer loans may entail greater risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as motor vehicles. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and a small remaining deficiency often does not warrant further substantial collection efforts against the borrower. Consumer loan collections depend on the borrower's continuing financial stability, and therefore are likely to be adversely affected by various factors, including job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Loan Approval Procedures and Authority

Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors and management. The Board of Directors has granted loan approval authority to certain senior officers up to prescribed limits not exceeding \$5.0 million depending on the officer's experience. Loans approved under these officer authorities require dual signatures of the loan officer assigned to the loan and the officer with the appropriate approval authority. Loans in excess of \$5.0 million and up to \$20.0 million require approval of the Loan Committee of the Board of Directors, as do any extensions of credit to classified borrowers in excess of \$2.0 million or loans up to \$5.0 million that involve an exception to policy. Loans greater than \$20.0 million, loans greater than \$5.0 million that involve exceptions to policy and loans to borrowers with an aggregate exposure of \$25.0 million or greater must be authorized by the Board of Directors.

Investment Activities

We have legal authority to invest in various types of investment securities and liquid assets, including U.S. Treasury obligations, securities of various government-sponsored enterprises, residential and commercial mortgage-backed securities, municipal government securities, deposits at the Federal Home Loan Bank of New York ("FHLBNY"), certificates of deposit of federally insured institutions, and investment grade corporate bonds. We also are required to maintain an investment in FHLBNY stock, the amount of which is based on the level of our FHLBNY borrowings. At June 30, 2022, our investment portfolio had a fair value of \$396.2 million and consisted primarily of U.S. Government securities, U.S. Government agency securities, including residential and commercial mortgage-backed securities, collateralized mortgage obligations and investment grade corporate and municipal bonds.

We also have the authority under applicable law to invest in derivative securities. Derivatives may be used to manage the Company's exposure to interest rate movements or to provide service to customers. The Company executes interest rate swaps with commercial lending customers to facilitate their respective risk management strategies. These interest rate swaps with customers are simultaneously offset by interest rate swaps that the Company executes with a third party in order to minimize the net risk exposure resulting from such transactions. The notional amount of all derivatives to which we are a party is \$264.5 million as of June 30, 2022.

Our investment objectives are to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, to provide a use of funds when demand for loans is weak and to generate a favorable return. Our Board of Directors has the overall responsibility for the investment portfolio, including approval of our investment policy. Our management is responsible for implementation of the investment policy and monitoring our investment performance. The Asset/Liability Committee reviews the status of our investment portfolio quarterly. See Note 3 to Notes to Consolidated Financial Statements.

Sources of Funds

General. Deposits have traditionally been our primary source of funds for our lending and investment activities. To a lesser degree, we also use borrowings, primarily FHLBNY advances and brokered deposits, to supplement cash flow needs. In addition, funds are derived from scheduled loan payments, investment maturities, loan prepayments, retained earnings and income on earning assets. While scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

Deposit Accounts. The substantial majority of our deposits are from depositors who reside in our primary market area. Deposits are attracted through the offering of a broad selection of deposit instruments for both individuals and businesses. At June 30, 2022, our deposits totaled \$1.63 billion, which included \$20.0 million of brokered time deposits.

Deposit account terms vary according to the minimum balance required, the time period that funds must remain on deposit, and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability, and customer preferences and concerns. We generally review our deposit mix and pricing on a weekly basis. Our deposit pricing strategy has generally been to offer competitive rates and services and to periodically offer special rates in order to attract deposits of a specific type or term.

Borrowings. We primarily utilize advances from the FHLBNY to supplement our supply of investable funds. The FHLBNY functions as a central reserve bank providing credit for its member financial institutions. As a member, we are required to own capital stock in the FHLBNY and are authorized to apply for advances on the security of such stock and securities which are obligations of, or guaranteed by, the United States. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the FHLBNY's assessment of the institution's creditworthiness. At June 30, 2022, we had the ability to borrow up to \$280.9 million with the FHLBNY and had \$48.3 million in advances outstanding. All of our borrowings from the FHLBNY are secured by investment securities. At June 30, 2022, we also had an available line of credit with the Federal Reserve Bank of New York's ("FRBNY") discount window program of \$96.3 million, none of which was outstanding at that date. This line of credit is secured by certain qualifying 1-4 family residential mortgage loans. At June 30, 2022, we also had available unsecured lines of credit through other financial institutions of \$25.0 million, none of which was outstanding at that date.

Human Capital

At June 30, 2022, we had 154 full-time and 14 part-time employees. The Company's focus on investing in our people includes key initiatives to attract, develop and retain our valued employees. We encourage the growth and development of our employees and, whenever possible, seek to fill positions by promotion and transfer from within the Company.

In June 2021, we appointed our first Chief Diversity Officer, with a mandate to focus on workforce diversity, vendor/supplier diversity and cultivating more diverse leadership and relationships within our communities, among other vital issues.

Subsidiaries

PCSB Bank is the wholly-owned and sole subsidiary of PCSB Financial. PCSB Bank has two wholly-owned subsidiaries: PCSB Funding Corp. and UpCounty Realty Corp. PCSB Funding Corp., a Delaware corporation, is a real estate investment trust that holds certain mortgage assets. UpCounty Realty Corp., a New York corporation, holds title to real estate properties foreclosed upon by PCSB Bank.

Regulation and Supervision

General

PCSB Bank is a New York-chartered commercial bank and the wholly-owned subsidiary of PCSB Financial, a Maryland corporation, which is a registered bank holding company. PCSB Bank's deposits are insured up to applicable limits by the FDIC. PCSB Bank is subject to extensive regulation by the NYSDFS, as its chartering agency, and by the FDIC, as its deposit insurer. PCSB Bank is required to file reports with, and is periodically examined by, the FDIC and the NYSDFS concerning its activities and financial condition and must obtain regulatory approvals before entering into certain transactions, including, but not limited to, mergers with or acquisitions of other financial institutions. PCSB Bank is a member of the FHLBNY.

As a registered bank holding company, PCSB Financial is regulated by the Federal Reserve Board and NYSDFS. PCSB Financial is required to file certain reports with the Federal Reserve Board and is subject to examination by and the enforcement authority of the Federal Reserve Board and the NYSDFS. PCSB Financial is also subject to the rules and regulations of the Securities and Exchange Commission ("SEC") under the federal securities laws.

The regulatory and supervisory structure establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of depositors and the deposit insurance funds, rather than for the protection of stockholders and creditors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies concerning the establishment of deposit insurance assessment fees, classification of assets and establishment of adequate loan loss reserves for regulatory purposes.

The Dodd-Frank Act made extensive changes in the regulation of depository institutions and their holding companies. The Dodd-Frank Act created a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau is responsible for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function previously assigned to prudential regulators, and now has the authority to impose new requirements. However, institutions of less than \$10 billion in assets, such as PCSB Bank, continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their federal prudential regulator, although the Consumer Financial Protection Bureau has back-up authority to examine and enforce consumer protection laws against all institutions, including institutions with less than \$10 billion in assets.

In addition to creating the Consumer Financial Protection Bureau, the Dodd-Frank Act, among other things, directed changes in the way that institutions are assessed for deposit insurance, mandated the imposition of tougher consolidated capital requirements on holding companies, required the issuance of regulations requiring originators of securitized loans to retain a percentage of the risk for the transferred loans, imposed regulatory rate-setting for certain debit card interchange fees, repealed restrictions on the payment of interest on commercial demand deposits and contained a number of reforms related to mortgage originations. The Dodd-Frank Act has increased our compliance costs and we expect that these costs will persist.

Any change in applicable laws or regulations, whether by the NYSDFS, the FDIC, the Federal Reserve Board, New York State or the U.S. Congress, could have a material adverse impact on the operations and financial performance of PCSB Financial and PCSB Bank. In addition, PCSB Financial and PCSB Bank are affected by the monetary and fiscal policies of various agencies of the United States Government, including the Federal Reserve Board. In view of changing conditions in the national economy and in the money markets, it is impossible for management to accurately predict future changes in monetary policy or the effect of such changes on the business or financial condition of PCSB Financial and PCSB Bank.

Set forth below is a brief description of material regulatory requirements that are or will be applicable to PCSB Bank and PCSB Financial. The description is limited to certain material aspects of the statutes and regulations that are addressed and is not intended to be a complete description of such statutes and regulations and their effects on PCSB Bank and PCSB Financial.

New York Banking Laws and Supervision

PCSB Bank, as a New York chartered commercial bank, is regulated and supervised by the NYSDFS, which is required to regularly examine each state-chartered bank. The approval of the NYSDFS is required to establish or close branches, to merge with another bank and to undertake many other activities. Any New York commercial bank that does not operate according to the regulations, policies and directives of the NYSDFS may be sanctioned. The NYSDFS may suspend or remove directors or officers of a commercial bank who have violated the law, conducted a bank's business in a manner that is unsafe, unsound or contrary to the depositors' interests, or been negligent in the performance of their duties. In addition, the NYSDFS has the authority to appoint a receiver or conservator if it is determined that the commercial bank is conducting its business in an unsafe or unauthorized manner, and under certain other circumstances.

The powers that New York-chartered commercial banks can exercise under these laws include, but are not limited to, the following:

Lending Activities. A New York-chartered commercial bank may make a wide variety of mortgage loans including fixed-rate loans, adjustable-rate loans, variable-rate loans, participation loans, graduated payment loans, construction and development loans, condominium and co-operative loans, second mortgage loans and other types of loans that may be made according to applicable regulations. Commercial loans may be made to corporations and other commercial enterprises with or without security. Consumer and personal loans may also be made with or without security.

Deposit Powers. A New York chartered commercial bank may offer a variety of deposit products to individuals, businesses, and state and local governments and their agencies and departments, including checking, NOW, money market, savings, IRA and certificate of deposit accounts. Commercial banks may accept deposits at their branches and ATM's and may also provide online and mobile deposit services as well as cash management services such as escrow, sweep and lockbox accounts.

Investment Activities. In general, PCSB Bank may invest in certain types of debt securities (including certain corporate debt securities and obligations of federal, state and local governments and agencies), certain types of corporate equity securities and certain other assets. However, these investment authorities are constrained by federal law. See “—Federal Bank Regulation—Investment Activities” for such federal restrictions.

Loans to One Borrower Limitations. Under the New York Banking Law, PCSB Bank's total loans or extensions of credit to a single borrower or group of related borrowers cannot exceed, with specified exceptions, 15% of its capital stock, surplus fund and undivided profits. The Bank's lending limit as of June 30, 2022 was \$39.0 million. PCSB Bank may lend additional amounts up to 10% if the loans or extensions of credit are fully secured by readily-marketable collateral. At June 30, 2022, PCSB Bank complied with these loans-to-one-borrower limitations. At June 30, 2022, PCSB Bank's largest aggregate amount of loans to one borrower was \$38.2 million, all of which was outstanding as of that date.

Dividends. Under New York banking law, PCSB Bank is permitted to declare and pay dividends out of its net profits, unless there is an impairment of capital. Additionally, the approval of the NYSDFS is required if the total of all dividends declared in a calendar year would exceed the total of its net profits for that year combined with its retained net profits of the preceding two years, subject to certain adjustments provided for in the applicable law.

Loans to Directors and Executive Officers. Under applicable NYSDFS regulations (which are substantially similar to applicable federal banking regulations), PCSB Bank generally may not make a loan or other extension of credit to any of its executive officers or directors unless the loan or other extension of credit (i) is made on terms, including interest rate and collateral, that are not more favorable to the executive officer or director than those customarily offered by PCSB Bank to persons who are not executive officers or directors and who are not employed by PCSB Bank, and (ii) does not involve more than the normal risk of repayment or present other unfavorable features. Depending on the size of the loan or other extension of credit, prior approval of PCSB Bank's Board of Directors (with the interested party, if a director, abstaining from participating directly or indirectly in the voting) may be required. It is the policy of PCSB Bank not to extend credit to its directors and executive officers and their related interests.

Assessments. As a New York state-chartered commercial bank, PCSB Bank is required to pay to the NYSDFS a general assessment fee in connection with the NYSDFS' regulation and supervision (including examination) of PCSB Bank. Each state institution is billed five times per each fiscal year, with four estimated quarterly assessments set as approximately 25% of the annual amount based on the NYSDFS' estimated annual budget at the time of the billing, and a final assessment, or “true-up,” based on the NYSDFS' actual expenses for the fiscal year. The FDIC does not charge a state bank for supervision, although as discussed below, it charges all insured depository institutions deposit insurance assessments in connection with its administration of the Deposit Insurance Fund.

Regulatory Enforcement Authority. Any New York bank that does not operate according to the regulations, policies and directives of the NYSDFS may be subject to sanctions for non-compliance, including seizure of the property and business of the commercial bank and suspension or revocation of its charter. The NYSDFS may, under certain circumstances, suspend or remove officers or directors who have violated the law, conducted the commercial bank's business in a manner which is unsafe, unsound or contrary to the depositors' interests or been negligent in the performance of their duties. In addition, upon finding that a bank has engaged in an unfair or deceptive act or practice, the NYSDFS may issue an order to cease and desist and impose a fine on the commercial bank concerned. New York consumer protection and civil rights statutes applicable to PCSB Bank permit private individual and class action lawsuits and provide for the rescission of consumer transactions, including loans, and the recovery of statutory and punitive damage and attorney's fees in the case of certain violations of those statutes.

New York Legislation and Regulation. The New York State Legislature and the NYSDFS have adopted laws and regulations and issued guidance in a number of areas affecting PCSB Bank's operations. These include:

- The New York Legislature has enacted legislation to address "zombie properties", meaning residential property abandoned by a homeowner after the initiation, but prior to the completion of, a foreclosure proceeding. Under this law, a mortgagee bank has a duty to maintain and secure a residential real property where there is a reasonable basis to believe it is vacant and abandoned, and faces civil penalties up to \$500 per violation, per property, per day for failing to do so. As enacted, the legislation does not apply to PCSB Bank because we originate, own, service and maintain our own mortgages and we originate less than 0.3 percent of one-to-four-family real property mortgages in New York. However, there can be no assurance that any future amendments to this law will not include us.
- The NYSDFS has adopted a regulation that requires New York chartered banks to maintain programs to monitor and filter transactions for potential Bank Secrecy Act and anti-money laundering violations and prevent transactions with sanctioned entities. The regulation requires regulated institutions annually to submit a board resolution or senior officer compliance finding confirming steps taken to ascertain compliance with the regulation. Under the regulation, banks are required to review their transaction-monitoring and filtering programs and ensure that they are reasonably designed to comply with risk-based safeguards. The institutions also must adopt (at the institution's option) an annual board resolution or senior officer compliance finding to certify compliance with the regulation. The resolution or finding must state that documents, reports, certifications and opinions of officers and other relevant parties have been reviewed by the board of directors or senior official to certify compliance with the regulation.
- The NYSDFS has adopted a regulation which requires New York chartered banks to establish and maintain a cybersecurity program designed to protect consumers and ensure the safety and soundness of the commercial bank. The regulation, which is similar to guidance issued by the federal bank regulators, requires regulated financial institutions to establish a cybersecurity program; adopt a written cybersecurity policy; designate a Chief Information Security Officer responsible for implementing, overseeing and enforcing its new program and policy; and have policies and procedures designed to ensure the security of information systems and nonpublic information accessible to, or held by, third-parties, along with a variety of other requirements to protect the confidentiality, integrity and availability of information systems. The regulation requires annual written certification of compliance to NYSDFS. We believe that our cybersecurity policies and procedures comply with the regulation.
- The NYSDFS has issued guidance regarding incentive compensation. The guidance prohibits the payment by New York chartered banks of incentive compensation tied to certain employee performance indicators, such as the number of accounts opened, or the number of products sold per customer, without effective risk management, oversight and control. Banks considering the adoption of such incentive compensation plans must balance between risks and rewards, emplace effective controls and risk management and have strong corporate governance, including active and effective oversight by the board of directors. We have and will continue to ensure that any incentive compensation plan we adopt will conform to this guidance. See "Management – Executive Compensation-Proposed Short-Term Incentive Plan".
- The NYDFS has issued guidance stating the agency's expectation that New York chartered banks will make the diversity of their leadership a business priority and integrate it into their corporate governance. The guidance states that banks should view diversity like other strategic priorities, including communicating its importance to all stakeholders, providing a plan for how it will be achieved and explaining that plan, setting measurable goals and tracking progress toward those goals. In connection with this guidance, the NYDFS intends to collect from banks with more than \$100 million in assets, and then publish, data regarding the gender, racial and ethnic makeup of New York chartered banks' boards and management as of December 31, 2019 and 2020, including information about board tenure and key board and senior management roles.

- The NYDFS has issued guidance stating the agency's expectation that New York chartered banks will start integrating the financial risks from climate change into their governance frameworks, risk management processes, and business strategies. This includes conducting a risk assessment of the physical and transition risks of climate change, whether directly impacting the bank, or indirectly due to the disruptive consequences of climate change in the communities they serve and, on their customers, such as business disruptions, out-migrations, loss of income and higher default rates, supply chain disruptions, and changes in investor and consumer sentiments. Under the guidance, banks must start developing strategic plans, including an outline of such risks, the impact on their balance sheets, and steps to be taken to mitigate such risks.

New York has other statutes and regulations that are similar to the federal provisions discussed below.

Federal Bank Regulation

Capital Requirements. Under FDIC regulations, federally insured state-chartered banks that are not members of the Federal Reserve System ("state non-member banks"), such as PCSB Bank, are required to comply with minimum leverage capital requirements. The minimum leverage capital requirement is a ratio of Tier 1 capital to total assets that is not less than 4.0%. Tier 1 capital consists of "CET1" and "Additional Tier 1 capital" instruments meeting specified requirements. CET1 is defined as common stock, plus related surplus, and retained earnings plus limited amounts of minority interest in the form of common stock, less the majority of the regulatory deductions.

The FDIC regulations require state non-member banks to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. The ratio of regulatory capital to regulatory risk-weighted assets is referred to as a bank's "risk-based capital ratio." Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items (including recourse obligations, direct credit substitutes and residual interests) to risk-weighted categories ranging from 0% to 1,250%, with higher levels of capital being required for the categories perceived as representing greater risk.

State non-member banks must maintain a minimum ratio of total capital to risk-weighted assets of at least 8.0%, of which at least one-half must be Tier 1 capital. Total capital consists of Tier 1 capital and Tier 2 capital. Tier 1 capital consists of common stock, plus related surplus and retained earnings. Under these capital rules, for most banking organizations, the most common form of Additional Tier 1 capital is noncumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allowance for loan and lease losses, in each case, subject to the new capital rules' specific requirements. Banks that engage in specified levels of trading activities are subject to adjustments in their risk-based capital calculation to ensure the maintenance of sufficient capital to support market risk.

The FDIC and the other federal bank regulatory agencies have issued a final rule that establishes a common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), a minimum Tier 1 capital to risk-based assets requirement (6% of risk-weighted assets), sets the leverage ratio at a uniform 4% of total assets and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on non-accrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out is exercised. PCSB Bank has elected to exercise its one-time option to opt-out of the requirement under the final rule to include certain "available-for-sale" securities holdings for purposes of calculating its regulatory capital requirements. The rule limits a banking organization's capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a "capital conservation buffer" which, as fully phased in, consists of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements.

The Federal Deposit Insurance Corporation Improvement Act requires each federal banking agency to revise its risk-based capital standards for insured institutions to ensure that those standards take adequate account of interest-rate risk, concentration of credit risk, and the risk of nontraditional activities, as well as to reflect the actual performance and expected risk of loss on multi-family residential loans. The FDIC, along with the other federal banking agencies, adopted a regulation providing that the agencies will take into account the exposure of a bank's capital and economic value to changes in interest rate risk in assessing a bank's capital adequacy. The FDIC also has authority to establish individual minimum capital requirements in appropriate cases upon determination that an institution's capital level is, or is likely to become, inadequate in light of the particular circumstances.

Among other things, Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (the EGRRCPA), which became law on May 24, 2018, requires the federal banking agencies to develop regulations establishing a “community bank leverage ratio” for banks and holding companies with less than \$10 billion in consolidated assets and a qualifying risk profile. In 2019, the federal banking agencies jointly issued a final rule to implement Section 201. The rule, which became effective on January 1, 2020, provides certain qualifying institutions with an optional, simpler method to measure capital adequacy. Under the rule, banks and bank holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9 percent, will be eligible to opt into the community bank leverage ratio (“CBLR”) framework. Qualifying organizations that elect to use the CBLR framework, and that maintain a leverage ratio greater than 9 percent, will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the banking agencies’ capital rules. Qualifying organizations will also be deemed to have met the “well capitalized” ratio requirements for purposes of Section 38 of the Federal Deposit Insurance Act. The Bank has not opted into the CBLR framework as of June 30, 2022.

Standards for Safety and Soundness. The federal banking agencies have adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement safety and soundness standards. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. The agencies have also established standards for safeguarding customer information. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

Investment Activities. All state-chartered FDIC-insured banks, including commercial banks, are generally limited in their investment activities to principal and equity investments of the type and in the amount authorized for national banks, notwithstanding state law, subject to certain exceptions. For example, state chartered banks may, with FDIC approval, continue to exercise state authority to invest in common or preferred stocks listed on a national securities exchange or the Nasdaq Global Market and in the shares of an investment company registered under the Investment Company Act of 1940. The maximum permissible investment is 100% of Tier 1 Capital, as specified by the FDIC’s regulations, or the maximum amount permitted by New York law, whichever is less.

In addition, the FDIC is authorized to permit such a state bank to engage in state-authorized activities or investments not permissible for national banks (other than non-subsidiary equity investments) if it meets all applicable capital requirements and it is determined that such activities or investments do not pose a significant risk to the Deposit Insurance Fund. The FDIC has adopted procedures for institutions seeking approval to engage in such activities or investments. In addition, a nonmember bank may control a subsidiary that engages in activities as principal that would only be permitted for a national bank to conduct in a “financial subsidiary” if a bank meets specified conditions and deducts its investment in the subsidiary for regulatory capital purposes.

Interstate Banking and Branching. Federal law permits well capitalized and well managed bank holding companies to acquire banks in any state, subject to Federal Reserve Board approval, certain concentration limits and other specified conditions. Interstate mergers of banks are also authorized, subject to regulatory approval and other specified conditions. In addition, among other things, the Dodd-Frank Act permits banks to establish de novo branches on an interstate basis provided that branching is authorized by the law of the host state for the banks chartered by that state.

Prompt Corrective Regulatory Action. Federal law requires, among other things, that federal bank regulatory authorities take “prompt corrective action” with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

Under FDIC regulations, an institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is “undercapitalized” if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be “critically undercapitalized” if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%. At June 30, 2022, PCSB Bank was classified as a “well capitalized” institution.

At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, interest rates paid on deposits, payment of dividends, and the acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. An undercapitalized bank's compliance with a capital restoration plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5.0% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" banks must comply with one or more of a number of additional restrictions, including but not limited to an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, cease receipt of deposits from correspondent banks or dismiss directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

Transaction with Affiliates and Regulation W of the Federal Reserve Regulations. Transactions between banks and their affiliates are governed by federal law. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the bank (although subsidiaries of the bank itself, except financial subsidiaries, are generally not considered affiliates). Generally, Section 23A of the Federal Reserve Act and the Federal Reserve Board's Regulation W limit the extent to which the bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10.0% of such institution's capital stock and surplus, and with all such transactions with all affiliates to an amount equal to 20.0% of such institution's capital stock and surplus. Section 23B applies to "covered transactions" as well as to certain other transactions and requires that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans to, purchase of assets from, and issuance of a guarantee to an affiliate, and other similar transactions. Section 23B transactions also include the provision of services and the sale of assets by a bank to an affiliate. In addition, loans or other extensions of credit by the financial institution to the affiliate are required to be collateralized according to the requirements set forth in Section 23A of the Federal Reserve Act.

Sections 22(h) and (g) of the Federal Reserve Act place restrictions on loans to a bank's insiders, i.e., executive officers, directors and principal shareholders. Under Section 22(h) of the Federal Reserve Act, loans to a director, an executive officer and to a greater than 10.0% shareholder of a financial institution, and certain affiliated interests of these, together with all other outstanding loans to such person and affiliated interests, may not exceed specified limits. Section 22(h) of the Federal Reserve Act also requires that loans to directors, executive officers and principal shareholders be made on substantially the same terms as offered in comparable transactions to other persons and also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a financial institution to insiders cannot exceed the institution's unimpaired capital and surplus. Section 22(g) of the Federal Reserve Act places additional restrictions on loans to executive officers.

Enforcement. The FDIC has extensive enforcement authority over insured state commercial banks, including PCSB Bank. The enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations, breaches of fiduciary duty and unsafe or unsound practices. The FDIC is required, with certain exceptions, to appoint a receiver or conservator for an insured state non-member bank if that bank was "critically undercapitalized" on average during the calendar quarter beginning 270 days after the date on which the institution became "critically undercapitalized." It may also appoint itself as conservator or receiver for an insured state non-member bank under specified circumstances, including: (1) insolvency; (2) substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices; (3) existence of an unsafe or unsound condition to transact business; (4) insufficient capital; or (5) the incurrence of losses that will deplete substantially all of the institution's capital with no reasonable prospect of replenishment without federal assistance.

Federal Insurance of Deposit Accounts. PCSB Bank is a member of the Deposit Insurance Fund, which is administered by the FDIC. Deposit accounts in PCSB Bank are insured up to a maximum of \$250,000 for each separately insured depositor. The Dodd-Frank Act established a minimum Designated Reserve Ratio (DRR) for the Deposit Insurance Fund equal to 1.35% of estimated insured deposits. There is no statutory maximum on the DRR and the law provides for dividends to be paid to insured institutions from the fund when the DRR exceeds 1.5%. However, the FDIC is granted broad discretion in determining whether to suspend or limit the declaration or payment of any dividends.

The FDIC imposes an assessment for deposit insurance on all depository institutions in order to maintain the Deposit Insurance Fund. The FDIC's current system represents a change, required by the Dodd-Frank Act, from its prior practice of basing the assessment on an institution's volume of deposits. Under its risk-based assessment system, insured institutions are assigned to risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned and certain adjustments specified by regulation, with less risky institutions paying lower rates. Assessment rates (inclusive of possible adjustments) currently range from 1 $\frac{1}{2}$ to 30 basis points of each institution's total assets less tangible capital. The FDIC may increase or decrease the scale uniformly, except that no adjustment can deviate by more than two basis points from the base scale without notice and comment rulemaking. In June 2022, in response to the DRR falling below 1.35% due to significant growth in insured deposits over the last two years, the FDIC approved the Amended Restoration Plan and proposed to increase assessment rates by 2 basis points beginning in January 2023 and until the FDIC determines it likely that the Deposit Insurance Fund will be restored to statutory minimums within the deadlines set by the statute.

A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of PCSB Bank. Future insurance assessment rates cannot be predicted.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or regulatory condition imposed in writing. We do not know of any practice, condition or violation that might lead to termination of PCSB Bank's deposit insurance.

Under the Federal Deposit Insurance Act, depository institutions are liable to the FDIC for losses suffered or anticipated by the FDIC in connection with the default of a commonly controlled depository institution or any assistance provided by the FDIC to such an institution in danger of default.

Privacy Regulations. FDIC regulations generally require that PCSB Bank disclose its privacy policy, including identifying with whom it shares a customer's "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter. In addition, PCSB Bank is required to provide its customers with the ability to "opt-out" of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. PCSB Bank currently has a privacy protection policy in place and believes that such policy is in compliance with the regulations.

Community Reinvestment Act. Under the Community Reinvestment Act, or CRA, as implemented by the FDIC, a state non-member bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examination of a state non-member bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, including applications to acquire branches and other financial institutions. The CRA requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. PCSB Bank's latest FDIC CRA rating was "Satisfactory."

New York has its own statutory counterpart to the CRA, which is applicable to PCSB Bank. New York law requires the NYSDFS to consider a bank's record of performance under New York law in considering any application by the bank to establish a branch or other deposit-taking facility, to relocate an office or to merge or consolidate with or acquire the assets and assume the liabilities of any other banking institution. PCSB Bank's most recent rating under New York law was "Satisfactory."

Consumer Protection and Fair Lending Regulations. New York commercial banks are subject to a variety of federal and New York statutes and regulations that are intended to protect consumers and prohibit discrimination in the granting of credit. These statutes and regulations provide for a range of sanctions for non-compliance with their terms, including imposition of administrative fines and remedial orders, and referral to the Attorney General for prosecution of a civil action for actual and punitive damages and injunctive relief. Certain of these statutes, including Section 5 of the Federal Trade Commission Act, which prohibits unfair and deceptive acts and practices against consumers, authorize private individual and class action lawsuits and the award of actual, statutory and punitive damages and attorneys' fees for certain types of violations. New York's Attorney General has vigorously enforced fair lending and other consumer protection laws. The Dodd Frank Act added a new statute that prohibits unfair, deceptive or abusive acts practices against consumers, which can be enforced by the Consumer Financial Protection Bureau, the FDIC and state Attorneys General. The Superintendent of Financial Services of the State of New York has stated that NYSDFS will vigorously enforce consumer protection laws to the extent that federal bank regulators reduce such enforcement.

USA Patriot Act. PCSB Bank is subject to the USA PATRIOT Act, which gave federal agencies additional powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act provided measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents, and parties registered under the Commodity Exchange Act.

CARES Act and Consolidated Appropriations Act. In response to the COVID-19 pandemic, the CARES Act and Consolidated Appropriations Act were signed into law on March 27, 2020 and December 27, 2020, respectively. Among other things, these Acts include the following provisions impacting financial institutions like PCSB Bank:

Temporary Troubled Debt Restructurings Relief. The CARES Act, as amended by the Consolidated Appropriations Act, allows banks to elect to suspend requirements under accounting principles generally accepted in the United States of America ("GAAP") for loan modifications related to the COVID-19 pandemic (for loans that were not more than 30 days past due as of December 31, 2019) that would otherwise be categorized as a TDR, including impairment for accounting purposes, until the earlier of 60 days after the termination date of the national emergency or January 1, 2022. Federal banking agencies are required to defer to the determination of the banks making such suspension. Refer to Note 4 in the Notes to the Consolidated Financial Statements for additional detail.

Small Business Administration Paycheck Protection Program. The CARES Act authorizes the SBA's Paycheck Protection Program ("PPP"). The PPP authorizes for small business loans to pay payroll and group health costs, salaries and commissions, mortgage and rent payments, utilities, and interest on other debt. The loans are provided through participating financial institutions, such as PCSB Bank, that process loan applications and service the loans. Refer to the Lending Activities discussion earlier in this section for additional details.

Enhanced Merger Oversight. On July 9, 2021, President Biden signed an Executive Order to promote competition across various industries. The Order encourages the leading antitrust agencies to focus enforcement efforts on problems in key markets and coordinates other agencies' ongoing response to corporate consolidation. Among other things, the Order: (a) calls on leading antitrust agencies, the Department of Justice (the "DOJ") and the Federal Trade Commission (the "FTC") to enforce antitrust laws vigorously and recognize that the law allows them to challenge prior bad mergers that past Administrations did not previously challenge; (b) announces a policy that enforcement should focus in particular on labor markets, agricultural markets, healthcare markets, and the tech sector; and (c) establishes a White House Competition Council, led by the Director of the National Economic Council, to monitor progress on finalizing the initiatives in the Order and to coordinate the federal government's response to the rising power of large corporations in the economy. The Executive Order also urges the DOJ and the FTC to revisit their guidance on mergers and toughen scrutiny of future transactions. The Order also called for the review and revitalization of merger oversight under the Bank Merger Act and the Bank Holding Company Act of 1956. The Company cannot predict what if any impact the Order will have on its pending merger with Brookline Bancorp, Inc.

Other Regulations

Interest and other charges collected or contracted for by PCSB Bank are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to state and federal laws applicable to credit transactions, such as the:

- Truth in Lending Act, which requires lenders to disclose the terms and conditions of consumer credit;
- Real Estate Settlement Procedures Act, which requires lenders to disclose the nature and costs of the real estate settlement process and prohibits specific practices, such as kickbacks, and places limitations upon the use of escrow accounts;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act and the New York Executive Law, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies; and
- Rules and regulations of the various federal and state agencies charged with the responsibility of implementing such federal and state laws.

The deposit operations of PCSB Bank also are subject to, among others, the:

- Truth in Savings Act, which requires financial institutions to disclose the terms and conditions of their deposit accounts;
- Expedited Funds Availability Act, which requires banks to make funds deposited in transaction accounts available to their customers within specified time frames;
- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Check Clearing for the 21st Century Act (also known as “Check 21”), which gives “substitute checks,” such as digital check images and copies made from that image, the same legal standing as the original paper check;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers’ rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- New York banking laws and regulations, which govern deposit powers.

Federal Reserve System

Federal Reserve Board regulations require depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2022, the regulations generally would have required that reserves be maintained against aggregate transaction accounts as follows: for that portion of transaction accounts aggregating \$640.6 million or less (which may be adjusted by the Federal Reserve Board) the reserve requirement is 3.0% and the amounts greater than \$640.6 million require a 10.0% reserve (which may be adjusted annually by the Federal Reserve Board between 8.0% and 14.0%). The first \$32.4 million of otherwise reservable balances (which may be adjusted by the Federal Reserve Board) are exempted from the reserve requirements. However, in March 2020 the Federal Reserve Board reduced all reserve requirements to zero in response to the COVID-19 pandemic.

Federal Home Loan Bank System

PCSB Bank is a member of the FHLB System, which consists of 12 regional Federal Home Loan Banks. The FHLB provides a central credit facility primarily for member institutions. Members of the FHLB are required to acquire and hold shares of capital stock in the FHLB. PCSB Bank complied with this requirement at June 30, 2022. Based on redemption provisions of the FHLBNY, the stock has no quoted market value and is carried at cost. PCSB Bank reviews for impairment based on the ultimate recoverability of the cost basis of the FHLBNY stock. At June 30, 2022, no impairment has been recognized.

At its discretion, the FHLBNY may declare dividends on the stock. The Federal Home Loan Banks are required to provide funds for affordable housing programs, which could reduce the amount of dividends that the FHLBNY pays its members and result in the FHLBNY imposing a higher rate of interest on advances to their members. While the FHLBNY currently pays a dividend on its capital stock, there can be no assurance that such dividends will continue in the future. Further, there can be no assurance that the impact of recent or future legislation on the FHLB also will not cause a decrease in the value of the FHLBNY stock held by PCSB Bank.

Holding Company Regulation

PCSB Financial, as a bank holding company, is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as amended, as administered by the Federal Reserve Board. In addition, the Federal Reserve Board has enforcement authority over PCSB Financial and its non-bank subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary bank.

A bank holding company is generally prohibited from engaging in non-banking activities or acquiring direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies.

The Gramm-Leach-Bliley Act of 1999 authorized a bank holding company that meets specified conditions, including being “well capitalized” and “well managed,” to opt to become a “financial holding company” and thereby engage in a broader array of financial activities than previously permitted. Such activities can include insurance underwriting and investment banking. PCSB Financial has not elected to become a financial holding company.

A bank holding company is generally required to give the Federal Reserve Board prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company’s consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. There is an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.

The Federal Reserve Board has issued policy statements regarding capital distributions, including dividends, by bank holding companies. In general, the policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition. The policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The Dodd-Frank Act codified the source of strength doctrine. Under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of PCSB Financial to pay dividends or otherwise engage in capital distributions.

The status of PCSB Financial as a registered bank holding company under the Bank Holding Company Act of 1956 will not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

New York Holding Company Regulation. PCSB Financial is subject to regulation under New York banking law. Among other requirements, PCSB Financial must receive the approval of the NYSDFS before acquiring 10% or more of the voting stock of another banking institution, or to otherwise acquire a banking institution by merger or purchase.

Federal Securities Laws

PCSB Financial's common stock is registered with the SEC. PCSB Financial is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

NASDAQ Rules Regarding Board Diversity

NASDAQ has adopted listing rules regarding board diversity. These rules require companies listed on the Nasdaq Capital Market, like PCSB Financial, to have, or explain why they do not have, one diverse director by August 7, 2023 and two diverse directors by August 6, 2026. NASDAQ-listed companies that qualify as a "smaller reporting company" under SEC rules, like PCSB Financial, may meet the diversity requirements with two female directors, or with one female director and one director who is an underrepresented minority or LGBTQ+. PCSB Financial complies with these listing requirements, as disclosed in the Board Diversity Matrix in the Investor Relations section of its website, available at <https://investors.pcsb.com/overview/board-diversity-matrix/default.aspx>

Emerging Growth Company Status

As of June 30, 2022, PCSB Financial no longer qualified as an emerging growth company under the The Jumpstart Our Business Startups Act (the "JOBS Act").

Smaller Reporting Company Status

PCSB Financial qualifies as a "smaller reporting company" under the federal securities laws. To qualify, a company must have a public float (i.e., aggregate market value of a company's securities held by non-affiliates) of less than \$250 million. A company with less than \$100 million in annual revenues and either no public float or a public float that is less than \$700 million also qualifies. Smaller reporting companies are eligible to provide scaled disclosures in their periodic reports filed with the SEC.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. PCSB Financial has policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

Change in Control Regulations

Under the Change in Bank Control Act, no person may acquire control of a bank holding company such as PCSB Financial unless the Federal Reserve Board has been given 60 days' prior written notice and not disapproved the proposed acquisition. The Federal Reserve Board considers several factors in evaluating a notice, including the financial and managerial resources of the acquirer and competitive effects. Control, as defined under the applicable regulations, means the power, directly or indirectly, to direct the management or policies of the company or to vote 25% or more of any class of voting securities of the company. Acquisition of more than 10% of any class of a bank holding company's voting securities constitutes a rebuttable presumption of control under certain circumstances, including where, as is the case with PCSB Financial, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

Federal regulations provide that no company may acquire control (as defined in the Bank Holding Company Act) of a bank holding company without the prior approval of the Federal Reserve Board. Any company that acquires such control becomes a "bank holding company" subject to registration, examination and regulation by the Federal Reserve Board.

Taxation

Federal Taxation

General. PCSB Financial and PCSB Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to PCSB Financial and PCSB Bank.

Method of Accounting. For federal income tax purposes, PCSB Bank currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its federal income tax returns.

Net Operating Loss Carryovers. Generally, for federal income tax purposes, financial institutions may carry forward net operating losses indefinitely and are subject to a limitation of 80% of taxable income. State income tax rules may differ from federal rules. See Note 13 to Consolidated Financial Statements for additional information.

Charitable Contributions Carryovers. Generally, charitable contributions are limited to 10% of taxable income, however, financial institutions may carry forward unused contributions for up to 5 years. Additionally, the CARES Act temporarily increased the charitable contribution deduction limit from 10% to 25% of taxable income for 2021 for current year contributions. At June 30, 2022, the Company has no charitable contributions carryforwards. See Note 13 to Consolidated Financial Statements for additional information.

Capital Loss Carryovers. Generally, a financial institution may carry back capital losses to the preceding three taxable years and forward to the succeeding five taxable years. Any capital loss carryback or carryover is treated as a short-term capital loss for the year to which it is carried. As such, it is grouped with any other capital losses for the year to which carried and is used to offset any capital gains. Any not deducted loss remaining after the five-year carryover period is not deductible. At June 30, 2022, PCSB Bank had no capital loss carryovers.

Corporate Dividends. We may generally exclude from our income 100% of dividends received from PCSB Bank as a member of the same affiliated group of corporations. To date, no dividends have been paid by PCSB Bank.

Audit of Tax Returns. The Company's federal income tax returns have not been audited in the last three years.

State Taxation

Taxable income is apportioned to New York State based on the location of the taxpayer's customers, with special rules for income from certain financial transactions. The location of the taxpayer's offices and branches are not relevant to the determination of income apportioned to New York State. The statutory tax rate is currently 7.25% (to be reduced to 6.5% beginning January 1, 2024) for taxpayers with a business income base greater than \$5 million. An alternative tax of 0.1875% on apportioned capital is imposed to the extent that it exceeds the tax on apportioned income. The New York State alternative tax is capped at \$5 million for a tax year and will be eliminated beginning January 1, 2024.

The Company is also taxed in Connecticut and New Jersey, primarily as a result of income earned on loans where the borrower or the real estate collateral underlying the loan is located in these states.

The Company's various state income tax returns have not been audited in the last three years.

Item 1A. Risk Factors

In the ordinary course of operating our business, we are exposed to a variety of risks inherent to the financial services industry. The following discusses what we believe to be the significant risk factors that could affect our business and operations. If any of the following conditions or events actually occur, our business, financial condition or results of operations could be negatively affected, the market price of your investment in the Company's common stock could decline, and you could lose all or a part of your investment in the Company's common stock.

Risks Related to the Company's Business

Risks Related to Lending

Our emphasis on commercial real estate and commercial business lending involves risks that could adversely affect our financial condition and results of operations.

We originate and purchase commercial real estate and commercial business loans. At June 30, 2022, our commercial real estate and commercial business loans totaled \$1.1 billion, or 82.1% of our loan portfolio. While these types of loans are potentially more profitable than residential mortgage loans, they are generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. These loans also generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, any charge-offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. See "—Loan Underwriting Risks."

The level of our commercial real estate loan portfolio subjects us to additional regulatory scrutiny.

The FDIC and the other federal bank regulatory agencies have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under the guidance, a financial institution that, like us, is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors, (i) total reported loans for construction, land acquisition and development, and other land (“ADC loans”) represent 100% or more of total risk-based capital, or (ii) total reported loans secured by multi-family and non-owner occupied, non-farm, non-residential properties, loans for construction, land acquisition and development and other land, and loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300% or more of total risk-based capital. At June 30, 2022, the Bank’s ADC loans and total commercial real estate loans represented 9% and 341% of total risk-based capital, respectively.

The purpose of the guidance is to assist banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance states that management should employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. Our bank regulators could require us to implement additional policies and procedures consistent with their interpretation of the guidance that may result in additional costs to us or that may result in a curtailment of our multi-family and commercial real estate lending and/or the requirement that we maintain higher levels of regulatory capital, either of which would adversely affect our loan originations and profitability. We believe the Company has adequate risk management and monitoring policies and procedures in place to address the requirements of the guidance.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.

We maintain an allowance for loan losses, which is established through a provision for loan losses, that represents management’s best estimate of probable incurred losses within the existing portfolio of loans. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the adequacy of the allowance for loan losses, we rely on our experience and our evaluation of economic conditions. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio and adjustment may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Consequently, a problem with one or more loans could require us to significantly increase the level of our provision for loan losses. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Material additions to the allowance would materially decrease our net income.

Loan participations could expose the Company to losses.

We purchase and participate in residential, business and commercial real estate loans with other financial institutions. The agreements documenting these transactions typically provide for retention by the selling institution of the servicing of the participated loans and require that institution to service the loan with the same degree of care that it uses for loans in its portfolio. However, if the servicing institution fails to administer loans in accordance with its contractual obligations, for example, by neglecting to enforce lender’s rights and remedies against a defaulting borrower, or by waiving or modifying loan terms without our consent, we could incur significant losses, including loss of the outstanding principal balance.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real estate, and we could become subject to environmental liabilities with respect to one or more of these properties. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous conditions or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property’s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us.

Risks Related to Changes in Interest Rates

Changes in interest rates could reduce our profits.

Our profitability, like that of most community banks, depends to a large extent upon our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and securities, and our interest expense on interest-bearing liabilities, such as deposits and borrowed funds. Accordingly, our results of operations depend largely on movements in market interest rates and our ability to manage our interest-rate-sensitive assets and liabilities in response to these movements. Factors such as inflation, recession and instability in financial markets, among other factors beyond our control, may affect interest rates.

If interest rates rise and our deposits reprice upwards faster than the rates on our long-term loans and investments, we would experience compression of our interest rate spread, which would have a negative effect on our profitability. Furthermore, increases in interest rates may adversely affect the ability of our borrowers to make loan repayments on adjustable-rate loans, as the interest owed on such loans would increase as interest rates increase. If interest rates rise, we expect that our net portfolio value of equity would decrease. Net portfolio value of equity represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities adjusted for the value of off-balance sheet contracts. At June 30, 2022, and assuming a 200 basis point increase in market interest rates, we estimate that our net portfolio value of equity would decrease by \$50.6 million, or 19.9%. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk—Net Portfolio Value Simulation.”

Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. While we pursue an asset/liability strategy designed to mitigate our risk from changes in interest rates, changes in interest rates can still have a material adverse effect on our financial condition and results of operations. Changes in the level of interest rates also may negatively affect our ability to originate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings. Also, our interest rate risk modeling techniques and assumptions may not fully predict or capture the impact of actual interest rate changes on our balance sheet or projected operating results. For further discussion of how changes in interest rates could impact us, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk.”

Changes in the valuation of our securities portfolio could reduce our profits and reduce our capital levels.

Our securities portfolio may be impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and/or earnings. Fluctuations in market value may be caused by changes in market interest rates, lower market prices for securities and limited investor demand. Management evaluates securities for other-than-temporary impairment on a quarterly basis, with more frequent evaluation for selected issues. In analyzing a debt issuer’s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, industry analysts’ reports and, to a lesser extent, spread differentials between the effective rates on instruments in the portfolio compared to risk-free rates. In analyzing an equity issuer’s financial condition, management considers industry analysts’ reports, financial performance and projected target prices of investment analysts within a one-year time frame. If this evaluation shows impairment to the actual or projected cash flows associated with one or more securities, a potential loss to earnings may occur. Except for a nominal investment in a community development fund, PCSB Bank has no equity securities in its portfolio. Changes in market interest rates can also have an adverse effect on our financial condition, as our available-for-sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. Generally, increases in market interest rates result in a decrease in their estimated fair value. We increase or decrease our shareholders’ equity by the amount of change in the estimated fair value of the available-for-sale securities, net of taxes. Declines in market value could result in other-than-temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Securities Portfolio.”

We will be required to transition away from the use of the London interbank offered rate (“LIBOR”) in the future.

We have a number of loans, derivative contracts, and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR.

On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. On March 5, 2021, the ICE Benchmark Association ("IBA") stated that it will cease the publication of the overnight and 1, 3, 6 and 12 months USD LIBOR settings immediately following the LIBOR publication on Friday, June 30, 2023, with the publication of all other LIBOR settings ceasing on December 31, 2021. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next several years. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities and variable rate loans, subordinated debentures, or other securities or financial arrangements, given LIBOR's role in determining market interest rates globally.

The market transition away from LIBOR to an alternative reference could:

- adversely affect the interest rates paid or received on, and the revenue and expenses associate with, the Company's floating rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates, or other securities or financial arrangements given LIBOR's role in determining market interest rates globally;
- adversely affect the value of the Company's floating rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates, or other securities or financial arrangements given LIBOR's role in determining market interest rates globally;
- prompt inquiries or other actions from regulators in respect of the Company's preparation and readiness for the replacement of LIBOR with an alternative reference rate;
- result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based loans, deposits, and securities; and
- require the transition to or development of appropriate systems and analytics to effectively transition the Company's risk management processes from LIBOR-based products to those based on the applicable alternative pricing benchmark, such as the FRBNY's Secured Overnight Finance Rate ("SOFR").

We have a number of loans, derivative contracts, and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The manner and impact of this transition, as well as the effects of these developments on the Company's funding costs, loan and investment and trading securities portfolios, asset-liability management, and business, are uncertain.

Risks Related to Liquidity

An increase in core deposit withdrawals may result in the utilization of higher cost funding and could reduce our profits.

The banking industry has experienced significant core deposit growth beginning in early 2020 as a result of the COVID-19 pandemic which through changes in U.S. monetary and fiscal policy have resulted in a significant increase in money supply and banking industry liquidity. As a result of recent and expected future shifts in monetary policy, including higher interest rates and planned reductions in the Federal Reserve balance sheet, we may experience significant deposit withdrawals and be required to utilize higher costing funding sources such as advances from the FHLBNY and wholesale deposits. In this case, our operating margins and profitability would be adversely affected.

Our funding sources may prove insufficient to replace deposits at maturity and support our future growth.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These additional sources consist primarily of advances from the FHLBNY and wholesale deposits. As we continue to grow, we are likely to become more dependent on these sources. Adverse operating results or changes in industry conditions could lead to difficulty or an inability in accessing these additional funding sources. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected.

Risks Related to Operational Matters

Legal and regulatory proceedings and related matters could adversely affect us.

We, and other participants in the financial services industry upon whom we rely to operate, have been and may in the future become involved in litigation and regulatory proceedings. Most of these proceedings we consider to be in the normal course of our business or typical for the industry; however, it is inherently difficult to assess the outcome of these matters and we may not prevail in any proceeding or litigation. Additionally, regulatory proceedings and litigation can be costly and could divert management resources from the Company's business. Regardless of the merits of a particular claim, and whether or not we ultimately prevail, litigation and regulatory proceedings could have a materially adverse effect on our business, brand or image, or our financial condition and results of our operations.

Our success depends on retaining certain key personnel.

Our performance largely depends on the talents and efforts of highly skilled individuals who comprise our senior management team. We rely on key personnel to manage and operate our business, including major revenue generating functions such as loan and deposit generation. The loss of key staff may adversely affect our ability to maintain and manage these functions effectively, which could negatively affect our revenues. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could cause a decrease in our net income. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees.

Our business may be adversely affected by fraud and other financial crimes.

Our loans to businesses and individuals and our deposit relationships and related transactions are subject to exposure to the risk of loss due to fraud and other financial crimes. While we have policies and procedures designed to prevent such losses, losses may still occur which could cause both financial and reputational harm.

Changes in management's estimates and assumptions may have a material impact on our consolidated financial statements and our financial condition or operating results.

In preparing our consolidated financial statements, our management is and will be required under applicable rules and regulations to make estimates and assumptions at a specified date. These estimates and assumptions are based on management's best estimates and experience at that date and are subject to substantial risk and uncertainty. Materially different results may occur as circumstances change and additional information becomes known. Areas requiring significant estimates and assumptions by management include our valuation of investment securities, our determination of our income tax provision, our determination of goodwill impairment, and our evaluation of the adequacy of our allowance for loan losses.

Our operations may be adversely affected if our external vendors do not perform as expected.

The Company relies on certain external vendors to provide products and services necessary to maintain its day-to-day operations. These include, but are not limited to, data processing and storage, recording and monitoring transactions, internet connections and network access. The Company's operations are exposed to the risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements because of changes in the vendor's organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could disrupt the Company's operations. If we are unable to find alternative sources for our vendors' services and products quickly and cost-effectively, the failures of our vendors could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

Counterparties expose the Company to risks.

The Company uses derivative financial instruments, primarily interest rate swaps, which will expose it to financial and contractual risks with counterparty banks. Additionally, the Company maintains correspondent bank relationships, manages certain loan participations, and engages in securities transactions and other activities with financial counterparties which are customary in the banking business. Financial risks are inherent in these counterparty relationships.

Our inability to achieve profitability on new branches may negatively affect our earnings.

We may pursue further expansion through de novo branching or the purchase of branches from other financial institutions. The profitability of these branches will depend on whether the income that we generate from the new branches will offset the increased expenses resulting from operating these branches. We expect that it may take a period of time before these branches can become profitable, especially in areas in which we do not have an established presence. During this period, the expense of operating these branches may negatively affect our net income.

Our risk management framework may not be effective in mitigating risk and reducing the potential for significant losses.

Our risk management framework is designed to minimize risk and loss to us. We seek to identify, measure, monitor, report and control our exposure to risk, including interest rate, credit, strategic, market, liquidity, compliance, legal and operational risks. While we use a broad and diversified set of risk monitoring and mitigation techniques, these techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Recent economic conditions, increased cybersecurity threats, and heightened legislative and regulatory scrutiny of the financial services industry, among other developments, have increased our level of risk. Accordingly, we could suffer losses as a result of our failure to anticipate and manage these risks.

Managing reputational risk is important to attracting and maintaining customers, investors and employees.

Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers and employees, costly litigation and increased governmental regulation, all of which could adversely affect our operating results.

Risks Related to Economic Conditions

A worsening of economic conditions could reduce demand for our products and services and/or result in increases in our level of non-performing loans, which could have an adverse effect on our results of operations.

Unlike larger financial institutions that are more geographically diversified, our profitability depends primarily on the general economic conditions in our primary market area. Local economic conditions have a significant impact on our residential real estate, commercial real estate, construction and consumer loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans.

Deterioration in economic conditions could result in the following consequences, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations:

- demand for our products and services may decline;
- loan delinquencies, problem assets and foreclosures may increase;
- collateral for loans, especially real estate, may decline in value, in turn reducing customers' future borrowing power, and reducing the value of assets and collateral associated with existing loans;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

Moreover, a significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, unemployment or other factors beyond our control could further impact these local economic conditions and could further negatively affect the financial results of our banking operations. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

Inflation can have an adverse impact on our business and on our customers.

Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. Recently, there have been market indicators of a pronounced rise in inflation and the Federal Reserve Board has indicated its intention to raise certain benchmark interest rates in an effort to combat inflation. As inflation increases, the value of our investment securities, particularly those with longer maturities, would decrease, although this effect can be less pronounced for floating rate instruments. In addition, inflation increases the cost of goods and services we use in our business operations, such as electricity and other utilities, which increases our noninterest expenses. Furthermore, our customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us.

Risk Related to Acquisition Activity

The risks presented by acquisitions could adversely affect the Company's financial condition and result of operations.

The Company's business strategy includes growth through acquisitions, which present risks, including: regulatory approval delays, operations and personnel integration challenges, litigation, potential ongoing business disruption, difficulty maintaining uniform standards, controls, procedures and policies, issues with information systems integration and the impairment of relationships with employees and customers as a result of changes in ownership and management. Further, the asset quality or other financial characteristics of a company may deteriorate after the acquisition agreement is signed or after the acquisition closes.

Failure to consummate the proposed merger with Brookline Bancorp could adversely affect the Company's financial condition, result of operations and ultimately our share price.

The proposed merger with Brookline Bancorp is expected to close in the fourth calendar quarter of 2022, however is subject customary closing conditions and a number of risks, including the Company obtaining shareholder approval, Brookline obtaining the required regulatory approvals, the Company or Brookline experiencing material adverse conditions, including, but not limited to, those detailed in the definitive merger agreement as well as those other risks detailed in this document, including potential shareholder litigation, which may result in the Company or Brookline terminating the merger agreement. Should the merger be terminated, in accordance with the merger agreement, the Company may be obligated to pay a termination fee of \$12.0 million to Brookline. Should the merger be delayed or terminated, the Company's share price may be adversely affected.

Risks Related to Accounting Matters

The FASB has issued an accounting standard update that will result in a significant change in how we recognize credit losses and may have a material impact on our financial condition or results of operations.

The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL") model. Under the CECL model, we will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held to maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current U.S. GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, the Company expects that the adoption of the CECL model will materially affect how we determine the allowance for loan losses and could require the Company to increase our allowance significantly. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses. If the Company is required to materially increase our level of allowance for loan losses for any reason, such increase could adversely affect the Company's business, financial condition and results of operations. In October 2019, the FASB unanimously voted to delay the implementation of the standard for three years for certain companies, including small reporting companies (as defined by the SEC), non-SEC public companies and private companies. The Company currently qualifies as a small reporting company and is subject to the delayed implementation. Therefore, the amendments in this Update will be effective for the Company for the fiscal year beginning on July 1, 2023, including interim periods within that fiscal year. As a result, the Company's allowance for loan loss may not be comparable to the allowance for credit losses ("ACL") established by other financial institutions that have adopted CECL. The Company is actively working through the provisions of the Update. Management has established a steering committee which is identifying the methodologies and the additional data requirements necessary to implement the Update and has engaged a third-party software service provider to assist in the Company's implementation.

Risks Related to Technology, Cybersecurity and Data Privacy

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we and our third-party service providers use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any breach, damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations due to the time and money needed to correct the issue. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. The Company has emplaced controls to defeat threats to its operating systems. Despite these safeguards, the Company cannot be certain that all of its systems are entirely free from vulnerability to attack or other technological difficulties or failures, such as cyber-attacks. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations. We have general liability and cyber-related insurance, however, there are limitations on coverage as well as dollar amount. Finally, depending on the type of incident, banking regulators can impose restrictions on our business and consumer laws may require reimbursement of customer losses.

We continually encounter technological change and the failure to understand and adapt to these changes could adversely affect our business.

The banking industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. Technology has lowered barriers to entry and made it possible for "non-banks" to offer traditional bank products and services using innovative technological platforms such as Fintech and Blockchain. These "digital banks" may be able to achieve economies of scale and offer better pricing for banking products and services than we can. Our future success will depend, in part, on the ability to address the needs of customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in operations. Many competitors have substantially greater resources to invest in technological improvements. There can be no assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, its financial condition and results of operations.

We are subject to laws regarding the privacy, information security and protection of personal information and any violation of these laws or an incident involving personal, confidential or proprietary information of individuals could damage our reputation and otherwise adversely affect our operations and financial condition.

Our business requires the collection and retention of large volumes of customer data, including personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services. We are subject to complex and evolving laws and regulations governing the privacy and protection of personal information of individuals (including customers, employees, suppliers and other third parties). For example, our business is subject to the Gramm-Leach-Bliley Act which, among other things: (i) imposes certain limitations on our ability to share nonpublic personal information about our customers with nonaffiliated third parties; (ii) requires that we provide certain disclosures to customers about our information collection, sharing and security practices and afford customers the right to "opt out" of any information sharing by us with nonaffiliated third parties (with certain exceptions); and (iii) requires that we develop, implement and maintain a written comprehensive information security program containing appropriate safeguards based on our size and complexity, the nature and scope of our activities, and the sensitivity of customer information we process, as well as plans for responding to data security breaches. Various state and federal banking regulators and states have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Ensuring that our collection, use, transfer and storage of personal information complies with all applicable laws and regulations can increase our costs. Furthermore, we may not be able to ensure that all of our customers, suppliers, counterparties and other third parties have appropriate controls in place to protect the confidentiality of the information that they exchange with us, particularly where such information is transmitted by electronic means. If personal, confidential or proprietary information of customers or others were to be mishandled or misused, we could be exposed to litigation or regulatory sanctions under personal information laws and regulations. Concerns regarding the effectiveness of our measures to safeguard personal information, or even the perception that such measures are inadequate, could cause us to lose customers or potential customers for our products and services and thereby reduce our revenues. Accordingly, any failure or perceived failure to comply with applicable privacy or data protection laws and regulations may subject us to inquiries, examinations and investigations that could result in requirements to modify or cease certain operations or practices or in significant liabilities, fines or penalties, and could damage our reputation and otherwise adversely affect our operations and financial condition.

Risks Related to Competition

Strong competition within our market area could reduce our profits and slow growth.

We face intense competition in making loans and attracting deposits. Price competition for loans and deposits sometimes results in us charging lower interest rates on our loans and paying higher interest rates on our deposits and may reduce our net interest income. Competition also makes it more difficult, and costly to attract and retain qualified employees. As the labor market recovers from the effects of the COVID-19 pandemic, competition for such employees has increased, with resultant cost increases. Many of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. Our competitors often aggressively price loan and deposit products when they enter into new lines of business or new market areas. If we are not able to effectively compete in our market area, our profitability may be negatively affected. The greater resources and broader offering of deposit and loan products of some of our competitors may also limit our ability to increase our interest-earning assets.

Risks Related to Legal, Regulatory and Governmental Actions

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and/or increase our costs of operations.

We are subject to extensive regulation, supervision and examination by our banking regulators. Such regulation and supervision govern the activities in which an institution and its holding company may engage and are intended primarily for the protection of insurance funds and the depositors and borrowers of PCSB Bank rather than for holders of our common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. These regulations, along with the currently existing tax, accounting, securities, deposit insurance, monetary laws, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. Any change in such regulation and oversight, whether in the form of federal and state taxation, regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent accounting firms. These changes could materially impact, potentially retroactively, how we report our financial condition and results of operations as could our interpretation of those changes.

Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions.

The USA PATRIOT and Bank Secrecy Act require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions, including restrictions on conducting acquisitions or establishing new branches. Several banking institutions have received large fines for non-compliance with these laws and regulations. While we have implemented policies and procedures designed to assist in compliance with these laws and regulations, these policies and procedures may not be effective in preventing violations of these laws and regulations.

The performance of our multifamily and mixed-use loans could be adversely impacted by regulation.

On June 14, 2019, the New York State legislature passed the Housing Stability and Tenant Protection Act of 2019, impacting about one million rent regulated apartment units. Among other things, the new legislation: (i) curtails rent increases from Material Capital Improvements and Individual Apartment Improvements; (ii) all but eliminates the ability for apartments to exit rent regulation; (iii) does away with vacancy decontrol and high-income deregulation; and (iv) repealed the 20% vacancy bonus. While it is too early to measure the full long-term impact of the legislation, in total, it generally limits a landlord's ability to increase rents on rent regulated apartments and makes it more difficult to convert rent regulated apartments to market rate apartments. As a result, the value of the collateral located in New York State securing the Company's multi-family loans or the future net operating income of such properties could be potentially impaired.

Any future action by the U.S. Congress to amend federal tax laws and regulations could impact our future profitability through higher tax expense and change the value of our net deferred tax asset causing a corresponding charge against earnings.

The net deferred tax asset reported on our balance sheet represents the net amount of income taxes expected to be received upon the reversal of temporary differences between the bases of assets and liabilities as measured by enacted tax laws, and their bases as reported in the financial statements. As of June 30, 2022, our net deferred tax asset was computed using the federal statutory rate of 21%. Additionally, the Company's effective tax rate was 21.00% for the year ended June 30, 2022.

The President of the United States and members of Congress have announced plans to pursue tax law changes including raising the federal corporate income tax rate from its current level of 21%, introducing excise taxes on share repurchases, among other changes. If these plans ultimately result in the enactment of new laws raising the corporate income tax rate, our net deferred tax asset would need to be re-measured. This could result in an increase to the deferred tax asset in the period of the law change and a corresponding credit to earnings but could be offset by an increase to the income tax provision in the year of enactment and future years. Beyond changes affecting the corporate income tax rate, other tax law changes could also increase our tax expense and negatively impact our results of operations.

Risks Relating to Ownership of Our Common Stock

Our ability to pay dividends or to repurchase our common stock is subject to regulatory limitations and other limitations.

PCSB Financial is a separate legal entity from our subsidiary, PCSB Bank, and we do not have significant operations of our own. The availability of dividends from PCSB Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition of PCSB Bank and other factors, that PCSB Bank's regulators could assert that payment of dividends or other payments may result in an unsafe or unsound practice. If the Bank is unable to pay dividends to us or we are required to contribute capital to PCSB Bank, we may not be able to pay dividends on or repurchase our common stock.

Various factors may make takeover attempts more difficult to achieve.

Certain provisions of our articles of incorporation and bylaws and state and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire control of PCSB Financial without our Board of Directors' prior approval.

Under federal law, subject to certain exemptions, a person, entity or group must notify the Federal Reserve Board before acquiring control of a bank holding company. Acquisition of 10% or more of any class of voting stock of a bank holding company creates a rebuttable presumption that the acquirer "controls" the bank holding company. Also, a bank holding company must obtain the prior approval of the Federal Reserve Board and the NYSDFS before, among other things, acquiring direct or indirect ownership or control of more than 5% of any class of voting shares of any bank, including PCSB Bank.

There also are provisions in our articles of incorporation that may be used to delay or block a takeover attempt, including a provision that prohibits any person from voting more than 10% of the shares of common stock outstanding. Furthermore, shares of restricted stock and stock options that we have granted or may grant to employees and directors, stock ownership by our management and directors, employment agreements that we have entered into with our executive officers and other factors may make it more difficult for companies or persons to acquire control of the Company without the consent of our Board of Directors. Taken as a whole, these statutory provisions and provisions in our articles of incorporation could result in our being less attractive to a potential acquirer and thus could adversely affect the market price of our common stock.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

At June 30, 2022, we conducted business through our executive offices/headquarters in Yorktown Heights and our 14 banking offices located in Brewster (main banking office), Eastchester, Fishkill, Greenburgh, Jefferson Valley, Kent, Mahopac, Mount Kisco, Mount Vernon, New City, Pawling, East White Plains, Somers, and Yorktown Heights, all of which are located in New York. We own 4 and lease 10 of our banking offices. At June 30, 2022, the net book value of our land, buildings, lease assets, furniture, fixtures and equipment was \$19.4 million. The Company's and Bank's executive offices/headquarters are located in a leased facility at 2651 Strang Blvd., Suite 100, Yorktown Heights, New York.

Item 3. Legal Proceedings

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business.

In addition, the Company has received demand letters from putative stockholders of the Company regarding the proposed merger between the Company and Brookline Bancorp, Inc. In addition, on August 25, 2022, a complaint captioned Stephen Bushansky v. PCSB Financial Corporation et al. was filed in the United States District Court, Southern District of New York, naming as defendants the Company and the members of the Company's board of directors (the "Complaint"). The complaint and the demand letters allege, among other things, that the proxy statement/prospectus contains materially incomplete and misleading information regarding the process that culminated in the merger agreement and the proposed transaction, the valuation analyses performed by the Company's financial advisor, and potential conflicts of interest in connection with the proposed merger. The relief sought includes enjoining the consummation of the merger unless and until certain additional and allegedly material information is disclosed to the Company's stockholders, rescinding and setting aside the merger to the extent already implemented, or granting rescissory damages, and awarding the plaintiff the cost of the action, including reasonable attorneys' and experts' fees. The Company believes that all allegations in the demand letters and complaint are without merit and intends to defend against them as appropriate.

We do not believe that any pending legal proceedings would have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's shares of common stock are traded on the NASDAQ Capital Market under the symbol "PCSB". The approximate number of shareholders of record of the Company's common stock as of June 30, 2022 was 1,261.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

None.

Securities Authorized for Issuance under Equity Compensation Plans

The following information is presented for the PCSB Financial Corporation 2018 Equity Incentive Plan as of June 30, 2022:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders	1,320,963	\$ 18.98	672,685
Equity compensation plans not approved by shareholders	n/a	n/a	n/a
Total	1,320,963	\$ 18.98	672,685

Issuer Purchases of Equity Securities

On February 3, 2021, the Company announced the authorization of a repurchase program to repurchase up to 801,856 shares, or 5%, of its then outstanding common stock. As of June 30, 2022, the Company repurchased 682,561 shares at an average cost of \$18.23 per share.

There were no repurchases of PCSB Financial Corporation common stock during the quarter ended June 30, 2022.

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

This section is intended to help investors understand the consolidated financial performance of PCSB Financial through a discussion of the factors affecting our financial condition at June 30, 2022 and 2021 and our results of operations for the years ended June 30, 2022 and 2021. This section should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements contained in this annual report.

Overview

Income. Our primary source of income is net interest and dividend income. Net interest and dividend income is the difference between interest and dividend income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Other sources of income include earnings from customer service fees (mostly from service charges on deposit accounts), bank-owned life insurance and gains on the sale of securities.

Provision for Loan Losses. The allowance for loan losses is maintained at a level representing management's best estimate of probable incurred losses in the loan portfolio, based upon management's evaluation of the portfolio's collectability. The allowance is established through the provision for loan losses, which is charged against income. Charge-offs are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance. Allocation of the allowance may be made for specific loans or pools of loans, but the entire allowance is available for the entire loan portfolio.

Expenses. The noninterest expenses we incur in operating our business consist of salaries and employee benefits, occupancy and equipment, data processing, federal deposit insurance, merger-related expenses and other general and administrative expenses.

Salaries and employee benefits consist primarily of salaries and wages paid to our employees, payroll taxes, and expenses for health insurance, retirement plans, stock-based compensation and other employee benefits.

Occupancy and equipment expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of depreciation charges, rental expenses, furniture and equipment expenses, maintenance, real estate taxes and costs of utilities. Depreciation of premises and equipment is computed using a straight-line method based on the estimated useful lives of the related assets or the expected lease terms, if shorter. Data processing expenses are the fees we pay to third parties for the use of their software and for processing customer information, deposits and loans.

Federal deposit insurance premiums are payments we make to the FDIC for insurance of our deposit accounts.

Other expenses include expenses for professional services, advertising, office supplies, postage, telephone, insurance and other miscellaneous operating expenses.

Merger-related expenses consist primarily of professional services as well as other miscellaneous expenses.

Critical Accounting Policies

A summary of our accounting policies is described in Note 1 to Notes to Consolidated Financial Statements. Critical accounting estimates are necessary in the application of certain accounting policies and procedures and are particularly susceptible to significant change. Critical accounting policies are defined as those involving significant judgments and assumptions by management that could have a material impact on the carrying value of certain assets or on income under different assumptions or conditions. Management believes that the most critical accounting policies, which involve the most complex or subjective decisions or assessments, are as follows:

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable incurred loan losses. The allowance for loan losses is increased by provisions for loan losses charged to income. Losses are charged to the allowance for loan losses when all or a portion of a loan is deemed to be uncollectible. Recoveries of loans previously charged off are credited to the allowance when realized. See Note 4 to Notes to Consolidated Financial Statements for a complete discussion of the allowance for loan losses.

Selected Financial Data

The summary information presented below at or for each of the fiscal years presented is derived in part from and should be read in conjunction with the consolidated financial statements of the Company presented in Item 8.

	At June 30,				
	2022	2021	2020	2019	2018
	(in thousands)				
Selected Financial Condition Data:					
Total Assets	\$ 1,989,132	\$ 1,874,935	\$ 1,791,929	\$ 1,637,579	\$ 1,480,187
Cash and cash equivalents	118,457	159,305	136,302	60,029	62,145
Held to maturity debt securities	412,449	337,584	275,772	345,545	353,183
Available for sale debt securities	34,621	57,387	37,426	72,228	105,504
Loans receivable, net	1,329,372	1,229,451	1,260,947	1,093,121	902,336
Goodwill and other intangible assets	6,195	6,257	6,335	6,429	6,539
Total Liabilities	1,711,970	1,600,375	1,518,216	1,356,272	1,192,628
Deposits	1,626,250	1,491,682	1,373,255	1,225,821	1,157,457
Advances from FHLB	48,323	65,957	106,089	111,216	18,841
Total shareholders' equity	277,162	274,560	273,713	281,307	287,559
 For the Year Ended June 30,					
	2022	2021	2020	2019	2018
	<i>(Dollars in thousands, except per share data)</i>				
Selected Operating Data:					
Interest and dividend income	\$ 58,680	\$ 57,264	\$ 61,910	\$ 53,447	\$ 47,960
Interest expense	6,241	9,922	15,231	10,743	6,323
Net interest income	52,439	47,342	46,679	42,704	41,637
Provision (benefit) for loan losses	772	(673)	3,064	808	414
Net interest income after provision	51,667	48,015	43,615	41,896	41,223
Non-interest income	3,819	2,497	3,069	3,102	2,519
Non-interest expense (1)	36,653	34,754	34,634	33,994	32,116
Income before income tax expense	18,833	15,758	12,050	11,004	11,626
Income tax expense (2)	3,954	3,334	2,691	2,686	5,022
Net income	\$ 14,879	\$ 12,424	\$ 9,359	\$ 8,318	\$ 6,604
 Earnings per share:					
Basic	\$ 1.05	\$ 0.84	\$ 0.60	\$ 0.50	\$ 0.39
Diluted	\$ 1.04	\$ 0.84	\$ 0.60	\$ 0.50	\$ 0.39

⁽¹⁾Noninterest expense for the year ended June 30, 2022 includes \$1.3 million of merger-related expenses.

⁽²⁾In connection with the passage of the Tax Cuts and Jobs Act, the Company recorded a \$1.6 million charge to income tax expense for the year ended June 30, 2018, primarily reflecting a write-down of our deferred tax asset resulting from a decrease in the federal corporate income tax rate from 34% to 21%.

	At or For the Year Ended June 30,				
	2022	2021	2020	2019	2018
Selected Financial Ratios:					
Return on average assets (1)	0.78%	0.68%	0.56%	0.55%	0.46%
Return on average equity (2)	5.39	4.55	3.36	2.92	2.33
Noninterest income to average assets	0.20	0.14	0.18	0.21	0.18
Noninterest expense to average assets	1.93	1.91	2.06	2.26	2.24
Interest rate spread	2.79	2.55	2.61	2.70	2.86
Net interest margin (3)(4)	2.90	2.73	2.89	2.95	3.03
Efficiency ratio (4)	65.15	69.73	69.62	74.21	72.73
Dividend payout ratio (5)	24.22	21.93	27.47	26.24	7.63
Average interest-earning assets to average interest-bearing liabilities	131.32	131.35	130.68	134.34	135.94
Loans to deposits	81.74	82.42	91.82	89.17	77.96
Equity to assets (6)	14.52	15.05	16.54	19.00	19.80
Book value per common share	\$ 18.07	\$ 17.41	\$ 16.20	\$ 15.80	\$ 15.83
Tangible book value per common share (4)	\$ 17.67	\$ 17.01	\$ 15.82	\$ 15.44	\$ 15.47
Capital Ratios (PCSB Bank only):					
Tier 1 capital (to adjusted total assets)	12.78%	12.48%	12.51%	13.81%	13.61%
Tier 1 capital (to risk-weighted assets)	17.22	17.93	16.98	17.96	21.11
Total capital (to risk-weighted assets)	17.22	17.93	16.98	17.96	21.11
Common equity Tier 1 capital (to risk-weighted assets)	17.83	18.53	17.65	18.45	21.62
Asset Quality Ratios:					
Allowance for loan losses as a percent of total loans receivable	0.67	0.64	0.68	0.52	0.54
Allowance for loan losses as a percent of total non-accrual loans receivable	97.07	147.20	481.28	207.78	80.37
Allowance for loan losses as a percent of non-performing loans receivable	96.66	136.70	481.28	207.70	80.37
Net (recoveries) charge-offs to average outstanding loans during the period	(0.02)	0.00	0.01	0.01	0.08
Non-accrual loans receivable as a percent of total loans receivable	0.69	0.43	0.14	0.25	0.67
Non-performing loans receivable as a percent of total loans receivable	0.69	0.47	0.14	0.25	0.67
Non-performing assets as a percent of total assets	0.46	0.31	0.10	0.24	0.44
Other Data:					
Number of offices	14	15	15	15	15
Number of full-time equivalent employees	162	162	169	172	170

(1) Represents net income divided by average total assets.

(2) Represents net income divided by average equity.

(3) Represents tax-equivalent net interest income as a percent of average interest-earning assets.

(4) See “Non-GAAP Financial Measures” for a reconciliation of this measure.

(5) Dividends declared per share divided by net income per share.

(6) Represents average equity divided by average total assets.

Non-GAAP Financial Measures and Their Reconciliation with GAAP Financial Measures

Using non-GAAP financial measures can help investors in providing a more meaningful picture of the Company’s performance and value. It can also provide additional insight into Company’s business beyond that found in the Financial Statements.

We identify “efficiency ratio” and “tangible book value per common share” as non-GAAP financial measures. In accordance with the SEC’s rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, in the most directly comparable measure calculated and presented in accordance with GAAP. Non-GAAP financial measures do not include operating and other statistical measures or ratios, or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measure that are not non-GAAP financial measures or both.

The non-GAAP financial measures that we discuss in this annual report should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP.

Tangible book value per common share is a non-GAAP measure and equals total shareholders' equity, less goodwill and other intangible assets, divided by shares outstanding. We believe this disclosure may be meaningful to those investors who seek to evaluate our equity without giving effect to goodwill and other intangible assets.

	For the Year Ended June 30,				
	2022	2021	2020	2019	2018
(Dollars in thousands, except share and per share data)					
Computation of Tangible Book Value per Common Share					
Total shareholders' equity	\$ 277,162	\$ 274,560	\$ 273,713	\$ 281,307	\$ 287,559
Adjustments:					
Preferred stock	-	-	-	-	-
Common shareholders' equity (GAAP)	277,162	274,560	273,713	281,307	287,559
Adjustments:					
Goodwill	(6,106)	(6,106)	(6,106)	(6,106)	(6,106)
Other intangible assets	(89)	(151)	(229)	(323)	(433)
Tangible common shareholders' equity (Non-GAAP)	\$ 270,967	\$ 268,303	\$ 267,378	\$ 274,878	\$ 281,020
Common shares outstanding	15,334,857	15,770,645	16,898,137	17,804,039	18,165,110
Book value per share (GAAP)	\$ 18.07	\$ 17.41	\$ 16.20	\$ 15.80	\$ 15.83
Adjustments:					
Effects of intangible assets	(0.40)	(0.40)	(0.38)	(0.36)	(0.36)
Tangible book value per common share (Non-GAAP)	\$ 17.67	\$ 17.01	\$ 15.82	\$ 15.44	\$ 15.47

Tax equivalent net interest income is a non-GAAP measure and equals net interest income plus income tax benefits arising from income earned on loans and securities exempt from federal, state, and/or local taxes. We believe this disclosure may be meaningful to those investors who seek to evaluate our net interest income.

	For the Year Ended June 30,				
	2022	2021	2020	2019	2018
(Dollars in thousands)					
Computation of Tax Equivalent Net Interest Income					
Total interest income	\$ 58,680	\$ 57,264	\$ 61,910	\$ 53,447	\$ 47,960
Total interest expense	6,241	9,922	15,231	10,743	6,323
Net interest income (GAAP)	52,439	47,342	46,679	42,704	41,637
Tax equivalent adjustment	400	198	56	-	-
Net interest income - tax equivalent (Non-GAAP)	\$ 52,839	\$ 47,540	\$ 46,735	\$ 42,704	\$ 41,637

Loan Portfolio

General. Loans are our primary interest-earning asset. At June 30, 2022, net loans represented 66.8% of our total assets. The following tables set forth certain information about our loan portfolio.

Loan Portfolio Analysis. The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated.

	At June 30,			
	2022		2021	
	Amount	Percent	Amount	Percent
(Dollars in thousands)				
Mortgage loans:				
Residential	\$ 214,167	16.01%	\$ 224,305	18.13%
Commercial	942,130	70.43	826,624	66.79
Construction	20,896	1.56	10,151	0.82
Total	1,177,193	88.00	1,061,080	85.74
Commercial loans	136,304	10.19	150,658	12.17
Home equity lines of credit	23,688	1.77	25,439	2.06
Consumer and overdrafts	594	0.04	345	0.03
Total loans receivable	1,337,779	100.00%	1,237,522	100.00%
Plus: net deferred loans origination (fees) costs	520		(190)	
Less: allowance for loan losses	(8,927)		(7,881)	
Loans receivable, net	\$ 1,329,372		\$ 1,229,451	

Loan Maturity. The following table sets forth certain information at June 30, 2022 regarding the dollar amount of loan maturities for the periods indicated. The table does not include scheduled amortization or any estimate of prepayments that significantly shorten the average loan life and may cause actual repayment experience to differ from that shown below.

	Residential Mortgage Loans	Commercial Mortgage Loans	Construction Loans	Commercial Loans (in thousands)	Home equity Lines of Credit	Consumer and Overdrafts	Total Loans
Amounts due in:							
One year or less	\$ 84	\$ 5,030	\$ 14,102	\$ 39,715	\$ -	\$ 422	\$ 59,353
More than one year through five years	3,094	135,416	6,794	53,815	40	172	199,331
More than five years through fifteen years	43,817	690,645	-	41,262	5,943	-	781,667
More than fifteen years	167,172	111,039	-	1,512	17,705	-	297,428
Total	\$ 214,167	\$ 942,130	\$ 20,896	\$ 136,304	\$ 23,688	\$ 594	\$ 1,337,779

The following table sets forth the amount of loans at June 30, 2022 that are due after June 30, 2023 and have either fixed interest rates or floating or adjustable interest rates.

	Fixed Rates	%	Floating or Adjustable Rates		%	Total		
			(Dollars in thousands)					
Residential mortgage loans	\$ 184,517	86.19%	\$ 29,566		13.81%	\$ 214,083		
Commercial mortgage loans	190,862	20.37	746,238		79.63	937,100		
Construction	6,794	100.00	-		-	6,794		
Commercial loans	68,996	71.43	27,593		28.57	96,589		
Home equity lines of credit	74	0.31	23,614		99.69	23,688		
Consumer and overdrafts	172	100.00	-		-	172		
Total	\$ 451,415	35.31%	\$ 827,011		64.69%	\$ 1,278,426		

Loan Originations, Purchases and Sales. Loan originations come from a variety of sources. The primary sources of loan originations are current customers, business development by our relationship managers, walk-in traffic, referrals from customers, and other professionals. We generally originate loans for our portfolio rather than for sale in the secondary market.

We occasionally purchase whole loans and loan participation interests from other financial institutions, which consist of interests in commercial mortgage loans, multi-family mortgage loans and residential mortgage loans, primarily in our market area. At June 30, 2022, we had \$168.0 million in purchased whole loan and participation interests.

Asset Quality

Credit Risk Management. Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans. Management of asset quality is accomplished by internal controls, monitoring and reporting of key risk indicators, and both internal and independent third-party loan reviews. The primary objective of our loan review process is to measure borrower performance and assess risk for the purpose of identifying loan weakness in order to minimize loan loss exposure. From the time of loan origination through final repayment, the borrowers on individual commercial real estate, construction and land development and commercial business loans are assigned a risk rating, including a collateral rating, based on pre-determined criteria and levels of risk. The borrower and collateral risk ratings are generally monitored annually, or more frequently should we become aware of a material adverse change in the borrower's condition, and may change during the life of the loan as appropriate.

Internal and independent third-party loan reviews vary by loan type, as well as the nature and complexity of the loan. Depending on the size and complexity of the loan, some loans may warrant detailed individual review, while other loans may have less risk based upon size or be of a homogeneous nature reducing the need for detailed individual analysis. Assets with these characteristics, such as consumer loans and loans secured by residential real estate, may be reviewed on the basis of risk indicators such as delinquency or credit rating. In cases of significant concern, a total re-evaluation of the loan and associated risks are documented by completing a loan risk assessment and action plan. Some loans may be re-evaluated in terms of their fair market value or net realizable value in order to determine the likelihood of potential loss exposure and, consequently, the adequacy of specific and general loan loss reserves.

When a borrower fails to make a required loan payment, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status, including contacting the borrower by letter and phone at regular intervals. When the borrower is in default, we may commence collection proceedings. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. Management informs the Loan Committee of the Board of Directors monthly of the amount of loans delinquent more than 30 days and the Board of Directors monthly of the amount of loans delinquent 90 days or more.

Delinquent Loans. The following table sets forth our loan delinquencies, including non-accrual loans, by type and amount at the dates indicated.

	At June 30, 2022				At June 30, 2021			
	30-89 Days		90 Days or More		30-89 Days		90 Days or More	
	Number of Loans	Carrying Amount	Number of Loans	Carrying Amount	Number of Loans	Carrying Amount	Number of Loans	Carrying Amount
(Dollars in thousands)								
Residential mortgage loans	-	\$ -	3	\$ 367	2	\$ 324	4	\$ 948
Commercial mortgage loans	-	\$ -	1	\$ 1,197	2	\$ 453	1	\$ 411
Construction	-	\$ -	1	\$ 1,113	-	\$ -	-	\$ -
Commercial loans	2	\$ 16	1	\$ 400	3	\$ 145	-	\$ -
Home equity lines of credit	-	\$ -	3	\$ 399	1	\$ 19	3	\$ 381
Consumer and overdrafts	-	\$ -	1	\$ 39	-	\$ -	-	\$ -
Total	2	\$ 16	10	\$ 3,515	8	\$ 941	8	\$ 1,740

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as foreclosed real estate until it is sold. When property is acquired, it is initially recorded at the fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Holding costs and declines in fair value after acquisition of the property result in charges against income.

The following table sets forth information regarding our non-performing assets at the dates indicated. This table excludes \$1.2 million of loans modified in troubled debt restructurings that are accruing interest.

	At June 30,	
	2022	2021
	(Dollars in thousands)	
Non-accrual loans:		
Residential mortgage loans	\$ 671	\$ 1,391
Commercial mortgage loans	4,778	3,582
Construction loans	2,792	-
Commercial loans	539	-
Home equity lines of credit	416	381
Total	9,196	5,354
Accruing loans past due 90 days or more:		
Commercial mortgage loans	-	411
Consumer and overdrafts	39	-
Total	39	411
Total non-performing loans	9,235	5,765
Foreclosed real estate	-	-
Total non-performing assets	\$ 9,235	\$ 5,765
Total non-performing loans to total loans	0.69%	0.47%
Total non-performing assets to total assets	0.46%	0.31%

Interest income that would have been recorded for the year ended June 30, 2022 had non-accruing loans been current according to their original terms, amounted to \$342,000.

Potential Problem Loans. Certain loans are identified during our loan review process that are currently performing according to their contractual terms and we expect to receive payment in full of principal and interest, but it is deemed probable that we will be unable to collect all the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. This may result from deteriorating conditions such as cash flows, collateral values or creditworthiness of the borrower.

Other potential problem loans are those loans that are currently performing, but where known information about possible credit problems of the borrowers causes us to have concerns as to the ability of such borrowers to comply with contractual loan repayment terms. These loans include non-impaired classified loans. At June 30, 2022, other potential problem loans totaled \$7.0 million.

Classified Assets. The following table sets forth information regarding our classified assets, as defined under applicable regulatory standards, at the dates indicated.

	At June 30,	
	2022	2021
	(in thousands)	
Special mention	\$ 3,580	\$ 6,301
Substandard	12,568	21,602
Doubtful	-	-
Loss	-	-
Total	\$ 16,148	\$ 27,903

Troubled Debt Restructurings. The Company may choose to modify the terms of certain loans where the modification qualifies as troubled debt restructurings as a result of the borrower experiencing financial difficulty and/or the Company providing a more than insignificant concession to the borrower that it would not otherwise consider. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy. The modification of the terms of such loans qualifying as a concession by the Company may include one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. As of June 30, 2022, the Company had 9 loans classified as troubled debt restructurings totaling \$1.4 million.

COVID-19 Related Loan Payment Deferrals. The COVID-19 pandemic has created extensive disruptions to the local economy and our customers. In accordance with emergency regulations promulgated by New York State Department of Financial Services, financial institutions are required to provide payment accommodations, which may include payment deferrals, to any consumer or small business who can demonstrate financial hardship caused by COVID-19. Throughout the pandemic and through June 30, 2022, the Company has granted loan payment deferrals for 114 residential mortgage loans and home equity lines of credit totaling \$32.1 million, as well as deferrals for 217 commercial mortgage, commercial loan and construction loans totaling \$188.2 million. As of June 30, 2022 there were no loans remaining on deferral, compared to 19 loans totaling \$27.3 million as of June 30, 2021.

Allowance for Loan Losses. The allowance for loan losses is maintained at levels considered adequate by management to provide for probable incurred loan losses inherent in the loan portfolio at the consolidated balance sheet reporting dates. The allowance for loan losses is based on management's assessment of various factors affecting the loan portfolio, including portfolio composition, delinquent and non-accrual loans, national and local business conditions, loss experience and an overall evaluation of the quality of the underlying collateral.

The following table sets forth activity in our allowance for loan losses for the years indicated.

	Year Ended June 30,	
	2022	2021
	(Dollars in thousands)	
Allowance for loan losses at beginning of period	\$ 7,881	\$ 8,639
Provision (benefit) for loan losses	772	(673)
Charge-offs:		
Commercial loans	122	258
Consumer and overdrafts	37	27
Total charge-offs	\$ 159	\$ 285
Recoveries:		
Residential mortgage loans	10	17
Commercial loans	409	172
Home equity lines of credit	8	8
Consumer and overdrafts	6	3
Total recoveries	433	200
Net (recoveries) charge-offs	(274)	85
Allowance for loan losses at end of period	\$ 8,927	\$ 7,881
Allowance for loan losses to non-performing loans at end of period		96.66%
Allowance for loan losses to total loans outstanding at end of period		0.67%
Net (recoveries) charge-offs to average outstanding loans during the period		(0.02)%
		136.73%
		0.64%
		0.00%

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

At June 30,						
	2022				2021	
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
Residential mortgage loans	\$ 323	3.62%	16.01%	\$ 337	4.28%	18.13%
Commercial mortgage loans	7,351	82.35	70.43	6,435	81.65	66.79
Construction loans	209	2.34	1.56	102	1.29	0.82
Commercial loans	982	11.00	10.19	948	12.03	12.17
Home equity lines of credit	51	0.57	1.77	54	0.69	2.06
Consumer and overdrafts	11	0.12	0.04	5	0.06	0.03
Total	\$ 8,927	100.00%	100.00%	\$ 7,881	100.00%	100.00%

See Note 4 to Notes to Consolidated Financial Statements for a complete discussion of the allowance for loan losses. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with generally accepted accounting principles in the United States of America, there can be no assurance that regulators, in reviewing our loan portfolio, will not require us to increase our allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

Securities Portfolio

The following table sets forth the amortized cost and estimated fair value of our held to maturity and available for sale securities portfolios at the dates indicated.

	At June 30,					
	2022				2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	(in thousands)	
Held to maturity debt securities:						
U.S. Government and agency obligations	\$ 59,995	\$ 56,955	\$ 33,994	\$ 34,112		
Corporate	52,076	49,391	43,605	44,879		
State and municipal	87,111	64,804	57,625	57,817		
Mortgage-backed securities – residential	101,525	91,783	96,181	98,787		
Mortgage-backed securities – collateralized mortgage obligations	24,198	22,074	33,300	33,348		
Mortgage-backed securities – commercial	87,544	76,601	72,879	73,194		
Total	\$ 412,449	\$ 361,608	\$ 337,584	\$ 342,137		
Available for sale debt securities:						
U.S. Government and agency obligations	\$ 10,942	\$ 9,928	\$ 21,931	\$ 21,816		
Corporate	5,000	4,854	8,013	8,189		
State and municipal	7,040	4,796	7,041	7,115		
Mortgage-backed securities – residential	14,351	12,712	17,738	17,654		
Mortgage-backed securities – commercial	2,416	2,331	2,490	2,613		
Total	\$ 39,749	\$ 34,621	\$ 57,213	\$ 57,387		

At June 30, 2022, we had no investments in a single issuer, other than securities issued by the U.S. government and government agencies, which had an aggregate book value in excess of 10% of our shareholders' equity.

Securities Portfolio Maturities and Yields. The following table sets forth the stated maturities and weighted average yields of investment securities at June 30, 2022. The table does not include any estimate of principal payments or prepayments that significantly shorten the average life of mortgage-backed securities. Certain mortgage-backed securities, corporate and other debt securities have adjustable interest rates and will reprice periodically within the various maturity ranges. These repricing schedules are not reflected in the following table. Weighted average yield calculations on investment securities available for sale do not give effect to changes in fair value that are reflected as a component of equity. At June 30, 2022, we did not have any investments in any private-label collateralized mortgage obligations.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Held to maturity debt securities:											
U.S. Government and agency obligations	\$ 5,000	2.54%	\$ 54,995	1.51%	\$ -	-%	\$ -	-%	\$ 59,995	\$ 56,955	1.60%
Corporate	-	-	10,000	2.82	42,076	3.65	-	-	52,076	49,391	3.49
State and municipal	115	1.35	975	1.09	1,725	1.35	84,296	1.99	87,111	64,804	1.97
Mortgage-backed securities – residential	-	-	3,157	1.89	18,433	2.28	79,935	2.21	101,525	91,783	2.21
Mortgage-backed securities – collateralized mortgage obligations	-	-	516	1.95	1,135	1.92	22,547	1.82	24,198	22,074	1.82
Mortgage-backed securities – commercial	3,615	3.10	3,815	2.66	10,857	1.76	69,257	1.87	87,544	76,601	1.94
Total	\$ 8,730	2.76%	\$ 73,458	1.76%	\$ 74,226	2.95%	\$ 256,035	2.01%	\$ 412,449	\$ 361,608	2.15%
Available for sale debt securities:											
U.S. Government and agency obligations	\$ -	-%	\$ 3,000	1.05%	\$ 7,942	1.06%	\$ -	-%	\$ 10,942	\$ 9,928	1.05%
Corporate	-	-	2,000	2.39	3,000	4.38	-	-	5,000	4,854	3.58
State and municipal	-	-	-	-	-	-	7,040	2.16	7,040	4,796	2.16
Mortgage-backed securities – residential	-	-	-	-	-	-	14,351	1.70	14,351	12,712	1.70
Mortgage-backed securities – commercial	-	-	2,416	2.22	-	-	-	-	2,416	2,331	2.22
Total	\$ -	-%	\$ 7,416	1.79%	\$ 10,942	1.97%	\$ 21,391	1.85%	\$ 39,749	\$ 34,621	1.87%

Other-than-temporary Impairment. Each reporting period, we evaluate all securities with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other-than-temporary. Other-than-temporary impairment (“OTTI”) is required to be recognized if (1) we intend to sell the security; (2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For impaired debt securities that we intend to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI, resulting in a realized loss that is charged to earnings through a reduction in our noninterest income. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income/loss, net of applicable taxes. We did not recognize any OTTI during the years ended June 30, 2022 or 2021.

Deposits

Deposits have traditionally been our primary source of funds for our lending and investment activities. The substantial majority of our deposits are from depositors who reside in our primary market area. Deposits are attracted through the offering of a broad selection of deposit instruments for both individuals and businesses. The following table sets forth the distribution of total deposits by account type at the dates indicated.

	At June 30,			
	2022		2021	
	Amount	Percent	Amount	Percent
(Dollars in thousands)				
Non interest-bearing demand accounts	\$ 245,297	15.08%	\$ 219,072	14.69%
NOW accounts	243,006	14.94	177,223	11.88
Money market accounts	399,026	24.54	332,843	22.31
Savings accounts	411,332	25.29	387,529	25.99
Time deposits				
Less than \$100,000	140,591	8.65	156,946	10.52
Greater than or equal to \$100,000	186,998	11.50	218,069	14.62
Total	\$ 1,626,250	100.00%	\$ 1,491,682	100.00%

Deposits of local governments held by PCSB Bank were \$127.5 million and \$74.4 million at June 30, 2022 and 2021, respectively. Additionally, as of June 30, 2022 and 2021, deposits included brokered time deposits of \$20.0 million and \$30.0 million, respectively. At June 30, 2022, brokered time deposits had remaining maturities of 20 months.

At June 30, 2022, the aggregate amount of all uninsured deposits (the portion of deposit accounts that exceed the FDIC insurance limit of \$250,000 per account holder) was \$436.1 million. At June 30, 2022, the aggregate amount of all uninsured time deposits was \$43.6 million. At June 30, 2022, there were no time deposits that were uninsured for any reason other than being in excess of the FDIC limit.

The following table sets forth, by time remaining until maturity, the uninsured time deposits, that exceed the FDIC insurance limit of \$250,000 per account, at June 30, 2022 (in thousands).

Maturity Period

Three months or less	\$ 3,845
Over three through six months	6,762
Over six through twelve months	2,664
Over twelve months	30,290
Total	\$ 43,561

The following table sets forth time deposit accounts classified by rate and maturity at June 30, 2022.

	Amount Due					Percent of Total Time Deposit Accounts	
	Less Than One Year	More Than One Year to Two Years	More Than Two Years to Three Years		Total		
			Years	Years			
			(Dollars in thousands)				
0.00 - 1.00%	\$ 169,838	\$ 21,095	\$ 3,580	\$ 26,155	\$ 220,668	67.36%	
1.01 - 2.00%	21,548	22,087	5,897	1,657	51,189	15.63	
2.01 - 3.00%	7,147	46,853	1,514	-	55,514	16.94	
3.01 - 4.00%	108	110	-	-	218	0.07	
Total	\$ 198,641	\$ 90,145	\$ 10,991	\$ 27,812	\$ 327,589	100.00%	

Borrowings

We primarily utilize advances from the FHLBNY to supplement our supply of investable funds. At June 30, 2022 we had the ability to borrow up to \$280.9 million from the FHLBNY, of which \$48.3 million was outstanding as of June 30, 2022. Additionally, as of June 30, 2022, we had an available line of credit with the FRBNY's discount window program of \$96.3 million as well as \$25.0 million of fed funds lines of credit, neither of which had outstanding balances as of June 30, 2022.

Financial Condition

Cash and Cash Equivalents. Cash and cash equivalents decreased \$40.8 million, or 25.6%, to \$118.5 million at June 30, 2022 from \$159.3 million at June 30, 2021. The decrease is primarily due to a \$99.9 million increase in net loans receivable, \$52.1 million increase in total investment securities, a \$17.7 million decrease in FHLB advances and a \$6.0 million decrease in other liabilities, partially offset by a \$134.6 million increase in deposits.

Investment Securities Portfolio

The following table is a summary of the Company's investment securities portfolio at carrying value (Dollars in thousands):

	June 30, 2022	June 30, 2021		\$	Increase / (Decrease)	%
Available for sale debt securities						
U.S. Government and agency obligations	\$ 9,928	\$ 21,816	\$ (11,888)			-54.5%
Corporate	4,854	8,189	(3,335)			-40.7
State and municipal	4,796	7,115	(2,319)			-32.6
Mortgage-backed securities – residential	12,712	17,654	(4,942)			-28.0
Mortgage-backed securities – commercial	2,331	2,613	(282)			-10.8
Total available for sale debt securities	\$ 34,621	\$ 57,387	\$ (22,766)			-39.7%
Held to maturity debt securities						
U.S. Government and agency obligations	\$ 59,995	\$ 33,994	\$ 26,001			76.5%
Corporate	52,076	43,605	8,471			19.4
State and municipal	87,111	57,625	29,486			51.2
Mortgage-backed securities – residential	101,525	96,181	5,344			5.6
Mortgage-backed securities – collateralized mortgage obligations	24,198	33,300	(9,102)			-27.3
Mortgage-backed securities – commercial	87,544	72,879	14,665			20.1
Total held to maturity debt securities	\$ 412,449	\$ 337,584	\$ 74,865			22.2%

The increase in investment securities was the result of the Company deploying excess liquidity.

Loans Receivable Portfolio

The following table is a summary of the Company's loan portfolio (Dollars in thousands):

	June 30, 2022	June 30, 2021		\$	Increase / (Decrease)	%
Mortgage loans						
Residential	\$ 214,167	\$ 224,305	\$ (10,138)			-4.5%
Commercial	942,130	826,624	115,506			14.0
Construction	20,896	10,151	10,745			105.9
Net deferred loan origination (fees) costs	(100)	196	(296)			-151.0
Total mortgage loans	1,177,093	1,061,276	115,817			10.9
Commercial and consumer loans:						
Commercial loans	136,304	150,658	(14,354)			-9.5
Home equity lines of credit	23,688	25,439	(1,751)			-6.9
Consumer and overdrafts	594	345	249			72.2
Net deferred loan origination costs (fees)	620	(386)	1,006			-260.6
Total commercial and consumer loans	161,206	176,056	(14,850)			-8.4
Total loans receivable	1,338,299	1,237,332	100,967			8.2
Allowance for loan losses	(8,927)	(7,881)	(1,046)			13.3
Loans receivable, net	\$ 1,329,372	\$ 1,229,451	\$ 99,921			8.1%

The increase in loans receivable was primarily the result of increases in commercial mortgage loans and construction loans, partially offset by decreases in commercial loans, residential mortgage loans and home equity lines of credit. The decrease in commercial loans includes a decrease in PPP loans of \$35.1 million, driven by loan forgiveness and paydowns, largely offset by a net increase of \$20.7 million in all other commercial loans.

Allowance for Loan Losses. The allowance for loan losses is maintained at levels considered adequate by management to provide for probable incurred loan losses inherent in the loan portfolio at the consolidated balance sheet reporting dates. The allowance for loan losses is based on management's assessment of various factors affecting the loan portfolio, including portfolio composition, delinquent and non-accrual loans, national and local business conditions, loss experience and an overall evaluation of the quality of the underlying collateral.

The allowance for loan losses increased \$1.0 million, or 13.3%, to \$8.9 million at June 30, 2022 from \$7.9 million at June 30, 2021. The increase is primarily due to loan portfolio growth and net recoveries of \$274,000. Non-performing loans as a percent of total loans receivable (excluding PPP loans) were 0.69% as of June 30, 2022, an increase from 0.48% as of June 30, 2021, however the allowance for loan losses associated with loans individually evaluated for impairment decreased \$2,000 from the prior year to \$119,000 as of June 20, 2022.

The COVID-19 pandemic has created extensive disruptions to the local economy and our customers. From March 2020 to December 2021, the Company has granted loan payment deferrals on 331 commercial and consumer loans totaling \$220.3 million for borrowers experiencing financial hardship due to the pandemic. The Company had no loans on COVID-19 related payment deferral as of June 30, 2022, compared to \$27.3 million (19 loans), or 2.21% of gross loans, as of June 30, 2021.

Deposits. Deposits have traditionally been our primary source of funds for our lending and investment activities. The substantial majority of our deposits are from depositors who reside in our primary market area. Deposits are attracted through the offering of a broad selection of deposit instruments for both individuals and businesses.

The following table is a summary of the Company's deposits (Dollars in thousands):

	June 30, 2022	June 30, 2021	Increase / (Decrease)	
			\$	%
Demand	\$ 245,297	\$ 219,072	\$ 26,225	12.0%
NOW accounts	243,006	177,223	65,783	37.1
Money market accounts	399,026	332,843	66,183	19.9
Savings	411,332	387,529	23,803	6.1
Time deposits	327,589	375,015	(47,426)	-12.6
Total deposits	\$ 1,626,250	\$ 1,491,682	\$ 134,568	9.0%

Federal Home Loan Bank Advances. FHLB advances decreased \$17.7 million to \$48.3 million at June 30, 2022 as compared to \$66.0 million at June 30, 2021. This decrease is due to maturities and principal paydowns of \$17.6 million.

Total Shareholder's Equity. Total shareholders' equity increased \$2.6 million, or 0.9%, to \$277.2 million at June 30, 2022 from \$274.6 million at June 30, 2021. This increase was primarily due to net income of \$14.9 million and \$5.0 million of stock-based compensation and reduction in unearned ESOP shares for plan shares earned during the period, partially offset by the repurchase of \$8.2 million (443,788 shares) of common stock, \$5.5 million of other comprehensive losses related primarily to unrealized losses on available for sale investment securities driven by higher market interest rates and \$3.6 million of cash dividends declared and paid. We would expect that further increases in market interest rates would lead to additional unrealized losses on available for sale investment securities. On February 3, 2021, a repurchase plan was authorized to repurchase up to 801,856 shares, or 5% of the Company's then outstanding common stock. As of June 30, 2022, the Company repurchased 682,561 shares of common stock at an average cost of \$18.23 per share under this plan. At June 30, 2022, the Bank was considered "well capitalized" under applicable regulatory guidelines.

Results of Operations for the Year Ended June 30, 2022 and June 30, 2021

Net Income. Net income increased \$2.5 million, or 19.8%, to \$14.9 million for the year ended June 30, 2022 compared to \$12.4 million for the year ended June 30, 2021. The increase was primarily due to increases of \$5.1 million in net interest income and \$1.3 million in noninterest income, partially offset by increases of \$1.9 million in noninterest expense, \$1.4 million in provision for loan losses and \$620,000 in income tax expense.

Net Interest Income.

The following tables present information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average tax equivalent yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Average balances have been calculated using daily balances. Nonaccrual loans are included in average balances only. Loan fees are included in interest income on loans and are not material (Dollars in thousands).

	Year Ended June 30,					
	2022				2021	
	Average Balance	Interest/Dividends	Average Rate	Average Balance	Interest/Dividends	Average Rate
Assets:						
Loans receivable (1)	\$ 1,258,513	\$ 49,502	3.94%	\$ 1,245,818	\$ 49,470	3.97%
Investment securities (1)	428,203	8,609	2.10	327,879	7,340	2.29
Other interest-earning assets	136,760	569	0.42	169,855	454	0.27
Total interest-earning assets	1,823,476	58,680	3.24	1,743,552	57,264	3.30
Non-interest-earning assets	77,769			72,522		
Total assets	\$ 1,901,245			\$ 1,816,074		
Liabilities and equity:						
NOW accounts	\$ 203,804	345	0.17	\$ 160,652	296	0.18
Money market accounts	363,705	665	0.18	273,007	819	0.30
Savings accounts and escrow	409,732	458	0.11	369,681	611	0.17
Time deposits	352,474	3,607	1.02	421,168	6,165	1.46
Total interest-bearing deposits	1,329,715	5,075	0.38	1,224,508	7,891	0.64
FHLB advances	58,816	1,166	1.98	102,919	2,031	1.97
Total interest-bearing liabilities	1,388,531	6,241	0.45	1,327,427	9,922	0.75
Non-interest-bearing deposits	218,823			189,667		
Other non-interest-bearing liabilities	17,785			25,707		
Total liabilities	1,625,139			1,542,801		
Total shareholders' equity	276,106			273,273		
Total liabilities and shareholders' equity	\$ 1,901,245			\$ 1,816,074		
Net interest income	\$ 52,439			\$ 47,342		
Interest rate spread - tax equivalent (2)		2.79				2.55
Net interest margin - tax equivalent (3)		2.90				2.73
Average interest-earning assets to interest-bearing liabilities	131.32%			131.35%		

(1) Tax exempt yield is shown on a tax equivalent basis for proper comparison using a statutory federal income tax rate of 21% for all periods presented. See reconciliation of non-GAAP measures in the table below.

(2) Net interest rate spread represents the difference between the average yield on average interest-earning assets and the average cost of average interest-bearing liabilities.

(3) Net interest margin represents tax equivalent net interest income divided by average interest-earning assets. See reconciliation of non-GAAP measures in the table below.

The following table presents information regarding tax equivalent adjustment used in the calculation of certain financial metrics (in thousands).

	For The Year Ended June 30,	
	2022	2021
Total interest income	\$ 58,680	\$ 57,264
Total interest expense	6,241	9,922
Net interest income (GAAP)	52,439	47,342
Tax equivalent adjustment	400	198
Net interest income - tax equivalent (non-GAAP)	\$ 52,839	\$ 47,540

Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. Changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume (in thousands).

	Year Ended June 30, 2022 versus 2021		
	Rate	Volume	Net
Interest income:			
Loans receivable	\$ (925)	\$ 957	\$ 32
Investment securities	(802)	2,071	1,269
Other interest-earning assets	223	(108)	115
Total interest-earning assets	(1,504)	2,920	1,416
Interest expense:			
NOW accounts	(26)	75	49
Money market accounts	(377)	223	(154)
Savings and escrow accounts	(206)	53	(153)
Time deposits	(1,659)	(899)	(2,558)
FHLB advances	8	(873)	(865)
Total interest-bearing liabilities	(2,260)	(1,421)	(3,681)
Net increase in net interest income	\$ 756	\$ 4,341	\$ 5,097

Provision for Loan Losses. The provision for loan losses increased for the year ended June 30, 2022, compared to the previous year. The increase is primarily due to higher loan portfolio growth in the current year as well as a \$944,000 benefit for loan losses recorded in the prior year associated with the release of allowance for loan loss established in the year-ended June 30, 2020 associated with the COVID-19 pandemic. Recoveries, net of charge-offs, were \$274,000 for the year ended June 30, 2022, compared to charge-offs, net of recoveries, of \$85,000 for the previous year. Substandard loans were \$12.6 million as of June 30, 2022, a decrease from \$21.6 million as of June 30, 2021.

Noninterest Income

The following table displays noninterest income for the years ended June 30, (Dollars in thousands).

	2022	2021	Net Change	
			\$	%
Fees and service charges	\$ 1,640	\$ 1,428	\$ 212	14.8%
Bank-owned life insurance	754	549	205	37.3
Gain on sale of premises	548	-	548	100.0
Gain on sale of securities	-	113	(113)	-100.0
Net gains on sales of loans receivable	56	-	56	100.0
Swap income	785	367	418	113.9
Other	36	40	(4)	-10.0
Total noninterest income	\$ 3,819	\$ 2,497	\$ 1,322	52.9%

During the year ended June 30, 2022, the Company sold a parcel of unused land, resulting in the gain on sale of premises. The increase in swap income is due to increased loan originations. The increase in fees and service charges compared to the previous year was primarily the result of increases in debit card and interchange income, as well as increases in overdraft, ATM and wire fees which declined substantially during the beginning of the COVID-19 pandemic and have since recovered to near pre-pandemic levels. The increase in Bank-owned life insurance income is due to additional investments made in the prior fiscal year.

Noninterest Expense

The following table displays noninterest expense for the years ended June 30, (Dollars in thousands).

	2022	2021	\$	Net Change
				%
Salaries and employee benefits	\$ 23,416	\$ 22,517	\$ 899	4.0%
Occupancy and equipment	5,501	5,413	88	1.6
Communication and data processing	2,211	2,064	147	7.1
Merger-related expenses	1,252	-	1,252	100.0
Professional fees	1,673	1,690	(17)	-1.0
Postage, printing, stationery and supplies	620	589	31	5.3
FDIC assessment	496	463	33	7.1
Advertising	477	400	77	19.3
Amortization of intangible assets	62	78	(16)	-20.5
Other operating expenses	945	1,540	(595)	-38.6
Total noninterest expense	\$ 36,653	\$ 34,754	\$ 1,899	5.5%

The increase in salaries and employee benefits in the year ended June 30, 2022 compared to the previous year is primarily due to higher salary and ESOP costs. Merger-related expenses relate to the proposed Brookline Bancorp merger and primarily include professional services as well as other miscellaneous expenses. The decrease in other operating expenses for the year ended June 30, 2022 compared to the previous year is primarily due to lower pension costs in the current year.

Income Tax Expense. The effective income tax rate was 21.0% for the year ended June 30, 2022 as compared to 21.2% for the previous year, with the decrease largely driven by an increase in tax-exempt interest income on municipal investments and bank-owned life insurance income, largely offset by non-deductible merger-related expenses incurred in the current year.

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage our exposure to changes in market interest rates. Accordingly, we have established a management-level Asset/Liability Management Committee, which takes initial responsibility for developing an asset/liability management process and related procedures, establishing and monitoring reporting systems and developing asset/liability strategies. On at least a quarterly basis, the Asset/Liability Management Committee reviews asset/liability management with the Investment Asset/Liability Committee of the Board of Directors. This Committee also reviews any changes in strategies as well as the performance of any specific asset/liability management actions that have been implemented previously. On a quarterly basis, an outside consulting firm provides us with detailed information and analysis as to asset/liability management, including our interest rate risk profile. Ultimate responsibility for effective asset/liability management rests with our Board of Directors.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. We have implemented the following strategies to manage our interest rate risk: originating loans with adjustable interest rates; utilizing interest rate swaps, promoting core deposit products; and adjusting the interest rates and maturities of funding sources, as necessary. By following these strategies, we believe that we are better positioned to react to changes in market interest rates.

Net Portfolio Value Simulation. We analyze our sensitivity to changes in interest rates through a net portfolio value of equity (“NPV”) model. NPV represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities. The NPV ratio represents the dollar amount of our NPV divided by the present value of our total assets for a given interest rate scenario. NPV attempts to quantify our economic value using a discounted cash flow methodology while the NPV ratio reflects that value as a form of equity ratio. We estimate what our NPV would be at a specific date. We then calculate what the NPV would be at the same date throughout a series of interest rate scenarios representing immediate and permanent, parallel shifts in the yield curve. We currently calculate NPV under the assumptions that interest rates increase and decrease 100 and 200 basis points from current market rates. As a result of increases in market rates over the past year, the 50 basis point decrease scenario utilized in the prior year analysis was replaced by the 200 basis point decrease scenario.

The following table presents the estimated changes in our NPV that would result from changes in market interest rates at June 30, 2022 and 2021. All estimated changes presented in the table are within the policy limits approved by our Board of Directors (Dollars in thousands).

Basis Point Change in Interest Rates	NPV			NPV as Percent of Portfolio Value of Assets	
	Dollar Amount	Dollar Change	Percent Change	NPV Ratio	Change (in bps)
June 30, 2022:					
200	\$ 267,563	\$ (50,616)	(19.9)%	14.94%	(187)
100	294,042	(24,137)	(7.6)	15.96	(85)
-	318,179	-	-	16.81	-
(100)	349,957	31,778	10.0	17.90	109
(200)	382,642	64,463	20.3	18.96	215
June 30, 2021:					
200	\$ 270,679	\$ (37,814)	(12.3)%	15.21%	(122)
100	291,715	(16,778)	(5.4)	15.95	(48)
-	308,493	-	-	16.43	-
(50)	324,999	16,506	5.4	17.06	63
(100)	346,539	38,046	12.3	17.94	151

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The above table assumes that the composition of our interest-sensitive assets and liabilities existing at the date indicated remains constant uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our NPV and will differ from actual results.

Liquidity and Capital Resources

Liquidity. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments and maturities and sales of securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly review the need to adjust our investments in liquid assets based upon our assessment of: (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities, and (4) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At June 30, 2022, cash and cash equivalents totaled \$118.5 million, a decrease from \$159.3 million as of June 30, 2021. Unpledged securities classified as available for sale, which provide an additional source of liquidity, totaled \$18.5 million at June 30, 2022, a decrease from \$28.9 million as of June 30, 2021.

We had the ability to borrow up to \$280.9 million from the FHLBNY at June 30, 2022, of which \$48.3 million was outstanding as of June 30, 2022. Additionally, as of June 30, 2022, we had an available line of credit with the FRBNY's discount window program of \$96.3 million and \$25.0 million of fed funds lines of credit, neither of which had outstanding balances as of June 30, 2022.

We have no material commitments or demands that are likely to affect our liquidity other than as set forth below. If loan demand was to increase faster than expected, or any unforeseen demand or commitment was to occur, we could access our borrowing capacity with the FHLBNY or the FRBNY.

We had \$33.2 million of loan commitments outstanding as of June 30, 2022, and \$160.8 million of approved, but unadvanced, funds to borrowers. We also had \$2.9 million in outstanding letters of credit at June 30, 2022.

Time deposits due within one year of June 30, 2022 totaled \$198.6 million, a decrease of \$28.3 million from \$226.9 million as of June 30, 2021. If these deposits do not remain with us, we will be required to seek other sources of funds, including other time deposits and FHLBNY advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the time deposits at June 30, 2022. We believe, however, based on past experience that a significant portion of our time deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Liquidity is needed for financing and investing activities. The following table sets forth our primary investing and financing activities for the periods presented (in thousands).

	Year ended June 30,	
	2022	2021
Investing activities:		
Loan (originations) repayments, net	\$ (100,029)	\$ 32,928
Proceeds from maturities and calls of held to maturity debt securities	58,287	105,684
Proceeds from maturities and calls of available for sale debt securities	17,310	17,496
Proceeds from sales of available for sale debt securities	-	3,339
Purchases of held to maturity debt securities	(143,809)	(158,420)
Purchases of available for sale debt securities	-	(41,307)
Financing activities:		
Net increase in deposits	134,568	118,427
Decrease in FHLB advances	(17,634)	(40,132)
Repurchase of common stock	(7,863)	(16,608)

The Company is a separate legal entity from the Bank and must provide for its own liquidity to pay any dividends to its stockholders and for other corporate purposes. The Company's primary source of liquidity is dividend payments it may receive from the Bank. The Bank's ability to pay dividends to the Company is governed by applicable law and regulations. At June 30, 2022, the Company (on an unconsolidated, stand-alone basis) had liquid assets of \$18.4 million.

Capital Resources. PCSB Bank is subject to various regulatory capital requirements administered by the NYSDFS and the FDIC. At June 30, 2022, PCSB Bank exceeded all applicable regulatory capital requirements, and the Bank was considered "well capitalized" under applicable regulatory guidelines. See Note 15 of Notes to the Consolidated Financial Statements.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to originate loans, unused lines of credit and standby letters of credit, which involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. Our exposure to credit loss is represented by the contractual amount of the instruments. We use the same credit policies in making commitments as we do for on-balance sheet instruments. See Note 9 of Notes to the Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information regarding quantitative and qualitative disclosures about market risk appears under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the caption "Management of Market Risk".

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of PCSB Financial Corporation and Subsidiaries
Yorktown Heights, New York

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PCSB Financial Corporation and Subsidiaries (the "Company") as of June 30, 2022 and 2021, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the two years in the period ended June 30, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – Qualitative Factors

As described in Notes 1 and 4 to the consolidated financial statements, the allowance for loan losses is a valuation allowance for probable incurred losses inherent in the loan portfolio. The Company's consolidated allowance for loan losses was \$8,927,000 at June 30, 2022, which consisted of the allowance for loan losses allocated to loans individually evaluated for impairment ("specific component"), representing \$119,000, and loans collectively evaluated for impairment ("general component"), representing \$8,808,000. The general component is based on historical loss experience adjusted for qualitative factors which are determined based on the various risk characteristics of each loan segment.

The general component of the Company's allowance for loan losses involves consideration of various qualitative factors. Management's analysis of these qualitative factors requires significant judgment, and management's allocation of qualitative factors relies on a subjective analysis to determine the quantitative impact the qualitative factors have on the general component. We identified auditing management's analysis and allocation of the qualitative factors to the general component of the allowance for loan losses as a critical audit matter as it involved especially subjective auditor judgment.

The primary audit procedures we performed to address this critical audit matter included:

- Testing the effectiveness of controls over the qualitative factors, including controls addressing
 - The data used as the basis for the adjustments relating to qualitative factors; and,
 - Management's judgments and assumptions related to the determination of qualitative factors, including observable internal and external data, trends, and comparable peer allocations, and the resulting allocation to the allowance.
- Substantively testing management's process, including evaluating their judgments and assumptions, for developing the qualitative factors which included
 - Testing the data used for the adjustments relating to the qualitative factors;
 - Evaluation of the reasonableness of management's judgments and assumptions related to the qualitative and quantitative assessment of the data used in the determination of qualitative factors, including observable internal and external data, trends, and comparable peer allocations, and the resulting allocation to the allowance for loan losses;
 - Analytically evaluating the qualitative factor allocation for reasonableness; and,
 - Evaluation of mathematical accuracy of the qualitative factor reserve calculation.

/s/ Crowe LLP

We have served as the Company's auditor since 2007.

Livingston, New Jersey
September 9, 2022

PCSB Financial Corporation and Subsidiaries
Consolidated Balance Sheets
(amounts in thousands, except share and per share data)

	June 30, 2022	June 30, 2021
ASSETS		
Cash and due from banks	\$ 116,522	\$ 152,070
Federal funds sold	1,935	7,235
Total cash and cash equivalents	118,457	159,305
Held to maturity debt securities, at amortized cost (fair value of \$361,608 and \$342,137 as of June 30, 2022 and June 30, 2021, respectively)	412,449	337,584
Available for sale debt securities, at fair value	34,621	57,387
Total investment securities	447,070	394,971
Loans receivable, net of allowance for loan losses of \$8,927 and \$7,881 as of June 30, 2022 and June 30, 2021, respectively	1,329,372	1,229,451
Accrued interest receivable	6,396	6,398
FHLB stock	3,766	4,507
Premises and equipment, net	19,358	21,099
Deferred tax asset, net	4,132	2,552
Bank-owned life insurance	36,322	35,568
Goodwill	6,106	6,106
Other intangible assets	89	151
Other assets	18,064	14,827
Total assets	\$ 1,989,132	\$ 1,874,935
LIABILITIES AND SHAREHOLDERS' EQUITY		
Interest bearing deposits	\$ 1,380,953	\$ 1,272,610
Non-interest bearing deposits	245,297	219,072
Total deposits	1,626,250	1,491,682
Mortgage escrow funds	11,173	10,536
Advances from FHLB	48,323	65,957
Other liabilities	26,224	32,200
Total liabilities	1,711,970	1,600,375
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock (\$0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding as of June 30, 2022 and June 30, 2021)	-	-
Common stock (\$0.01 par value, 200,000,000 shares authorized, 18,703,577 shares issued as of both June 30, 2022 and June 30, 2021, and 15,334,857 and 15,770,645 shares outstanding as of June 30, 2022 and June 30, 2021, respectively)	187	187
Additional paid in capital	193,893	189,926
Retained earnings	162,262	150,987
Unearned compensation - ESOP	(9,208)	(10,176)
Accumulated other comprehensive loss, net of income taxes	(8,629)	(3,099)
Treasury stock, at cost (3,368,720 and 2,932,932 shares as of June 30, 2022 and June 30, 2021, respectively)	(61,343)	(53,265)
Total shareholders' equity	277,162	274,560
Total liabilities and shareholders' equity	\$ 1,989,132	\$ 1,874,935

See accompanying notes to the consolidated financial statements

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Operations
(amounts in thousands, except share and per share data)

	Year Ended June 30,	
	2022	2021
Interest and dividend income		
Loans receivable	\$ 49,502	\$ 49,470
Investment securities	8,609	7,340
Federal funds and other	569	454
Total interest and dividend income	58,680	57,264
Interest expense		
Deposits and escrow interest	5,075	7,891
FHLB advances	1,166	2,031
Total interest expense	6,241	9,922
Net interest income	52,439	47,342
Provision (benefit) for loan losses	772	(673)
Net interest income after provision (benefit) for loan losses	51,667	48,015
Noninterest income		
Fees and service charges	1,640	1,428
Bank-owned life insurance	754	549
Gain on sale of premises	548	-
Swap income	785	367
Gains on sales of loans receivable	56	-
Gains on sales of securities	-	113
Other	36	40
Total noninterest income	3,819	2,497
Noninterest expense		
Salaries and employee benefits	23,416	22,517
Occupancy and equipment	5,501	5,413
Merger-related expenses	1,252	-
Communication and data processing	2,211	2,064
Professional fees	1,673	1,690
Postage, printing, stationery and supplies	620	589
FDIC assessment	496	463
Advertising	477	400
Amortization of intangible assets	62	78
Other operating expenses	945	1,540
Total noninterest expense	36,653	34,754
Net income before income tax expense	18,833	15,758
Income tax expense	3,954	3,334
Net income	\$ 14,879	\$ 12,424
Earnings per common share:		
Basic	\$ 1.05	\$ 0.84
Diluted	1.04	0.84
Weighted average common shares outstanding:		
Basic	14,232,855	14,846,786
Diluted	14,289,020	14,847,579

See accompanying notes to the consolidated financial statements

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(amounts in thousands)

	Year ended June 30,	
	2022	2021
Net income	\$ 14,879	\$ 12,424
Other comprehensive income:		
Unrealized (losses) gains on available for sale debt securities:		
Net change in unrealized gains/losses before reclassification adjustment	(5,302)	(316)
Reclassification adjustment for gains realized in net income	-	(52)
Net change in unrealized gains/losses	(5,302)	(368)
Tax effect	1,113	77
Net of tax	(4,189)	(291)
Defined benefit pension plan:		
Net (loss) gain arising during the period	(2,109)	3,343
Reclassification adjustment for amortization of prior service cost and net gain included in net periodic pension cost	340	1,151
Net change in unrealized gains/losses	(1,769)	4,494
Tax effect	372	(944)
Net of tax	(1,397)	3,550
Supplemental retirement plans:		
Net gain arising during the period	5	2
Reclassification adjustment for amortization of prior service cost and net gain included in net periodic pension cost	65	55
Net change in unrealized gains/losses	70	57
Tax effect	(14)	(12)
Net of tax	56	45
Total other comprehensive (loss) income	(5,530)	3,304
Comprehensive income	\$ 9,349	\$ 15,728

See accompanying notes to the consolidated financial statements

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
(amounts in thousands, except share and per share data)

	Number of Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Unallocated Common Stock of ESOP	Other Comprehensive Loss	Treasury Stock, at cost	Total Shareholders' Equity
Balance at July 1, 2020	16,898,137	\$ 187	\$ 186,200	\$ 141,288	\$ (11,145)	\$ (6,403)	\$ (36,414)	\$ 273,713
Net income	-	-	-	12,424	-	-	-	12,424
Other comprehensive loss	-	-	-	-	-	3,304	-	3,304
Common stock dividends declared (\$0.18 per share)	-	-	-	(2,725)	-	-	-	(2,725)
Repurchase of common stock	(1,102,674)	-	-	-	-	-	(16,608)	(16,608)
Restricted stock awards granted	3,000	-	(60)	-	-	-	60	-
Forfeiture of restricted stock	(8,718)	-	-	-	-	-	-	-
Shares withheld related to income tax withholding	(19,100)	-	-	-	-	-	(303)	(303)
Stock-based compensation	-	-	3,269	-	-	-	-	3,269
ESOP shares committed to be released (96,881 shares)	-	-	517	-	969	-	-	1,486
Balance at June 30, 2021	15,770,645	187	189,926	150,987	(10,176)	(3,099)	(53,265)	274,560
Net income	-	-	-	14,879	-	-	-	14,879
Other comprehensive loss	-	-	-	-	-	(5,530)	-	(5,530)
Common stock dividends declared (\$0.25 per share)	-	-	-	(3,604)	-	-	-	(3,604)
Repurchase of common stock	(424,794)	-	-	-	-	-	(7,863)	(7,863)
Restricted stock awards granted	8,000	-	(145)	-	-	-	145	-
Shares withheld related to income tax withholding	(18,994)	-	-	-	-	-	(360)	(360)
Stock-based compensation	-	-	3,270	-	-	-	-	3,270
ESOP shares committed to be released (96,881 shares)	-	-	842	-	968	-	-	1,810
Balance at June 30, 2022	15,334,857	\$ 187	\$ 193,893	\$ 162,262	\$ (9,208)	\$ (8,629)	\$ (61,343)	\$ 277,162

See accompanying notes to the consolidated financial statements

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(amounts in thousands)

	Year ended June 30,	
	2022	2021
OPERATING ACTIVITIES		
Net income	\$ 14,879	\$ 12,424
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (benefit) for loan losses	772	(673)
Depreciation and amortization	2,969	2,974
Amortization of net premiums on securities and net deferred loan origination costs	285	642
Net decrease in accrued interest receivable	2	482
Deferred income tax credit, net of valuation reserves	(126)	(333)
Gains on sales of securities	-	(113)
Gains on sales of loans receivable	(56)	-
Gain on sale of premises	(548)	-
Stock-based compensation	3,270	3,269
ESOP compensation	1,810	1,486
Earnings from cash surrender value of BOLI	(754)	(549)
Originations of loans receivable held for sale	(3,708)	-
Proceeds from loans receivable held for sale	3,764	-
Net accretion of purchase accounting adjustments	(110)	(249)
Other adjustments, principally net changes in other assets and liabilities	(1,638)	(4,269)
Net cash provided by operating activities	20,811	15,091
INVESTING ACTIVITIES		
Purchases of investment securities:		
Held to maturity	(143,809)	(158,420)
Available for sale	-	(41,307)
Sale of investment securities available for sale	-	3,339
Maturities, calls and amortization of investment securities:		
Held to maturity	58,287	105,684
Available for sale	17,310	17,496
Loan (originations) repayments, net	(100,029)	32,928
Net redemption of FHLB stock	741	1,801
Purchase of BOLI	-	(10,000)
Net sale (purchase) of bank premises and equipment	97	(2,681)
Net cash used in investing activities	(167,403)	(51,160)
FINANCING ACTIVITIES		
Net increase in deposits	134,568	118,427
Net decrease in short-term FHLB advances	-	(10,000)
Repayment of long-term FHLB advances	(17,634)	(30,132)
Net increase in mortgage escrow funds	637	413
Common stock dividends paid	(3,604)	(2,725)
Repurchase of shares from employees for income tax withholding purpose	(360)	(303)
Repurchase of common stock	(7,863)	(16,608)
Net cash provided by financing activities	105,744	59,072
Net (decrease) increase in cash and cash equivalents	(40,848)	23,003
Cash and cash equivalents at beginning of period	159,305	136,302
Cash and cash equivalents at end of period	\$ 118,457	\$ 159,305
Supplemental information:		
Cash paid for:		
Interest	\$ 6,293	\$ 10,023
Income taxes	4,536	5,839
Establishment of right to use lease asset	715	436
Transfers from premises and equipment to other assets	398	-

See accompanying notes to the consolidated financial statements

PCSB Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Basis of Presentation

Nature of Operations: PCSB Financial Corporation (the “Holding Company” and together with its direct and indirect subsidiaries, the “Company”) is a Maryland corporation organized by PCSB Bank (the “Bank”) for the purpose of acquiring all of the capital stock of the Bank issued in the Bank’s conversion to stock ownership on April 20, 2017. At June 30, 2022, the significant assets of the Holding Company were the capital stock of the Bank, investments retained by the Holding Company, and a loan to the PCSB Bank Employee Stock Ownership Plan (“ESOP”). The liabilities of the Holding Company were insignificant. The Company is subject to the financial reporting requirements of the Securities Exchange Act of 1934, as amended. The Company is subject to regulation and examination by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”).

PCSB Bank is a community-oriented financial institution that provides financial services to individuals and businesses within its market area of Putnam, Southern Dutchess, Rockland and Westchester Counties in New York. The Bank is a state-chartered commercial bank and its deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (“FDIC”). The Bank’s primary regulators are the FDIC and the New York State Department of Financial Services.

Basis of Presentation: The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and include the accounts of the Holding Company, the Bank and the Bank’s two subsidiaries – PCSB Funding Corp., and UpCounty Realty Corp. (formerly PCSB Realty Ltd.). PCSB Funding Corp. is a real estate investment trust that holds certain mortgage assets. UpCounty Realty Corp. is a corporation that holds certain properties foreclosed upon by the Bank. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, short-term borrowings and interest-bearing deposits in other financial institutions.

Investment Securities: Certain debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. All other debt securities are classified as available for sale. The Company has no trading securities.

Debt securities available for sale are reported at fair value. Unrealized gains and losses on debt securities available for sale are excluded from earnings and reported as accumulated other comprehensive income or loss (a separate component of equity), net of related income taxes.

Discounts on debt securities are amortized to interest income on a level-yield basis over the terms of the securities, while premiums are amortized on a level-yield basis to the earlier of the call date or term of the security. Realized gains and losses on sales of debt securities are determined based on the amortized cost of the specific securities sold.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans Receivable: The Company originates and purchases mortgage loans generally secured by existing single-family residential and commercial real estate properties and, to a lesser extent, properties under construction and development. The Company also originates commercial business loans and certain types of consumer loans. A substantial portion of the Company's loan portfolio is secured by real estate properties primarily located in the New York counties of Putnam, Westchester, and Dutchess, and to a lesser extent, New York City and the adjacent New York counties of Orange and Rockland. The ability of the Company's borrowers to make principal and interest payments is dependent upon, among other things, the level of overall economic activity and the real estate market conditions prevailing within the Company's concentrated lending area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, unamortized purchase premiums and discounts, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Interest income on loans is discontinued at the time the loan is ninety days delinquent unless the loan is well secured and in process of collection. Loan purchase premiums and discounts are amortized over the contractual term of the loans. When loans are placed on non-accrual status, previously accrued but unpaid interest is reversed from income. Interest received on non-accrual loans is applied directly against the principal balance. Loans are returned to accrual status when all the principal and interest contractually due are brought current and future payments are reasonably assured.

Loan origination fees and certain direct loan origination costs are deferred and amortized to interest income as an adjustment to yield over the contractual term of the loans. Unamortized fees and costs on prepaid loans are recognized in interest income at the time of prepayment.

Purchased Credit Impaired Loans: The Company purchases individual loans and groups of loans, some of which have shown evidence of credit deterioration since origination. These purchased credit impaired loans are recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses.

Such purchased credit impaired loans are accounted for individually or aggregated into pools of loans based on common risk characteristics, such as credit score, loan type, and date of origination. The Company estimates the amount and timing of expected cash flows for each loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accrable yield). The excess of the loan's or pool's contractual principal and interest over expected cash flows is not recorded (nonaccrable difference).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, an allowance is recorded as a provision for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred loan losses. The allowance for loan losses is increased by provisions for loan losses charged to income. Losses are charged to the allowance for loan losses when all or a portion of a loan is deemed to be uncollectible. Recoveries of loans previously charged off are credited to the allowance when realized. In management's judgment, the allowance for loan losses is adequate to absorb probable incurred losses in the existing loan portfolio.

Establishing the allowance for loan losses involves significant management judgments utilizing the best information available at the time. Those judgments are subject to further examination by the Bank's regulators. Future adjustments to the allowance for loan losses may be necessary based on changes in economic and real estate market conditions, further information obtained regarding known problem loans, the identification of additional problem loans, and other factors.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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 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 loans evaluated under the Company's normal loan review procedures. Loans evaluated on an individual basis for impairment may be measured by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the fair value of an impaired loan is less than its recorded investment, an impairment allowance is recognized and included in the allowance for loan losses.

Troubled debt restructurings are separately identified for impairment disclosures and are initially measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over a thirty-six month period, with heaviest weight placed on the most recent periods. This actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following: lending policies, underwriting, charge-off and collection procedures; national and local economic trends and conditions; trends in nature and volume of the loan portfolio; experience, ability, and depth of lending management and other relevant staff; trends in delinquencies, classified loans and restructurings; quality of the loan review system and Board oversight; value of underlying collateral for collateral dependent loans; existence and effect of concentrations and levels; and effects of external factors, such as competition, legal and regulatory factors. The following portfolio segments have been identified: residential, commercial mortgage, construction, commercial, home equity and consumer and overdrafts.

The risk characteristics of each of the identified portfolio segments are as follows:

Residential Loans – residential loans are generally made on the basis of the borrower's ability to make repayment from his or her employment income or other income and are secured by real property whose value tends to be more easily ascertainable. Repayment of residential loans is subject to adverse employment conditions in the local economy leading to increased default rates and decreased market values from oversupply in a geographic area. In general, these loans depend on the borrower's continuing financial stability and, therefore, are likely to be adversely affected by various factors, including job loss, divorce, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Commercial Mortgage Loans – commercial mortgage loans, including multifamily real estate loans, are secured by multifamily and nonresidential real estate and generally have larger balances and involve a greater degree of risk than residential real estate loans. Repayment of commercial mortgage loans depend on the global cash flow analysis of the borrower and the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. Of primary concern in commercial real estate lending is the borrower's creditworthiness and the cash flow generated from the property securing the loan. As a result, repayment of such loans may be subject, to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy. Commercial real estate is also subject to adverse market conditions that cause a decrease in market value or lease rates, obsolescence in location or function and market conditions associated with over supply of units in a specific region.

Construction Loans – construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, additional funds may be required to be advanced in excess of the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, the value of the building may be insufficient to assure full repayment if liquidation is required. If foreclosure is required on a building before or at completion due to a default, there can be no assurance that all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs will be recovered.

Commercial Loans – commercial loans are generally of higher risk than other types of loans and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. Furthermore, any collateral securing such loans may depreciate over time, may be difficult to appraise, and may fluctuate in value.

Home Equity Lines of Credit – home equity lines of credit consist of both fixed and variable interest rate products. These are primarily home equity loans to residential mortgage customers within our primary market area. These loans generally will not exceed a combined (i.e., first and second mortgage) loan-to-value ratio of 75% percent at origination.

Consumer and overdraft loans – consumer loans generally have shorter terms and higher interest rates than one-to-four family mortgage loans. In addition, consumer loans expand the products and services we offer to better meet the financial services needs of our customers. Consumer loans generally involve greater credit risk than residential mortgage loans because of the difference in the underlying collateral. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance because of the greater likelihood of damage to, loss of, or depreciation in the underlying collateral. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections depend on the borrower's personal financial stability. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Foreclosed Real Estate: Assets acquired through or in lieu of loan foreclosure are initially recorded at fair value, less estimated costs to sell, when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

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

Premises and Equipment: Premises and equipment are reported at cost less accumulated depreciation and amortization, except for land which is carried at cost. Depreciation expense is recognized on a straight-line basis over the estimated useful lives of the related assets. Amortization of leasehold improvements is recognized on a straight-line basis over the term of the lease or the life of the improvement, whichever is shorter. Costs incurred to improve or extend the life of the existing assets are capitalized. Repairs and maintenance, as well as renewals and replacements of a routine nature, are charged to expense as incurred. Right-of-use assets represent our right to use an underlying asset for the lease term. Right-to-use assets are recognized at the lease commencement date based on the estimated present value of future lease payments and amortized over the lease term. Corresponding lease liabilities are recorded in other liabilities at the lease commencement date and represent the present value of future lease payments.

Bank Owned Life Insurance (BOLI): BOLI policies are reflected on the consolidated statements of financial condition at cash surrender value, net of other charges or amounts due that are probable at settlement. Changes in the net cash surrender value of the policies, as well as insurance proceeds received, are reflected in non-interest income on the consolidated statements of operations and are not subject to income taxes.

Goodwill and Other Intangible Assets: Goodwill resulting from business combinations is determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. The Company operates as a single reporting unit. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

The Company has selected June 30th as the date to perform the annual impairment test, with an impairment loss recorded if indicated. In assessing impairment, we have the option to perform a qualitative analysis to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount. If, after assessing the totality of such events or circumstances, we determine it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, then we would not be required to perform a quantitative impairment test. Otherwise, the Company compares the fair value of the reporting unit with its carrying amount, including goodwill. An impairment loss is recorded in current period earnings to the extent the carrying amount of the reporting unit exceeds its fair value.

Other intangible assets, consisting of a core deposit intangible asset arising from a whole bank acquisition, are amortized on an accelerated method over their estimated useful lives of 10 years.

Mortgage Banking Activities and Mortgage Loans Held For Sale:

The Company originates 1-4 family residential mortgages and may elect to sell these loans in the secondary market. Loans held for sale are those loans which management has the intent to sell in the foreseeable future and are carried at the lower of aggregate cost or market value. Net unrealized losses, if any, are recognized by a valuation allowance through a charge to noninterest income. Realized gains and losses on the sale of loans, as well as loan origination costs, are recorded as a component of noninterest income in the Consolidated Statements of Operations and are recognized on the trade date and are determined by the difference between the sale proceeds and the carrying value of the loans.

Loans may be sold with servicing rights released or retained. At the time of the sale, management records a servicing asset for the value of any retained servicing rights, which represents the present value of the differential between the contractual servicing fee and adequate compensation, defined as the fee a sub-servicer would require to assume the role of servicer, after considering the estimated effects of prepayments.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor does not maintain effective control over the transferred assets through either (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

Assets Held For Sale: Assets held for sale are those assets which management has the intent to sell in the foreseeable future, and are carried at the lower of aggregate cost or fair value, less estimated costs to sell, in the period in which the held for sale criteria are met and every subsequent period until the asset is sold. The carrying amount of the asset is adjusted for subsequent increases or decreases in its fair value, less estimated cost to sell, except that any subsequent increase cannot exceed the cumulative loss previously recognized. Such assets are not depreciated or amortized while they are classified as held for sale. Realized gains and losses on the sale of the asset is recognized when the asset is sold and is determined by the difference between the sale proceeds and the carrying value of the asset. Assets classified as held for sale totaled \$1.5 million as of both June 30, 2022 and June 30, 2021 and are included in other assets on the consolidated balance sheet.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Derivatives: At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to the likely effectiveness as a hedge. These three types are: (1) a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item, are recognized in the current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedge transaction affects earnings. For both types of hedges, changes in fair value of the derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. The documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Income Taxes: Income tax expense is the total of current period income tax due or refundable and the change in net deferred tax assets. Deferred tax assets and liabilities are recognized for the estimated future tax effects attributable to "temporary differences" between the financial statement carrying amounts and tax bases of existing assets and liabilities. Deferred tax assets are reduced by a valuation allowance if, based on an analysis of available evidence, management determines that it is more likely than not that some portion or all of the deferred tax assets will not be realized. Adjustments to increase or decrease the valuation allowance are charged or credited, respectively, to income tax expense.

Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in future years. The effect on deferred tax assets and liabilities of a change in tax laws or rates is recognized in the period that includes the enactment date of the change.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Share: Basic earnings per share is net income divided by the weighted average number of common share outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under dilutive financial instruments, which include stock options and unvested restricted stock. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of the issuance of the financial statements.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees and non-employee directors based on the fair value of these awards at the grant date. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company's policy is to recognize forfeitures as they occur.

Employee Benefit Plans: The Company maintains the PCSB Bank 401(k) Plan (the "401(k) Plan") for substantially all of its employees, and the Retirement Plan of PCSB Bank (the "Employee Retirement Plan"), a defined benefit pension plan, as well as Supplemental Executive Retirement Plans (the "SERPs"), all of which are tax qualified under the Internal Revenue Code.

Employee 401(k) expense is the amount of matching contributions. Pension expense is the net of service and interest cost, return on plan assets and amortization of gains and losses not immediately recognized. SERP expense is the net of interest cost and service cost, which allocates the benefits over years of service.

The Holding Company and Bank maintain the PCSB Bank Employee Stock Ownership Plan (the “ESOP”). Compensation expense related to the ESOP is recorded during the period in which the shares become committed to be released to participants. The compensation expense is measured based upon the average fair market value of the stock during the period, and, to the extent that the fair value of the shares committed to be released differs from the original cost of such shares, the difference is recorded as an adjustment to additional paid-in capital.

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

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Segment Reporting: While management monitors the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications: Certain prior period amounts have been reclassified to conform to the current presentation. Reclassifications had no effect on prior period net income or equity.

Note 2. Recent Accounting Pronouncements

The pronouncements discussed below are not intended to be an all-inclusive list, but rather only those pronouncements that could potentially have a material impact on our financial position, results of operations or disclosures.

Future Application of Accounting Pronouncements Previously Issued

In June 2016, the FASB issued ASU 2016-13 “Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 affects entities holding financial assets that are not accounted for at fair value through net income, including loans, debt securities, and other financial assets. The ASU requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected by recording an allowance for current expected credit losses. In October 2019, the FASB unanimously voted to delay the implementation of the standard for three years for certain companies, including small reporting companies (as defined by the SEC), non-SEC public companies and private companies. The Company currently qualifies as a small reporting company and is subject to the delayed implementation. Therefore, the amendments in this update will be effective for the Company for the fiscal year beginning on July 1, 2023, including interim periods within that fiscal year. The Company is actively working through the provisions of the Update. Management has established a steering committee which is identifying the methodologies and the additional data requirements necessary to implement the Update and has engaged a third-party software service provider to assist in the Company's implementation. Management is currently evaluating the impact that ASU 2016-13 will have on the Company's consolidated financial position and results of operations and its disclosures.

The FASB issued ASU 2020-04 “Reference Rate Reform” and ASU 2021-01 “Reference Rate Reform Scope” which collectively address accounting considerations related to the expected discontinuation of LIBOR as a reference rate for financial contracts. These Updates provide optional expedites and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform (codified in ASC 848). They include optional expedites related to contract modifications that allow an entity to account for modifications (if certain criteria are met) as if the modifications were only minor (assets within the scope of ASC 310, Receivables), were not substantial (assets within the scope of ASC 470, Debt) and/or did not result in re-measurements or reclassifications (assets within the scope of ASC 842, Leases, and other Topics) of the existing contract. They also include optional expedites and exceptions for contract modifications and hedge accounting that apply to derivative instruments impacted by the market-wide discounting transition. The Updates also allow for a one-time election to sell, transfer, or both sell and transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that are classified as held to maturity before January 1, 2020. The guidance in these ASUs are effective as of March 12, 2020 through December 31, 2022. The Company has not yet elected to apply the practical expedites contained in these Updates and does not expect significant impact to the consolidated financial statements upon adoption.

Note 3. Investment Securities

The amortized cost, gross unrealized/unrecognized gains and losses and fair value of available for sale and held to maturity securities at June 30, 2022 and 2021 were as follows (in thousands) :

	June 30, 2022					
	Amortized Cost	Gross		Unrealized/Unrecognized		Fair Value
		Gains	Losses			
Available for sale debt securities						
U.S. Government and agency obligations	\$ 10,942	\$ -	\$ (1,014)	\$ 9,928		
Corporate	5,000	4	(150)	4,854		
State and municipal	7,040	-	(2,244)	4,796		
Mortgage-backed securities – residential	14,351	5	(1,644)	12,712		
Mortgage-backed securities – commercial	2,416	-	(85)	2,331		
Total available for sale debt securities	\$ 39,749	\$ 9	\$ (5,137)	\$ 34,621		
Held to maturity debt securities						
U.S. Government and agency obligations	\$ 59,995	\$ 6	\$ (3,046)	\$ 56,955		
Corporate	52,076	111	(2,796)	49,391		
State and municipal	87,111	-	(22,307)	64,804		
Mortgage-backed securities – residential	101,525	4	(9,746)	91,783		
Mortgage-backed securities – collateralized mortgage obligations	24,198	-	(2,124)	22,074		
Mortgage-backed securities – commercial	87,544	-	(10,943)	76,601		
Total held to maturity debt securities	\$ 412,449	\$ 121	\$ (50,962)	\$ 361,608		

	June 30, 2021					
	Amortized Cost	Gross		Unrealized/Unrecognized		Fair Value
		Gains	Losses			
Available for sale debt securities						
U.S. Government and agency obligations	\$ 21,931	\$ 6	\$ (121)	\$ 21,816		
Corporate	8,013	176	-	8,189		
State and municipal	7,041	104	(30)	7,115		
Mortgage-backed securities – residential	17,738	148	(232)	17,654		
Mortgage-backed securities – commercial	2,490	123	-	2,613		
Total available for sale debt securities	\$ 57,213	\$ 557	\$ (383)	\$ 57,387		
Held to maturity debt securities						
U.S. Government and agency obligations	\$ 33,994	\$ 202	\$ (84)	\$ 34,112		
Corporate	43,605	1,312	(38)	44,879		
State and municipal	57,625	440	(248)	57,817		
Mortgage-backed securities – residential	96,181	2,713	(107)	98,787		
Mortgage-backed securities – collateralized mortgage obligations	33,300	376	(328)	33,348		
Mortgage-backed securities – commercial	72,879	937	(622)	73,194		
Total held to maturity debt securities	\$ 337,584	\$ 5,980	\$ (1,427)	\$ 342,137		

No securities were sold during the year ended June 30, 2022. For the year ended June 30, 2021, the Company sold \$5.0 million of securities which resulted in \$113,000 of net realized gains, which included the disposal of \$1.6 million of securities classified as held to maturity, resulting in \$61,000 of net realized gains. These held to maturity securities were comprised of seasoned mortgage-backed securities where the Company collected a substantial portion (at least 85%) of the principal outstanding at acquisition due to prepayments or scheduled payments payable in equal installments, comparing both principal and interest over terms. The disposal of held to maturity securities is included in the maturities and calls of investment securities caption on the consolidated statements of cash flows.

The following table presents the fair value and carrying amount of debt securities at June 30, 2022 by contractual maturity (in thousands). Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Held to maturity		Available for sale	
	Carrying Amount	Fair Value	Amortized Cost	Fair Value
1 year or less	\$ 5,115	\$ 5,118	\$ -	\$ -
1 to 5 years	65,970	62,620	5,000	4,778
5 to 10 years	43,801	41,130	10,942	10,004
over 10 years	80,441	58,839	7,040	4,796
Mortgage-backed securities and other	217,122	193,901	16,767	15,043
Total	\$ 412,449	\$ 361,608	\$ 39,749	\$ 34,621

Securities pledged had carrying amounts of \$202.9 million and \$180.1 million at June 30, 2022 and 2021, respectively, and were pledged principally to secure FHLB advances and public deposits.

The following tables provide information regarding investment securities with unrealized/unrecognized losses, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position at June 30, 2022 and 2021 (in thousands):

	June 30, 2022					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized/Unrecognized Loss	Fair Value	Unrealized/Unrecognized Loss	Fair Value	Unrealized/Unrecognized Loss
Available for sale						
U.S. Government and agency obligations	\$ 2,774	\$ (226)	\$ 7,154	\$ (788)	\$ 9,928	\$ (1,014)
Corporate	2,850	(150)	-	-	2,850	(150)
State and municipal	2,860	(1,162)	1,936	(1,082)	4,796	(2,244)
Mortgage-backed securities – residential	3,616	(81)	8,394	(1,563)	12,010	(1,644)
Mortgage-backed securities – commercial	2,331	(85)	-	-	2,331	(85)
Total available for sale	\$ 14,431	\$ (1,704)	\$ 17,484	\$ (3,433)	\$ 31,915	\$ (5,137)
Held to maturity						
U.S. Government and agency obligations	\$ 39,883	\$ (2,616)	\$ 5,066	\$ (430)	\$ 44,949	\$ (3,046)
Corporate	39,758	(2,796)	-	-	39,758	(2,796)
State and municipal	61,847	(20,696)	2,957	(1,611)	64,804	(22,307)
Mortgage-backed securities – residential	87,364	(9,063)	3,994	(683)	91,358	(9,746)
Mortgage-backed securities – collateralized mortgage obligations	13,611	(642)	8,390	(1,482)	22,001	(2,124)
Mortgage-backed securities – commercial	50,434	(5,515)	26,166	(5,428)	76,600	(10,943)
Total held to maturity	\$ 292,897	\$ (41,328)	\$ 46,573	\$ (9,634)	\$ 339,470	\$ (50,962)

	June 30, 2021							
	Less than 12 months		12 months or greater		Total			
	Fair Value	Unrealized/Unrecognized Loss	Fair Value	Unrealized/Unrecognized Loss	Fair Value	Unrealized/Unrecognized Loss		
Available for sale								
U.S. Government and agency obligations	\$ 14,811	\$ (121)	\$ -	\$ -	\$ 14,811	\$ (121)		
State and municipal	2,990	(30)	-	-	2,990	(30)		
Mortgage-backed securities – residential	9,615	(222)	1,339	(10)	10,954	(232)		
Total available for sale	\$ 27,416	\$ (373)	\$ 1,339	\$ (10)	\$ 28,755	\$ (383)		
Held to maturity								
U.S. Government and agency obligations	\$ 19,409	\$ (84)	\$ -	\$ -	\$ 19,409	\$ (84)		
Corporate	2,488	(13)	4,975	(25)	7,463	(38)		
State and municipal	19,980	(248)	-	-	19,980	(248)		
Mortgage-backed securities – residential	30,335	(107)	-	-	30,335	(107)		
Mortgage-backed securities – collateralized mortgage obligations	15,133	(328)	-	-	15,133	(328)		
Mortgage-backed securities – commercial	47,580	(622)	-	-	47,580	(622)		
Total held to maturity	\$ 134,925	\$ (1,402)	\$ 4,975	\$ (25)	\$ 139,900	\$ (1,427)		

For the year ended June 30, 2022, the Company's securities portfolio consisted of \$447.1 million in securities, of which 301 securities with a fair value of \$371.4 million were in an unrealized loss position. Non-U.S. government and agency obligations are internally pass rated and are subject to quarterly credit monitoring.

There were no securities for which the Company believes it is not probable that it will collect all amounts due according to the contractual terms of the security as of June 30, 2022 and 2021. Management believes the unrealized losses are primarily a result of changing interest rates. The Company has determined that it does not intend to sell, or it is more likely than not that it will not be required to sell, its securities that are in an unrealized loss position prior to the recovery of its amortized cost basis. Therefore, the Company did not consider any securities to be other-than-temporarily impaired as of June 30, 2022 and 2021.

Note 4. Loans Receivable

Loans receivable are summarized as follows (in thousands):

	June 30, 2022	June 30, 2021
Mortgage loans:		
Residential	\$ 214,167	\$ 224,305
Commercial	942,130	826,624
Construction	20,896	10,151
Net deferred loan origination (fees) costs	(100)	196
Total mortgage loans	1,177,093	1,061,276
Commercial and consumer loans:		
Commercial loans (1)	136,304	150,658
Home equity lines of credit	23,688	25,439
Consumer and overdrafts	594	345
Net deferred loan origination costs (fees)	620	(386)
Total commercial and consumer loans	161,206	176,056
Total loans receivable	1,338,299	1,237,332
Allowance for loan losses	(8,927)	(7,881)
Loans receivable, net	\$ 1,329,372	\$ 1,229,451

⁽¹⁾Includes PPP loans of \$1.9 million and \$37.0 million as of June 30, 2022 and 2021, respectively. No allowance for loan loss was established for these loans as they are fully guaranteed by the Small Business Administration.

The following tables present the activity in the allowance for loan losses by portfolio segment (in thousands):

	Year Ended June 30, 2022				
	Beginning Allowance	Provision (benefit)	Charge-offs	Recoveries	Ending Allowance
Residential mortgages	\$ 337	\$ (24)	\$ -	\$ 10	\$ 323
Commercial mortgages	6,435	916	-	-	7,351
Construction	102	107	-	-	209
Commercial loans	948	(253)	(122)	409	982
Home equity lines of credit	54	(11)	-	8	51
Consumer and installment loans	5	37	(37)	6	11
Total	\$ 7,881	\$ 772	\$ (159)	\$ 433	\$ 8,927

	Year Ended June 30, 2021				
	Beginning Allowance	Provision (benefit)	Charge-offs	Recoveries	Ending Allowance
Residential mortgages	\$ 373	\$ (53)	\$ -	\$ 17	\$ 337
Commercial mortgages	6,913	(478)	-	-	6,435
Construction	165	(63)	-	-	102
Commercial loans	1,124	(90)	(258)	172	948
Home equity lines of credit	60	(14)	-	8	54
Consumer and installment loans	4	25	(27)	3	5
Total	\$ 8,639	\$ (673)	\$ (285)	\$ 200	\$ 7,881

The following tables present the balance in the allowance for loan losses and the recorded investment in loans, excluding net deferred fees and accrued interest, by portfolio segment, and based on impairment method (in thousands):

June 30, 2022									
	Loans					Allowance for Loan Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired With Deteriorated Credit Quality		Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired With Deteriorated Credit Quality	
			With Deteriorated Credit Quality	Total				With Deteriorated Credit Quality	
Residential mortgages	\$ 1,613	\$ 212,333	\$ 221	\$ 214,167	\$ 110	\$ 213	\$ -	\$ -	\$ 323
Commercial mortgages	4,778	936,493	859	942,130	-	7,351	-	-	7,351
Construction	2,792	18,104	-	20,896	-	209	-	-	209
Commercial loans	783	135,521	-	136,304	-	982	-	-	982
Home equity lines of credit	452	23,147	89	23,688	9	42	-	-	51
Consumer and overdrafts	-	594	-	594	-	11	-	-	11
Total	\$ 10,418	\$ 1,326,192	\$ 1,169	\$ 1,337,779	\$ 119	\$ 8,808	\$ -	\$ -	\$ 8,927

June 30, 2021									
	Loans					Allowance for Loan Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired With Deteriorated Credit Quality		Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired With Deteriorated Credit Quality	
			With Deteriorated Credit Quality	Total				With Deteriorated Credit Quality	
Residential mortgages	\$ 2,356	\$ 221,229	\$ 720	\$ 224,305	\$ 113	\$ 224	\$ -	\$ -	\$ 337
Commercial mortgages	3,582	822,154	888	826,624	-	6,435	-	-	6,435
Construction	-	10,151	-	10,151	-	102	-	-	102
Commercial loans	1,707	148,951	-	150,658	-	948	-	-	948
Home equity lines of credit	414	24,902	123	25,439	8	46	-	-	54
Consumer and overdrafts	-	345	-	345	-	5	-	-	5
Total	\$ 8,059	\$ 1,227,732	\$ 1,731	\$ 1,237,522	\$ 121	\$ 7,760	\$ -	\$ -	\$ 7,881

The following tables present information related to loans individually evaluated for impairment (excluding loans acquired with deteriorated credit quality) by class of loans (in thousands):

	June 30, 2022			June 30, 2021		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses
With no related allowance recorded:						
Residential mortgages	\$ 1,262	\$ 1,197	\$ -	\$ 2,044	\$ 1,931	\$ -
Commercial mortgages	4,789	4,778	-	3,582	3,582	-
Construction	2,792	2,792	-	-	-	-
Commercial loans	795	783	-	1,878	1,707	-
Home equity lines of credit	379	399	-	358	381	-
With an allowance recorded:						
Residential mortgages	353	416	110	363	425	113
Home equity lines of credit	60	53	9	33	33	8
Total	\$ 10,430	\$ 10,418	\$ 119	\$ 8,258	\$ 8,059	\$ 121

The following table presents the recorded investment in nonaccrual loans and in loans past due over 90 days still on accrual status, by class of loans (in thousands):

	Loans Past Due Over 90 Days			
	Nonaccrual		and Still Accruing	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Residential mortgages	\$ 671	\$ 1,391	\$ -	\$ -
Commercial mortgages	4,778	3,582	-	411
Construction	2,792	-	-	-
Commercial loans	539	-	-	-
Home equity lines of credit	416	381	-	-
Consumer and overdrafts	-	-	39	-
Total	\$ 9,196	\$ 5,354	\$ 39	\$ 411

Nonperforming loans include both smaller-balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. The table above excludes acquired loans that are accounted for as purchased credit impaired loans totaling \$137,000 and \$368,000 as of June 30, 2022 and 2021, respectively. Such loans are excluded because the loans are in pools that are considered performing. The discounts arising from recording these loans at fair value upon acquisition were due in part to credit quality and the accretable yield is being recognized as interest income over the life of the loans based on expected cash flows.

The following tables present the aging of the recorded investment in past due loans by class of loans (in thousands):

	June 30, 2022					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
Residential mortgages	\$ -	\$ -	\$ 367	\$ 367	\$ 213,800	\$ 214,167
Commercial mortgages	-	-	1,197	1,197	940,933	942,130
Construction	-	-	1,113	1,113	19,783	20,896
Commercial loans	-	16	400	416	135,888	136,304
Home equity lines of credit	-	-	399	399	23,289	23,688
Consumer and overdrafts	-	-	39	39	555	594
Total	\$ -	\$ 16	\$ 3,515	\$ 3,531	\$ 1,334,248	\$ 1,337,779

	June 30, 2021					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current (1)	Total
Residential mortgages	\$ 198	\$ 126	\$ 948	\$ 1,272	\$ 223,033	\$ 224,305
Commercial mortgages	453	-	411	864	825,760	826,624
Construction	-	-	-	-	10,151	10,151
Commercial loans	69	76	-	145	150,513	150,658
Home equity lines of credit	-	19	381	400	25,039	25,439
Consumer and overdrafts	-	-	-	-	345	345
Total	\$ 720	\$ 221	\$ 1,740	\$ 2,681	\$ 1,234,841	\$ 1,237,522

⁽¹⁾As of June 30, 2021 loans on COVID-19-related payment deferrals are considered current.

Troubled Debt Restructurings

The terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

As of June 30, 2022 and 2021, the Company had 9 and 12 loans classified as troubled debt restructurings totaling \$1.4 million and \$3.1 million, respectively, including \$1.2 million and \$2.7 million, respectively, of loans still accruing. The Company has allocated \$119,000 and \$121,000, respectively, of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2022 and 2021. As of June 30, 2022 we have no commitments to lend to customers with an outstanding loan that is classified as a troubled debt restructuring.

The Company modified one residential mortgage and one home equity line of credit classified as troubled debt restructurings during the year ended June 30, 2022. These loans had a combined carrying amount of \$206,000 as of June 30, 2022. The Company did not modify any loans during the year ended June 30, 2021 that were classified as TDRs.

The Company had no troubled debt restructurings for which there was a payment default in the years ended June 30, 2022 and 2021 that were modified in the twelve months prior to default.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. Section 4013 of the CARES Act, "Temporary Relief From Troubled Debt Restructurings," provides banks the option to temporarily suspend certain requirements under U.S. GAAP related to TDRs for a limited period of time to account for the effects of COVID-19. On December 27, 2020, the Consolidated Appropriations Act 2021 was signed into law. Section 541 of this legislation, "Extension of Temporary Relief From Troubled Debt Restructurings and Insurer Clarification," extends Section 4013 of the CARES Act to the earlier of January 1, 2022 or 60 days after the termination of the national emergency declared relating to COVID-19. This extension expired as of January 1, 2022. Additionally, on April 7, 2020, the banking agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, issued a statement, "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working With Customers Affected by the Coronavirus (Revised)" ("Interagency Statement"), to encourage banks to work prudently with borrowers and to describe the agencies' interpretation of how accounting rules under ASC 310-40, "Troubled Debt Restructurings by Creditors," apply to certain COVID-19-related modifications.

During the year ended June 30, 2022, the Company granted or extended loan payment deferrals for one residential mortgage, two commercial mortgages and two commercial loans totaling \$91,000, \$5.6 million and \$205,000, respectively. In accordance with either the CARES Act (as amended) or Interagency Statement, these modifications are not considered troubled debt restructurings. The Company had no loans on payment deferral as of June 30, 2022 and 19 loans totaling \$27.3 million on loan payment deferral as of June 30, 2021.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a monthly basis. The Company utilized the same grading process for acquired loans as it does for originated loans. The Company uses the following definitions for risk ratings:

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above-described process and loans in groups of homogenous loans are considered to be pass rated loans. These loans are monitored based on delinquency and performance. Based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

	June 30, 2022			
	Pass	Special Mention	Substandard	Total
Residential mortgages	\$ 212,810	\$ 154	\$ 1,203	\$ 214,167
Commercial mortgages	931,178	1,548	9,404	942,130
Construction	18,104	1,679	1,113	20,896
Commercial loans	135,725	156	423	136,304
Home equity lines of credit	23,220	43	425	23,688
Consumer and overdrafts	594	-	-	594
Total	\$ 1,321,631	\$ 3,580	\$ 12,568	\$ 1,337,779

	June 30, 2021			
	Pass	Special Mention	Substandard	Total
Residential mortgages	\$ 219,901	\$ 2,480	\$ 1,924	\$ 224,305
Commercial mortgages	809,660	1,615	15,349	826,624
Construction	9,038	1,113	-	10,151
Commercial loans	146,275	491	3,892	150,658
Home equity lines of credit	24,400	602	437	25,439
Consumer and overdrafts	345	-	-	345
Total	\$ 1,209,619	\$ 6,301	\$ 21,602	\$ 1,237,522

As of June 30, 2022, there were no loans in a COVID-19 related payment deferral. As of June 30, 2021, of the \$27.3 million in loans in a COVID-19 related payment deferral, \$9.9 million were pass-rated, with \$3.2 million and \$14.2 million rated special mention and substandard, respectively.

Purchased Credit Impaired Loans

The Company has acquired loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is as follows (in thousands):

	June 30, 2022	June 30, 2021
Residential mortgages	\$ 221	\$ 720
Commercial mortgages	859	888
Home equity lines of credit	89	123
Carrying amount, net of allowance of \$0	\$ 1,169	\$ 1,731

Accrutable yield, or income expected to be collected, for acquired loans is as follows (in thousands):

	Year Ended June 30,	
	2022	2021
Beginning balance	\$ 130	\$ 156
Accretion income	(41)	(26)
Ending balance	\$ 89	\$ 130

Note 5. Premises and Equipment

Premises and equipment are summarized as follows at June 30, (in thousands):

	2022	2021
Land	\$ 2,190	\$ 2,588
Building and Leasehold improvements	14,128	14,102
Furniture, fixtures and equipment	8,048	7,666
Construction and improvements in process	465	25
	24,831	24,381
Less: accumulated depreciation and amortization	(14,074)	(12,963)
	10,757	11,418
Right to use lease asset	8,601	9,681
Total Bank premises and equipment, net	\$ 19,358	\$ 21,099

Refer to Note 20 of the Notes to the Consolidated Financial Statements for further details on right to use lease assets.

Depreciation expense was \$1.1 million in each of the years ended June 30, 2022 and 2021.

Note 6. Goodwill and Intangible Assets

The change in goodwill during the years ended June 30, 2022 and 2021 is as follows (in thousands):

	2022	2021
Balance at July 1	\$ 6,106	\$ 6,106
Impairment	-	-
Total at June 30,	\$ 6,106	\$ 6,106

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. The Company tests for goodwill impairment on an annual basis as of June 30th. No impairment charges were required to be recorded in the years ended June 30, 2022 or 2021.

Acquired Intangible Assets: Acquired intangible assets were as follows at June 30, (in thousands):

	2022		2021	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangible	\$ 887	\$ (798)	\$ 887	\$ (736)

Aggregate amortization expense was \$62,000 and \$78,000 for the years ended June 30, 2022 and 2021, respectively.

Estimated amortization expense for each of the next five fiscal years ended June 30, (in thousands):

2023	\$ 46
2024	30
2025	13
2026	-
2027	-

Note 7. Deposits

Deposit balances are summarized as follows at June 30, (in thousands):

	2022	2021
Demand	\$ 245,297	\$ 219,072
NOW Accounts	243,006	177,223
Money market accounts	399,026	332,843
Savings	411,332	387,529
Time deposits	327,589	375,015
Total	\$ 1,626,250	\$ 1,491,682

Time deposits that meet or exceed the FDIC insurance limit of \$250,000 were \$83.3 million and \$100.9 million at June 30, 2022 and 2021, respectively.

Scheduled maturities of time deposits were as follows as of June 30, (in thousands):

	2022	2021
Within 1 year	\$ 198,641	\$ 226,858
1 year to 2 years	90,145	52,311
2 year to 3 years	10,991	71,811
3 year to 4 years	13,160	11,030
4 year to 5 years	14,652	13,005
Total	\$ 327,589	\$ 375,015

Deposits of local governments held by PCSB Bank were \$127.5 million and \$74.4 million at June 30, 2022 and 2021, respectively. Additionally, as of June 30, 2022 and 2021, deposits included brokered time deposits of \$20.0 million and \$30.0 million, respectively. At June 30, 2022, brokered time deposits had remaining maturities of 20 months.

Note 8. FHLB and Other Borrowings

Borrowings consist of advances from the FHLBNY. As of June 30, 2022, FHLBNY advances consisted of \$45.0 million of short and long-term advances with original maturities ranging from 3 to 44 months, as well as a \$3.3 million amortizing term loan with a balloon payment of \$2.8 million in 2026. The maturity schedule of advances is summarized as follows as of June 30, (Dollars in thousands):

	2022		2021	
	Amount Due	Weighted Avg Rate	Amount Due	Weighted Avg Rate
Within 1 year	40,138	1.79%	17,635	2.11%
1 year to 2 years	5,142	3.31	40,138	1.79
2 year to 3 years	146	2.62	5,142	3.31
3 year to 4 years	2,897	2.62	146	2.62
4 year to 5 years	-	-	2,896	2.62
Total	\$ 48,323	2.00%	\$ 65,957	2.03%

As a member of the FHLBNY, the Bank had access to funds in the form of FHLBNY advances of approximately \$280.9 million at June 30, 2022, of which \$48.3 million was outstanding. Advances are secured by the Bank's investment in FHLBNY stock and by a blanket security agreement. This agreement requires the Bank to maintain as collateral certain qualifying assets (such as investment securities or loans receivable) with a discounted fair value, as defined, at least equal to 110% of any outstanding advances.

At June 30, 2022, the Bank also had access to funds of approximately \$96.3 million in the form of secured borrowings through the discount window of the FRBNY. Collateral for these borrowings may include qualifying assets, such as one-to-four family residential loans. The Bank had no outstanding FRBNY borrowings as of June 30, 2022 or 2021.

Additionally, as of June 30, 2022, the Bank had \$25.0 million of fed funds lines of credit available, none of which was outstanding.

Note 9. Commitments and Contingencies

Financial Instruments with Off-Balance-Sheet Risk: The Company is a party to commitments to originate loans, unused lines of credit and standby letters of credit ("credit-related financial instruments") that involve, to varying degrees, elements of credit risk and interest rate risk in addition to the risks associated with loans recognized in the consolidated statements of condition. Substantially all of these credit-related financial instruments have been entered into with customers in the Company's primary lending area described in Note 1.

The contract amounts of credit-related financial instruments reflect the extent of the Company's involvement with those classes of financial instruments. The Company's exposure to credit loss in the event of non-performance by the counterparty is represented by the contract amount. The Company uses the same credit policies in extending commitments, lines of credit and standby letters of credit as it does for on-balance sheet instruments.

The contract amounts of credit-related financial instruments at June 30, are summarized below (in thousands):

	2022	2021
Commitments to originate loans	\$ 160,771	\$ 134,818
Unused lines of credit	33,211	58,381
Standby letter of credit	2,931	3,235

Lines of credit (including undisbursed construction loans) and commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. These agreements generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain lines of credit and commitments are expected to expire without being funded, the contract amounts do not necessarily represent future cash requirements. In extending lines of credit and commitments, the Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer.

The Company issues financial standby letters of credit that are irrevocable undertakings by the Company to guarantee payment of a specified financial obligation. Most of the Company's financial standby letters of credit arise in connection with lending relationships and have terms of one year or less. The maximum potential future payments the Company could be required to make equals the contract amount of standby letters of credit shown in the preceding table. The Company's recognized liability for financial standby letters of credit was insignificant at June 30, 2022 and 2021.

Legal Proceedings: In the normal course of business, or in connection with the proposed merger with Brookline, the Company is involved in certain legal proceedings. Management does not believe that any pending legal proceedings would have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

Note 10. Accumulated Other Comprehensive Income (Loss)

The following is a summary of the accumulated other comprehensive income (loss) balances, net of tax (in thousands):

	Net unrealized gain (loss) on available for sale securities (1)	Unrealized loss on pension benefits (2)	Unrealized loss on SERP benefits (2)	Total
Balance at July 1, 2021	\$ 137	\$ (3,055)	\$ (181)	\$ (3,099)
Other comprehensive loss before reclassifications	(5,302)	(2,109)	5	(7,406)
Amounts reclassified from accumulated other comprehensive income	-	340	65	405
Tax effect	1,113	372	(14)	1,471
Net other comprehensive (loss) income	(4,189)	(1,397)	56	(5,530)
Balance at June 30, 2022	\$ (4,052)	\$ (4,452)	\$ (125)	\$ (8,629)
	Net unrealized gain (loss) on available for sale securities	Unrealized loss on pension benefits	Unrealized loss on SERP benefits	Total
Balance at July 1, 2020	\$ 428	\$ (6,605)	\$ (226)	\$ (6,403)
Other comprehensive loss before reclassifications	(316)	3,343	2	3,029
Amounts reclassified from accumulated other comprehensive income	(52)	1,151	55	1,154
Tax effect	77	(944)	(12)	(879)
Net other comprehensive (loss) income	(291)	3,550	45	3,304
Balance at June 30, 2021	\$ 137	\$ (3,055)	\$ (181)	\$ (3,099)

⁽¹⁾Amounts reclassified from accumulated other comprehensive income are recorded in the Statement of Operations as part of "gains on sales of securities".

⁽²⁾Amounts reclassified from accumulated other comprehensive income are recorded in the Statement of Operations as part of "other operating expense".

Note 11. Earnings Per Share

Basic EPS is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated in a similar matter, except that the denominator includes the number of additional common shares that would have been outstanding if potentially dilutive common shares were issued using the treasury stock method. Dilutive financial instruments include stock options and unvested restricted stock.

The following table provides factors used in the earnings per share computation for the years ended June 30th.

	2022	2021
	(Dollars in thousands, except share and per share data)	
Net income applicable to common stock	\$ 14,879	\$ 12,424
Average number of common shares outstanding	15,201,990	15,912,702
Less: Average unallocated ESOP shares	(969,135)	(1,065,916)
Average number of common shares outstanding used to calculate basic earnings per common share	14,232,855	14,846,786
Effect of equity-based awards	56,165	793
Average number of common shares outstanding used to calculate diluted earnings per common share	14,289,020	14,847,579
Earnings per common share:		
Basic	\$ 1.05	\$ 0.84
Diluted	\$ 1.04	\$ 0.84

Stock options for 1,312,234 and 1,324,741 shares of common stock were not considered in computing diluted earnings per common share for the years ended June 30, 2022 and 2021, respectively, because they were antidilutive.

Note 12. Fair Value of Financial Instruments

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

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

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

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

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as general classification of such instruments pursuant to the valuation hierarchy, is set forth below. While management believes the Company's valuation methodologies are appropriate and consistent with other financial institutions, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Investment Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs), matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs), or a broker's opinion of value (Level 3 inputs).

Impaired Loans: The fair value of collateral-dependent impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. Appraisals are generally obtained annually and may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Management performs a review of all appraisals, including any such adjustments. The fair value of uncollateralized or non-collateral-dependent loans are generally based on discounted cash flows which utilize management's assumption of discount rates and expected future cash flows, resulting in a Level 3 classification.

Foreclosed Real Estate: Assets acquired through or instead of loan foreclosure are initially recorded at fair value, less estimated costs to sell, when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower cost or fair value, less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Credit Department, as well as a third-party specialist, where deemed appropriate, reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Once appraisals are considered appropriate, management discounts the appraised value for estimated selling costs, such as legal, broker, and property maintenance and insurance costs. The most recent analysis performed indicated discount rates ranging between 10% and 20% should be applied to properties with appraisals performed.

Derivatives: The Company's derivative assets and liabilities consist of transactions as part of management's strategy to manage interest rate risk. The valuation of the Company's interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy.

Assets and liabilities measured at fair value are summarized below (in thousands):

	Fair Value Measurements						
	Level 1	Level 2	Level 3	Total			
June 30, 2022							
Measured on a recurring basis:							
Available for sale debt securities:							
U.S. Government and agency obligations	\$ -	\$ 9,928	\$ -	\$ 9,928			
Corporate	-	2,004	2,850		4,854		
State and municipal	-	4,796	-		4,796		
Mortgage-backed securities – residential	-	12,712	-		12,712		
Mortgage-backed securities – commercial	-	2,331	-		2,331		
Derivatives – interest rate contracts	-	8,223	-		8,223		
Total assets at fair value	\$ -	\$ 39,994	\$ 2,850	\$ 42,844			
Derivatives – interest rate contracts	\$ -	\$ 8,223	\$ -	\$ 8,223			
Total liabilities at fair value	\$ -	\$ 8,223	\$ -	\$ 8,223			
Measured on a non-recurring basis:							
Impaired loans:							
Residential mortgages	\$ -	\$ -	\$ 306	\$ 306			
Home equity lines of credit	-	-	44		44		
Total assets at fair value	\$ -	\$ -	\$ 350	\$ 350			

	Fair Value Measurements					Total	
	Level 1	Level 2	Level 3				
June 30, 2021							
Measured on a recurring basis:							
Available for sale debt securities:							
U.S. Government and agency obligations	\$	-	\$ 21,816	\$	-	\$ 21,816	
Corporate		-	5,058		3,131	8,189	
State and municipal		-	7,115		-	7,115	
Mortgage-backed securities – residential		-	17,654		-	17,654	
Mortgage-backed securities – commercial		-	2,613		-	2,613	
Derivatives – interest rate contracts		-	4,232		-	4,232	
Total assets at fair value	\$	-	\$ 58,488	\$	3,131	\$ 61,619	
Derivatives – interest rate contracts	\$	-	\$ 4,232	\$	-	\$ 4,232	
Total liabilities at fair value	\$	-	\$ 4,232	\$	-	\$ 4,232	
Measured on a non-recurring basis:							
Impaired loans:							
Residential mortgages	\$	-	\$ -	\$ 312	\$	\$ 312	
Home equity lines of credit		-	-		25	25	
Total assets at fair value	\$	-	\$ -	\$ 337	\$	\$ 337	

Investment securities with a fair value of \$3.6 million were transferred from Level 2 to Level 3 during the year ended June 30, 2022. Investment securities with a fair value of \$4.7 million were transferred from Level 3 to Level 2 during the year ended June 30, 2022.

Impaired loans in the table above had a carrying amount of \$469,000 and a remaining valuation allowance of \$119,000 at June 30, 2022, incurred no net charge-offs and resulted in a credit for loan losses of \$2,000 during the year ended June 30, 2022. Impaired loans in the table above had a carrying amount of \$458,000 and a remaining valuation allowance of \$121,000 at June 30, 2021, incurred no net charge-offs and resulted in a credit for loan losses of \$1,000 during the year ended June 30, 2021.

The following tables present quantitative information about Level 3 fair value measurements for selected financial instruments measured at fair value on a non-recurring basis at June 30, 2022 and 2021 (Dollars in thousands):

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range or Rate Used
June 30, 2022				
Impaired loans - residential mortgages	\$ 306	Discounted cash flow	Discount rate	5.4% to 6.3%
Impaired loans - home equity lines of credit	44	Discounted cash flow	Discount rate	4.8% to 6.3%
June 30, 2021				
Impaired loans - residential mortgages	\$ 312	Discounted cash flow	Discount rate	5.4% to 6.3%
Impaired loans - home equity lines of credit	25	Discounted cash flow	Discount rate	5.4% to 6.3%

The following is a summary of the carrying amounts and estimated fair values of the Company's financial assets and liabilities (none of which are held for trading purposes) (in thousands):

	Carrying Amount	Fair Value Measurements				Total		
		Level 1	Level 2	Level 3				
June 30, 2022								
Financial assets:								
Cash and cash equivalents	\$ 118,457	\$ 118,457	\$ -	\$ -	\$ 118,457			
Held to maturity debt securities	412,449	-	331,262	30,346	361,608			
Available for sale debt securities	34,621	-	31,771	2,850	34,621			
Loans receivable, net	1,329,372	-	-	1,261,035	1,261,035			
Accrued interest receivable	6,396	-	1,751	4,645	6,396			
FHLB stock	3,766	N/A	N/A	N/A	N/A			
Derivative assets - interest rate contracts	8,223	-	8,223	-	8,223			
Financial liabilities:								
Demand, NOW, money market deposits and savings accounts	1,298,661	1,298,661	-	-	1,298,661			
Time deposits	327,589	-	329,885	-	329,885			
Mortgage escrow funds	11,173	11,173	-	-	11,173			
Advances from FHLB	48,323	-	48,094	-	48,094			
Accrued interest payable	94	1	93	-	94			
Derivative liabilities - interest rate contracts	8,223	-	8,223	-	8,223			
June 30, 2021								
Financial assets:								
Cash and cash equivalents	\$ 159,305	\$ 159,305	\$ -	\$ -	\$ 159,305			
Held to maturity debt securities	337,584	-	305,671	36,466	342,137			
Available for sale debt securities	57,387	-	54,256	3,131	57,387			
Loans receivable, net	1,229,451	-	-	1,234,116	1,234,116			
Accrued interest receivable	6,398	-	1,341	5,057	6,398			
FHLB stock	4,507	N/A	N/A	N/A	N/A			
Derivative assets - interest rate contracts	4,232	-	4,232	-	4,232			
Financial liabilities:								
Demand, NOW, money market deposits and savings accounts	1,116,667	1,116,667	-	-	1,116,667			
Time deposits	375,015	-	380,948	-	380,948			
Mortgage escrow funds	10,536	10,536	-	-	10,536			
Advances from FHLB	65,957	-	67,334	-	67,334			
Accrued interest payable	146	1	145	-	146			
Derivative liabilities - interest rate contracts	4,232	-	4,232	-	4,232			

Note 13. Income Taxes

The components of income tax expense (benefit) are summarized as follows for the years ended June 30, (in thousands):

		2022	2021
Current tax expense			
Federal		\$ 4,015	\$ 3,661
State		49	84
		4,064	3,745
Deferred tax benefit			
Federal		(96)	(396)
State		(69)	(47)
		(165)	(443)
State tax valuation allowances, net of federal benefit		55	32
Total		\$ 3,954	\$ 3,334

The Company utilizes a calendar year tax year. Effective tax rates differ from the federal statutory rate applied to income before income taxes due to the following (Dollars in thousands):

	2022	2021
Federal statutory rate	21.00%	21.00%
Tax at federal statutory rate	\$ 3,955	\$ 3,309
State taxes, net of federal benefit	40	60
Tax-exempt income	(330)	(193)
BOLI income	(158)	(115)
Other compensation	127	155
ESOP compensation	177	108
Merger-related expenses	137	-
Other, net	6	10
Total	\$ 3,954	\$ 3,334
Effective tax rate	21.00%	21.16%

Deferred tax assets and liabilities were due to the following as of June 30, (in thousands):

	2022	2021
Deferred Tax Assets:		
Allowance for loan losses	\$ 2,361	\$ 2,072
Other compensation loss (defined benefit plans)	1,217	861
Deferred compensation	1,122	1,034
Other comprehensive loss (securities)	1,077	-
Stock based compensation	1,305	1,029
Depreciation of premises and equipment	405	428
Lease liabilities	2,337	2,610
Deferred loan costs and fees, net	-	50
Other	503	209
Total deferred tax assets	10,327	8,293
Deferred Tax Liabilities:		
Prepaid pension costs	2,817	2,510
Deferred loan costs and fees, net	138	-
Other comprehensive income (securities)	-	37
Right to use lease asset	2,275	2,546
Other	416	154
Total deferred tax liabilities	5,646	5,247
Deferred tax asset valuation allowance	(549)	(494)
Net deferred tax asset	\$ 4,132	\$ 2,552

The Company has an apportioned New York State net operating loss carryforward of approximately \$700,000 which will begin to expire in 2034.

In 2014, New York State enacted comprehensive tax reform provisions with significant impact on financial institutions. As a result of this legislation, beginning on January 1, 2015, the Company calculated its tax obligation to New York based upon the greater of a calculated income tax liability, a tax liability based upon average equity capital or a fixed minimum fee. As a result of the Company's ability to deduct a portion of the dividends paid by its captive REIT subsidiary, PCSB Funding Corp., it is more likely than not the Company will generate New York tax losses in future years and therefore calculate its New York tax liability on the basis of average equity capital or a fixed minimum fee. Consequently, the Company maintains a valuation allowance against its net New York deferred tax asset, as it is unlikely this deferred tax asset will impact the Company's New York tax liability in future years.

Management has determined that it is not required to establish a valuation allowance against any other deferred tax assets in accordance with accounting principles generally accepted in the United States of America since it is more likely than not that the deferred tax assets will be fully utilized in future periods. In assessing the need for a valuation allowance, management considers the schedule reversal of the deferred tax liabilities, the level of historical taxable income, and the projected future taxable income over the periods that the temporary differences comprising the deferred tax assets will be deductible.

Retained earnings at June 30, 2022 included approximately \$2.8 million for which deferred income taxes of approximately \$558,000 have not been provided. The retained earnings amount represents the base year allocation of income to bad debt deductions for tax purposes only. Base year reserves are subject to recapture if the Bank makes certain non-dividend contributions, repurchases any of its stock, pays dividends in excess of tax earnings and profits, or ceases to maintain a bank charter. Under ASC 740, this amount is treated as a permanent difference and deferred taxes are not recognized unless it appears that it will be reduced and result in taxable income in the foreseeable future. Events that would result in taxation of these reserves include failure to qualify as a bank for tax purposes or distributions in complete or partial liquidation.

The Company is subject to U.S. federal income tax as well as income tax of the states of New York, New Jersey and Connecticut. The Company's federal and state income tax returns are subject to examination for years after December 31, 2018.

At June 30, 2022 and 2021, the Company had no unrecognized tax benefits recorded. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

Note 14. Post-Retirement Benefits

Employee Pension Plan

The Company maintains a non-contributory defined benefit pension plan that covers employees meeting specific requirements as to age and length of service. The Company's contributions to this qualified plan are determined on the basis of (i) the maximum amount that can be deducted for federal income tax purposes, and (ii) the amount determined by a consulting actuary as necessary to avoid an accumulated funding deficiency as defined by the Employee Retirement Income Security Act of 1974 (ERISA). Contributions are intended to provide not only for benefits attributed to service to date, but also those expected to be earned in the future. On February 15, 2017, the Board of Directors approved the freezing of the defined benefit pension plan effective May 1, 2017.

The following is a summary of the plan's funded status as of June 30, (the measurement date for financial reporting purposes) (in thousands):

	2022	2021
Change in benefit obligation:		
Beginning benefit obligation	\$ 23,511	\$ 23,303
Interest cost	594	546
Actuarial (gain) loss	(4,058)	1,756
Benefits paid	(924)	(922)
Settlements	(623)	(1,172)
Ending benefit obligation	18,500	23,511
Change in plan assets, at fair value:		
Beginning plan assets	29,673	24,847
Actual return	(4,131)	6,920
Benefits paid	(924)	(922)
Settlements	(623)	(1,172)
Ending plan assets	23,995	29,673
Funded status	\$ 5,495	\$ 6,162
Accumulated benefit obligation	\$ 18,500	\$ 23,511

The following is a summary of net period pension cost (benefit), contributions and benefits paid for the years ended June 30 (in thousands):

	2022	2021
Net period pension benefit	\$ (1,103)	\$ (124)
Benefits paid	924	922

Pre-tax amounts recognized in other comprehensive loss included net losses of \$2.1 million for the year ended June 30, 2022 and net gains of \$3.3 million for the year ended June 30, 2021. Pre-tax amounts included in accumulated other comprehensive income were \$5.6 million and \$3.9 million as of June 30, 2022 and 2021.

Net periodic pension credit and other amounts recognized in other comprehensive income for the years ended June 30, (in thousands):

	2022	2021
Interest cost	\$ 594	\$ 546
Expected return on plan assets	(2,037)	(1,821)
Amortization of prior net loss	150	959
Settlement charges	190	192
Net periodic credit	\$ (1,103)	\$ (124)

The estimated net loss and past service cost for the pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit costs during the year ending June 30, 2023, are \$563,000 and \$0, respectively.

Contributions: The Company made no contributions to the defined benefit plan during the year ended June 30, 2022 and does not expect to make any contributions for the year ending June 30, 2023.

Estimated Future Payments: The following benefit payments are expected for the years ending June 30, (in thousands):

2023	\$ 1,155
2024	1,083
2025	1,045
2026	1,078
2027	1,124
Following five years	6,044

Assumptions: Discount rates of 4.37% and 2.59% were used to determine pension benefit obligation as of June 30, 2022 and 2021, respectively.

Weighted-average assumptions used to determine net periodic pension cost are described in the table below.

	2022	2021
Discount Rate	2.59%	2.40%
Expected return on plan assets	7.00%	7.50%

Plan Assets

Plan assets are invested in a series of diversified investment funds of RSI Retirement Trust (“the Trust”). The investment funds include equity mutual funds, bond mutual funds, or commingled trust funds, each with its own investment objectives, investment strategies and risks. The Trust has been given discretion by the Company to determine the appropriate strategic asset allocation, as governed by the Trust’s Statement of Investment Objectives and Guidelines. The long-term objective is to be invested 65% in equity securities (equity mutual funds), 34% in debt securities (bond mutual funds) and 1% in cash equivalents. The bond fund portion may be temporarily increased to 50% in order to lessen the volatility of asset values. Asset rebalancing is performed at least annually, with interim adjustments made if the investment mix varies by more than 10% from the target allocation.

The weighted average expected long-term rate of return is estimated based on current trends in the plan assets as well as projected future rates of returns on those assets. The long-term rate of return assumption was set based on historical returns earned by equities and fixed income securities, adjusted to reflect expectations of future returns as applied to the plan’s target allocation of asset classes. Equities and fixed income securities were assumed to earn real rates of return in the ranges of 6% to 8% and 3% to 5%, respectively. The long-term inflation rate was estimated to be 2.5%. When these overall return expectations are applied to the plan’s target allocation, the result is an expected rate of return of 7.0%.

The plan is only permitted to invest in assets approved by the RSI Trustee Board. All other investments are prohibited.

The Company's actual pension plan asset allocation and target allocation by asset category are as follows:

Asset Category	Target Allocation	Percentage of Plan Assets at Year-End	
		2022	2021
Equity mutual funds and common/collective trusts	65%	63%	68%
Fixed income common/collective trusts	34%	36%	32%
Cash equivalents	1%	1%	0%
Total	100%	100%	100%

Equity, Debt, Investment Funds and Other Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to appropriate market index curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

The fair value of the plan assets by asset category, is as follows (in thousands):

	Carrying Value	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2022				
Plan assets				
Equity mutual funds and common/collective trusts	\$ 15,146	\$ -	\$ 15,146	\$ -
Fixed income common/collective trusts	8,553	-	8,553	-
Cash equivalents	296	296	-	-
Total	\$ 23,995	\$ 296	\$ 23,699	\$ -
June 30, 2021				
Plan assets				
Equity mutual funds and common/collective trusts	\$ 20,140	\$ -	\$ 20,140	\$ -
Fixed income common/collective trusts	9,414	-	9,414	-
Cash equivalents	119	119	-	-
Total	\$ 29,673	\$ 119	\$ 29,554	\$ -

Defined Contribution Retirement Plan

The Company maintains a defined contribution plan for eligible employees hired after October 1, 2012. On May 1, 2017, the Company suspended contributions, resulting in no expense for the years ended June 30, 2022 and 2021.

401(k) Plan

The Company maintains a defined contribution plan for eligible employees under Section 401(k) of the Internal Revenue Code. All full-time employees who have attained age twenty-one and have a minimum of one year of service may elect to participate in the plan, by making contributions ranging from 1% to 25% of their compensation. The Company made no matching contributions during the years ended June 30, 2022 and 2021, resulting in no expense for these years.

Supplemental Retirement Plan

The Company also maintains unfunded and non-qualified supplemental retirement plans to provide pension benefits in addition to those provided under the qualified pension plan.

The accrued benefit cost for the supplemental plans was approximately \$4.3 million and \$4.1 million at June 30, 2022 and 2021, respectively, (included in other liabilities in the consolidated statements of financial condition). Included in accumulated other comprehensive income were pre-tax net losses of \$158,000 and \$228,000 for the supplemental retirement plans as of June 30, 2022 and 2021, respectively. The projected benefit obligation and accumulated benefit obligation were \$4.3 million and \$4.1 million as of June 30, 2022 and 2021, respectively.

Pension expense for the supplemental plans was \$578,000 and \$580,000 for the years ended June 30, 2022 and 2021, respectively.

Supplemental retirement plan benefits of \$272,000 were paid in each of the years ended June 30, 2022 and 2021.

Net periodic pension cost and other amounts recognized in other comprehensive income for the years ended June 30, (in thousands):

	2022	2021
Service cost	\$ 426	\$ 441
Interest cost	87	84
Amortization of prior net loss	65	55
Net periodic cost	\$ 578	\$ 580

The estimated net loss for the supplemental plans that will be amortized from accumulated other comprehensive income into net periodic benefit costs during the year ending June 30, 2023, is \$79,000.

The following benefit payments, which reflect expected future service, are expected for the years ending June 30, (in thousands):

2023	3,467
2024	136
2025	-
2026	-
2027	-
Following five years	578

As of June 30, 2022, the assumed discount rates used for the supplemental plans range from 2.13% to 4.37%.

Employee Stock Ownership Plan

On January 1, 2017, the Company established an Employee Stock Ownership Plan (“ESOP”) to provide eligible employees the opportunity to own Company stock. The plan is a tax-qualified retirement plan for the benefit of Company employees. The Company granted a loan to the ESOP for the purchase of 1,453,209 shares of the Company’s common stock at a price of \$10.00 per share. The loan obtained by the ESOP from the Company to purchase the common stock is payable annually over 15 years at a rate per annum equal to the Prime Rate, reset annually on January 1st (3.25% for 2022). Loan payments are principally funded by cash contributions from the Bank. The loan is secured by the shares purchased, which are held in a suspense account for allocation among participants as the loan is repaid. The balance of the ESOP loan at June 30, 2022 was \$9.7 million. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax limits. The number of shares committed to be released annually is 96,881 through 2032.

Shares held by the ESOP include the following at June 30th, (Dollars in thousands):

	2022	2021
Allocated to participants	518,371	417,902
Unearned	920,767	1,017,648
Total ESOP shares	1,439,138	1,435,550
 Fair value of unearned shares	 \$ 17,577	 \$ 18,491

Total compensation expense recognized in connection with the ESOP for the year ended June 30, 2022 and 2021 was \$1.8 million and \$1.5 million, respectively.

Note 15. Regulatory Matters

The following is a summary of the Bank's actual capital amounts and ratios as of June 30, 2022 and 2021, compared to the required ratios for minimum capital adequacy and for classification as well capitalized (dollars in thousands). As a result of the Economic Growth, Regulatory Relief, and Consumer Protection Act passed by Congress in 2018, the Company is no longer subject to consolidated capital requirements, as the Company's total consolidated assets do not exceed \$3 billion.

	Bank Actual				For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount		Ratio		Amount	Ratio	Amount		Ratio
	June 30, 2022								
Leverage (Tier 1)	\$ 251,144		12.8%	\$ 78,490		4.0%	\$ 98,112		5.0%
Risk-based:									
Common Tier 1	251,144		17.2	65,630		4.5	94,799		6.5
Tier 1	251,144		17.2	87,507		6.0	116,676		8.0
Total	260,071		17.8	116,676		8.0	145,845		10.0
June 30, 2021									
Leverage (Tier 1)	\$ 233,944		12.5%	\$ 74,988		4.0%	\$ 93,735		5.0%
Risk-based:									
Common Tier 1	233,944		17.9	58,713		4.5	84,807		6.5
Tier 1	233,944		17.9	78,283		6.0	104,378		8.0
Total	241,825		18.5	104,378		8.0	130,472		10.0

In addition to the ratios above, the Basel III Capital Rules established that community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonus payments to executive officers.

Management believes that as of June 30, 2022 and 2021, the Bank met all capital adequacy requirements to which it was subject, including the capital conservation buffer. Further, the most recent FDIC notification categorized the Bank as a well-capitalized institution under the prompt corrective action regulations. There have been no conditions or events since that notification that management believes have changed the Bank's capital classification.

Note 16. Related Party Disclosures

The Company's authority to extend credit to its directors, executive officers, and shareholders owning 10% or more of the Holding Company's outstanding common stock, as well as to entities controlled by such persons, is additionally governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the FRB enacted thereunder. Among other matters, these provisions require that extensions of credit to insiders: (i) be made on terms substantially the same as, and follow credit underwriting procedures not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and (ii) not exceed certain amount limitations individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital. Regulation O additionally requires that extensions of credit in excess of certain limits be approved in advance by the Bank's board of directors.

New York banking regulations impose certain limits and requirements on various transactions with "insiders," as defined in the New York banking regulations to include certain executive officers, directors and principal shareholders.

At and for the years ended June 30, 2022 and 2021, the Company and the Bank had no insider loans.

Note 17. Derivatives and Hedging

Derivatives not designated as hedges may be used to manage the Company's exposure to interest rate movements or to provide service to customers. The Company executes interest rate swaps with commercial lending customers to facilitate their respective risk management strategies. These interest rate swaps with customers are simultaneously offset by interest rate swaps that the Company executes with a third party in order to minimize the net risk exposure resulting from such transactions. These interest rate swap agreements do not qualify for hedge accounting treatment, and therefore changes in fair value are reported in current period earnings.

The following table presents summary information about the interest rate swaps as of June 30, (Dollars in thousands).

	2022	2021
Notional amounts	\$ 264,462	\$ 182,700
Weighted average pay rates	3.57%	2.55%
Weighted average receive rates	3.57%	2.55%
Weighted average maturity	8.22 years	8.46 years
Fair value of combined interest rate swaps	\$ -	\$ -

Note 18. Revenue From Contracts With Customers

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services. The Company applies the following five steps to properly recognize revenue:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to performance obligations in the contract
5. Recognize revenue when (or as) the Company satisfies a performance obligation

	For the Year Ended June 30,	
	2022	2021
(in thousands)		
Noninterest income:		
Service charges on deposits	\$ 852	\$ 735
Interchange fees	616	550
Other fees and service charges (1)	172	143
Fees and service charges	1,640	1,428
Swap income (1)	785	367
Bank-owned life insurance (1)	754	549
Gain on sale of premises (1)	548	-
Gains on sales of loans receivable (1)	56	-
Gains on sales of securities (1)	-	113
Other noninterest income (1)	36	40
Total noninterest income	\$ 3,819	\$ 2,497

(1) Not within the scope of ASC 606

Fees and Service Charges on Deposit Accounts. The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payments, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing the period over which the Company satisfied the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange Income. The Company earns interchange fees from debit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Gain/Losses on Sales of Foreclosed Real Estate. The Company records a gain or loss from the sale of foreclosed real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed real estate asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

Note 19. Stock-Based Compensation

On October 24, 2018, the Company's shareholders approved the PCSB Financial Corporation 2018 Equity Incentive Plan (the "Plan"), which permits the grant of stock options and restricted stock and/or restricted stock units. The total number of shares that may be granted under the Plan is 2,543,115, of which 1,816,511 shares may be granted as stock options and 726,604 shares may be granted as restricted stock and restricted stock units. Total compensation cost that has been charged against income for the Plan was \$3.3 million for both years ended June 30, 2022 and 2021.

Restricted Stock Awards ("RSAs")

RSAs provide for the issuance of shares to both employees and non-employee directors. These awards vest over a 5-year period, with 20% vesting each year on the anniversary of the award. All awards were made at the fair value of common stock on the grant date. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at grant date. The fair value of the stock was determined to be the closing price of the stock on the NASDAQ exchange. Total shares available for grant under the Plan are 726,604, of which 549,467 shares were granted as of June 30, 2022.

The following table presents a summary of RSA activity during the year ended June 30, 2022.

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested granted shares outstanding at July 1, 2021	322,580	\$ 18.95
Shares granted	8,000	17.66
Shares vested	(107,130)	18.97
Shares forfeited	-	-
Unvested granted shares at June 30, 2022	223,450	\$ 18.89

As of June 30, 2022, there was \$2.9 million of total unrecognized compensation cost related to non-vested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.7 years.

Stock Option Awards

Stock options awarded to employees under the Plan are considered incentive stock options (ISOs), up to applicable limits. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant. Those issued to non-employee directors, as well as those exceeding ISO limitations, are considered non-qualified stock options (NQSOs). Options vest over a 5-year period, with 20% vesting each year on the anniversary of the award, however, may not vest more rapidly than over a three-year period, and have a contractual term of 10 years. The Company has a policy of using shares held as a treasury stock to satisfy share option exercises. Currently, the Company has a sufficient number of treasury shares to satisfy the current level of exercisable share options.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the following table. Expected volatilities are based on the historical volatilities of a peer group of publicly-traded financial institutions. The expected term of options granted is based on the simplified "mid-point" approach which utilizes the weighted average vesting period and contractual term. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

Total options available for grant under the Plan are 1,816,511, of which 1,320,963 shares were issued as of June 30, 2022. The following table presents a summary of activity related to stock options granted under the Plan, and changes during the year then ended:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Years	Aggregate Intrinsic Value
<i>(Dollars in thousands, except share and per share data)</i>				
Options outstanding at July 1, 2021	1,308,963	\$ 19.00	7.4	\$ 35
Options granted	12,000	17.66		
Options expired	-	-		
Options forfeited	-	-		
Options exercised	-	-		
Options outstanding at June 30, 2022	1,320,963	\$ 18.98	6.4	\$ 411
Exercisable at June 30, 2022	782,978	\$ 19.02	6.4	\$ 220

As of June 30, 2022, there was \$1.7 million of total unrecognized compensation cost related to non-vested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.7 years.

The fair value of options granted during the year ended June 30, 2022, was determined using the following weighted-average assumptions as of grant date.

Risk-free interest rate	1.00%
Expected term (in years)	6.25
Expected stock price volatility	35.91%
Dividend yield	1.36%
Weighted average fair value of options granted	\$ 5.50

Note 20. Leases

As of June 30, 2022, the Company leases real estate for eleven branch offices and one administrative office, including its corporate headquarters, under various operating lease agreements. The Company's leases have maturities which range from 2022 to 2041, some of which include lessee options to extend the lease term. The weighted average remaining life of the lease terms for these leases was 9.4 years as of June 30, 2022.

The operating lease asset and lease liability are determined at the commencement date of the lease based on the present value of the lease payments. As most of our leases do not provide an implicit rate, the Company used its incremental borrowing rate, the rate of interest to borrow on a collateralized basis for a similar term, at the lease commencement date. The Company utilized a weighted average discount rate of 2.47% in determining the lease liability as of June 30, 2022.

The Company made a policy election to exclude the recognition requirements of ASU 2016-02 to short-term leases, those leases with original terms of 12 months or less. Short-term lease payments are recognized in the income statement on a straight-line basis over the lease term. The Company had no short-term lease cost for the year ended June 30, 2022. Certain leases may include one or more options to renew. The exercise of lease renewal options is typically at the Company's discretion and are included in the operating lease liability if it is reasonably certain that the renewal option will be exercised. Certain real estate leases may contain lease and non-lease components, such as common area maintenance charges, real estate taxes, and insurance, which are generally accounted for separately and are not included in the measurement of the lease liability since they are generally able to be segregated. The Company does not sublease any of its leased properties. There were no sale and leaseback transactions, leveraged leases or lease transactions with related parties during the year ended June 30, 2022.

For the year ended June 30, 2022, total operating lease costs was \$2.0 million, and is included in occupancy and equipment expense. The right-of-use asset, included in premises and equipment, net, was \$8.6 million and the corresponding lease liability, included in other liabilities, was \$8.8 million as of June 30, 2022, respectively.

Future minimum lease payments for the fiscal years ending June 30th and a reconciliation of undiscounted lease cash flows and the lease liability recognized in the consolidated balance sheet as of June 30, 2022 is shown below (in thousands):

2023	\$ 2,052
2024	1,719
2025	1,426
2026	906
2027	547
Thereafter	4,002
Total future minimum lease payments (undiscounted)	10,652
Discounting effect on cash flows	(1,825)
Lease liability (discounted)	\$ 8,827

Note 21. Parent Company Only Financial Statements

The following are the financial statements of the Company (Parent only) as of and for the years ended June 30, 2022 and 2021 (in thousands).

	June 30,	
	2022	2021
Balance Sheets		
Assets		
Cash and cash equivalents	\$ 18,441	\$ 26,575
Investment in Bank	248,690	237,082
ESOP Loan receivable	9,688	10,657
Other assets	415	392
Total assets	\$ 277,234	\$ 274,706
Liabilities and Shareholders' Equity		
Other liabilities	\$ 72	\$ 146
Shareholders' equity	277,162	274,560
Total liabilities and shareholders' equity	\$ 277,234	\$ 274,706
Statements of Operations		
Interest Income	\$ 341	\$ 474
Equity in income of Bank	16,170	12,587
Non-interest expenses	1,974	679
Income before income tax	14,537	12,382
Income tax benefit	(342)	(42)
Net Income	\$ 14,879	\$ 12,424

	Years Ended June 30,	
	2022	2021
Statements of Cash Flows		
Operating Activities		
Net income	\$ 14,879	\$ 12,424
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in income of Bank	(16,170)	(12,587)
Deferred tax expense	-	118
Net (increase) decrease in accrued interest receivable	(10)	90
Stock-based compensation	3,270	3,269
Other adjustments, principally net changes in other assets and liabilities	(87)	241
Net cash provided by operating activities	1,882	3,555
Investing Activities		
Decrease in ESOP loan	969	969
Net cash provided by investing activities	969	969
Financing Activities		
Common stock dividends declared	(3,604)	(2,725)
Allocation of ESOP shares	842	517
Repurchase of common stock	(7,863)	(16,608)
Repurchase of shares from employees for income tax withholding purpose	(360)	(303)
Net cash used in financing activities	(10,985)	(19,119)
Net decrease in cash and cash equivalents	(8,134)	(14,595)
Cash and cash equivalents at beginning of year	26,575	41,170
Cash and cash equivalents at end of year	\$ 18,441	\$ 26,575

Note 22. Pending Merger With and Into Brookline Bancorp, Inc.

On May 23, 2022, the Company and Brookline Bancorp, Inc. (“Brookline”), the holding company of Brookline Bank and Bank Rhode Island, entered into an Agreement and Plan of Merger (the “Merger Agreement”). Pursuant to the Merger Agreement, the Company will merge with and into Brookline, with Brookline as the surviving corporation (the “Merger”). Following the Merger, PCSB Bank will operate as a separate bank subsidiary of Brookline. Pursuant to the terms of the Merger Agreement, at the effective time of the Merger, each stockholder of PCSB will receive, at the holder’s election, either \$22.00 in cash consideration or 1.3284 shares of Brookline common stock for each share of PCSB common stock, subject to allocation procedures to ensure that 60% of the outstanding shares of PCSB common stock will be converted to Brookline common stock. The consummation of the Merger is subject to customary closing conditions, including the receipt of regulatory approvals and approval by the Company’s stockholders. The Merger is currently expected to be completed in the fourth quarter of 2022.

For the year ended June 30, 2022, the Company recognized \$1.3 million of merger-related expenses. No merger-related expenses were recognized in the year ended June 30, 2021.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures**a)Evaluation of Disclosure Controls and Procedures**

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of June 30, 2022. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2022.

b)Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under management's supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2022 utilizing the framework established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of June 30, 2022 is effective.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

c)Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Because the Company is a non-accelerated filer, management's report is not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

d)Changes in Internal Control Over Financial Reporting

There were no significant changes made in the Company's internal control over financial reporting during the fourth quarter of the year ended June 30, 2022 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The Company's Board of Directors currently consists of 11 members. The Board is divided into three classes, each with three-year staggered terms, with approximately one-third of the directors elected each year. All nominees for director and all directors continuing in office currently serve as directors of the Company and PCSB Bank. The ages presented are as of June 30, 2022.

Directors with Terms Expiring in 2022

Joseph D. Roberto, age 69 and a director since 2012, has served as President and Chief Executive Officer of PCSB Bank since January 2012 and as its Chairman of the Board since January 2012 and has served as President, Chief Executive Officer and Chairman of the Board of the Company since its inception in 2017. He served as Chief Financial Officer of PCSB Bank from October 2005 to December 2011. His banking career spans more than 45 years serving in various financial management and executive positions for other financial institutions. Before joining PCSB Bank, he began his career at Yonkers Savings and Loan Association and served as Chief Financial Officer for both Yonkers Financial Corporation and Yonkers Savings and Loan Association, a public community bank, from 1996 to 2002. In 2004 and 2005 he served as Executive Vice President and Chief Financial Officer of Empire State Bank, a public commercial bank.

Mr. Roberto is actively involved in various organizations in both Putnam and Westchester Counties, currently serving on the boards of the Putnam Economic Development Corporation, the Putnam Hospital Center Foundation, the Westchester County Association and the Boys and Girls Club of Mt. Vernon, NY. He is also actively involved with the American Heart Association and its Putnam Heart Walk, leading PCSB Bank's efforts in fund raising and heart healthy awareness. Mr. Roberto has been recognized for his leadership and community involvement by many organizations including the NAACP Mount Vernon, NY Branch, the Boys and Girls Club of Mt. Vernon, NY, St. Christopher's Inn, Garrison NY, Sunrise Association, Pearl River, NY, Northeast STEM Starter Academy at Mt. Vernon, the Chabad of Bedford, the Youth Community Outreach Program (Y-COP), Mt. Vernon, NY, and Cove Care Center, Carmel, NY.

Mr. Roberto's extensive knowledge of the banking industry and strong leadership skills provide the Board of Directors with invaluable insight and guidance into the business and regulatory requirements of today's banking environment.

William V. Cuddy, Jr., age 63 and a director since 2015, serves as Executive Vice President of CBRE, Inc. providing commercial real estate consulting and brokerage services to corporations and other institutions for over 39 years. He leads a team of professionals in providing corporate real estate services including tenant representation as well as agency sales and leasing. CBRE, Inc. has recognized him as a top producing broker numerous times and he was awarded the NAIOP Deal of the Year seven times for various sales and lease transactions.

Mr. Cuddy's present and past leadership positions have included serving as a director of The Burke Hospital Foundation (2009-2018), a director of the Burke Research Institute (2006-2018), and a past director (2001-2009) and Chairman of The Burke Rehabilitation Hospital Board (2007-2009). He is a past President (2007) with the Friendly Sons of St. Patrick in Westchester County, a past Board member at Mercy College (1996-2005), and has been a director of the Westchester County Association since 2010. Mr. Cuddy is also a former director of CMS Bank which was acquired by PCSB Bank in 2015.

The Board of Directors values the depth of Mr. Cuddy's background and expertise in real estate matters. In particular, he provides the Board of Directors with an extensive knowledge of the regional commercial real estate market, and provides valuable assistance in fostering relationships with owners, investors, developers and the corporate community. He is also valued for his marketing and transaction skills.

Kevin B. Dwyer, age 60 and a director since 2013, is the owner, manager of Dwyer Agency, LLC an insurance company and of Dwyer Agency of Mahopac, LLC, a real estate agency which have been providing Putnam County, New York and surrounding communities with residential and commercial real estate and insurance opportunities since 1927. He is also the owner of Renewable Energy of New York, LLC (battery storage and solar energy).

Mr. Dwyer is actively involved in many community organizations, serving on the Boards of Putnam Hospital Center Foundation (as Chairman), St. John's Parish Mahopac Finance Committee, Friendly Sons of St. Patrick, Lake Mahopac Rotary, and Mahopac Chamber of Commerce. His professional organizations include New York State Commercial Association of Realtors, Hudson Valley Commercial Association of Realtors, New York State and National Association of Realtors, International Council of Shopping Centers and Independent Insurance Agents of New York State.

Mr. Dwyer's real estate and insurance expertise provides the Board of Directors with valuable insight into the local real estate market and into the insurance needs of the Company and PCSB Bank.

Willard I. Hill, Jr., age 67 and a director since 2017, now retired, is an attorney who served as Managing Director, Chief Marketing and Communications Officer and Head of Government Relations for MBIA Inc., a major financial guaranty insurance company. He previously served on MBIA's executive management team as global Chief Compliance Officer, and separately as Head of Investor Relations. He retired from MBIA in 2013. Earlier in his career, he was president of the government deferred compensation business at ING US Financial Services (now Voya Financial) and he held senior executive positions in the legal and business divisions at Aetna, Inc.

Mr. Hill earned his MBA from the University of Connecticut School of Business in 1991. He earned a Juris Doctor from Howard University School of Law in 1979 and a B.A. from Fisk University in 1976. He is a member of the bar in several states, including New York. He serves as Board Secretary and Chairman of the Government Affairs Committee on the Board of Directors of the Council for Economic Education and previously served as Vice Chairman of Feeding Westchester.

Mr. Hill's expertise in insurance and financial services, corporate law, government relations and strategic communications and his leadership experience as a senior executive with public companies is a significant strategic resource for the Board of Directors.

Directors with Terms Expiring in 2023

Richard F. Weiss, age 77 and a director since 2004, has been in the financial services industry for over 40 years. He is a Certified Public Accountant and a Certified Financial Planner with an emphasis on Estate and Trust planning. He works as a consultant to Weiss Financial Group and Weiss Advisory Group LLC, firms specializing in tax compliance and personal financial, estate and trust planning and compliance.

Mr. Weiss began his career working for several leading CPA firms in New York City, including S.D. Leidesdorf & Co., which subsequently merged with the current firm of Ernst & Young LLP. Before establishing his private practice, he was partner at Kamerman, Shapiro, Jacobs & Weiss, a boutique New York City-based firm specializing in international and domestic corporate taxation, estate, trust and individual planning and taxation.

Mr. Weiss serves as a board member and Treasurer of the Putnam County Housing Corp. and board member and Treasurer of the Putnam Economic Development Corporation.

Mr. Weiss's extensive tax and financial expertise is an invaluable resource to PCSB Bank and he is an "audit committee financial expert" as that term is defined by Securities and Exchange Commission regulations. He serves as the Vice Chairman of the Board and as the lead independent director.

Karl A. Thimm, age 75 and a director since 2008, is the President, owner and founder of Karlen Inc. D/B/A Appliance Sales Plus, a leading Westchester-based retail and commercial appliance provider located in Somers, New York. He also sits on the Executive Board of Intercounty Appliance Corporation, a retail appliance co-op in Medford, New York. Before starting Karlen Incorporated, he served in the appliance sales division of General Electric Company where he maintained relationships with many retail companies. He sits on the board of the Putnam Hospital Center and the Make-A-Wish Foundation of the Hudson Valley and is a veteran of the United States Air Force.

Mr. Thimm's entrepreneurship and over 45 years of business experience provides the Board of Directors with insight and guidance with its small business lending and account relationships.

Michael T. Weber, age 67 and a director since 2005, now retired, was the Chief Executive Officer of Health Quest, a multi-hospital healthcare system located in the lower Hudson Valley until his retirement in 2013. Before retirement, he grew the system to a \$700 million operation with multiple healthcare-related entities, including home care agencies, urgent care centers, a nursing home and physician practices, which helped in making Health Quest an industry leader it is today.

Before the start of his affiliation with Health Quest in 2007, Mr. Weber began his career in Buffalo, New York and from 1979 to 1986 he was Director of Fiscal Services at a local hospital. In 1986 he accepted the position of Chief Financial Officer at Putnam Hospital Center, Carmel, New York. During that time period he earned a Master's Degree in Healthcare Administration from Western Connecticut State University and was promoted to the hospital's Chief Executive Officer. Over the next seven years he successfully improved the hospital's financial position, completed several major building projects, enlarged the medical staff and enhanced the reputation of the hospital.

During his years in healthcare administration, Mr. Weber was involved in many community activities, including Chairman of the American Heart Association, committee membership with both the American Hospital Association and the NYS Healthcare Association and Chairman of the Northern Metropolitan Hospital Association. His administration and financial background provide the Board of Directors with valuable insight into our strategic planning goals.

Dr. Marsha Gordon, age 67 and a director since 2018, has served as President and Chief Executive Officer of the Business Council of Westchester (“BCW”), a leading business organization in Westchester County, New York, since 2001. As leader of the county’s largest and most influential business organization, Dr. Gordon brings more than 25 years of community, commerce and leadership to the BCW. A sought-after speaker, panelist and media expert, Dr. Gordon is widely considered to be an authority on the business climate in Westchester and is regularly the “go-to” person on legislative and regulatory issues throughout the Hudson Valley.

Dr. Gordon serves on several Boards including the Business Council of New York State (Vice Chair, Membership), the Westchester-Putnam Workforce Investment Board (Executive Committee) and the Mid-Hudson Regional Economic Development Council (appointed Co-Chair by New York State Governor Hochul in 2022). She has been recognized for her leadership by many organizations including the New York Association for Reliable Energy, the YWCA Salute to Women and Racial Justice, and the Food Bank of Westchester. She was also named Most Influential Businessperson by Westchester Magazine.

Before her position with the BCW, Dr. Gordon served as President and Chief Executive Officer of MetroPool, a not-for-profit organization that promotes alternative transportation options in Fairfield County and the Hudson Valley. From 1991 to 1999 she led the 1000-member Greater Southern Dutchess Chamber of Commerce, where she attracted a minor league baseball team to the region.

Dr. Gordon has a BA from Brooklyn College, an MBA from Marist College and a Doctorate in Business Administration from Pace University.

Dr. Gordon’s strong leadership skills and extensive community involvement provide the Board of Directors with valuable insight into the needs of PCSB Bank’s local communities, particularly in Westchester County.

Directors with Terms Expiring in 2024

Jeffrey D. Kellogg, age 73 and a director since 2011, now retired, served as the Senior Vice President of Development and Community affairs at Putnam Hospital Center and as Executive Director of the Putnam Hospital Center Foundation. In this capacity, for 21 years, he was responsible for all fund-raising initiatives as well as the hospital’s marketing and communications, public relations, volunteer/auxiliary program, community outreach and guest services department. Professionally, in 2005 he was recognized as a Fellow of the Association for Philanthropy, which is the highest level of achievement in the field of health care philanthropy.

Before his positions with Putnam Hospital Center, Mr. Kellogg began his business career building and managing a chain of a dozen area sporting goods stores throughout Westchester, Dutchess and Putnam Counties in New York, and Fairfield County in Connecticut. Throughout his career he has been active in the community and has served on many boards and held numerous leadership positions. These include positions and membership with the Putnam County Economic Development Corporation, the American Heart Association, Cornell Cooperative Extension, Grace Lutheran Church of Yorktown, the Putnam Alliance, Boy Scouts of America and Mahopac Rotary Club. Most recently, he has joined the board of Cove Care Center which services clients throughout the Hudson Valley. Mr. Kellogg holds a bachelor’s degree in Economics from St. Lawrence University and a master’s degree in Health Care Administration from Western Connecticut State University.

Mr. Kellogg’s strong leadership skills and extensive community involvement provide the Board of Directors with valuable insight into the needs of PCSB Bank’s local communities.

Robert C. Lusardi, Esq., age 68 and a director since 2012, is a partner in the law firm of Daniels, Porco and Lusardi LLP located in Carmel, New York. He practices primarily in the areas of Real Estate and Zoning Litigation, Civil Litigation, Mortgage Foreclosure and Commercial Litigation. Mr. Lusardi is admitted to practice in New York, Connecticut and the U.S. District Courts for the Southern and Eastern Districts of New York. He has served as Assistant District Attorney, Putnam County, NY, Planning Counsel and Town Attorney to the Town of Putnam Valley, Village Attorney, Village of Nelsonville, Assistant Town Attorney, Town of Philipstown, and as a member of the Town of Putnam Valley Zoning Board of Appeals. He is a member of the Carmel-Mahopac Chamber of Commerce, and the Putnam County and New York State Bar Associations. Mr. Lusardi attended The College of the Holy Cross where he received his B.A. and Syracuse University College of Law where he received his J.D.

Mr. Lusardi’s more than 43 years of experience in commercial and real estate litigation provides the Board of Directors with valuable experience in real estate litigation matters as well as other legal matters.

Matthew G. McCrosson, age 72 and a director since 2015, is a partner with MGM Advisory Services, LLC. Prior to this he was a partner with the accounting and advisory firm of PKF O'Connor Davies, LLP where he was employed since 2000. He provides performance improvement based advisory services in addition to organizational and operational reviews. He has assisted many clients in reviewing their technology platforms in terms of alternative systems and system selection and implementation coordination.

Before joining PKF O'Connor Davies, LLP in 2000, Mr. McCrosson was with KPMG Consulting, in the firm's Public Services line of business. Earlier in his career, he served as chief financial officer and chief operation officer of several national and regional not-for-profit organizations. Mr. McCrosson began his career at Deloitte. He serves on the Boards of the Business Council of Westchester, where he Chairs the Audit Committee, and is a past President of the Westchester Community College Foundation, where he continues to serve on the Board and is the Chair of the Audit Committee. He is a past Chairman of the Westchester Community Foundation. Mr. McCrosson is a former Director of CMS Bank, which was acquired by PCSB Bank in 2015.

Mr. McCrosson has an MBA and BS from Manhattan College.

The Board of Directors values Mr. McCrosson's unique combination of financial and accounting expertise and knowledge of technology matters along with his designation as an "audit committee financial expert," as that term is defined by Securities and Exchange Commission regulations.

Named Executive Officers Who Do Not Serve as Directors

The following individuals have held their current positions for at least the last five years, unless otherwise stated. The ages presented are as of June 30, 2022.

Michael P. Goldrick, age 57, has served as PCSB Bank's Executive Vice President and Chief Lending Officer since October 2012. Before joining PCSB Bank, he held various management and executive positions in the banking industry since 1987 where he began his career at North Fork Bank & Trust Company as a loan officer. From 2001 to 2005, he was Vice President, Commercial Loans, M&T Bank, specializing in middle market loans. From 2005 to 2008, he was Executive Vice President for Business and Professional Banking at Hudson Valley Bank, an executive position accountable for direct and indirect management of a \$1.5 billion loan and \$1.7 billion deposit portfolio. From 2008 to 2012, he was a Senior Vice President, Team Leader Commercial Banking for Provident Bank responsible for loan expansion into Westchester, Putnam, Bronx and Fairfield, CT. He holds an MBA in Finance from Fordham University.

Scott D. Nogles, age 52, has served as PCSB Bank's Executive Vice President and Chief Operating Officer since July 2019. He served as Executive Vice President and Chief Financial Officer from October 2011 until July 2019. Before joining PCSB Bank, he held various financial management and executive positions for other financial institutions. He began his career in 1993 at KPMG, a big four accounting firm, and specialized in auditing community and regional banks. From 2004 to 2011, he was Executive Vice President and Chief Financial officer of New England Bank, a \$700 million public community bank in Enfield, CT. He holds an MBA from the University of Connecticut and is a former CPA.

Section 16(a) Beneficial Ownership Reporting Compliance

General. Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors, and persons who own more than 10% of any registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. These individuals are required by regulation to furnish the Company with copies of all Section 16(a) reports they file.

Delinquent Section 16(a) Reports. Based solely on its review of the copies of the reports it has received from and written representations provided to it from the individuals required to file the reports, the Company believes that each of its executive officers and directors has complied with applicable reporting requirements for transactions in the Company's common stock during the fiscal year ended June 30, 2022, except for the following individuals who inadvertently failed to file timely reports as follows: Dominick Petramale, Retail Banking Officer/Director of Cash Management (one Form 4 to report seven transactions under a broker-sponsored dividend reinvestment plan) and each director of the Company (one Form 4 to report three separate purchase transactions under the Director Fee Deferral Plan).

Code of Ethics and Business Conduct

The Company has adopted codes of ethics and business conduct which apply to all of the Company's and PCSB Bank's directors, officers and employees. They are available on the Investor Relations portion of PCSB Bank's website (www.pcsb.com).

Audit Committee

The Company has a separately-designated standing Audit Committee which is responsible for providing oversight relating to our consolidated financial statements and financial reporting process, systems of internal accounting and financial controls, internal audit function, annual independent audit and the compliance and ethics programs established by management and the Board of Directors. The Audit Committee is also responsible for engaging the Company's independent registered public accounting firm and monitoring its conduct and independence. The members of the Audit Committee are Kevin B. Dwyer, Willard I. Hill, Jr., Jeffrey D. Kellogg, Matthew G. McCrosson, and Richard F. Weiss (Chair). The Board of Directors has designated Messrs. Weiss and McCrosson as an "audit committee financial expert" as that term is defined by the rules and regulations of the Securities and Exchange Commission. All members of the Audit Committee are independent in accordance with the Nasdaq Stock Market listing requirements. The Audit Committee operates under a written charter, which is approved by the Board of Directors and governs its composition, responsibilities and operation. The Audit Committee reviews and reassesses the adequacy of its charter at least annually. The Audit Committee charter is available at the Investor Relations section of PCSB Bank's website (www.pcsb.com).

Item 11. Executive Compensation

Summary Compensation Table. The following information is furnished for the Company's principal executive officer and for the two most highly-compensated executive officers (other than the principal executive officer) whose total compensation for the fiscal year ended June 30, 2022, exceeded \$100,000. These individuals are referred to in this annual report as the "named executive officers."

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Non-qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$) ⁽¹⁾	Total (\$)
Joseph D. Roberto <i>Chairman, President and Chief Executive Officer</i>	2022	635,264	-	-	-	284,279	-	87,828	1,007,371
	2021	622,944	-	-	-	210,617	-	75,950	909,511
Scott D. Nogles <i>Executive Vice President and Chief Operating Officer</i>	2022	332,749	-	-	-	119,136	-	55,832	507,717
	2021	326,348	-	-	-	88,277	-	45,602	460,227
Michael P. Goldrick <i>Executive Vice President and Chief Lending Officer</i>	2022	284,594	-	-	-	72,286	-	55,889	412,769
	2021	279,119	-	-	-	47,534	-	45,656	372,309

⁽¹⁾ For 2022, the details of the amounts reported in the "All Other Compensation" column are as follows:

Name	Automobile Allowance (\$)	Personal Benefit Allotment (\$)	Split Dollar (\$)	ESOP (\$)	Total (\$)
Joseph D. Roberto	-	30,000	10,791	47,037	87,828
Scott D. Nogles	8,400	-	395	47,037	55,832
Michael P. Goldrick	8,400	-	452	47,037	55,889

Employment Agreements. Messrs. Roberto, Nogles and Goldrick (each an “executive” and, collectively, the “executives”) have each entered into employment agreements with the Company and PCSB Bank. The agreements have a term that ends on December 31, 2023, in the case of Mr. Roberto, and December 31, 2022, in the case of Messrs. Nogles and Goldrick. Each agreement will extend automatically for one additional year on January 1 of each year unless either the employers or the applicable executive gives notice no later than 90 days before such anniversary date that an agreement will not be renewed.

Each agreement specifies the executive’s base salary, which currently is \$648,111 for Mr. Roberto, \$339,533 for Mr. Nogles and \$290,395 for Mr. Goldrick. The base salary will be reviewed not less frequently than once every twelve months and may be increased in the board’s discretion. In addition to the base salary, the agreements provide that the executives shall be eligible to participate in short-term and long-term incentive compensation, determined and payable at the discretion of the Compensation Committee. The executives shall also be entitled to continue participation in any fringe benefit arrangements in which they were participating on the effective date of the employment agreement. In addition, the agreements provide for reimbursement of reasonable travel and other business expenses incurred in connection with the performance of the executive’s duties. The agreements for Mr. Roberto provide that he will be entitled to a personal benefits allotment of \$30,000 annually which will be used by him, in his sole discretion, towards a car allowance, country club membership, tax or financial advice or such other perquisites as he deems appropriate.

If the executive’s employment is terminated by PCSB Bank or the Company without cause, including a resignation for good reason (as defined in the agreement) during the term of the agreement, but excluding termination for cause or due to death, disability, retirement or following a change in control, the executive would be entitled to a payment equal to a multiple (i.e., three times for Mr. Roberto, two times for Mr. Nogles and one times for Mr. Goldrick) of the sum of: (i) his average base salary (or, in the case of Mr. Goldrick, his current base salary) plus (ii) his average annual incentive cash compensation awarded during the three (in the case of Mr. Roberto) and two (in the case of Messrs. Nogles and Goldrick) most recent fiscal years ending before the executive’s termination. The severance payment shall be paid to the executive within 30 days (or 60 days in certain circumstances) of the termination date, subject to the receipt of a signed release of claims from the executive within the time frame set forth in the agreement. In the case of Mr. Roberto, the payment shall also include a sum equal to three times his annual personal benefits allotment and a cash lump sum payment equal to the applicable co-payment percentage that PCSB Bank pays for his continuing life, medical and dental coverage, based on the costs of such coverage on the effective date of Mr. Roberto’s termination. Assuming Messrs. Nogles and Goldrick elect continued medical and dental coverage under COBRA, PCSB Bank and/or PCSB Financial will pay the applicable employer co-pay percentage for a period of 18 months, in the case of Mr. Nogles, and 12 months, in the case of Mr. Goldrick. Such coverage will be paid on a pre-tax basis, if providing such coverage did not result in excise taxes or penalties to PCSB Bank or PCSB Financial, otherwise such coverage would be provided on an after-tax basis. In addition, if Mr. Nogles elected continued COBRA coverage, PCSB Bank would also provide Mr. Nogles with a cash lump sum payment equal to the applicable employer co-pay percentage of such coverage for a period of an additional six months (based on the cost of such coverage at his termination date). PCSB Bank will also provide each executive with a cash lump sum payment equal to the cost of 24 months of life insurance premiums under the PCSB Bank-sponsored life insurance arrangements, in the case of Mr. Nogles, and 12 months, in the case of Mr. Goldrick (based on the cost of such coverage at the executive’s termination date). In addition, each executive would fully vest in any benefits under any nonqualified deferred compensation plans in which such executive is participating.

If the executive’s employment is terminated during the term of the agreement by PCSB Bank without cause, including a resignation for good reason (as defined in the agreements) within 24 months after a change in control (as also defined in the agreements), the executive would be entitled to a payment equal to a multiple (i.e., three times for Messrs. Roberto and Nogles and two times for Mr. Goldrick) of the sum of: (i) his current base salary (or his base salary in effect immediately before the change in control, if higher) plus (ii) his highest annual incentive cash compensation awarded during the three (in the case of Messrs. Roberto and Nogles) and two (in the case of Mr. Goldrick) most recent fiscal years ending before the executive’s termination. The severance payment shall be paid to the executive within five business days of the termination date. In the case of Mr. Roberto, the payment shall also include a sum equal to three times his annual personal benefits allotment and a cash lump sum payment equal to the cost of providing continued life, medical and dental coverage for 36 months following termination, at no cost to the executive, based on the costs of such coverage on the effective date of Mr. Roberto’s date of termination. Assuming Messrs. Nogles and Goldrick elect continued medical and dental coverage under COBRA, the employers will pay the entire cost of such coverage for a period of 18 months. Such coverage will be paid on a pre-tax basis, if possible or if providing such pre-tax coverage does not result in excise taxes or penalties to PCSB Bank or PCSB Financial. Otherwise such coverage would be provided on an after-tax basis. In addition, if Messrs. Nogles and Goldrick elect continued COBRA coverage, the employers will also provide the executive with a cash lump sum payment equal to the cost of such coverage for a period of an additional 18 months, in the case of Mr. Nogles, and six months, in the case of Mr. Goldrick (based on the cost of such coverage at his termination date). The employers will also provide each executive with a cash lump sum payment equal to the premium cost for 36 months of life insurance coverage, in the case of Mr. Nogles, and 24 months, in the case of Mr. Goldrick (based on the cost of such coverage at the executive’s termination date). In addition, Messrs. Roberto and Nogles would fully vest in any benefits under any nonqualified deferred compensation plans in which such executive is participating.

For purposes of the executive's ability to resign and receive a payment under the agreement, "good reason" would include the occurrence of any of the following events: (i) a failure of the employers to continue the executive in the executive's position or, in the case of Messrs. Roberto and Nogles, the issuance by the employers of a notice to the executive that the term of the employment agreement will not be extended; (ii) a material adverse change in the nature or scope of executive's responsibilities, title, authorities, powers, functions or duties or the duties normally exercised by someone in his executive position, without his consent, (iii) an involuntary reduction in his base salary, except in connection with an across-the-board salary reduction affecting substantially all management employees and based on the employer's financial performance, (iv) an involuntary relocation of executive's principal place of employment by more than 35 miles driving distance from such office as determined at the date of the agreement, or (v) a material breach by the employers of the compensation provisions or any other provision of the agreement which continues for more than 10 days following notice given by the executive. If an event constituting "good reason" occurs, the executive is required to give the employers notice within 60 days and the employers will have 30 days to correct the good reason, however, the 30-day period may be waived by the employers.

If the payments to the executives under their employment agreements with the employers made in connection with a change in control would result in an excise tax under Sections 280G and 4999 of the Code, the severance amounts payable to Messrs. Nogles and Goldrick would be reduced to avoid an excess parachute payment. The employment agreements with Mr. Roberto are silent with respect to any reduction.

If the executive is terminated due to disability, the employment agreement terminates. For these purposes, disability is defined as any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months and that renders the executive unable to engage in any substantial gainful activity. If the executive dies while employed, the employers will continue to provide his base salary to his designated beneficiary for three months following his death.

Upon retirement of an executive according to any retirement policy established by the employers' boards and consented to by the executive, the executive will be entitled to benefits under any retirement plans to which he is a party but shall not be entitled to any amount or benefits under the employment agreement.

The employment agreements require the executives not to compete with PCSB Bank for a period of one year following a termination of employment for which the executive receives severance payments as the result of an involuntary termination or resignation for good reason (other than a termination of employment following a change in control). The employment agreements further require that the executives not solicit business, customers or employees of PCSB Bank or PCSB Financial for a 12-month period following termination (other than a termination of employment following a change in control) and require the executives to maintain confidential information.

The employment agreements with PCSB Financial specify that there will be no obligation of payment or benefits paid under both the PCSB Bank and PCSB Financial employment agreements. To the extent that a payment is made by or a benefit is received from PCSB Bank, the same payment or benefit will not be paid by or received from PCSB Financial.

Supplemental Executive Retirement Plan for Joseph D. Roberto. PCSB Bank has adopted a Supplemental Executive Retirement Plan for Mr. Roberto. Under the Supplemental Executive Retirement Plan, which is a nonqualified deferred compensation plan subject to Section 409A of the Code, Mr. Roberto will be entitled to a normal retirement benefit if he separates from service after his normal retirement age of 68. The normal retirement benefit payable at age 68 is calculated as an annuity of \$223,642 per year, payable in monthly installments for his lifetime with 15 years certain. If he separates from service before his normal retirement age (other than for cause or due to his death), his benefit will be reduced by 12.5% per year, for each year before his normal retirement age in which his separation occurs. If he works beyond his normal retirement age, his normal retirement benefit will be increased by multiplying the number of years beyond his normal retirement age that he works by 3% (i.e., retirement occurring five years beyond normal retirement age would result in a benefit equal to 115% of the normal retirement benefit). If PCSB Bank undergoes a change in control (as defined in the Supplemental Executive Retirement Plan), his benefit becomes fully vested. Upon Mr. Roberto's separation from service, he will be entitled to a benefit equal to the normal retirement benefit. If he becomes disabled before attainment of his normal retirement age, his disability benefit would be equal to the benefit payable at his normal retirement age, payable in the form of a life annuity. If he is terminated for cause (as defined in the plan), he forfeits his right to any benefit under the Supplemental Executive Retirement Plan. Mr. Roberto's right to a benefit under the Supplemental Executive Retirement Plan is conditioned on his agreement that for a period of one year following his termination of employment, he agrees not to solicit employees or customers of PCSB Bank to terminate their relationship with PCSB Bank, and further agrees not to otherwise compete with PCSB Bank within a 15 mile radius of the location in which PCSB Bank or its affiliates has business operations or has filed an application for regulatory approval to establish an office as of the date of his termination, provided that the requirement not to compete will not apply if his termination occurs following a change in control.

Contemporaneously with the adoption of the Supplemental Executive Retirement Plan, PCSB Bank purchased bank-owned life insurance and entered into a Supplemental Life Insurance Agreement (described below) with Mr. Roberto which would pay a death benefit to his beneficiary if Mr. Roberto would die while employed at PCSB Bank. If he dies before retirement, his beneficiaries will receive a benefit under the life insurance agreement in lieu of any benefit under the Supplemental Executive Retirement Plan.

In connection with the adoption of the Supplemental Executive Retirement Plan, Mr. Roberto entered into a participation agreement with PCSB Bank confirming his participation in the plan. The participation agreement permitted him to elect to receive his benefits under the plan in a lump sum payment rather than in a life annuity with 15 years certain. He has elected to receive a lump sum payment under each payment alternative set forth above.

Supplemental Life Insurance Agreement for Joseph D. Roberto. In conjunction with the adoption of the Supplemental Executive Retirement Plan for Mr. Roberto, PCSB Bank also entered into a Supplemental Life Insurance Agreement with Mr. Roberto. In connection with the adoption of the Supplemental Life Insurance Agreement, PCSB Bank acquired one or more life insurance policies on Mr. Roberto's life. PCSB Bank is the owner of the policy or policies and has entered into an endorsement form with Mr. Roberto to endorse a portion of the death benefits to Mr. Roberto or his beneficiary (such arrangements are referred to as "split dollar agreements"). If Mr. Roberto dies before the payment of his retirement benefit commences under the Supplemental Executive Retirement Plan, his beneficiary would be entitled to a cash lump sum payment from the Supplemental Life Insurance Agreement, in lieu of any benefit under the Supplemental Executive Retirement Plan, equal to the lesser of (i) \$2,517,841 or (ii) the net death proceeds available under the Supplemental Life Insurance Agreement. For these purposes, the "net death proceeds" are defined as the total death proceeds in the policy or policies on Mr. Roberto's life, minus the greater of (i) the cash surrender value of the policy or (ii) the aggregate premiums paid by PCSB Bank on the policy or policies. If Mr. Roberto dies after his retirement benefits have commenced under the Supplemental Executive Retirement Plan, his beneficiary will be entitled to receive a benefit under the Supplemental Life Insurance Agreement equal to the lesser of (i) the present value of the remaining retirement benefits that would have been paid to him under the Supplemental Executive Retirement Plan had he lived for 15 years after retirement, using a 5% discount rate (or such other reasonable rate as the board determines) and (ii) the net death proceeds. Since Mr. Roberto has elected to receive his retirement benefit under the Supplemental Executive Retirement Plan in a lump sum payment following his separation from service, it is expected that no further benefit would be payable to him under this plan following his retirement.

Supplemental Retirement Plan for Senior Executives. PCSB Bank has adopted a Supplemental Retirement Plan for Senior Executives, effective January 1, 2017. Messrs. Nogles and Goldrick are the only participants in the Supplemental Retirement Plan for Senior Executives.

Under the Supplemental Retirement Plan for Senior Executives, which is a nonqualified deferred compensation plan subject to Section 409A of the Code, the participating executive will be entitled to a supplemental benefit, calculated as a fixed annual payment for 15 years, if he separates from service after reaching his benefit age (which is age 65 in the case of both Messrs. Nogles and Goldrick). The "supplemental benefit" for Messrs. Nogles and Goldrick is equal to an annual payment of \$75,000 and \$50,000, respectively. The normal form of benefit will be a single lump sum payment equal of the present value of the supplemental benefit unless the executive makes a timely election to be paid in 15 annual installments. If the executive has a separation from service before reaching his benefit age (other than due to death, disability, the occurrence of a change in control or for cause), the executive will be entitled to the supplemental benefit multiplied by his applicable vested percentage. The supplemental benefit will vest in each executive in equal percentages over a seven-year period.

If the executive dies before attaining his benefit age while employed at PCSB Bank, the executive's beneficiary will be entitled to the supplemental benefit and payment will commence on the first day of the second month following the executive's death. If the executive dies following his separation from service and after becoming vested in any portion of the supplemental benefit but before commencement of benefit payments, the executive's beneficiary will be entitled to the amount otherwise payable to the executive and payment will commence on the first day of the second month following the executive's death.

If the executive becomes disabled before separation from service and before reaching the benefit age, the executive will receive the supplemental benefit as if the executive had reached his benefit age before disability. The payment will be made in a lump sum either within 30 days of the disability determination or at age 65, in accordance with the executive's election set forth in his participation agreement.

If PCSB Bank has a change in control (as defined in the Supplemental Retirement Plan for Senior Executives) and the executive's employment is involuntary terminated (including a good reason termination by the executive) following the change in control, the executive will be entitled to the supplemental benefit, calculated as if executive had attained his benefit age at the time of separation from service. If the executive's employment is terminated within two years following the change in control, the executive's benefit will be the present value of the supplemental benefit paid in a lump sum within 30 days following separation from service. If the executive's employment terminates more than two years following the change in control (other than due to death or disability), the executive will be entitled to the supplemental benefit, payable in the manner set forth in the executive's participation agreement for benefits payable on a "separation from service prior to benefit age" or "separation from service on or after benefit age", as applicable. If a change in control occurs after the executive commences receiving the supplemental benefit paid in the form of installment payments and the executive has made an election in the participation agreement to receive a lump sum payment of the remaining amounts due following a change in control, the present value of the remaining payments will be determined and made payable no later than 30 days after the occurrence of the change in control.

If the executive is terminated for cause, he forfeits his rights to any benefit under the Supplemental Retirement Plan for Senior Executives. The benefits provided under the Supplemental Retirement Plan for Senior Executives are conditioned on the executive's covenant that for a period of one year following the executive's termination of employment (other than following a change in control), the executive will not compete with PCSB Bank in any city, town, or county in which the executive's normal business office is located and PCSB Bank or the Company has an office or has filed an application for a regulatory approval to establish an office. In addition, the executive shall not hire or attempt to hire any employee of PCSB Bank or solicit any business from any customer of PCSB Bank or their subsidiaries.

Supplemental Life Insurance Plan. PCSB Bank maintains a Supplemental Life Insurance Plan for the benefit of certain executives, other than Mr. Roberto, who have been selected to participate in the plan. Messrs. Nogles and Goldrick are participants in the Supplemental Life Insurance Plan, which provides for a death benefit payment equal to the lesser of: (i) one and one-half times a participant's highest rate of base salary, as in existence in the 2015 calendar year, or (ii) the executive's net death proceeds if he dies while employed with PCSB Bank. For these purposes, the "net death proceeds" are defined as the total death proceeds in the officer's policy minus the greater of the cash surrender value of the policy or the aggregate policy premiums paid by PCSB Bank. An officer's participation in the Supplemental Life Insurance Plan will terminate: (i) if any regulatory agency requires PCSB Bank to sever its relationship with the executive; (ii) if PCSB Bank is subjected to regulatory restrictions limiting its ability to pay the compensation under the plan; (iii) in the event of bankruptcy, insolvency, receivership or dissolution of PCSB Bank, (iv) upon termination of the executive's employment, or (v) as otherwise may be determined by PCSB Bank's Board of Directors in good faith.

Pension Plan. PCSB Bank maintains a Retirement Plan in RSI Retirement Trust, a qualified non-contributory defined benefit plan (the "pension plan") for employees. PCSB Bank froze participation in the pension plan with respect to individuals hired after October 1, 2012 (i.e., a "soft freeze"). In connection with the soft freeze, employees of PCSB Bank before October 1, 2012, who completed one year of service, attained age 21, and were not in one of the excluded classifications were (and remain) eligible to accrue benefits under the pension plan. On February 15, 2017, PCSB Bank froze participation in the pension plan to all employees on May 1, 2017 (i.e., a "hard freeze"). After the hard freeze, no further benefits will accrue to the benefit of participants. Contributions to the Plan will continue to be made, if necessary, to satisfy the actuarially determined minimum funding requirements according to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). A participant will become 100% vested in his or her accrued benefit under the plan after five years of service with PCSB Bank.

Under the terms of the frozen plan, upon attainment of normal retirement age (age 65) or upon termination after early retirement age (age 60), a participant who is not married and has accrued benefits of more than \$1,000 will receive a life annuity for the participant's life, unless the participant elects another form of payment. If the participant is married and the present lump sum value of his accrued benefit exceeds \$1,000, the normal form of payment will be a joint and survivor annuity, with a percentage of the participant's benefit continuing to the participant's spouse upon the participant's death. If the participant's vested account balance is \$1,000 or less, the participant will receive a cash distribution as soon as practicable. A participant's accrued benefit will become fully vested upon the participant's death. If a participant dies while the participant is still employed by PCSB Bank or if the participant dies after he or she retires or terminates employment but before benefit payments start, the surviving spouse will be entitled to a life annuity based on the value of the participant's vested accrued benefit.

The basic normal retirement benefit is calculated by multiplying the participant's average of his highest three consecutive years of service by 2% for each year of credited service, up to a maximum of 30 years. A reduced benefit is payable upon early retirement at or after age 60. In the event of late retirement, the late retirement benefit will be the actuarial equivalent of the basic normal retirement benefit plus credit for accruals after attainment of normal retirement age.

401(k) Plan. PCSB Bank maintains a 401(k) Plan, which is a qualified, tax-exempt profit sharing plan with a salary deferral feature under Section 401(k) of the Code (the "401(k) Plan"). All employees who have attained age 21 and completed one year of eligibility service except for union employees, leased employees, and employees compensated on an hourly or commission basis are eligible to participate in the plan. Employees may make elective salary deferrals in an amount no less than 1% of compensation and up to the lesser of 25% of compensation (as defined by the 401(k) Plan) or \$18,000 (as indexed). Employees who have attained age 50 before the end of a plan year are also eligible to make catch-up contributions during the year in an amount not to exceed \$6,000 (as indexed). All employee elective salary deferrals and catch-up contributions are fully and immediately vested.

In addition, until July 1, 2018, PCSB Bank made an employer matching contribution equal to 75% of up to 6% of a participant's compensation that the participant defers to the plan. The employer matching contribution was discontinued effective July 1, 2018. In addition, employees who were hired on or after October 1, 2012, who were not eligible to participate in the pension plan due to its "soft freeze," received an additional profit sharing contribution equal to 5% of their compensation. However, this additional profit sharing contribution was discontinued in 2017. Profit sharing contributions and employer matching contributions are subject to a six-year vesting schedule. Participants are entitled to benefit payments upon termination of employment due to normal retirement at or after age 65, early retirement at or after age 60, disability or death. Benefits will be distributed in the form of lump sum, which is the normal form of distribution, or installment payments at the election of the participant.

Employee Stock Ownership Plan. PCSB Bank adopted an employee stock ownership plan for eligible employees, effective as of January 1, 2017, in connection with the Company's initial public offering. Eligible employees who had attained age 21 and had completed one year of eligibility service on or before April 20, 2017, the closing date of the initial public offering, began to participate in the employee stock ownership plan, retroactively, as of January 1, 2017, the plan's effective date. All employees, except for union employees, leased employees and employees compensated on an hourly basis or commission basis, are eligible to participate. Employees who did not satisfy the eligibility requirements on April 20, 2017 will become eligible to enter the plan on the first entry date commencing on or after both attainment of age 21 and completion of one year of service.

The employee stock ownership plan trustee purchased, on behalf of the employee stock ownership plan, 1,453,209 shares of the Company's common stock issued in the initial offering with the proceeds of a loan from the Company equal to the aggregate purchase price of the common stock. The loan will be repaid principally through PCSB Bank's contribution to the employee stock ownership plan and dividends payable on common stock held by the employee stock ownership plan over the anticipated 15-year term of the loan. Currently, the interest rate for the employee stock ownership plan loan is an adjustable-rate equal to the prime rate, as published in *The Wall Street Journal*, on April 20, 2017. The interest rate will adjust annually and will be the prime rate on the first business day of the calendar year, retroactive to January 1 of such year. The trustee will hold the shares purchased by the employee stock ownership plan in an unallocated suspense account and will release the shares from the suspense account as the employee stock ownership plan repays the loan. The trustee will allocate the shares released among participants based on each participant's proportional share of compensation relative to all participants. Participants will become 100% vested in their benefit after six years of credited service. Participants also will become fully vested upon normal retirement, death or disability, a change in control, or termination of the employee stock ownership plan. Generally, participants will receive distributions from the employee stock ownership plan after severance from employment.

Outstanding Equity Awards at June 30, 2022

The following table provides information regarding equity awards outstanding as of June 30, 2022 to each named executive officer.

Name	Number of Securities Underlying Unexercised Options Exercisable		Number of Securities Underlying Unexercised Options Unexercisable		Option Exercise Price	Option Expiration Date	Number of Shares of Restricted Stock That Have Not Vested (1)		Market Value of Shares of Restricted Stock That Have Not Vested (2)
	Underlying Unexercised Options Exercisable	Options Exercisable	Underlying Unexercised Options Unexercisable	Options Unexercisable			That Have Not Vested (1)		
Joseph D. Roberto	185,285		123,522		\$ 19.40	11/14/28	49,408		\$ 943,199
Scott D. Nogles	108,991		72,660		19.40	11/14/28	29,064		554,832
Michael P. Goldrick	54,496		36,330		19.40	11/14/28	14,632		277,416

⁽¹⁾Restricted stock awards vest in five approximately equal installments, with the first vesting having occurred on November 14, 2019.

⁽²⁾Based upon the Company's closing stock price of \$19.09 per share on June 30, 2022.

Director Compensation

The following table sets forth for the fiscal year ended June 30, 2022, certain information as to the total remuneration we paid our directors, other than Mr. Roberto who, as Chairman, President and Chief Executive Officer, receives no additional compensation for service as a director.

Name	Fees Earned or Paid in Cash (\$)	Non-qualified Deferred Compensation Earnings (\$)(1)	Total (\$)
William V. Cuddy, Jr	\$ 74,000	\$ -	\$ 74,000
Kevin B. Dwyer	74,000	-	74,000
Marsha Gordon	74,000	-	74,000
Willard I. Hill, Jr	74,000	-	74,000
Jeffrey D. Kellogg	74,000	-	74,000
Robert C. Lusardi	74,000	656	74,656
Matthew G. McCrosson	74,000	-	74,000
Karl A. Thimm	74,000	-	74,000
Michael T. Weber	74,000	-	74,000
Richard F. Weiss	74,000	-	74,000

⁽¹⁾ Reflects the above market interest earned under the Director Fee Deferral Plan for the fiscal year ended June 30, 2022.

Director Fee Deferral Plan. PCSB Bank maintains an Amended and Restated Director Fee Deferral Plan for non-employee directors. It is a non-qualified deferred compensation plan subject to the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). A participant in the plan is eligible to defer a fixed percentage of the annual and periodic fees the participant would be entitled to receive by completing an election form and submitting it to PCSB Bank before initial participation, and thereafter, if desired, before the beginning of each plan year. The plan was amended in fiscal year 2018 to permit directors a one-time opportunity to invest a portion of their account balance as of the amendment date in Company common stock and to elect to defer all or a portion of their future deferrals towards the purchase of Company common stock in the plan. For the most recently completed plan year, each participant used at least 15% of his or her deferrals to purchase Company common stock each month. As of the last day of each plan year, PCSB Bank credits each participant's account that is not invested in Company common stock with interest equal to the prime rate as reported in *The Wall Street Journal* on the first business day of the plan year, compounded annually, provided, that the crediting rate will not be less than 3% nor greater than 10%. If a participant fails to make an election, the participant's account and/or future deferrals will not be invested in Company common stock and will earn interest at the rate specified. A participant's deferred fees and earnings are held by PCSB Bank until distributed to the participant. At the time of distribution, any portion of a participant's account that is credited in Company common stock shall be distributed to the director in Company common stock. The participants' account balances remain subject to the claims of PCSB Bank's creditors in the event of PCSB Bank's insolvency until distributed to the participants.

Each participant is entitled to elect, by filing a timely election form, whether to receive payment of the participant's account balance on either of: (i) separation from service or (ii) a specified date. In addition, the participant may elect to receive payment in installments or in a lump sum distribution. If the participant fails to make an election, the participant's account will be distributed in a lump sum distribution at the appropriate time. In addition, if a participant dies, becomes disabled or upon the occurrence of a change in control of PCSB Bank, the participant's benefit will be distributed in a lump sum distribution.

Director Supplemental Life Insurance Plan. PCSB Bank has adopted a Director Supplemental Life Insurance Plan for non-employee directors. Eligible directors participating in the plan are Dr. Gordon and Messrs. Kellogg, McCrosson, Cuddy, Lusardi, Thimm, Dwyer, and Weiss.

The Director Supplemental Insurance Plan provides for a death benefit to the beneficiaries if the director was in service with PCSB Bank at the time of his death. During a director's period of coverage, the director is entitled to designate the beneficiary of his death benefit under the plan. The death benefit will be the lesser of (i) \$100,000 or (ii) the net death benefit. For these purposes, the "net death benefit" is defined as the net amount at risk under the policy or policies, i.e., the difference between the cash surrender value of the policy and the total proceeds payable under the policy at the death of the insured as of a given date. PCSB Bank is the sole owner of the policies covering the directors and has entered into split dollar endorsements with each director endorsing the applicable amount of death benefit to the director's beneficiaries in the event of the director's death. Participation in the plan terminates if: (i) the director's service with PCSB Bank is terminated for reasons other than death or (ii) the plan is terminated.

Death Benefit Only Plan. Messrs. Hill and Weber participate in a separate Death Benefit Only Plan with PCSB Bank and do not participate in the Director Supplemental Life Insurance Plan. Under the Death Benefit Only Plan, if Messrs. Hill or Weber dies pre-retirement, their respective beneficiary is entitled to a death benefit equal to \$153,850. The death benefit will be paid to their respective beneficiary in a single lump sum within 90 days following their death. Messrs. Hill's and Weber's participation will terminate if they terminate service as a director or if the plan is terminated. During their service, Messrs. Hill and Weber are entitled to designate their respective beneficiary or to substitute another beneficiary upon written notice to PCSB Bank.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Beneficial Ownership of Company Common Stock

The following table provides information as of June 30, 2022, about the persons we know to be the beneficial owners of more than 5% of our outstanding common stock. A person may be considered to beneficially own any shares over which the person has, directly or indirectly, sole or shared voting or investment power.

Name and Address	Number of Shares Owned	Percent of Common Stock Outstanding (1)
T. Rowe Price Associates, Inc		
T. Rowe Price Small-Cap Value Fund, Inc.		
100 E. Pratt Street		
Baltimore, MD 21202	1,578,896(2)	10.30%
PCSB Bank Employee Stock Ownership Plan Trust		
2651 Strang Blvd., Suite 100		
Yorktown Heights, NY 10598	1,439,138	9.38%
BlackRock, Inc		
55 East 52nd Street		
New York, NY 10055	939,966(3)	6.13%

(1) Based on 15,334,857 shares of common stock outstanding as of June 30, 2022.

(2) Based on Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2022.

(3) Based on Schedule 13G/A filed with the Securities and Exchange Commission on February 3, 2022.

The following table sets forth, as of June 30, 2022, certain information as to the shares of the Company's common stock beneficially owned by each of the Company's directors, by each named executive officer of the Company, and by all directors and executive officers as a group. For purposes of this table, a person is deemed to be the beneficial owner of any shares of common stock over which he or she has, or shares, directly or indirectly, voting or investment power or as to which he or she has the right to acquire beneficial ownership at any time within 60 days after June 30, 2022. None of the named individuals has pledged any of his or her shares as collateral for a loan.

Name	Number of Shares Owned	Percent of Common Stock Outstanding (1)
Directors:		
William V. Cuddy, Jr	104,986(2)	*
Kevin B. Dwyer	54,752(3)	*
Marsha Gordon	26,764(4)	*
Willard I. Hill, Jr	49,252(5)	*
Jeffrey D. Kellogg	58,564(6)	*
Robert C. Lusardi	71,608(7)	*
Matthew G. McCrosson	72,028(8)	*
Joseph D. Roberto	367,903(9)	2.4%
Karl A. Thimm	61,402(10)	*
Michael T. Weber	56,202(11)	*
Richard F. Weiss	73,319(12)	*
Named Executive Officers Who Are Not Directors:		
Scott D. Nogles	207,169(13)	1.3
Michael P. Goldrick	113,446(14)	*
All Directors and Executive Officers as a Group (20 persons)	1,756,269	10.9%

(*) Represents less than 1% of the outstanding shares.

(1)Based on 15,334,857 shares of the Company's common stock outstanding as of June 30, 2022

(2)Includes 7,600 shares of unvested restricted stock, 27,387 shares held through the Director Fee Deferral Plan and 26,798 shares subject to stock options exercisable at any time within 60 days after June 30, 2022

(3)Includes 7,600 shares of unvested restricted stock, 2,453 shares held through the Director Fee Deferral Plan and 26,798 shares subject to stock options exercisable at any time within 60 days after June 30, 2022.

(4)Includes 3,800 shares of unvested restricted stock, 3,865 shares held through the Director Fee Deferral Plan and 13,399 shares subject to stock options exercisable at any time within 60 days after June 30, 2022.

(5) Includes 1,000 shares held in an Individual Retirement Account ("IRA"), 7,600 shares of unvested restricted stock, 2,453 shares held through the Director Fee Deferral Plan and 26,798 shares subject to stock options exercisable at any time within 60 days after June 30, 2022.

(6)Includes 7,600 shares of unvested restricted stock, 2,765 shares held through the Director Fee Deferral Plan and 26,798 shares subject to stock options exercisable at any time within 60 days after June 30, 2022.

(7)Includes 20,000 shares held in an IRA, 2,500 shares held by Mr. Lusardi's spouse, 7,600 shares of unvested restricted stock, 3,309 shares held through the Director Fee Deferral Plan and 26,798 shares subject to stock options exercisable at any time within 60 days after June 30, 2022.

(8)Includes 7,600 shares of unvested restricted stock, 5,229 shares held through the Director Fee Deferral Plan, 3,000 share held through an employer deferred compensation plan and 26,798 shares subject to stock options exercisable at any time within 60 days after June 30, 2022.

(9)Includes 40,572 shares held in the 401(k) Plan, 15,019 shares held in an IRA, 12,504 shares held in the ESOP, 49,408 shares of unvested restricted stock and 185,285 shares subject to stock options exercisable at any time within 60 days after June 30, 2022.

(10)Includes 3,150 shares held by Mr. Thimm's spouse, 7,600 shares of unvested restricted stock, 2,453 shares held through the Director Fee Deferral Plan and 26,798 shares subject to stock options exercisable at any time within 60 days after June 30, 2022.

(11)Includes 7,600 shares of unvested restricted stock, 2,453 shares held through the Director Fee Deferral Plan and 26,798 shares subject to stock options exercisable at any time within 60 days after June 30, 2022.

(12)Includes 10,000 shares held in an IRA, 8,950 shares of unvested restricted stock, 4,595 shares held through the Director Fee Deferral Plan and 30,848 shares subject to stock options exercisable at any time within 60 days after June 30, 2022.

(13)Includes 20,316 shares held in the 401(k) Plan, 8,500 shares held in an IRA, 12,504 shares held in the ESOP, 29,064 shares of unvested restricted stock and 108,991 shares subject to stock options exercisable at any time within 60 days after June 30, 2022.

(14)Includes 23,179 shares held in the 401(k) Plan, 12,504 shares held in the ESOP, 14,532 shares of unvested restricted stock and 54,496 shares subject to stock options exercisable at any time within 60 days after June 30, 2022

Securities Authorized for Issuance Under Equity Compensation Plans

See table in Part II Item 5, for a complete discussion of securities authorized for issuance under equity compensation plans.

Change in Control

As of June 30, 2022, the Company does not know of any arrangements that may at a subsequent date result in a change in control of the Company, other than the change in control transaction contemplated by the Agreement and Plan of Merger by and between Brookline Bancorp, Inc. and the Company dated as of May 23, 2022.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Transactions with Related Persons

Loans and Extensions of Credit. Federal law generally prohibits publicly traded companies from extending credit to their executive officers and directors, but it contains a specific exemption from the prohibition for extensions of credit made by federally insured financial institutions, such as PCSB Bank, to their executive officers and directors in compliance with federal banking regulations. However, it is the policy of PCSB Bank not to extend credit to its directors and executive officers and their related interests.

Other Transactions. Mr. Lusardi is a partner in the law firm of Daniels, Porco and Lusardi LLP, which received legal fees from the Company and PCSB Bank aggregating approximately \$41,000 for the fiscal year ended June 30, 2022.

Director Independence

The Company's Board of Directors has determined that all directors are "independent" as defined in, and for purposes of satisfying the listing standards of, the Nasdaq Stock Market, other than Messrs. Lusardi and Roberto. Mr. Roberto is not considered independent because he is an executive officer of the Company and PCSB Bank. Mr. Lusardi is not considered independent because of the aggregate amount of legal fees paid by the Company and PCSB Bank and by borrowers of PCSB Bank to his law firm during the fiscal year ended June 30, 2022 for legal services rendered to or on behalf of the Company and PCSB Bank.

In determining the independence of our directors, the Board of Directors considered the following relationships between the Company, PCSB Bank and our directors and officers, which is not required to be disclosed under "Transactions with Related Persons" above. Mr. Thimm acts as a guarantor on a residential mortgage loan to a family member.

Item 14. Principal Accountant Fees and Services

The Company's independent registered public accounting firm is Crowe LLP, New York, New York, (Auditor Firm ID: 173).

Audit Fees

The following table sets forth the fees billed by Crowe LLP for the fiscal years ended June 30,:

	2022	2021
Audit fees (1)	\$ 349,000	\$ 350,000
Audit-related fees (2)	66,400	90,500
Tax fees (3)	46,800	64,900
All other fees (4)	63,000	-

⁽¹⁾Includes fees for the audit of the consolidated financial statements and for review of interim financial information contained in the quarterly reports on Form 10-Q, and other regulatory reporting.

⁽²⁾Includes fees for services associated with SEC registration statements or other documents filed in connection with securities offerings, including comfort letters, consents and assistance with review of documents filed with the SEC, as well as for the audits of certain retirement plans and certain Company subsidiaries as required by statute or regulation.

⁽³⁾Includes fees for tax compliance services, including preparation of original and amended federal and state income tax returns, and for tax payment and planning advice.

⁽⁴⁾Includes compliance related internal audit service.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of the Independent Registered Public Accounting Firm

The Audit Committee has adopted a policy for approval of audit and permitted non-audit services by the Company's independent registered public accounting firm. The Audit Committee will consider annually and approve the provision of audit services by the independent registered public accounting firm and, if appropriate, approve the provision of certain defined audit and non-audit services. The Audit Committee also will consider on a case-by-case basis and, if appropriate, approve specific engagements.

Any proposed specific engagement may be presented to the Audit Committee for consideration at its next regular meeting or, if earlier consideration is required, to the Audit Committee or one or more of its members. The member or members to whom such authority is delegated shall report any specific approval of services at its next regular meeting. The Audit Committee will regularly review summary reports detailing all services being provided to the Company by its independent registered public accounting firm.

During the fiscal year ended June 30, 2022, all services related to audit-related fees, tax fees, and all other fees set forth in the table above were approved by the Audit Committee.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

The following are filed as a part of this Form 10-K under Item 8:

- (A)Report of Independent Registered Public Accounting Firm
- (B)Consolidated Balance Sheets - June 30, 2022 and 2021
- (C)Consolidated Statements of Operations - Years ended June 30, 2022 and 2021
- (D)Consolidated Statements of Comprehensive Income – Years ended June 30, 2022 and 2021
- (E)Consolidated Statements of Changes in Shareholders' Equity – Years ended June 30, 2022 and 2021
- (F)Consolidated Statements of Cash Flows – Years ended June 30, 2022 and 2021
- (G)Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

None.

(a)(3) Exhibits

- 3.1 Articles of Incorporation of PCSB Financial Corporation (1)
- 3.2 Amended and Restated Bylaws of PCSB Financial Corporation (2)
- 4.0 Form of Common Stock Certificate of PCSB Financial Corporation (3)
- 10.1 Employment Agreement between PCSB Bank and Joseph D. Roberto (4)
- 10.2 Employment Agreement between PCSB Bank and Scott D. Nogles (5)
- 10.3 Employment Agreement between PCSB Bank and Michael P. Goldrick (6)
- 10.4 Employment Agreement between PCSB Financial Corporation and Joseph D. Roberto (7)
- 10.5 Employment Agreement between PCSB Financial Corporation and Scott D. Nogles (8)
- 10.6 Employment Agreement between PCSB Financial Corporation and Michael P. Goldrick (9)
- 10.7 Supplemental Executive Retirement Plan for Joseph D. Roberto (10)
- 10.8 Supplemental Life Insurance Agreement for Joseph D. Roberto (11)
- 10.9 Supplemental Life Insurance Plan for Senior Executives (12)
- 10.10 Supplemental Executive Retirement Plan for Senior Executives (13)
- 10.11 Amended and Restated PCSB Bank Director Fee Deferral Plan (14)
- 10.12 PCSB Bank Director Supplemental Life Insurance Plan (15)
- 10.13 PCSB Bank Death Benefit Plan for Michael T. Weber (16)
- 10.14 PCSB Bank Incentive Compensation Plan Policy (17)
- 10.15 PCSB Financial Corporation Compensation Clawback Policy (18)
- 10.16 PCSB Bank Death Benefit Plan for Willard I. Hill, Jr (19)
- 10.17 PCSB Financial Corporation 2018 Equity Incentive Plan (20)
- 10.18 Agreement and Plan of Merger between PCSB Financial Corporation and Brookline Bancorp, Inc (21).
- 21 Subsidiaries of PCSB Financial Corporation (22)
- 23 Consent of Crowe LLP
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following financial statements for the year ended June 30, 2022, formatted in Inline XBRL, which are furnished, and not filed: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Shareholders' Equity (v) Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101).

(1) Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the SEC on December 12, 2016, as amended.

(2) Incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed with the SEC on June 24, 2021.

(3) Incorporated by reference to Exhibit 4 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the SEC on December 12, 2016, as amended.

- (4) Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the SEC on September 27, 2017.
- (5) Incorporated by reference to Exhibit 10.2 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the SEC on September 27, 2017.
- (6) Incorporated by reference to Exhibit 10.3 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the SEC on September 27, 2017.
- (7) Incorporated by reference to Exhibit 10.4 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the SEC on September 27, 2017.
- (8) Incorporated by reference to Exhibit 10.5 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the SEC on September 27, 2017.
- (9) Incorporated by reference to Exhibit 10.6 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the SEC on September 27, 2017.
- (10) Incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the SEC on December 12, 2016, as amended.
- (11) Incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the SEC on December 12, 2016, as amended.
- (12) Incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the SEC on December 12, 2016, as amended.
- (13) Incorporated by reference to Exhibit 10.10 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the SEC on September 27, 2017.
- (14) Incorporated by reference to Exhibit 10.11 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the SEC on September 13, 2018.
- (15) Incorporated by reference to Exhibit 10.15 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the SEC on December 12, 2016, as amended.
- (16) Incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the SEC on December 12, 2016, as amended.
- (17) Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form 10-Q (File No. 001-38065), filed with the SEC on November 9, 2017.
- (18) Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (File No. 001-38065), filed with the SEC on November 9, 2017.
- (19) Incorporated by reference to Exhibit 10.16 to the Annual Report on Form 10-K (File No. 001-38065), filed with the SEC on September 13, 2018.
- (20) Incorporated by reference to Appendix A to the Definitive 2018 Annual Meeting Proxy Solicitation Materials (File No. 001-38065), filed with the SEC on September 20, 2018.
- (21) Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K (File No. 001-38065), filed with the SEC on May 24, 2022.
- (22) Incorporated by reference to Exhibit 21 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the SEC on December 12, 2016, as amended.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PCSB FINANCIAL CORPORATION

Date: September 9, 2022

By: /s/ Joseph D. Roberto

Joseph D. Roberto

Chairman, President and Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
<u>/s/ Joseph D. Roberto</u> Joseph D. Roberto	Chairman, President and Chief Executive Officer (Principal Executive Officer)	September 9, 2022
<u>/s/ Jeffrey M. Helf</u> Jeffrey M. Helf	Senior Vice President and Chief Financial Officer (Principal Accounting and Financial Officer)	September 9, 2022
<u>/s/ William V. Cuddy, Jr.</u> William V. Cuddy, Jr.	Director	September 9, 2022
<u>/s/ Kevin B. Dwyer</u> Kevin B. Dwyer	Director	September 9, 2022
<u>/s/ Marsha Gordon</u> Marsha Gordon	Director	September 9, 2022
<u>/s/ Willard I. Hill, Jr.</u> Willard I. Hill, Jr.	Director	September 9, 2022
<u>/s/ Jeffrey D. Kellogg</u> Jeffrey D. Kellogg	Director	September 9, 2022
<u>/s/ Robert C. Lusardi</u> Robert C. Lusardi	Director	September 9, 2022
<u>/s/ Matthew G. McCrosson</u> Matthew G. McCrosson	Director	September 9, 2022
<u>/s/ Karl A. Thimm</u> Karl A. Thimm	Director	September 9, 2022
<u>/s/ Michael T. Weber</u> Michael T. Weber	Director	September 9, 2022
<u>/s/ Richard F. Weiss</u> Richard F. Weiss	Director	September 9, 2022

PCSB FINANCIAL CORPORATION
CONDENSED CONSOLIDATED PRO FORMA STATEMENTS OF FINANCIAL CONDITION (Unaudited)
(in thousands)

At December 31, 2022

Assets	
Cash and short term investments	\$ 42,373
Securities	430,488
Loans, net of deferred fees and costs	1,381,665
Allowance for credit losses	(9,296)
Bank premises and equipment	12,675
Goodwill	6,106
Identifiable intangible assets	65
Other assets	75,699
Total Assets	<u>\$ 1,939,775</u>
Liabilities	
Deposits	\$ 1,573,725
Borrowings	53,254
Reserve for unfunded credits	-
Other liabilities	40,023
Stockholders' equity	272,773
Total Liabilities and Shareholders' Equity	\$1,939,775
Common Shares	15,334,323

PCSB FINANCIAL CORPORATION
CONDENSED CONSOLIDATED PRO FORMA STATEMENTS OF INCOME (Unaudited)
(in thousands)

	Three months ended
	Dec 31, 2022
Interest and dividend income	
Loans	\$ 15,012
Investment securities	2,399
Federal funds sold and other	338
Total interest and dividend income	<u>17,749</u>
Interest expense	
Deposits and escrow interest	2,558
FHLB advances	235
Total interest expense	<u>2,793</u>
Net interest income	14,956
Provision for loan losses	264
Net interest income after provision for loan losses	<u>14,692</u>
Non-interest income	
Fees and service charges	480
Bank-owned life insurance	190
Other	7
Total non-interest income	<u>677</u>
Noninterest expense	
Salaries and employee benefits	13,731
Occupancy and equipment	1,411
Professional fees	285
Advertising	127
Postage, printing, stationary and supplies	147
FDIC assessment	125
Amortization of intangible assets	12
Communications and data processing	627
Merger related expenses	16,498
Other operating expenses	709
Total non-interest expense	<u>33,672</u>
Income before income tax expense	(18,303)
Income tax expense	(181)
Net income	\$ (18,122)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-38065

PCSB Financial Corporation

(Exact Name of Registrant as Specified in its Charter)

Maryland	81-4710738
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2651 Strang Blvd, Suite 100	10598
Yorktown Heights, NY	(Zip Code)
(Address of principal executive offices)	

Registrant's telephone number, including area code: (914) 248-7272

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	PCSB	The NASDAQ Stock Market, LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Small reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

15,334,857 shares of the Registrant's common stock, par value \$0.01 per share, were outstanding as of February 2, 2022.

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

PCSB Financial Corporation and Subsidiaries
Consolidated Balance Sheets (unaudited)
 (amounts in thousands, except share and per share data)

	December 31, 2021	June 30, 2021
ASSETS		
Cash and due from banks	\$ 113,499	\$ 152,070
Federal funds sold	6,840	7,235
Total cash and cash equivalents	120,339	159,305
Held to maturity debt securities, at amortized cost (fair value of \$389,814 and \$342,137, respectively)	390,312	337,584
Available for sale debt securities, at fair value	43,687	57,387
Total investment securities	433,999	394,971
Loans receivable, net of allowance for loan losses of \$8,429 and \$7,881, respectively	1,243,646	1,229,451
Loans receivable held for sale	1,452	-
Accrued interest receivable	6,509	6,398
FHLB stock	4,167	4,507
Premises and equipment, net	19,550	21,099
Deferred tax asset, net	2,327	2,552
Bank-owned life insurance	35,951	35,568
Goodwill	6,106	6,106
Other intangible assets	119	151
Other assets	13,956	14,827
Total assets	<u>\$ 1,888,121</u>	<u>\$ 1,874,935</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Interest bearing deposits	\$ 1,307,359	\$ 1,272,610
Non-interest bearing deposits	215,708	219,072
Total deposits	1,523,067	1,491,682
Mortgage escrow funds	10,880	10,536
Advances from FHLB	58,390	65,957
Other liabilities	20,950	32,200
Total liabilities	1,613,287	1,600,375
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock (\$0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding as of December 31, 2021 and June 30, 2021)	-	-
Common stock (\$0.01 par value, 200,000,000 shares authorized, 18,703,577 shares issued as of both December 31, 2021 and June 30, 2021, and 15,337,979 and 15,770,645 shares outstanding as of December 31, 2021 and June 30, 2021, respectively)	187	187
Additional paid in capital	191,826	189,926
Retained earnings	157,146	150,987
Unearned compensation - ESOP	(9,688)	(10,176)
Accumulated other comprehensive loss, net of income taxes	(3,353)	(3,099)
Treasury stock, at cost (3,365,598 and 2,932,932 shares as of December 31, 2021 and June 30, 2021, respectively)	(61,284)	(53,265)
Total shareholders' equity	274,834	274,560
Total liabilities and shareholders' equity	<u>\$ 1,888,121</u>	<u>\$ 1,874,935</u>

See accompanying notes to the consolidated financial statements (unaudited)

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Operations (unaudited)
(amounts in thousands, except share and per share data)

	<u>Three Months Ended December 31,</u>		<u>Six Months Ended December 31,</u>	
	2021	2020	2021	2020
Interest and dividend income				
Loans receivable	\$ 12,651	\$ 12,182	\$ 24,758	\$ 24,729
Investment securities	2,131	1,933	4,142	3,789
Federal funds and other	88	110	197	235
Total interest and dividend income	14,870	14,225	29,097	28,753
Interest expense				
Deposits and escrow interest	1,292	2,158	2,646	4,590
FHLB advances	320	520	658	1,039
Total interest expense	1,612	2,678	3,304	5,629
Net interest income	13,258	11,547	25,793	23,124
Provision for loan losses	264	107	277	216
Net interest income after provision for loan losses	12,994	11,440	25,516	22,908
Noninterest income				
Fees and service charges	407	363	808	685
Bank-owned life insurance	191	129	383	261
Gain on sale of premises	548	-	548	-
Net gains on sales of loans receivable	41	-	47	-
Swap income	-	238	-	367
Other	8	13	22	24
Total noninterest income	1,195	743	1,808	1,337
Noninterest expense				
Salaries and employee benefits	5,843	5,520	11,616	11,127
Occupancy and equipment	1,348	1,374	2,701	2,692
Communication and data processing	526	446	1,053	1,022
Professional fees	420	503	813	903
Postage, printing, stationery and supplies	182	167	325	306
FDIC assessment	121	122	246	235
Advertising	100	100	200	200
Amortization of intangible assets	16	20	32	40
Other operating expenses	249	439	443	790
Total noninterest expense	8,805	8,691	17,429	17,315
Net income before income tax expense	5,384	3,492	9,895	6,930
Income tax expense	1,096	798	1,993	1,508
Net income	\$ 4,288	\$ 2,694	\$ 7,902	\$ 5,422
Earnings per common share:				
Basic	\$ 0.30	\$ 0.18	\$ 0.55	\$ 0.36
Diluted	\$ 0.30	\$ 0.18	\$ 0.55	\$ 0.36
Weighted average common shares outstanding:				
Basic	14,236,473	14,888,528	14,287,009	15,094,982
Diluted	14,281,232	14,889,020	14,349,272	15,094,982

See accompanying notes to the consolidated financial statements (unaudited)

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (unaudited)
(amounts in thousands)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2020	2021	2020
Net income	\$ 4,288	\$ 2,694	\$ 7,902	\$ 5,422
Other comprehensive income:				
Unrealized (losses) gains on available for sale debt securities:				
Net change in unrealized gains/losses before reclassification adjustment	(243)	(3)	(430)	(19)
Reclassification adjustment for gains realized in net income	-	-	-	-
Net change in unrealized gains/losses	(243)	(3)	(430)	(19)
Tax effect	51	1	91	4
Net of tax	(192)	(2)	(339)	(15)
Defined benefit pension plan:				
Net gain (loss) arising during the period	-	-	-	-
Reclassification adjustment for amortization of prior service cost and net gain included in net periodic pension cost	37	332	75	572
Net change in unrealized gains/losses	37	332	75	572
Tax effect	(7)	(69)	(16)	(120)
Net of tax	30	263	59	452
Supplemental retirement plans:				
Net gain (loss) arising during the period	-	-	-	-
Reclassification adjustment for amortization of prior service cost and net gain included in net periodic pension cost	16	14	32	28
Net change in unrealized gains/losses	16	14	32	28
Tax effect	(3)	(4)	(6)	(7)
Net of tax	13	10	26	21
Total other comprehensive (loss) income	(149)	271	(254)	458
Comprehensive income	\$ 4,139	\$ 2,965	\$ 7,648	\$ 5,880

See accompanying notes to the consolidated financial statements (unaudited)

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity (unaudited)
(amounts in thousands, except share and per share data)

	Number of Common Shares	Common Stock	Additional Capital	Retained Earnings	Unallocated Common Stock of ESOP	Treasury Stock, at cost	Accumulated Other Comprehensive Loss	Shareholders' Total Equity
Balance at July 1, 2021	15,770,645	\$ 187	\$ 189,926	\$ 150,987	\$ (10,176)	\$ (53,265)	\$ (3,099)	\$ 274,560
Net income	-	-	-	3,614	-	-	-	3,614
Other comprehensive loss	-	-	-	-	-	-	(105)	(105)
Common stock dividends declared (\$0.06 per share)	-	-	-	(876)	-	-	-	(876)
Repurchase of common stock	(204,261)	-	-	-	-	(3,720)	-	(3,720)
Restricted stock awards granted	8,000	-	(145)	-	-	145	-	-
Shares withheld related to income tax withholding	(74)	-	-	-	-	(1)	-	(1)
Stock-based compensation	-	-	810	-	-	-	-	810
ESOP shares committed to be released (24,419 shares)	-	-	202	-	244	-	-	446
Balance at September 30, 2021	15,574,310	\$ 187	\$ 190,793	\$ 153,725	\$ (9,932)	\$ (56,841)	\$ (3,204)	\$ 274,728
Net income	-	-	-	4,288	-	-	-	4,288
Other comprehensive loss	-	-	-	-	-	-	(149)	(149)
Common stock dividends declared (\$0.06 per share)	-	-	-	(867)	-	-	-	(867)
Repurchase of common stock	(217,411)	-	-	-	-	(4,084)	-	(4,084)
Shares withheld related to income tax withholding	(18,920)	-	-	-	-	(359)	-	(359)
Stock-based compensation	-	-	820	-	-	-	-	820
ESOP shares committed to be released (24,419 shares)	-	-	213	-	244	-	-	457
Balance at December 31, 2021	15,337,979	\$ 187	\$ 191,826	\$ 157,146	\$ (9,688)	\$ (61,284)	\$ (3,353)	\$ 274,834

See accompanying notes to the consolidated financial statements (unaudited)

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity (unaudited)
(amounts in thousands, except share and per share data)

	Number of		Additional		Unallocated Common Stock of ESOP	Treasury Stock, at cost	Accumulated		Total
	Common Shares	Common Stock	Paid-In Capital	Retained Earnings			Other	Shareholders' Equity	
							Loss		
Balance at July 1, 2020	16,898,137	\$ 187	\$ 186,200	\$ 141,288	\$ (11,145)	\$ (36,414)	\$ (6,403)	\$ 273,713	
Net income	-	-	-	2,728	-	-	-	-	2,728
Other comprehensive income	-	-	-	-	-	-	187	187	
Common stock dividends declared (\$0.04 per share)	-	-	-	(630)	-	-	-	-	(630)
Repurchase of common stock	(266,900)	-	-	-	-	(3,449)	-	-	(3,449)
Restricted stock awards granted	3,000	-	(60)	-	-	60	-	-	
Stock-based compensation	-	-	829	-	-	-	-	829	
ESOP shares committed to be released (24,419 shares)	-	-	57	-	244	-	-	-	301
Balance at September 30, 2020	16,634,237	\$ 187	\$ 187,026	\$ 143,386	\$ (10,901)	\$ (39,803)	\$ (6,216)	\$ 273,679	
Net income	-	-	-	2,694	-	-	-	-	2,694
Other comprehensive income	-	-	-	-	-	-	271	271	
Common stock dividends declared (\$0.04 per share)	-	-	-	(608)	-	-	-	-	(608)
Repurchase of common stock	(517,270)	-	-	-	-	(7,591)	-	-	(7,591)
Shares withheld related to income tax withholding	(19,100)	-	-	-	-	(303)	-	-	(303)
Stock-based compensation	-	-	822	-	-	-	-	822	
ESOP shares committed to be released (24,419 shares)	-	-	116	-	244	-	-	-	360
Balance at December 31, 2020	16,097,867	\$ 187	\$ 187,964	\$ 145,472	\$ (10,657)	\$ (47,697)	\$ (5,945)	\$ 269,324	

See accompanying notes to the consolidated financial statements (unaudited)

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)
(amounts in thousands)

	Six Months Ended December 31,	
	2021	2020
OPERATING ACTIVITIES		
Net income	\$ 7,902	\$ 5,422
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan loss	277	216
Depreciation and amortization	1,476	1,486
Amortization of net premiums on securities and net deferred loan origination costs	81	507
Net (increase) decrease in accrued interest receivable	(111)	763
Net gains on sales of loans receivable	(47)	-
Gain on sale of premises	(548)	-
Stock-based compensation	1,630	1,651
ESOP compensation	903	661
Earnings from cash surrender value of BOLI	(383)	(261)
Origination of loans receivable held for sale	(4,580)	-
Proceeds from loans receivable held for sale	3,175	-
Net accretion of purchase accounting adjustments	(64)	(137)
Other adjustments, principally net changes in other assets and liabilities	(6)	(1,586)
Net cash provided by operating activities	9,705	8,722
INVESTING ACTIVITIES		
Purchases of investment securities:		
Held to maturity	(102,698)	(40,116)
Available for sale	-	(20,377)
Maturities, calls and amortization of investment securities:		
Held to maturity	39,606	48,403
Available for sale	13,175	14,407
Loan (originations) repayments, net	(14,002)	23,442
Net redemption of FHLB stock	340	3
Sale (purchase) of bank premises and equipment	653	(117)
Net cash (used in) provided by investing activities	(62,926)	25,645
FINANCING ACTIVITIES		
Net increase in deposits	31,385	4,032
Repayment of long-term FHLB advances	(7,567)	(66)
Net decrease in mortgage escrow funds	344	487
Common stock dividends paid	(1,743)	(1,238)
Repurchase of shares from employees for income tax withholding purpose	(360)	(303)
Repurchase of common stock	(7,804)	(11,040)
Net cash provided by (used in) financing activities	14,255	(8,128)
Net (decrease) increase in cash and cash equivalents	(38,966)	26,239
Cash and cash equivalents at beginning of period	159,305	136,302
Cash and cash equivalents at end of period	\$ 120,339	\$ 162,541
Supplemental information:		
Cash paid for:		
Interest	\$ 3,323	\$ 5,635
Income taxes	1,507	2,715
Transfers from premises and equipment to other assets	398	-

See accompanying notes to the consolidated financial statements (unaudited)

PCSB Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

Note 1. Basis of Presentation

Nature of Operations: PCSB Financial Corporation (the "Holding Company" and together with its direct and indirect subsidiaries, the "Company") is a Maryland corporation organized by PCSB Bank (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in the Bank's conversion to stock ownership on April 20, 2017. At December 31, 2021, the significant assets of the Holding Company were the capital stock of the Bank, cash deposited in the Bank, and a loan to the PCSB Bank Employee Stock Ownership Plan ("ESOP"). The liabilities of the Holding Company were insignificant. The Company is subject to the financial reporting requirements of the Securities Exchange Act of 1934, as amended, and regulation and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and the New York State Department of Financial Services (the "NYSDFS").

PCSB Bank is a community-oriented financial institution that provides financial services to individuals and businesses within its market area of Putnam, Southern Dutchess, Rockland and Westchester Counties in New York. The Bank is a state-chartered commercial bank, and its deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC"). The Bank's primary regulators are the FDIC and the NYSDFS.

Basis of Presentation: The unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), and include the accounts of the Holding Company, the Bank and the Bank's two subsidiaries - PCSB Funding Corp. and UpCounty Realty Corp. (formerly PCSB Realty Ltd.). PCSB Funding Corp. is a real estate investment trust that holds certain mortgage assets. UpCounty Realty Corp. is a corporation that holds certain properties foreclosed upon by the Bank. All intercompany transactions and balances have been eliminated in consolidation.

The unaudited consolidated financial statements contained herein reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Such adjustments are the only adjustments reflected in the consolidated financial statements contained herein. The results of operations for the current period presented are not necessarily indicative of the results of operations that may be expected for the entire current fiscal year. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended June 30, 2021, included in the Company's Annual Report on Form 10-K.

Certain prior period amounts have been reclassified to conform to the current presentation. Reclassifications had no effect on prior period net income or equity.

Loans Receivable Held For Sale: Loans receivable held for sale are those loans which management has the intent to sell in the foreseeable future, and are carried at the lower of aggregate cost or market value. Net unrealized losses, if any, are recognized by a valuation allowance through a charge to noninterest income. Realized gains and losses on the sale of loans are recognized on the trade date and are determined by the difference between the sale proceeds and the carrying value of the loans.

Loans may be sold with servicing rights released or retained. At the time of the sale, management records a servicing asset for the value of any retained servicing rights, which represents the present value of the differential between the contractual servicing fee and adequate compensation, defined as the fee a sub-servicer would require to assume the role of servicer, after considering the estimated effects of prepayments.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor does not maintain effective control over the transferred assets through either (a) an agreement that both entities and obligates the transferor to repurchase or redeem the assets

before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

Assets Held For Sale: Assets held for sale are those assets which management has the intent to sell in the foreseeable future, and are carried at the lower of aggregate cost or fair value, less estimated costs to sell, in the period in which the held for sale criteria are met and every subsequent period until the asset is sold. The carrying amount of the asset is adjusted for subsequent increases or decreases in its fair value, less estimated cost to sell, except that any subsequent increase cannot exceed the cumulative loss previously recognized. Such assets are not depreciated or amortized while they are classified as held for sale. Realized gains and losses on the sale of the asset is recognized when the asset is sold and is determined by the difference between the sale proceeds and the carrying value of the asset. Assets classified as held for sale totaled \$1.5 million as of both December 31, 2021 and June 30, 2021 and are included in other assets on the consolidated balance sheet. During the three and six months ended December 31, 2021, the Company sold \$398,000 in assets held for sale resulting in gains on sale of \$548,000.

Risks and Uncertainties:

The COVID-19 pandemic has created extensive disruptions to the global and U.S. economies and to the lives of individuals throughout the world. Governments, businesses, and the public have taken unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including vaccination mandates, quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal and monetary stimulus, and legislation designed to deliver financial aid and other relief. While the scope, duration, and full effects of COVID-19 on the economy continue to evolve and are not fully known, the pandemic and the efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, impacted market interest rates, increased economic and market uncertainty, and disrupted trade and supply chains.

Many of the emergency actions taken to mitigate the effects of the pandemic have since been reduced or eliminated, resulting in an improved local and national economic environment, however the ultimate financial impact of the pandemic on our borrowers, and therefore on our credit quality and financial performance, is still unknown at this time. The pandemic may continue to adversely impact consumers and several industries within our geographic footprint and impair the ability of the Company's customers to fulfill their contractual obligations to the Company. This could cause the Company to experience a material adverse effect on our business operations, asset valuations, financial condition, and results of operations. Material adverse impacts may include, but are not limited to, the valuation impairments of the Company's intangible assets, investments, loans receivable, or deferred tax assets. Additionally, it is reasonably possible that the Company's allowance for loan loss estimate as of December 31, 2021 could change in the near term and could result in a material change to the Company's provision for loan losses, earnings and capital.

Use of Estimates: To prepare financial statements in conformity with GAAP management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Note 2. Recent Accounting Pronouncements

The pronouncements discussed below are not intended to be an all-inclusive list, but rather only those pronouncements that the Company has determined could potentially have a material impact on our financial position, results of operations or disclosures.

There were no accounting standards adopted in the current period.

Future Application of Accounting Pronouncements Previously Issued

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13 "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 which affects entities holding financial assets that are not accounted for at fair value through net income, including loans, debt securities, and other financial assets. The ASU requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected by recording an allowance for current expected credit losses. In October 2019, the FASB unanimously voted to delay the implementation of the standard for three years for certain companies, including small reporting companies (as defined by the SEC), non-SEC public companies and private companies. The Company currently qualifies as a small reporting company and is subject to the delayed implementation. Therefore, the amendments in this update

will be effective for the Company for the fiscal year beginning on July 1, 2023, including interim periods within that fiscal year. The Company is actively working through the provisions of the Update. Management has established a steering committee which is identifying the methodologies and the additional data requirements necessary to implement the Update and has engaged a third-party software service provider to assist in the Company's implementation. Management is currently evaluating the impact that ASU 2016-13 will have on the Company's consolidated financial position, results of operations and disclosures.

The FASB issued ASU 2020-04 "Reference Rate Reform" and ASU 2021-01 "Reference Rate Reform Scope" which collectively address accounting considerations related to the expected discontinuation of LIBOR as a reference rate for financial contracts. These Updates provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform (codified in ASC 848). They include optional expedients related to contract modifications that allow an entity to account for modifications (if certain criteria are met) as if the modifications were only minor (assets within the scope of ASC 310, Receivables), were not substantial (assets within the scope of ASC 470, Debt) and/or did not result in remeasurements or reclassifications (assets within the scope of ASC 842, Leases, and other Topics) of the existing contract. They also include optional expedients and exceptions for contract modifications and hedge accounting that apply to derivative instruments impacted by the market-wide discounting transition. The Updates also allow for a one-time election to sell, transfer, or both sell and transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that are classified as held to maturity before January 1, 2020. The guidance in these ASUs are effective as of March 12, 2020 through December 31, 2022. The Company has not yet elected to apply the practical expedients contained in these Updates and does not expect significant impact to the consolidated financial statements upon adoption.

Note 3. Investment Securities

The amortized cost, gross unrealized/unrecognized gains and losses and fair value of available for sale and held to maturity debt securities at December 31, 2021 and June 30, 2021 were as follows (in thousands):

	December 31, 2021			
	Amortized Cost	Gross Unrealized/Unrecognized Gains	Gross Unrealized/Unrecognized Losses	Fair Value
Available for sale:				
U.S. Government and agency obligations	\$ 10,936	\$ -	\$ (206)	\$ 10,730
Corporate	8,002	165	-	8,167
State and municipal	7,041	71	(120)	6,992
Mortgage-backed securities - residential	15,511	84	(311)	15,284
Mortgage-backed securities - commercial	2,453	61	-	2,514
Total available for sale	<u>\$ 43,943</u>	<u>\$ 381</u>	<u>\$ (637)</u>	<u>\$ 43,687</u>
Held to maturity:				
U.S. Government and agency obligations	\$ 39,995	\$ 104	\$ (367)	\$ 39,732
Corporate	52,091	1,247	(100)	53,238
State and municipal	87,568	342	(1,625)	86,285
Mortgage-backed securities - residential	105,968	1,867	(523)	107,312
Mortgage-backed securities - collateralized mortgage obligations	25,304	165	(441)	25,028
Mortgage-backed securities - commercial	79,386	536	(1,703)	78,219
Total held to maturity	<u>\$ 390,312</u>	<u>\$ 4,261</u>	<u>\$ (4,759)</u>	<u>\$ 389,814</u>

	June 30, 2021				
	Amortized Cost	Gross Gains	Unrealized/Unrecognized Losses		Fair Value
Available for sale:					
U.S. Government and agency obligations	\$ 21,931	\$ 6	\$ (121)	\$ 21,816	
Corporate	8,013	176	-	8,189	
State and municipal	7,041	104	(30)	7,115	
Mortgage-backed securities - residential	17,738	148	(232)	17,654	
Mortgage-backed securities - commercial	2,490	123	-	2,613	
Total available for sale	\$ 57,213	\$ 557	\$ (383)	\$ 57,387	
Held to maturity:					
U.S. Government and agency obligations	\$ 33,994	\$ 202	\$ (84)	\$ 34,112	
Corporate	43,605	1,312	(38)	44,879	
State and municipal	57,625	440	(248)	57,817	
Mortgage-backed securities - residential	96,181	2,713	(107)	98,787	
Mortgage-backed securities - collateralized mortgage obligations	33,300	376	(328)	33,348	
Mortgage-backed securities - commercial	72,879	937	(622)	73,194	
Total held to maturity	\$ 337,584	\$ 5,980	\$ (1,427)	\$ 342,137	

No securities were sold during the three or six months ended December 31, 2021 or 2020.

The following table presents the fair value and carrying amount of debt securities at December 31, 2021, by contractual maturity (in thousands). Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Held to maturity		Available for sale	
	Carrying Amount	Fair Value	Amortized Cost	Fair Value
1 year or less	\$ 5,121	\$ 5,222	\$ 3,002	\$ 3,008
1 to 5 years	45,969	45,617	5,000	4,990
5 to 10 years	43,476	44,575	10,936	10,899
over 10 years	81,203	79,771	7,041	6,992
Mortgage-backed securities and other	214,543	214,629	17,964	17,798
Total	\$ 390,312	\$ 389,814	\$ 43,943	\$ 43,687

Securities pledged had carrying amounts of \$151.6 million and \$180.1 million at December 31, 2021 and June 30, 2021, respectively, and were pledged principally to secure FHLB advances and public deposits.

The following table provides information regarding investment securities with unrealized/unrecognized losses, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position at December 31, 2021 and June 30, 2021 (in thousands):

	December 31, 2021					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized/ Unrecognized Loss	Fair Value	Unrealized/ Unrecognized Loss	Fair Value	Unrealized/ Unrecognized Loss
Available for sale:						
U.S. Government and agency obligations	\$ 10,730	\$ (206)	\$ -	\$ -	\$ 10,730	\$ (206)
State and municipal	1,918	(91)	981	(29)	2,899	(120)
Mortgage-backed securities - residential	5,843	(146)	5,125	(165)	10,968	(311)
Total available for sale	<u>\$ 18,491</u>	<u>\$ (443)</u>	<u>\$ 6,106</u>	<u>\$ (194)</u>	<u>\$ 24,597</u>	<u>\$ (637)</u>
Held to maturity:						
U.S. Government and agency obligations	\$ 31,627	\$ (367)	\$ -	\$ -	\$ 31,627	\$ (367)
Corporate	9,900	(100)	-	-	9,900	(100)
State and municipal	61,699	(1,625)	-	-	61,699	(1,625)
Mortgage-backed securities - residential	51,441	(523)	-	-	51,441	(523)
Mortgage-backed securities - collateralized mortgage obligations	13,543	(440)	89	(1)	13,632	(441)
Mortgage-backed securities - commercial	62,956	(1,671)	1,006	(32)	63,962	(1,703)
Total held to maturity	<u>\$ 231,166</u>	<u>\$ (4,726)</u>	<u>\$ 1,095</u>	<u>\$ (33)</u>	<u>\$ 232,261</u>	<u>\$ (4,759)</u>
June 30, 2021						
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized/ Unrecognized Loss	Fair Value	Unrealized/ Unrecognized Loss	Fair Value	Unrealized/ Unrecognized Loss
Available for sale						
U.S. Government and agency obligations	\$ 14,811	\$ (121)	\$ -	\$ -	\$ 14,811	\$ (121)
State and municipal	2,990	(30)	-	-	2,990	(30)
Mortgage-backed securities - residential	9,615	(222)	1,339	(10)	10,954	(232)
Total available for sale	<u>\$ 27,416</u>	<u>\$ (373)</u>	<u>\$ 1,339</u>	<u>\$ (10)</u>	<u>\$ 28,755</u>	<u>\$ (383)</u>
Held to maturity						
U.S. Government and agency obligations	\$ 19,409	\$ (84)	\$ -	\$ -	\$ 19,409	\$ (84)
Corporate	2,488	(13)	4,975	(25)	7,463	(38)
State and municipal	19,980	(248)	-	-	19,980	(248)
Mortgage-backed securities - residential	30,335	(107)	-	-	30,335	(107)
Mortgage-backed securities - collateralized mortgage obligations	15,133	(328)	-	-	15,133	(328)
Mortgage-backed securities - commercial	47,580	(622)	-	-	47,580	(622)
Total held to maturity	<u>\$ 134,925</u>	<u>\$ (1,402)</u>	<u>\$ 4,975</u>	<u>\$ (25)</u>	<u>\$ 139,900</u>	<u>\$ (1,427)</u>

As of December 31, 2021, the Company's securities portfolio consisted of \$434.0 million in securities, of which 154 securities with a fair value of \$256.9 million were in an unrealized/unrecognized loss position. Non-U.S. government and agency obligations are internally pass rated and are subject to quarterly credit monitoring.

There were no securities for which the Company believes it is not probable that it will collect all amounts due according to the contractual terms of the security as of December 31, 2021 or June 30, 2021. Management believes the unrealized losses are primarily a result of changes in market interest rates. The Company has determined that it does not intend to sell, or it is not more likely than not that it will be required to sell, its securities that are in an unrealized loss position prior to the recovery of its amortized cost basis. Therefore, the Company did not consider any securities to be other-than-temporarily impaired as of December 31, 2021 or June 30, 2021.

Note 4. Loans Receivable

Loans receivable are summarized as follows (in thousands):

	December 31, 2021	June 30, 2021
Mortgage loans:		
Residential	\$ 212,817	\$ 224,305
Commercial	867,581	826,624
Construction	11,857	10,151
Net deferred loan origination (fees) costs	(18)	196
Total mortgage loans	1,092,237	1,061,276
Commercial and consumer loans:		
Commercial loans	135,055	150,658
Home equity lines of credit	24,142	25,439
Consumer and overdrafts	356	345
Net deferred loan origination costs (fees)	285	(386)
Total commercial and consumer loans	159,838	176,056
Total loans receivable	1,252,075	1,237,332
Allowance for loan losses	(8,429)	(7,881)
Loans receivable, net	\$ 1,243,646	\$ 1,229,451

The following tables present the activity in the allowance for loan losses by portfolio segment for the three and six months ended December 31, 2021 and 2020 (in thousands):

	Three Months Ended December 31, 2021				
	Beginning Allowance	Provision (benefit)	Charge-offs	Recoveries	Ending Allowance
Residential mortgages	\$ 326	\$ (9)	\$ -	\$ 2	\$ 319
Commercial mortgages	6,569	284	-	-	6,853
Construction	127	2	-	-	129
Commercial loans	1,072	(18)	-	13	1,067
Home equity lines of credit	53	(4)	-	2	51
Consumer and overdrafts	12	9	(11)	-	10
Total	\$ 8,159	\$ 264	\$ (11)	\$ 17	\$ 8,429

	Three Months Ended December 31, 2020				
	Beginning Allowance	Provision (benefit)	Charge-offs	Recoveries	Ending Allowance
Residential mortgages	\$ 342	\$ (12)	\$ -	\$ 4	\$ 334
Commercial mortgages	6,966	(94)	-	-	6,872
Construction	173	32	-	-	205
Commercial loans	1,121	179	(119)	20	1,201
Home equity lines of credit	63	(4)	-	2	61
Consumer and overdrafts	7	6	(9)	-	4
Total	\$ 8,672	\$ 107	\$ (128)	\$ 26	\$ 8,677

	Six Months Ended December 31, 2021				
	Beginning Allowance	Provision (benefit)	Charge-offs	Recoveries	Ending Allowance
Residential mortgages	\$ 337	\$ (22)	\$ -	\$ 4	\$ 319
Commercial mortgages	6,435	418	-	-	6,853
Construction	102	27	-	-	129
Commercial loans	948	(161)	(100)	380	1,067
Home equity lines of credit	54	(7)	-	4	51
Consumer and installment loans	5	22	(18)	1	10
Total	\$ 7,881	\$ 277	\$ (118)	\$ 389	\$ 8,429

	Six Months Ended December 31, 2020				
	Beginning Allowance	Provision (benefit)	Charge-offs	Recoveries	Ending Allowance
Residential mortgages	\$ 373	\$ (45)	\$ -	\$ 6	\$ 334
Commercial mortgages	6,913	(41)	-	-	6,872
Construction	165	40	-	-	205
Commercial loans	1,124	250	(224)	51	1,201
Home equity lines of credit	60	(3)	-	4	61
Consumer and installment loans	4	15	(17)	2	4
Total	\$ 8,639	\$ 216	\$ (241)	\$ 63	\$ 8,677

The following tables present the balance in the allowance for loan losses and the recorded investment in loans, excluding net deferred fees and accrued interest, by portfolio segment, and based on impairment method as of December 31, 2021 and June 30, 2021 (in thousands):

	December 31, 2021							
	Loans				Allowance for Loan Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired With Deteriorated Credit Quality	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired With Deteriorated Credit Quality	Total
Residential mortgages	\$ 1,743	\$ 210,653	\$ 421	\$ 212,817	\$ 111	\$ 208	\$ -	\$ 319
Commercial mortgages	3,582	863,125	874	867,581	-	6,853	-	6,853
Construction	1,113	10,744	-	11,857	-	129	-	129
Commercial loans	654	134,401	-	135,055	-	1,067	-	1,067
Home equity lines of credit	374	23,653	115	24,142	8	43	-	51
Consumer and overdrafts	-	356	-	356	-	10	-	10
Total	\$ 7,466	\$ 1,242,932	\$ 1,410	\$ 1,251,808	\$ 119	\$ 8,310	\$ -	\$ 8,429

	June 30, 2021							
	Loans				Allowance for Loan Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired With Deteriorated Credit Quality	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired With Deteriorated Credit Quality	Total
Residential mortgages	\$ 2,356	\$ 221,229	\$ 720	\$ 224,305	\$ 113	\$ 224	\$ -	\$ 337
Commercial mortgages	3,582	822,154	888	826,624	-	6,435	-	6,435
Construction	-	10,151	-	10,151	-	102	-	102
Commercial loans	1,707	148,951	-	150,658	-	948	-	948
Home equity lines of credit	414	24,902	123	25,439	8	46	-	54
Consumer and overdrafts	-	345	-	345	-	5	-	5
Total	\$ 8,059	\$ 1,227,732	\$ 1,731	\$ 1,237,522	\$ 121	\$ 7,760	\$ -	\$ 7,881

The following tables present information related to loans individually evaluated for impairment (excluding loans acquired with deteriorated credit quality) by portfolio segment as of December 31, 2021 and June 30, 2021 (in thousands):

	December 31, 2021			June 30, 2021		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses
With no related allowance recorded:						
Residential mortgages	\$ 1,370	\$ 1,323	\$ -	\$ 2,044	\$ 1,931	\$ -
Commercial mortgages	3,582	3,582	-	3,582	3,582	-
Construction	1,113	1,113	-	-	-	-
Commercial loans	666	654	-	1,878	1,707	-
Home equity lines of credit	314	339	-	358	381	-
With an allowance recorded:						
Residential mortgages	358	420	111	363	425	113
Home equity lines of credit	35	35	8	33	33	8
Total	\$ 7,438	\$ 7,466	\$ 119	\$ 8,258	\$ 8,059	\$ 121

The tables below present the average recorded investment and interest income recognized on loans individually evaluated for impairment, by portfolio segment, for the three and six months ended December 31, 2021 and 2020 (in thousands):

	Three months ended December 31, 2021		Three months ended December 31, 2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Residential mortgages	\$ 1,916	\$ 23	\$ 1,873	\$ 12
Commercial mortgages	3,582	-	-	-
Construction	278	18	-	-
Commercial loans	355	9	1,769	48
Home equity lines of credit	339	-	379	1
With an allowance recorded:				
Residential mortgages	420	4	428	4
Commercial loans	-	-	15	-
Home equity lines of credit	34	-	29	-
Total	\$ 6,924	\$ 54	\$ 4,493	\$ 65
Six Months Ended December 31, 2021				
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Residential mortgages	\$ 1,925	\$ 30	\$ 1,935	\$ 20
Commercial mortgages	3,582	-	-	-
Construction	159	36	-	-
Commercial loans	726	206	1,789	97
Home equity lines of credit	345	2	383	1
With an allowance recorded:				
Residential mortgages	422	7	429	7
Commercial loans	-	-	15	-
Home equity lines of credit	34	-	21	-
Total	\$ 7,193	\$ 281	\$ 4,572	\$ 125

The following table presents the recorded investment in nonaccrual loans and in loans past due over 90 days and still on accrual status, by portfolio segment, as of December 31, 2021 and June 30, 2021 (in thousands):

	Nonaccrual		Loans Past Due Over 90 Days and Still Accruing	
	December 31, 2021	June 30, 2021	December 31, 2021	June 30, 2021
Residential mortgages	\$ 789	\$ 1,391	\$ -	\$ -
Commercial mortgages	3,582	3,582	1,655	411
Construction	1,113	-	-	-
Commercial loans	400	-	-	-
Home equity lines of credit	339	381	-	-
Consumer and overdrafts	-	-	12	-
Total	\$ 6,223	\$ 5,354	\$ 1,667	\$ 411

Nonperforming loans include both smaller-balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. The table above excludes acquired loans that are accounted for as purchased credit impaired loans totaling \$356,000 and \$368,000 as of December 31, 2021 and June 30, 2021, respectively. Such loans are excluded because the loans are in pools that are considered performing. The discounts arising from recording these loans at fair value upon acquisition were due in part to credit quality and the accretable yield is being recognized as interest income over the life of the loans based on expected cash flows.

The following tables present the aging of the recorded investment in past due loans by portfolio segment as of December 31, 2021 and June 30, 2021 (in thousands):

	December 31, 2021					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current (1)	Total
	\$	\$	\$	\$	\$	\$
Residential mortgages	\$ 259	\$ 193	\$ 669	\$ 1,121	\$ 211,696	\$ 212,817
Commercial mortgages	539	-	1,655	2,194	865,387	867,581
Construction	-	-	1,113	1,113	10,744	11,857
Commercial loans	-	47	400	447	134,608	135,055
Home equity lines of credit	-	18	339	357	23,785	24,142
Consumer and overdrafts	-	-	12	12	344	356
Total	\$ 798	\$ 258	\$ 4,188	\$ 5,244	\$ 1,246,564	\$ 1,251,808

	June 30, 2021					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current (1)	Total
	\$	\$	\$	\$	\$	\$
Residential mortgages	\$ 198	\$ 126	\$ 948	\$ 1,272	\$ 223,033	\$ 224,305
Commercial mortgages	453	-	411	864	825,760	826,624
Construction	-	-	-	-	10,151	10,151
Commercial loans	69	76	-	145	150,513	150,658
Home equity lines of credit	-	19	381	400	25,039	25,439
Consumer and overdrafts	-	-	-	-	345	345
Total	\$ 720	\$ 221	\$ 1,740	\$ 2,681	\$ 1,234,841	\$ 1,237,522

(1) As of December 31, 2021 and June 30, 2021, loans on a COVID-19-related payment deferral are considered current.

Troubled Debt Restructurings

The terms of certain loans have been modified as troubled debt restructurings ("TDR's"). The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. All TDRs are considered impaired loans.

As of December 31, 2021 and June 30, 2021, the Company had 8 and 12 loans, classified as TDRs totaling \$1.6 million and \$3.1 million, including \$1.2 million and \$2.7 million, respectively, of loans still accruing interest. The Company has allocated \$119,000 and \$121,000, respectively, of specific reserves to customers whose loan terms have been modified in TDRs as of December 31, 2021 and June 30, 2021. As of December 31, 2021, the Company has committed to lend an additional \$1,000 to customers with outstanding loans that are classified as TDRs.

The Company did not modify any loans during the three or six months ended December 31, 2021 or 2020 that were classified as TDRs.

There were no defaults of TDRs occurring in the three or six months ended December 31, 2021 or December 31, 2020 that were modified in the twelve months prior to default.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. Section 4013 of the CARES Act, "Temporary Relief From Troubled Debt Restructurings," provides banks the option to temporarily suspend certain requirements under U.S. GAAP related to TDRs for a limited period of time to account for the effects of COVID-19. On December 27, 2020, the Consolidated Appropriations Act 2021 was signed into law. Section 541 of this legislation, "Extension of Temporary Relief From Troubled Debt Restructurings and Insurer Clarification," extends Section 4013 of the CARES Act to the earlier of January 1, 2022 or 60 days after the termination of the national emergency declared relating to COVID-19. This legislation expired on January 1, 2022. Additionally, on April 7, 2020, the banking agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, issued a statement, "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working With Customers Affected by the Coronavirus (Revised)" ("Interagency Statement"), to encourage banks to work prudently with borrowers and to describe the agencies' interpretation of how accounting rules under ASC 310-40, "Troubled Debt Restructurings by Creditors," apply to certain COVID-19-related modifications.

During the three and six months ended December 31, 2021, the Company granted or extended loan payment deferrals for 3 and 5 residential mortgage, commercial mortgage, and commercial loans totaling \$3.9 million and \$5.9 million, respectively. In accordance with either the CARES Act (as amended) or Interagency Statement, these modifications are not considered TDRs. The Company had 7 and 19 loans totaling \$13.7 million and \$27.3 million on loan payment deferral as of December 31, 2021 and June 30, 2021, respectively.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a monthly basis. The Company utilizes the same grading process for acquired loans as it does for originated loans. The Company uses the following definitions for risk ratings:

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above-described process and loans in groups of homogenous loans are considered to be pass rated loans. These loans are monitored based on delinquency and performance. Based on the most recent analysis performed, the risk category of loans by portfolio segment is as follows (in thousands):

	December 31, 2021			
	Pass	Special Mention	Substandard	Total
Residential mortgages	\$ 210,945	\$ 262	\$ 1,610	\$ 212,817
Commercial mortgages	847,434	3,163	16,984	867,581
Construction	10,744	1,113	-	11,857
Commercial loans	130,602	607	3,846	135,055
Home equity lines of credit	23,628	84	430	24,142
Consumer and overdrafts	356	-	-	356
Total	\$ 1,223,709	\$ 5,229	\$ 22,870	\$ 1,251,808

	June 30, 2021			
	Pass	Special Mention	Substandard	Total
Residential mortgages	\$ 219,901	\$ 2,480	\$ 1,924	\$ 224,305
Commercial mortgages	809,660	1,615	15,349	826,624
Construction	9,038	1,113	-	10,151
Commercial loans	146,275	491	3,892	150,658
Home equity lines of credit	24,400	602	437	25,439
Consumer and overdrafts	345	-	-	345
Total	\$ 1,209,619	\$ 6,301	\$ 21,602	\$ 1,237,522

As of December 31, 2021, of the \$13.7 million in loans in a COVID-19 related payment deferral, \$8.3 million were pass-rated, with \$185,000 and \$5.3 million rated special mention and substandard, respectively. As of June 30, 2021, of the \$27.3 million in loans on deferral, \$9.9 million were pass-rated, with \$3.2 million and \$14.2 million rated special mention and substandard, respectively.

Purchased Credit Impaired Loans

The Company has acquired loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans as of December 31, 2021 and June 30, 2021 is as follows (in thousands):

	December 31, 2021	June 30, 2021
Residential mortgages	\$ 421	\$ 720
Commercial mortgages	874	888
Home equity lines of credit	115	123
Carrying amount, net of allowance of \$0	<u>\$ 1,410</u>	<u>\$ 1,731</u>

There was no provision for loan losses on purchased credit impaired loans during the three and six months ended December 31, 2021 or 2020.

Accrivable yield, or income expected to be collected, for acquired loans is as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2020	2021	2020
Beginning balance	\$ 120	\$ 151	\$ 130	\$ 156
New loans acquired	-	-	-	-
Accretion income	(19)	(4)	(29)	(9)
Reclassification from non-accretable difference	-	-	-	-
Disposals	-	-	-	-
Ending balance	<u>\$ 101</u>	<u>\$ 147</u>	<u>\$ 101</u>	<u>\$ 147</u>

Note 5. Accumulated Other Comprehensive (Loss) Income

The following is a summary of the accumulated other comprehensive income (loss) balances, net of tax (in thousands):

	Net unrealized gain (loss) on available for sale securities	Unrealized loss on pension benefits	Unrealized loss on SERP benefits	Total
Balance at October 1, 2021	\$ (10)	\$ (3,026)	\$ (168)	\$ (3,204)
Other comprehensive loss before reclassifications	(243)	-	-	(243)
Amounts reclassified from accumulated other comprehensive income	-	37	16	53
Less tax effect	51	(7)	(3)	41
Net other comprehensive (loss) income	<u>(192)</u>	<u>30</u>	<u>13</u>	<u>(149)</u>
Balance at December 31, 2021	<u>\$ (202)</u>	<u>\$ (2,996)</u>	<u>\$ (155)</u>	<u>\$ (3,353)</u>

	Net unrealized gain (loss) on available for sale securities	Unrealized loss on pension benefits	Unrealized loss on SERP benefits	Total
Balance at October 1, 2020	\$ 415	\$ (6,416)	\$ (215)	\$ (6,216)
Other comprehensive loss before reclassifications	(3)	-	-	(3)
Amounts reclassified from accumulated other comprehensive income	-	332	14	346
Less tax effect	1	(69)	(4)	(72)
Net other comprehensive (loss) income	(2)	263	10	271
Balance at December 31, 2020	\$ 413	\$ (6,153)	\$ (205)	\$ (5,945)
	Net unrealized gain (loss) on available for sale securities	Unrealized loss on pension benefits	Unrealized loss on SERP benefits	Total
Balance at July 1, 2021	\$ 137	\$ (3,055)	\$ (181)	\$ (3,099)
Other comprehensive loss before reclassifications	(430)	-	-	(430)
Amounts reclassified from accumulated other comprehensive income	-	75	32	107
Tax effect	91	(16)	(6)	69
Net other comprehensive (loss) income	(339)	59	26	(254)
Balance at December 31, 2021	\$ (202)	\$ (2,996)	\$ (155)	\$ (3,353)
	Net unrealized gain (loss) on available for sale securities	Unrealized loss on pension benefits	Unrealized loss on SERP benefits	Total
Balance at July 1, 2020	\$ 428	\$ (6,605)	\$ (226)	\$ (6,403)
Other comprehensive income before reclassifications	(19)	-	-	(19)
Amounts reclassified from accumulated other comprehensive income	-	572	28	600
Tax effect	4	(120)	(7)	(123)
Net other comprehensive (loss) income	(15)	452	21	458
Balance at December 31, 2020	\$ 413	\$ (6,153)	\$ (205)	\$ (5,945)

Note 6. Post-Retirement Benefits

Employee Pension Plan

The Company maintains a non-contributory defined benefit pension plan that covers employees meeting specific requirements as to age and length of service. The Company's contributions to this qualified plan are determined on the basis of (i) the maximum amount that can be deducted for federal income tax purposes, and (ii) the amount determined by a consulting actuary as necessary to avoid an accumulated funding deficiency as defined by the Employee Retirement Income Security Act of 1974 ("ERISA"). Contributions are intended to provide for benefits attributed to service to date but also those expected to be earned in the future. On February 15, 2017, the Board of Directors approved the freezing of the defined benefit pension plan effective May 1, 2017.

Supplemental Executive Retirement Plans

The Company also maintains unfunded and non-qualified supplemental executive retirement plans ("SERP") to provide pension benefits in addition to those provided under the qualified pension plan.

Net periodic benefit cost and other amounts recognized in other comprehensive income for the three and six months ended December 31, 2021 and 2020 (in thousands):

	Three Months Ended December 31, 2021		Three Months Ended December 31, 2020	
	Defined Benefit Plan	Supplemental Retirement Plans	Defined Benefit Plan	Supplemental Retirement Plans
Service cost	\$ -	\$ 130	\$ -	\$ 91
Interest cost	148	18	137	23
Expected return on plan assets	(509)	-	(455)	-
Amortization of prior net loss	37	16	239	14
Settlement charges	-	-	93	-
Net periodic (benefit) cost	\$ (324)	\$ 164	\$ 14	\$ 128
Six Months Ended December 31, 2021				
	Defined Benefit Plan	Supplemental Retirement Plans	Defined Benefit Plan	Supplemental Retirement Plans
Service cost	\$ -	\$ 261	\$ -	\$ 181
Interest cost	297	35	273	47
Expected return on plan assets	(1,019)	-	(911)	-
Amortization of prior net loss	75	32	479	28
Settlement charges	-	-	93	-
Net periodic (benefit) cost	\$ (647)	\$ 328	\$ (66)	\$ 256

The Company made no contributions to the defined benefit plan during the three and six months ended December 31, 2021.

Employee Stock Ownership Plan

On January 1, 2017, the Company established an Employee Stock Ownership Plan ("ESOP") to provide eligible employees the opportunity to own Company stock. The ESOP is a tax-qualified retirement plan for the benefit of Company employees. On April 20, 2017, the Holding Company granted a loan to the ESOP in the amount of \$14.5 million for the purchase of 1,453,209 shares of the Company's common stock at a price of \$10.00 per share. The loan obtained by the ESOP from the Holding Company to purchase the common stock is payable annually over 15 years at a rate per annum equal to the Prime Rate, reset annually on January 1st (3.25% for 2021). Loan payments are principally funded by cash contributions from the Bank. The loan is secured by the shares purchased, which are held in a suspense account for allocation among participants as the loan is repaid. The balance of the ESOP loan at December 31, 2021 was \$9.7 million. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax limits. The number of shares committed to be released annually is 96,881 through 2032. Dividends on allocated shares increase participant accounts and are used to purchase additional shares of stock. Participants receive the shares at the end of employment.

Shares held by the ESOP include the following (dollars in thousands):

	December 31, 2021	June 30, 2021
Allocated to participants	469,127	417,902
Unearned	968,810	1,017,648
Total ESOP shares	1,437,937	1,435,550
Fair value of unearned shares	\$ 18,446	\$ 18,491

Total compensation expense recognized in connection with the ESOP for the three and six months ended December 31, 2021 was \$457,000 and \$903,000, respectively, and for the three and six months ended December 31, 2020 was \$360,000 and \$661,000, respectively.

Note 7. Fair Value of Financial Instruments

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

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

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

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

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as general classification of such instruments pursuant to the valuation hierarchy, is set forth below. While management believes the Company's valuation methodologies are appropriate and consistent with other financial institutions, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Investment Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs), matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs), or a broker's opinion of value (Level 3 inputs).

Impaired Loans: The fair value of collateral-dependent impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. Appraisals are generally obtained annually and may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Management performs a review of all appraisals, including any such adjustments. The fair value of uncollateralized or non-collateral-dependent loans are generally based on discounted cash flows which utilize management's assumption of discount rates and expected future cash flows, resulting in a Level 3 classification.

Foreclosed Real Estate: Assets acquired through or instead of loan foreclosure are initially recorded at fair value, less estimated costs to sell, when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value, less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Foreclosed properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Credit Department, as well as a third-party specialist, where deemed appropriate, reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Once appraisals are considered appropriate, management discounts the appraised value for estimated selling costs, such as legal, broker, and property maintenance and insurance costs. The most recent analysis performed indicated discount rates ranging between

10% and 20% should be applied to properties with appraisals performed.

Derivatives: The Company's derivative assets and liabilities consist of transactions undertaken as part of management's strategy to manage interest rate risk. The valuation of the Company's interest rate swaps is obtained

from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy.

Assets and liabilities measured at fair value are summarized below (in thousands):

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
December 31, 2021				
Measured on a recurring basis:				
Available for sale securities:				
U.S. Government and agency obligations	\$ -	\$ 10,730	\$ -	\$ 10,730
Corporate	-	5,032	3,135	8,167
State and municipal	-	6,992	-	6,992
Mortgage-backed securities - residential	-	15,284	-	15,284
Mortgage-backed securities - commercial	-	2,514	-	2,514
Derivatives - interest rate contracts	-	3,824	-	3,824
Total assets at fair value	\$ -	\$ 44,376	\$ 3,135	\$ 47,511
Derivatives - interest rate contracts	\$ -	\$ 3,824	\$ -	\$ 3,824
Total liabilities at fair value	\$ -	\$ 3,824	\$ -	\$ 3,824
Measured on a non-recurring basis:				
Impaired loans:				
Residential mortgages	\$ -	\$ -	\$ 309	\$ 309
Home equity lines of credit	-	-	27	27
Total assets at fair value	\$ -	\$ -	\$ 336	\$ 336
June 30, 2021				
Measured on a recurring basis:				
Available for sale securities:				
U.S. Government and agency obligations	\$ -	\$ 21,816	\$ -	\$ 21,816
Corporate	-	5,058	3,131	8,189
State and municipal	-	7,115	-	7,115
Mortgage-backed securities - residential	-	17,654	-	17,654
Mortgage-backed securities - commercial	-	2,613	-	2,613
Derivatives - interest rate contracts	-	4,232	-	4,232
Total assets at fair value	\$ -	\$ 58,488	\$ 3,131	\$ 61,619
Derivatives - interest rate contracts	\$ -	\$ 4,232	\$ -	\$ 4,232
Total liabilities at fair value	\$ -	\$ 4,232	\$ -	\$ 4,232
Measured on a non-recurring basis:				
Impaired loans:				
Residential mortgages	\$ -	\$ -	\$ 312	\$ 312
Home equity lines of credit	-	-	25	25
Total assets at fair value	\$ -	\$ -	\$ 337	\$ 337

There were no transfers between levels within the fair value hierarchy during the three and six months ended December 31, 2021 and 2020.

Impaired loans in the preceding table had a carrying amount of \$455,000 and a remaining valuation allowance of \$119,000, at December 31, 2021, as compared to \$471,000 and \$125,000, respectively, as of June 30, 2021. Impaired loans measured at fair value incurred no net charge-offs and resulted in a credit for loan losses of \$3,000 during the six months ended December 31, 2021. Impaired loans measured at fair value as of December 31, 2020 incurred no net charge-offs and resulted in a provision for loan losses of \$2,000 during the six months ended December 31, 2020.

The following tables present quantitative information about Level 3 fair value measurements for selected financial instruments measured at fair value on a non-recurring basis at December 31, 2021 and June 30, 2021 (dollars in thousands):

	<u>Fair Value</u>	<u>Valuation Technique(s)</u>	<u>Unobservable Input(s)</u>	<u>Range or Rate Used</u>
December 31, 2021				
Impaired loans - residential mortgages	\$ 309	Discounted cash flow	Discount rate	5.4% to 6.3%
Impaired loans - home equity lines of credit	27	Discounted cash flow	Discount rate	5.4% to 6.3%
June 30, 2021				
Impaired loans - residential mortgages	\$ 312	Discounted cash flow	Discount rate	5.4% to 6.3%
Impaired loans - home equity lines of credit	25	Discounted cash flow	Discount rate	5.4% to 6.3%

The following is a summary of the carrying amounts and estimated fair values of the Company's financial assets and liabilities, none of which are held for trading purposes (in thousands):

	<u>Carrying Amount</u>	<u>Fair Value Measurements</u>				
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	
December 31, 2021						
Financial assets:						
Cash and cash equivalents	\$ 120,339	\$ 120,339	\$ -	\$ -	\$ 120,339	
Investment securities held to maturity	390,312	-	354,962	34,852	389,814	
Investment securities available for sale	43,687	-	40,552	3,135	43,687	
Loans receivable, net	1,243,646	-	-	1,243,799	1,243,799	
Loans receivable held for sale	1,452	-	-	1,452	1,452	
Accrued interest receivable	6,509	-	1,648	4,861	6,509	
FHLB stock	4,167	N/A	N/A	N/A	N/A	
Derivative assets - interest rate contracts	3,824	-	3,824	-	3,824	
Financial liabilities:						
Demand, NOW, money market deposits and savings accounts	1,168,711	1,168,711	-	-	1,168,711	
Time deposits	354,356	-	358,819	-	358,819	
Mortgage escrow funds	10,880	10,880	-	-	10,880	
Accrued interest payable	127	1	126	-	127	
FHLB advances	58,390	-	59,103	-	59,103	
Derivative liabilities - interest rate contracts	3,824	-	3,824	-	3,824	

	Carrying Amount	Fair Value Measurements				
		Level 1	Level 2	Level 3	Total	
June 30, 2021						
Financial assets:						
Cash and cash equivalents	\$ 159,305	\$ 159,305	\$ -	\$ -	\$ 159,305	
Investment securities held to maturity	337,584	-	305,671	36,466	342,137	
Investment securities available for sale	57,387	-	54,256	3,131	57,387	
Loans receivable, net	1,229,451	-	-	1,234,116	1,234,116	
Accrued interest receivable	6,398	-	1,341	5,057	6,398	
FHLB stock	4,507	N/A	N/A	N/A	N/A	
Derivative assets - interest rate contracts	4,232	-	4,232	-	4,232	
Financial liabilities:						
Demand, NOW, money market deposits and savings accounts	1,116,667	1,116,667	-	-	1,116,667	
Time deposits	375,015	-	380,948	-	380,948	
Mortgage escrow funds	10,536	10,536	-	-	10,536	
Accrued interest payable	146	1	145	-	146	
FHLB advances	65,957	-	67,334	-	67,334	
Derivative liabilities - interest rate contracts	4,232	-	4,232	-	4,232	

The methods of determining the fair value of assets and liabilities presented in the table above are consistent with our methodologies disclosed in the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K.

Note 8. Regulatory Matters

The following is a summary of the Bank's actual capital amounts and ratios as of December 31, 2021 and June 30, 2021, compared to the required ratios for minimum capital adequacy and for classification as well capitalized (dollars in thousands).

	For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Bank Actual					
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
Leverage (Tier 1)	\$ 242,523	12.9%	\$ 75,115	4.0%	\$ 93,893	5.0%
Risk-based:						
Common Tier 1	242,523	17.7	61,769	4.5	89,222	6.5
Tier 1	242,523	17.7	82,359	6.0	109,812	8.0
Total	250,952	18.3	109,812	8.0	137,265	10.0
June 30, 2021						
Leverage (Tier 1)	\$ 233,944	12.5%	\$ 74,988	4.0%	\$ 93,735	5.0%
Risk-based:						
Common Tier 1	233,944	17.9	58,713	4.5	84,807	6.5
Tier 1	233,944	17.9	78,283	6.0	104,378	8.0
Total	241,825	18.5	104,378	8.0	130,472	10.0

In addition to the ratios above, the Basel III Capital Rules have established that community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonus payments to executive officers.

Management believes that as of December 31, 2021 and June 30, 2021, the Bank met all capital adequacy requirements to which it was subject, including the capital conservation buffer of 2.5%. Further, the most recent

FDIC notification categorized the Bank as a well-capitalized institution under the prompt corrective action regulations. There have been no conditions or events since that notification that management believes have changed the Bank's capital classification.

Note 9. Earnings Per Share ("EPS")

Basic EPS is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated in a similar matter, except that the denominator includes the number of additional common shares that would have been outstanding if potentially dilutive common shares were issued using the treasury stock method. Dilutive financial instruments include stock options and unvested restricted stock. The following table provides factors used in the earnings per share computation.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2020	2021	2020
Net income applicable to common stock	\$ 4,288	\$ 2,694	\$ 7,902	\$ 5,422
(dollars in thousands, except per share data)				
Average number of common shares outstanding	15,217,484	15,966,158	15,280,230	16,184,821
Less: Average unallocated ESOP shares	(981,011)	(1,077,630)	(993,221)	(1,089,839)
Average number of common shares outstanding used to calculate basic earnings per common share	14,236,473	14,888,528	14,287,009	15,094,982
Effect of equity-based awards	44,759	492	62,263	-
Average number of common shares outstanding used to calculate diluted earnings per common share	14,281,232	14,889,020	14,349,272	15,094,982
Earnings per common share:				
Basic	\$ 0.30	\$ 0.18	\$ 0.55	\$ 0.36
Diluted	\$ 0.30	\$ 0.18	\$ 0.55	\$ 0.36

Stock options for

1,314,963 and 1,309,550 shares of common stock were not considered in computing diluted earnings per common share for the three and six months ended December 31, 2021, respectively, because they were antidilutive. Stock options for 1,345,293 and 1,343,695 shares of common stock were not considered in computing diluted earnings per common share for the three and six months ended December 31, 2020, respectively, because they were antidilutive.

Note 10. Derivatives and Hedging

Derivatives not designated as hedges may be used to manage the Company's exposure to interest rate movements or to provide service to customers. The Company executes interest rate swaps with commercial lending customers to facilitate their respective risk management strategies. These interest rate swaps with customers are simultaneously offset by interest rate swaps that the Company executes with a third party in order to minimize the net risk exposure resulting from such transactions. The Company presents interest rate swap assets and liabilities in other assets and other liabilities, respectively, in the Consolidated Balance Sheets. These interest rate swap agreements do not qualify for hedge accounting treatment, and therefore changes in fair value are reported in current period earnings.

The following table presents summary information about the interest rate swaps as of December 31, 2021 and June 30, 2021 (dollars in thousands).

	December 31, 2021	June 30, 2021
Notional amounts	\$ 180,921	\$ 182,700
Weighted average pay rates	2.55%	2.55%
Weighted average receive rates	2.55%	2.55%
Weighted average maturity	7.95 years	8.46 years
Fair value of combined interest rate swaps	\$ -	\$ -

Note 11. Revenue From Contracts With Customers

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services. The Company applies the following five steps to properly recognize revenue:

1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to performance obligations in the contract.
5. Recognize revenue when (or as) the Company satisfies a performance obligation.

The following table presents summary information about sources of revenue from contracts with customers for the periods indicated (in thousands).

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2020	2021	2020
Noninterest income:				
Service charges on deposits	\$ 199	\$ 196	\$ 382	\$ 358
Interchange fees	164	133	320	264
Other fees and service charges (1)	44	34	106	63
Fees and service charges	407	363	808	685
Gain on sale of premises (1)	548	-	548	-
Bank-owned life insurance (1)	191	129	383	261
Net gains on sales of loans receivable (1)	41	-	47	-
Swap income (1)	-	238	-	367
Other noninterest income (1)	8	13	22	24
Total noninterest income	\$ 1,195	\$ 743	\$ 1,808	\$ 1,337

(1) Not within the scope of ASC 606.

Fees and Service Charges on Deposit Accounts. The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payments, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing the period over which the Company satisfied the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange Income. The Company earns interchange fees from debit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Gain on Sales of Foreclosed Real Estate. The Company records a gain or loss from the sale of foreclosed real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed real estate asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

Note 12. Stock-Based Compensation

On October 24, 2018, the Company's shareholders approved the PCSB Financial Corporation 2018 Equity Incentive Plan (the "Plan"), which permits the grant of stock options and restricted stock and/or restricted stock units. The total number of shares that may be granted under the Plan is 2,543,115, of which 1,816,511 shares may be granted as stock options and 726,604 shares may be granted as restricted stock and restricted stock units. Total compensation cost that has been charged against income for the Plan was \$820,000 and \$1.6 million for the three and six months ended December 31, 2021 and \$822,000 and \$1.7 million for the three and six months ended December 31, 2020, respectively.

Restricted Stock Awards ("RSAs")

RSAs awarded under the Plan provide for the issuance of shares to both employees and non-employee directors. These awards generally vest over a 5-year period, with 20% vesting each year on the anniversary of the award. All awards were made at the fair value of common stock on the grant date. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at grant date. The fair value of the stock was determined to be the closing price of the stock on the NASDAQ exchange. Total shares available for grant under the Plan are 726,000, of which 549,467 shares were granted as of December 31, 2021.

The following table presents a summary of RSA activity during the period ended December 31, 2021.

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested granted shares outstanding at July 1, 2021	322,580	\$ 18.95
Shares granted	8,000	17.66
Shares vested	(107,130)	18.97
Shares forfeited	-	-
Unvested granted shares at December 31, 2021	223,450	\$ 18.89

As of December 31, 2021, there was \$3.9 million of total unrecognized compensation cost related to non-vested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.2 years.

Stock Option Awards

Stock options awarded to employees under the Plan are considered incentive stock options (ISOs), up to applicable limits. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant. Those issued to non-employee directors, as well as those exceeding ISO limitations, are considered non-qualified stock options (NQSOs). Options generally vest over a 5-year period, with 20% vesting each year on the anniversary of the award, however, may not vest more rapidly than over a three-year period, and have a contractual term of 10 years. The Company has a policy of using shares held as a treasury stock to satisfy share option exercises. Currently, the Company has a sufficient number of treasury shares to satisfy the current level of exercisable share options. The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the following table. Expected volatilities are based on the historical volatilities of a peer group of publicly traded financial institutions. The expected term of options granted is based on the simplified "mid-point" approach which utilizes the weighted average vesting period and contractual

term. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Total options available for grant under the Plan are 1,816,511, of which 1,320,963 options were granted as of December 31, 2021. The following table presents a summary of activity related to stock options granted under the Plan, and changes during the period then ended:

	Number of Options	Weighted-Average Exercise Price	Remaining Contractual Years	Aggregate Intrinsic Value
(dollars in thousands, except per share data)				
Options outstanding at July 1, 2021	1,308,963	\$ 19.00	7.4	\$ 35
Options granted	12,000	17.66		
Options expired	-	-		
Options forfeited	-	-		
Options exercised	-	-		
Options outstanding at December 31, 2021	1,320,963	\$ 18.98	6.9	\$ 389
Exercisable at December 31, 2021	782,978	\$ 19.02	6.9	\$ 207
As of December 31, 2021, there was \$2.3 million of total unrecognized compensation cost related to non-vested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.2 years.				
The fair value of options granted during the six months ended December 31, 2021, was determined using the following weighted-average assumptions as of grant date.				
Risk-free interest rate				1.00%
Expected term (in years)				6.25
Expected stock price volatility				35.91%
Dividend yield				1.36%
Weighted average fair value of options granted				\$ 5.50

Note 13. Leases

As of December 31, 2021, the Company leases real estate for eleven branch offices and one administrative office, including its corporate headquarters, under various operating lease agreements. The Company's leases have maturities which range from 2022 to 2041, some of which include lessee options to extend the lease term. The weighted average remaining life of the lease terms for these leases was 9.59 years as of December 31, 2021.

The operating lease asset and lease liability are determined at the commencement date of the lease based on the present value of the lease payments. As most of our leases do not provide an implicit rate, the Company used its incremental borrowing rate, the rate of interest to borrow on a collateralized basis for a similar term, at the lease commencement date. The Company utilized a weighted average discount rate of 2.40% in determining the lease liability as of December 31, 2021.

The Company made a policy election to exclude the recognition requirements of ASC 842 to short-term leases, those leases with original terms of 12 months or less. Short-term lease payments are recognized in the income statement on a straight-line basis over the lease term. The Company had no short-term lease cost for the three or six months ended December 31, 2021 or 2020. Certain leases may include one or more options to renew. The exercise of lease renewal options is typically at the Company's discretion and are included in the operating lease liability if it is reasonably certain that the renewal option will be exercised. Certain real estate leases may contain lease and non-lease components, such as common area maintenance charges, real estate taxes, and insurance, which are generally accounted for separately and are not included in the measurement of the lease liability since they are generally able to be segregated. The Company does not sublease any of its leased properties. There were no sale and leaseback

transactions, leveraged leases or lease transactions with related parties during the three or six months ended December 31, 2021 or 2020. Total operating lease cost was \$505,000 and \$1.0 million for the three and six months ended December 31, 2021 and \$501,000 and \$1.0 million for the three and six months ended December 31, 2020, respectively. The right-of-use asset, included in premises and equipment, net, was \$8.8 million and the corresponding lease liability, included in other liabilities was \$9.0 million as of December 31, 2021.

Future minimum lease payments for the fiscal years ending June 30 and a reconciliation of undiscounted lease cash flows and the lease liability recognized in the consolidated balance sheet as of December 31, 2021 is shown below:

<i>(dollars in thousands)</i>	
2022	\$ 1,017
2023	1,940
2024	1,569
2025	1,276
2026	748
Thereafter	3,802
Total future minimum lease payments (undiscounted)	10,352
Discounting effect on cash flows	(1,327)
Lease liability (discounted)	\$ 9,025

Note 14. Subsequent Events

Subsequent to December 31, 2021, and through February 2, 2022, the Company repurchased 3,122 shares of common stock, at an average cost of \$19.02.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**General**

Management's discussion and analysis of financial condition at December 31, 2021 and June 30, 2021, and results of operations for the three and six months ended December 31, 2021 and 2020 is intended to assist in understanding the consolidated financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited consolidated financial statements and the notes thereto appearing in Part I, Item 1, of this quarterly report on Form 10-Q and with the audited consolidated financial statements included in the annual report on Form 10-K for the fiscal year ended June 30, 2021.

Cautionary Note Regarding Forward-Looking Statements

This quarterly report contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect," "will," "may" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- extent, duration and severity of the COVID-19 pandemic and government action in response to the pandemic, including their impact on our business and operations, including the impact on lost fee revenue and operating expenses, as well as their effects on our customers and issuers of securities, including their ability to make timely payments on obligations, service providers, and on economics and markets more generally;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and charge-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to continue to implement our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans we have made and make whether held in portfolio or sold in the secondary markets;
- adverse changes in the securities or credit markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to manage market risk, credit risk and operational risk in the current economic conditions;

- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, or the Securities and Exchange Commission;
- our ability to retain key employees;
- our compensation expense associated with equity allocated or awarded to our employees; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Additional factors that may affect our results are discussed in the annual report on Form 10-K for the fiscal year ended June 30, 2021, under the heading "Risk Factors" and in this quarterly report on Form 10-Q under Part II, Item 1A.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. The Company assumes no obligation to update any forward-looking statements except as may be required by applicable law or regulation.

Critical Accounting Policies

Critical accounting estimates are necessary in the application of certain accounting policies and procedures and are particularly susceptible to significant change. Critical accounting policies are defined as those involving significant judgments, estimates and assumptions by management that could have a material impact on the carrying value of certain assets or on income under different assumptions or conditions. For additional information regarding critical accounting policies, refer to the section captioned "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the June 30, 2021 Form 10-K. There have been no significant changes in our application of critical accounting policies for the three or six months ended December 31, 2021.

Loan Payment Deferrals

The COVID-19 pandemic has created extensive disruptions to the local economy and our customers. Through December 31, 2021, the Company has granted loan payment deferrals on 330 consumer and commercial loans whose borrowers have demonstrated financial hardship caused by COVID-19 with loan balances totaling \$220.2 million. As of December 31, 2021, 7 loans totaling \$13.7 million were still on deferral. Of those loans still on deferral as of December 31, 2021, \$10.1 million have resumed payments in January 2022, with the remaining \$3.6 million (1 loan) scheduled to resume payments in June 2022.

The table below provides additional detail for those loans on deferral as of December 31, 2021 (dollar amounts in thousands):

Industry Sector:	Number of loans	Recorded Investment ⁽¹⁾⁽²⁾	% secured by real estate collateral	Loan-to-Value % ⁽³⁾	Weighted average term of remaining deferral (in months)
Consumer	1	\$ 91	100.0%	23.2%	2.0
Commercial:					
Retail	3	11,590	100.0	59.6	1.6
Food service	1	1,696	100.0	44.9	0.0
All other commercial	2	369	50.1	38.9	0.0
Total commercial	6	13,655	98.7	57.4	1.3
Total	7	\$ 13,746	98.7%	57.2%	1.4

(1) Includes loans classified as pass-rated, special mention and substandard of \$8.3 million, \$185,000 and \$5.3 million, respectively.

(2) Includes \$3.6 million of nonaccrual loans. All loans are considered current.

(3) Generally based on collateral values upon origination.

The table below provides additional detail regarding the type of deferral granted for those loans on deferral as of December 31, 2021 (dollar amounts in thousands):

	Consumer	Commercial	Total
Principal only	\$ -	\$ 8,378	\$ 8,378
Principal and interest	\$ 91	\$ 5,277	\$ 5,368
Total	\$ 91	\$ 13,655	\$ 13,746

Comparison of Financial Condition at December 31, 2021 and June 30, 2021

Total Assets. Total assets increased \$13.2 million, or 0.7%, to \$1.89 billion at December 31, 2021 from \$1.87 billion at June 30, 2021. The increase is primarily the result of increases of \$52.7 million in held to maturity investment securities and \$14.2 million in net loans receivable, partially offset by decreases of \$39.0 million in cash and cash equivalents and \$13.7 million in available for sale investment securities.

Cash and Cash Equivalents. Cash and cash equivalents decreased \$39.0 million, or 24.5%, to \$120.3 million at December 31, 2021 from \$159.3 million at June 30, 2021. The decrease is primarily due to a \$39.0 million increase in total investment securities, a \$14.2 million increase in net loans receivable, an \$11.3 million decrease in other liabilities and a \$7.6 million decrease in FHLB advances, partially offset by a \$31.4 million increase in deposits.

Securities Held to Maturity. Total securities held to maturity increased \$52.7 million, or 15.6%, to \$390.3 million at December 31, 2021 from \$337.6 million at June 30, 2021. This increase was primarily due to increases of \$29.9 million in municipal securities, \$8.5 million in corporate bonds, \$8.3 million in mortgage-backed securities, and \$6.0 million in U.S. government and agency obligations.

Securities Available for Sale. Total securities available for sale decreased \$13.7 million, or 23.9%, to \$43.7 million at December 31, 2021 from \$57.4 million at June 30, 2021. This decrease was primarily due to decreases of \$11.0 million in U.S. government and agency obligations, \$2.2 million in mortgage-backed securities and a \$430,000 decrease in net unrealized gains.

Net Loans Receivable. Net loans receivable increased \$14.2 million, or 1.2%, to \$1.24 billion at December 31, 2021 from \$1.23 billion at June 30, 2021. The increase in loans receivable was the result of a \$41.0 million increase in commercial mortgages and a \$1.7 million increase in construction loans, partially offset by decreases of \$15.6 million in commercial loans, \$11.5 million in residential mortgage loans and \$1.3 million in home equity credit lines. The decrease in commercial loans includes a decrease of \$24.3 million in PPP loans, driven by paydowns and forgiveness.

Deposits. Total deposits increased \$31.4 million, or 2.1%, to \$1.52 billion at December 31, 2021 as compared to \$1.49 billion at June 30, 2021. This increase primarily reflects increases of \$28.5 million in money market accounts, \$21.4 million in NOW accounts and \$5.5 million in savings accounts, partially offset by decreases of \$20.7 million in time deposits and \$3.3 million in demand deposits.

Federal Home Loan Bank Advances. FHLB advances decreased \$7.6 million to \$58.4 million at December 31, 2021 as compared to \$66.0 million at June 30, 2021. This decrease is due to maturities and principal paydowns of \$7.6 million.

Total Shareholder's Equity. Total shareholders' equity increased \$274,000, or 0.1%, to \$274.8 million at December 31, 2021 from \$274.6 million at June 30, 2021. This increase was primarily due to net income of \$7.9 million and \$2.5 million of stock-based compensation and reduction in unearned ESOP shares for plan shares earned during the period, partially offset by the repurchase of \$8.2 million (440,666 shares) of common stock and \$1.7 million of cash dividends declared and paid. On February 3, 2021, a repurchase plan was authorized to repurchase up to 801,856 shares, or 5% of the Company's then outstanding common stock. As of December 31, 2021, the Company repurchased 679,439 shares of common stock at an average cost of \$18.23 per share under this plan. At December 31, 2021, the Bank was considered "well capitalized" under applicable regulatory guidelines.

Comparison of Operating Results for the Three Months Ended December 31, 2021 and December 31, 2020

General. Net income increased \$1.6 million, or 59.2%, to \$4.3 million for the three months ended December 31, 2021 compared to \$2.7 million for the same period last year. The increase was primarily due to a \$1.7 million increase in net interest income and a \$452,000 increase in noninterest income, partially offset by a \$298,000 increase in income tax expense, a \$157,000 increase in provision for loan losses and a \$114,000 increase in non-interest expense.

Net Interest Income. Net interest income increased \$1.7 million, or 14.8%, to \$13.3 million for the three months ended December 31, 2021 compared to \$11.6 million for the same period last year. The increase primarily reflects an \$81.6 million, or 4.8%, increase in average interest-earning assets and a 27 basis point increase in the tax equivalent net interest margin to 2.97% for the three months ended December 31, 2021 compared to 2.70% for the same period last year. The increase in average interest-earning assets reflects a \$114.1 million increase in average investment securities and a \$9.6 million increase in average loans receivable, partially offset by a \$42.0 million decrease in average other interest-earning assets.

Interest and Dividend Income. Interest and dividend income increased \$645,000, or 4.5%, to \$14.9 million for the three months ended December 31, 2021 compared to \$14.2 million for the same period last year. The increase primarily reflects an \$81.6 million increase in total average interest-earning assets and a 1 basis point increase in the yield on total interest-earning assets. The increase in the average interest earning assets is primarily due to higher average balances in investment securities and loans receivable. The increase in the average yield on interest earning assets is due to higher prepayment income and PPP loan interest income and origination fee income in the current year quarter, mostly offset by ongoing downward repricing of securities and loans.

Interest income on loans receivable increased \$469,000, or 3.8%, primarily due to a 12 basis point increase in the average tax equivalent yield on loans receivable to 4.07% for the three months ended December 31, 2021 from 3.95% for the same period last year and a \$9.6 million, or 0.8%, increase in the average balance of loans receivable to \$1.24 billion for the three months ended December 31, 2021 from \$1.23 billion for the same period last year. The increase in the average tax equivalent yield on loans receivable is primarily due to \$555,000 of prepayment income and \$332,000 of PPP loan interest income and origination fee income recognized by the Company in the current year quarter compared to \$73,000 and \$159,000, respectively, for the same period last year.

Interest income on investment securities increased \$198,000, or 10.2%, primarily due to a \$114.1 million increase in the average balance of investment securities to \$427.9 million for the three months ended December 31, 2021 from \$313.8 million for the same period last year, partially offset by a 43 basis point decrease in the average tax equivalent yield on investment securities to 2.08% for the three months ended December 31, 2021 from 2.51% for the same period last year. The increase in the average balance of investment securities is the result of the Company utilizing excess liquidity to fund securities portfolio growth and loan portfolio growth. The decrease in tax equivalent yield is a result of the investment portfolio continuing to re-price downward due to lower market interest rates and \$117,000 in prepayment income recognized by the Company in the prior year.

Interest income on other interest-earning assets, primarily consisting of cash balances at correspondent banks including the Federal Reserve, decreased \$22,000, or 20.0%, primarily due to a \$42.0 million decrease in the average balance of other interest-earning assets to \$126.6 million for the three months ended December 31, 2021 compared to \$168.6 million for the same period last year, partially offset by a 2 basis point increase in the average yield on other interest-earning assets to 0.28% for the three months ended December 31, 2021, from 0.26% for the same period last year. The decrease in average balance of other interest earning assets is due to the Company utilizing funds to purchase investment securities and originate loans.

Interest Expense. Interest expense decreased \$1.1 million, or 39.8%, to \$1.6 million for the three months ended December 31, 2021 compared to \$2.7 million for the same period last year. The decrease primarily reflects a 34 basis point decrease in the average cost of interest-bearing liabilities to 0.47% for the three months ended December 31, 2021 from 0.81% for the same period last year, partially offset by a \$59.2 million increase in the average balance of interest-bearing liabilities to \$1.37 billion for the three months ended December 31, 2021 from \$1.31 billion for the same period last year.

Interest expense on interest-bearing deposits decreased \$866,000, or 40.1%, primarily due to a 32 basis point decrease in the average cost of interest-bearing deposits to 0.39% for the three months ended December 31, 2021 from 0.71% for the same period last year and offset by a \$101.4 million increase in the average balance to \$1.30 billion for the three months ended December 31, 2021 from \$1.20 billion for the same period last year. The decrease in the average rate paid on interest-bearing deposits was primarily caused by a decrease in market interest rates affecting most significantly the average rates paid on time deposits and money market accounts, which decreased 52 and 14 basis points, respectively, when compared to the same period last year. Over the next 12 months, the Company has \$40.0 million of wholesale funding maturing, comprised of FHLB advances and brokered time deposits, with a weighted average cost of 2.07%.

Interest expense on FHLB advances decreased \$200,000, or 38.5%, primarily due to a \$42.2 million decrease in the average balance to \$63.8 million for the three months ended December 31, 2021 from \$106.0 million for the same period last year, partially offset by a 5 basis point increase in the average cost to 1.99% for the three months ended December 31, 2021 from 1.94% for the same period last year. The increase in the cost of FHLB advances is due to the maturity of lower-costing advances.

Provision for Loan Losses. The provision for loan losses was \$264,000 for the three months ended December 31, 2021, compared to \$107,000 for the same period last year. The increase is primarily due to loan portfolio growth. Recoveries, net of charge-offs, were \$6,000 for the three months ended December 31, 2021 compared to charge-offs, net of recoveries, of \$102,000 for the same period last year. Non-performing loans as a percent of total loans receivable (excluding PPP loans) were 0.64% as of December 31, 2021, an increase from 0.48% compared to June 30, 2021. The increase in non-performing loans over the last 12 months primarily includes three commercial relationships totaling \$6.3 million, including \$2.7 million of loans secured by multi-family commercial real estate (including 1 relationship consisting of 2 construction loans totaling \$1.5 million) with a weighted average loan-to-value ratio of 68.8% and one loan for \$3.6 million secured by non-owner-occupied retail commercial real estate with a loan-to-value ratio of 53.9%. Loans on a COVID-19 related payment deferral totaled \$13.7 million, or 1.10% of gross loans, as of December 31, 2021, compared to \$27.3 million, or 2.21% of gross loans, as of June 30, 2021. Loans on deferral totaling \$10.1 million have resumed payments in January 2022, with the remaining \$3.6 million (1 loan) scheduled to resume payments in June 2022.

Noninterest Income. Noninterest income increased \$452,000, or 60.8%, to \$1.2 million for the three months ended December 31, 2021 compared to the same period last year. The increase was caused primarily by increases of \$548,000 in gains on sale of premises, \$62,000 in bank-owned life insurance income, \$44,000 in fees and service charges and \$41,000 in gains on sale of loans, partially offset by a \$238,000 decrease in swap income and a \$5,000 decrease in all other noninterest income. During the current quarter, the Company sold a parcel of unused land, resulting in the gain discussed above. The increase in fees and service charges compared to the same period last year was partially the result of the waiver in the prior year of certain overdraft fees, ATM usage fees, wire and CD early withdrawal fees in response to COVID-19, as well an increase in debit card and interchange income in the current year.

Noninterest Expense. Noninterest expense increased \$114,000, or 1.3%, for the three months ended December 31, 2021 compared to the same period last year. The increase was primarily due to increases of \$323,000 in salaries and benefits, \$80,000 in communication and data processing, \$80,000 in franchise taxes (due to reconstitution of NYS capital tax) and \$55,000 in all other noninterest expense, partially offset by decreases of

\$341,000 in pension costs and \$83,000 in professional fees. The increase in salaries and benefits was due to increases of \$137,000 in ESOP and other post-retirement benefits and \$186,000 in all other salaries and benefits.

Income Tax Expense. Income tax expense increased \$298,000, or 37.3%, for the three months ended December 31, 2021 compared to the same period last year. The increase was caused by higher pre-tax income, partially offset by a lower effective tax rate. The effective income tax rate was 20.4% for the three months ended December 31, 2021 as compared to 22.9% for the same period last year, with the decrease largely driven by an increase in tax-exempt interest income on municipal investments and bank-owned life insurance income.

Comparison of Operating Results for the Six Months Ended December 31, 2021 and December 31, 2020

General. Net income increased \$2.5 million, or 45.7%, to \$7.9 million for the six months ended December 31, 2021 compared to \$5.4 million for the same period last year. The increase was primarily due to a \$2.7 million increase in net interest income and a \$471,000 increase in noninterest income, partially offset by a \$485,000 increase in income tax expense, a \$114,000 increase in non-interest expense and a \$61,000 increase in provision for loan losses.

Net Interest Income. Net interest income increased \$2.7 million, or 11.5%, to \$25.8 million for the six months ended December 31, 2021 compared to \$23.1 million for the same period last year. The increase primarily reflects a \$72.2 million, or 4.2%, increase in average interest-earning assets and a 20 basis point increase in the tax equivalent net interest margin to 2.90% for the six months ended December 31, 2021 compared to 2.70% for the same period last year. The increase in average interest-earning assets reflects a \$101.7 million increase in average investment securities, partially offset by a \$9.8 million decrease in average loans receivable and a \$19.7 million decrease in average other interest-earning assets.

Interest and Dividend Income. Interest and dividend income increased \$344,000, or 1.2%, to \$29.1 million for the six months ended December 31, 2021 compared to \$28.8 million for the same period last year. The increase primarily reflects a \$72.2 million increase in total average interest-earning assets, partially offset by a 9 basis point decrease in the yield on total interest-earning assets. The increase in the average interest earning assets is primarily due to higher average balances in the investment securities portfolio. The decrease in the average tax equivalent yield on interest earning assets is the result of the investment securities and loan portfolios continuing to re-price downward due to lower market rates, partially offset by higher prepayment income and PPP loan interest income and origination fee income in the current year.

Interest income on loans receivable increased \$29,000, or 0.1%, primarily due to a 3 basis point increase in the average tax equivalent yield on loans receivable to 4.01% for the six months ended December 31, 2021 from 3.98% for the same period last year, partially offset by a \$9.8 million, or 0.8%, decrease in the average balance of loans receivable to \$1.23 billion for the six months ended December 31, 2021 from \$1.24 billion for the same period last year. The increase in the average tax equivalent yield on loans receivable is primarily due to \$587,000 of prepayment income and \$705,000 of PPP loan interest income and origination fee income recognized by the Company in the current year period compared to \$132,000 and \$376,000, respectively, for the same period in the prior year.

Interest income on investment securities increased \$353,000, or 9.3%, primarily due to a \$101.6 million increase in the average balance of investment securities to \$416.2 million for the six months ended December 31, 2021 from \$314.6 million for the same period last year, partially offset by a 36 basis point decrease in the average tax equivalent yield on investment securities to 2.08% for the six months ended December 31, 2021 from 2.44% for the same period last year. The increase in the average balance of investment securities is the result of the Company utilizing excess liquidity to fund investment securities portfolio growth and loan portfolio growth. The decrease in tax equivalent yield is a result of the investment portfolio continuing to re-price downward due to lower market interest rates and \$117,000 in prepayment penalties recognized by the Company in the prior year period.

Interest income on other interest-earning assets, primarily consisting of cash balances at correspondent banks including the Federal Reserve, decreased \$38,000, or 16.2%, primarily due to a \$19.7 million decrease in the average balance of other interest-earning assets to \$143.6 million for the six months ended December 31, 2021 compared to \$163.3 million for the same period last year and a 2 basis point decrease in the average yield on other interest-earning assets to 0.27% for the six months ended December 31, 2021, from 0.29% compared to the same period last year. The decrease in average balance of other interest earning assets is due to the Company utilizing

funds to purchase investment securities and originate loans. The decrease in the yield on other interest earning assets is primarily due to changes in asset mix.

Interest Expense. Interest expense decreased \$2.3 million, or 41.3%, to \$3.3 million for the six months ended December 31, 2021 compared to \$5.6 million for the same period last year. The decrease primarily reflects a 38 basis point decrease in the average cost of interest-bearing liabilities to 0.48% for the six months ended December 31, 2021 from 0.86% for the same period last year, partially offset by a \$56.9 million increase in the average balance of interest-bearing liabilities to \$1.37 billion for the six months ended December 31, 2021 from \$1.31 billion for the same period last year.

Interest expense on interest-bearing deposits decreased \$1.9 million, or 42.4%, primarily due to a 36 basis point decrease in the average cost of interest-bearing deposits to 0.40% for the six months ended December 31, 2021 from 0.76% for the same period last year, partially offset by a \$98.1 million increase in the average balance to \$1.30 billion for the six months ended December 31, 2021 from \$1.20 billion for the same period last year. In response to lower market interest rates and increased liquidity levels, deposit rate reductions have been implemented throughout the last two years, the effects of which continue to be realized. The decrease in market interest rates most significantly affected the average rates paid on time deposits and money market accounts, which decreased 58 and 15 basis points, respectively, when compared to the same period last year.

Interest expense on FHLB advances decreased \$381,000, or 36.7%, primarily due to a \$41.2 million decrease in the average balance to \$64.9 million for the six months ended December 31, 2021 from \$106.1 million for the same period last year, partially offset by a 7 basis point increase in the average cost to 2.01% for the six months ended December 31, 2021 from 1.94% for the same period last year. The increase in the cost of FHLB advances is due to the maturity of lower-costing advances.

Provision for Loan Losses. The provision for loan losses was \$277,000 for the six months ended December 31, 2021, compared to \$216,000 for the same period last year. The increase is primarily due to loan portfolio growth. Recoveries, net of charge-offs, were \$271,000 for the six months ended December 31, 2021 compared to charge-offs, net of recoveries, of \$178,000 for the same period last year.

Noninterest Income. Noninterest income increased \$471,000, or 35.2%, to \$1.8 million for the six months ended December 31, 2021 compared to the same period last year. The increase was caused primarily by increases of \$548,000 in gains on sale of premises, \$123,000 in fees and service charges, \$122,000 in bank-owned life insurance income and \$47,000 in gains on sale of loans, partially offset by a \$367,000 decrease in swap income and a \$2,000 decrease in all other noninterest income. During the current year, the Company sold a parcel of unused land, resulting in the gain discussed above. The increase in fees and service charges compared to the same period last year was partially the result of the waiver in the prior year of certain overdraft fees, ATM usage fees, wire and CD early withdrawal fees in response to COVID-19, as well as an increase in debit card and interchange income in the current year.

Noninterest Expense. Noninterest expense increased \$114,000, or 0.7%, for the six months ended December 31, 2021 compared to the same period last year. The increase was primarily due to increases of \$489,000 in salaries and benefits, \$159,000 in franchise taxes and \$145,000 in all other noninterest expenses, partially offset by a \$589,000 decrease in pension costs and a \$90,000 decrease in professional fees. The increase in salaries and benefits was due to increases of \$324,000 in ESOP and other post-retirement benefits and \$175,000 in all other salaries and benefits.

Income Tax Expense. Income tax expense increased \$485,000, or 32.2%, for the six months ended December 31, 2021 compared to the same period last year. The increase was caused by higher pre-tax income, partially offset by a lower effective tax rate. The effective income tax rate was 20.1% for the six months ended December 31, 2021 compared to 21.8% for the same period last year, with the decrease largely driven by an increase in tax-exempt interest income on municipal investments and bank-owned life insurance income.

Average Balance Sheet and Interest Rates.

The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average tax equivalent yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Average balances have been calculated using daily balances. Nonaccrual loans are included in average balances only. Loan fees are included in interest income on loans and are not material (dollars in thousands).

	Three Months Ended December 31.					
	2021		2020			
	Average Balance	Interest/Dividends	Average Rate	Average Balance	Interest/Dividends	Average Rate
Assets:						
Loans receivable (1)	\$ 1,242,109	\$ 12,651	4.07%	\$ 1,232,555	\$ 12,182	3.95%
Investment securities (1)	427,918	2,131	2.08	313,812	1,933	2.51
Other interest-earning assets	126,586	88	0.28	168,608	110	0.26
Total interest-earning assets	1,796,613	14,870	3.33	1,714,975	14,225	3.32
Non-interest-earning assets	<u>77,506</u>			<u>70,417</u>		
Total assets	<u>\$ 1,874,119</u>			<u>\$ 1,785,392</u>		
Liabilities and equity:						
NOW accounts	\$ 192,856	90	0.18	\$ 149,620	79	0.21
Money market accounts	355,708	168	0.19	255,961	211	0.33
Savings accounts and escrow	398,076	108	0.11	362,422	168	0.18
Time deposits	357,242	926	1.03	434,446	1,700	1.55
Total interest-bearing deposits	1,303,882	1,292	0.39	1,202,449	2,158	0.71
FHLB advances	63,805	320	1.99	106,034	520	1.94
Total interest-bearing liabilities	1,367,687	1,612	0.47	1,308,483	2,678	0.81
Non-interest-bearing deposits	214,558			178,538		
Other non-interest-bearing liabilities	16,250			26,482		
Total liabilities	<u>1,598,495</u>			<u>1,513,503</u>		
Total shareholders' equity	<u>275,624</u>			<u>271,889</u>		
Total liabilities and shareholders' equity	<u>\$ 1,874,119</u>			<u>\$ 1,785,392</u>		
Net interest income	<u>\$ 13,258</u>			<u>\$ 11,547</u>		
Interest rate spread - tax equivalent (2)			2.86			2.51
Net interest margin - tax equivalent (3)			2.97			2.70
Average interest-earning assets to interest-bearing liabilities	131.36%			131.07%		

(1) Tax exempt yield is shown on a tax equivalent basis for proper comparison using statutory federal income tax rate of 21% for all periods presented. See reconciliation of GAAP to non-GAAP measures in the table below.

(2) Net interest rate spread represents the difference between the average yield on average interest-earning assets and the average cost of average interest-bearing liabilities.

(3) Net interest margin represents annualized net interest income divided by average interest-earning assets. See reconciliation of GAAP to non-GAAP measures in the table below.

	Six Months Ended December 31,					
	2021		2020			
	Average Balance	Interest/Dividends	Average Rate	Average Balance	Interest/Dividends	Average Rate
Assets:						
Loans receivable (1)	\$ 1,232,821	\$ 24,758	4.01%	\$ 1,242,575	\$ 24,729	3.98%
Investment securities (1)	416,241	4,142	2.08	314,552	3,789	2.44
Other interest-earning assets	143,622	197	0.27	163,323	235	0.29
Total interest-earning assets	1,792,684	29,097	3.26	1,720,450	28,753	3.35
Non-interest-earning assets	76,940			71,172		
Total assets	\$ 1,869,624			\$ 1,791,622		
Liabilities and equity:						
NOW accounts	\$ 187,693	159	0.17	\$ 149,543	168	0.22
Money market accounts	353,141	355	0.20	253,129	449	0.35
Savings accounts and escrow	397,684	221	0.11	361,256	370	0.20
Time deposits	362,442	1,911	1.05	438,966	3,603	1.63
Total interest-bearing deposits	1,300,960	2,646	0.40	1,202,894	4,590	0.76
FHLB advances	64,870	658	2.01	106,051	1,039	1.94
Total interest-bearing liabilities	1,365,830	3,304	0.48	1,308,945	5,629	0.86
Non-interest-bearing deposits	211,182			181,312		
Other non-interest-bearing liabilities	18,096			27,720		
Total liabilities	1,595,108			1,517,977		
Total shareholders' equity	274,516			273,645		
Total liabilities and shareholders' equity	\$ 1,869,624			\$ 1,791,622		
Net interest income	\$ 25,793			\$ 23,124		
Interest rate spread - tax equivalent (2)			2.78			2.49
Net interest margin - tax equivalent (3)			2.90			2.70
Average interest-earning assets to interest-bearing liabilities	131.25%			131.44%		
(1) Tax exempt yield is shown on a tax equivalent basis for proper comparison using statutory federal income tax rate of 21% for all periods presented. See reconciliation of GAAP to non-GAAP measures in the table below.						
(2) Net interest rate spread represents the difference between the average yield on average interest-earning assets and the average cost of average interest-bearing liabilities.						
(3) Net interest margin represents annualized net interest income divided by average interest-earning assets. See reconciliation of GAAP to non-GAAP measures in the table below.						
The following table presents information regarding tax equivalent adjustment used in the calculation of certain financial metrics (in thousands).						
	Three Months Ended December 31,		Six Months Ended December 31,			
	2021	2020	2021	2020		
Total interest income	\$ 14,870	\$ 14,225	\$ 29,097	\$ 28,753		
Total interest expense	1,612	2,678	3,304	5,629		
Net interest income (GAAP)	13,258	11,547	25,793	23,124		
Tax equivalent adjustment	99	45	188	78		
Net interest income - tax equivalent (non-GAAP)	\$ 13,357	\$ 11,592	\$ 25,981	\$ 23,202		

Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. Changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume (in thousands).

	Three Months Ended December 31, 2021 versus 2020		
	Rate	Volume	Net
Interest income:			
Loans receivable	\$ 257	\$ 212	\$ 469
Investment securities	(408)	606	198
Other interest-earning assets	9	(31)	(22)
Total interest-earning assets	(142)	787	645
Interest expense:			
NOW accounts	(10)	21	11
Money market accounts	(108)	65	(43)
Savings and escrow accounts	(73)	13	(60)
Time deposits	(508)	(266)	(774)
FHLB advances	12	(212)	(200)
Total interest-bearing liabilities	(687)	(379)	(1,066)
Net increase in net interest income	\$ 545	\$ 1,166	\$ 1,711
	Six Months Ended December 31, 2021 versus 2020		
	Rate	Volume (in thousands)	Net
Interest income:			
Loans receivable	\$ 34	\$ (5)	\$ 29
Investment securities	(751)	1,104	353
Other interest-earning assets	(7)	(31)	(38)
Total interest-earning assets	(724)	1,068	344
Interest expense:			
NOW accounts	(46)	37	(9)
Money market accounts	(235)	141	(94)
Savings and escrow accounts	(180)	31	(149)
Time deposits	(1,138)	(554)	(1,692)
FHLB advances	35	(416)	(381)
Total interest-bearing liabilities	(1,564)	(761)	(2,325)
Net (decrease) increase in net interest income	\$ 840	\$ 1,829	\$ 2,669

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage our exposure to changes in market interest rates. Accordingly, we have established a management-level Asset/Liability Management Committee, which takes initial responsibility for developing an asset/liability management process and related procedures, establishing and monitoring reporting systems and developing asset/liability strategies. On at least a quarterly basis, the Asset/Liability Management Committee reviews asset/liability management with the

Investment Asset/Liability Committee of the Board of Directors. This Committee also reviews any changes in strategies as well as the performance of any specific asset/liability management actions that have been implemented previously. On a quarterly basis, an outside consulting firm provides us with detailed information and analysis as to asset/liability management, including our interest rate risk profile. Ultimate responsibility for effective asset/liability management rests with our Board of Directors.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. We have implemented the following strategies to manage our interest rate risk: originating loans with adjustable interest rates; utilizing interest rate swaps, promoting core deposit products; and adjusting the interest rates and maturities of funding sources, as necessary. By following these strategies, we believe that we are better positioned to react to changes in market interest rates.

Net Portfolio Value Simulation. We analyze our sensitivity to changes in interest rates through a net portfolio value of equity ("NPV") model. NPV represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities. The NPV ratio represents the dollar amount of our NPV divided by the present value of our total assets for a given interest rate scenario. NPV attempts to quantify our economic value using a discounted cash flow methodology while the NPV ratio reflects that value as a form of equity ratio. We estimate what our NPV would be at a specific date. We then calculate what the NPV would be at the same date throughout a series of interest rate scenarios representing immediate and permanent, parallel shifts in the yield curve. We currently calculate NPV under the assumptions that interest rates increase 100 and 200 basis points from current market rates and that interest rates decrease 50 and 100 basis points from current market rates.

The following table presents the estimated changes in our NPV that would result from changes in market interest rates at December 31, 2021 and June 30, 2021. All estimated changes presented in the table are within the policy limits approved by our Board of Directors (dollars in thousands).

Basis Point Change in Interest Rates	NPV			NPV as Percent of Portfolio Value of Assets	
	Dollar Amount	Dollar Change	Percent Change	NPV Ratio	Change (in bps)
December 31, 2021:					
200	\$ 272,628	\$ (38,768)	(12.4) %	15.40%	(129)
100	298,428	(12,968)	(4.2)	16.39	(30)
-	311,396	-	-	16.70	-
(50)	331,242	19,846	6.4	17.49	79
(100)	355,886	44,490	14.3	18.50	181
June 30, 2021:					
200	\$ 270,679	\$ (37,814)	(12.3) %	15.21%	(122)
100	291,715	(16,778)	(5.4)	15.95	(48)
-	308,493	-	-	16.43	-
(50)	324,999	16,506	5.4	17.06	63
(100)	346,539	38,046	12.3	17.94	151

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The above table assumes that the composition of our interest-sensitive assets and liabilities existing at the date indicated remains constant uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our NPV and will differ from actual results.

Liquidity and Capital Resources

Liquidity. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments and maturities and sales of securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly review the need to adjust our investments in liquid assets based upon our assessment of: (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities, and (4) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2021, cash and cash equivalents totaled \$120.3 million, a decrease from \$159.3 million as of June 30, 2021. Unpledged securities classified as available for sale, which provide an additional source of liquidity, totaled \$24.0 million at December 31, 2021, a decrease from \$28.9 million as of June 30, 2021.

We had the ability to borrow up to \$372.2 million from the FHLB of New York, at December 31, 2021 of which \$58.4 million was outstanding as of December 31, 2021. Additionally, as of December 31, 2021, we had an available line of credit with the FRB of New York's discount window program of \$97.3 million, and \$25.0 million of fed funds lines of credit, neither of which had outstanding balances as of December 31, 2021.

We have no material commitments or demands that are likely to affect our liquidity other than as set forth below. If loan demand was to increase faster than expected, or any unforeseen demand or commitment was to occur, we could access our borrowing sources detailed above.

We had \$42.1 million of loan commitments outstanding as of December 31, 2021 and \$163.6 million of approved, but unadvanced, funds to borrowers. We also had \$3.1 million in outstanding letters of credit at December 31, 2021.

Time deposits due within one year of December 31, 2021 totaled \$212.6 million. If these deposits do not remain with us, we will be required to seek other sources of funds, including other time deposits and FHLB of New York advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the time deposits at December 31, 2021. We believe, however, based on past experience that a significant portion of our time deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

The Holding Company is a separate legal entity from the Bank and must provide for its own liquidity to pay any dividends to its shareholders, to repurchase shares of its common stock and for other corporate purposes. The Holding Company's primary source of liquidity is dividend payments it may receive from the Bank. The Bank's ability to pay dividends to the Holding Company is governed by applicable law and regulations. At December 31, 2021, the Holding Company (on an unconsolidated, stand-alone basis) had liquid assets of \$19.7 million.

Capital Resources. The Bank is subject to various regulatory capital requirements administered by the NYSDFS and the FDIC. At December 31, 2021, the Bank exceeded all applicable regulatory capital requirements, and the Bank was considered "well capitalized" under applicable regulatory guidelines. See Note 8 to the accompanying unaudited consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The information required by this item is included in Part I, Item 2 of this report under "Management of Market Risk."

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2021. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

During the quarter ended December 31, 2021, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION**Item 1. Legal Proceedings**

The Company is not involved in any pending legal proceedings as a plaintiff or a defendant other than routine legal proceedings occurring in the ordinary course of business. At December 31, 2021, the Company was not involved in any legal proceedings the outcome of which it believes would be material to its consolidated financial condition or results of operations.

Item 1A. Risk Factors

For information regarding the Company's risk factors, see Part I, Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended June 30, 2021, filed with the Securities and Exchange Commission. As of December 31, 2021, the risk factors of the Company have not changed materially from those disclosed in the Annual Report on Form 10-K for the year ended June 30, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds of Registered Securities

- (a) Not applicable
- (b) Not applicable
- (c) On February 3, 2021, a repurchase program was authorized by the Board of Directors to repurchase up to 801,856 shares, or 5.0% of the Company's then outstanding common stock.

The following table presents information regarding stock repurchases by the Company during the quarter ended December 31, 2021.

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 1, 2021 through October 31, 2021	42,071	\$ 18.33	42,071	297,757
November 1, 2021 through November 30, 2021	75,132	18.89	75,132	222,625
December 1, 2021 through December 31, 2021	100,208	18.90	100,208	122,417
Total	217,411	\$ 18.79	217,411	

Subsequent to December 31, 2021, and through February 2, 2022, the Company repurchased 3,122 shares of common stock, at an average cost of \$19.02 per share.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation of PCSB Financial Corporation ⁽¹⁾
3.2	Amended and Restated Bylaws of PCSB Financial Corporation ⁽²⁾
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials for the quarter ended December 31, 2021, formatted in Inline XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101).

(1) Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-215052).

(2) Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on June 24, 2021..

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 4, 2022

PCSB FINANCIAL CORPORATION

/s/ Joseph D. Roberto

Joseph D. Roberto

Chairman, President and Chief Executive Officer

/s/ Jeffrey M. Helf

Jeffrey M. Helf

Senior Vice President and Chief Financial Officer

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-38065

PCSB Financial Corporation

(Exact Name of Registrant as Specified in its Charter)

Maryland
(State or other jurisdiction of
incorporation or organization)
2651 Strang Blvd, Suite 100
Yonktown Heights, NY
(Address of principal executive offices)

81-4710738
(I.R.S. Employer
Identification No.)

10598
(Zip Code)

Registrant's telephone number, including area code: (914) 248-7272

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	PCSB	The NASDAQ Stock Market, LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Small reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for completing with any or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

15,334,323 shares of the Registrant's common stock, par value \$0.01 per share, were outstanding as of November 4, 2022.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

PCSB Financial Corporation and Subsidiaries
Consolidated Balance Sheets (unaudited)
(Dollars in thousands, except per share data)

	September 30, 2022	June 30, 2022
ASSETS		
Cash and due from banks	\$ 48,747	\$ 116,522
Federal funds sold	2,006	1,935
Total cash and cash equivalents	50,753	118,457
Held to maturity debt securities, at amortized cost (fair value of \$339,143 and \$361,608 as of September 30, 2022 and June 30, 2022, respectively)	406,250	412,449
Available for sale debt securities, at fair value	32,431	34,621
Total investment securities	438,681	447,070
Loans receivable, net of allowance for loan losses of \$9,048 and \$8,927 as of September 30, 2022 and June 30, 2022, respectively	1,350,197	1,329,372
Accrued interest receivable	7,074	6,396
FHLB stock	2,865	3,766
Premises and equipment, net	19,084	19,358
Deferred tax asset, net	4,403	4,132
Bank-owned life insurance	36,513	36,322
Goodwill	6,106	6,106
Other intangible assets	77	89
Other assets	24,816	18,064
Total assets	<u>\$ 1,940,569</u>	<u>\$ 1,989,132</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Interest bearing deposits	\$ 1,365,631	\$ 1,380,953
Non-interest bearing deposits	227,635	245,297
Total deposits	1,593,266	1,626,250
Mortgage escrow funds	7,302	11,173
Advances from FHLB	28,288	48,323
Other liabilities	30,576	26,224
Total liabilities	1,659,432	1,711,970
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock (\$0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding as of September 30, 2022 and June 30, 2022)	-	-
Common stock (\$0.01 par value, 200,000,000 shares authorized, 18,703,577 shares issued as of both September 30, 2022 and June 30, 2022, and 15,334,323 and 15,334,857 shares outstanding as of September 30, 2022 and June 30, 2022, respectively)	187	187
Additional paid in capital	194,935	193,893
Retained earnings	166,033	162,262
Unearned compensation - ESOP	(8,963)	(9,208)
Accumulated other comprehensive loss, net of income taxes	(9,702)	(8,629)
Treasury stock, at cost (3,369,254 and 3,368,720 shares as of September 30, 2022 and June 30, 2022, respectively)	(61,353)	(61,343)
Total shareholders' equity	281,137	277,162
Total liabilities and shareholders' equity	<u>\$ 1,940,569</u>	<u>\$ 1,989,132</u>

See accompanying notes to the consolidated financial statements (unaudited)

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Operations (unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended September 30,	
	2022	2021
Interest and dividend income		
Loans receivable	\$ 13,849	\$ 12,107
Investment securities	2,420	2,011
Federal funds and other	487	109
Total interest and dividend income	16,756	14,227
Interest expense		
Deposits and escrow interest	1,664	1,354
FHLB advances	235	338
Total interest expense	1,899	1,692
Net interest income		
Provision for loan losses	14,857	12,535
Net interest income after provision for loan losses	14,775	12,522
Noninterest income		
Fees and service charges	453	401
Bank-owned life insurance	191	192
Swap income	141	-
Other	8	20
Total noninterest income	793	613
Noninterest expense		
Salaries and employee benefits	5,985	5,773
Occupancy and equipment	1,403	1,353
Communication and data processing	610	527
Professional fees	335	393
Merger-related expenses	311	-
Postage, printing, stationery and supplies	174	143
Advertising	128	100
FDIC assessment	125	125
Amortization of intangible assets	12	16
Other operating expenses	474	194
Total noninterest expense	9,557	8,624
Net income before income tax expense		
Income tax expense	6,011	4,511
Net income	\$ 4,776	\$ 3,614
Earnings per common share:		
Basic	\$ 0.34	\$ 0.25
Diluted	0.33	0.25
Weighted average common shares outstanding:		
Basic	14,214,313	14,337,543
Diluted	14,301,600	14,405,816

See accompanying notes to the consolidated financial statements (unaudited)

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (unaudited)
(Dollars in thousands)

	Three Months Ended September 30,	
	2022	2021
Net income	\$ 4,776	\$ 3,614
Other comprehensive income:		
Unrealized (losses) gains on available for sale debt securities:		
Net change in unrealized gains/losses before reclassification adjustment	(1,519)	(187)
Reclassification adjustment for gains realized in net income	-	-
Net change in unrealized gains/losses	(1,519)	(187)
Tax effect	319	40
Net of tax	(1,200)	(147)
Defined benefit pension plan:		
Net gain arising during the period	-	-
Reclassification adjustment for amortization of prior service cost and net gain included in net periodic pension cost	141	38
Net change in unrealized gains/losses	141	38
Tax effect	(30)	(9)
Net of tax	111	29
Supplemental retirement plans:		
Net gain arising during the period	-	-
Reclassification adjustment for amortization of prior service cost and net gain included in net periodic pension cost	20	16
Net change in unrealized gains/losses	20	16
Tax effect	(4)	(3)
Net of tax	16	13
Total other comprehensive loss	(1,073)	(105)
Comprehensive income	\$ 3,703	\$ 3,509

See accompanying notes to the consolidated financial statements (unaudited)

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity (unaudited)
(Dollars in thousands, except per share data)

	Number of Common Shares	Commo n Stock	Additional Paid-In Capital	Retained Earnings	Unallocated Common Stock of ESOP	Accumulated Other Comprehensiv e Loss	Treasury Stock, at cost	Total Shareholders' Equity
Balance at July 1, 2022	15,334,857	7 \$ 187	\$ 193,893	\$ 162,262	\$ (9,208)	\$ (8,629)	\$ (61,343)	\$ 277,162
Net income	-	-	-	4,776	-	-	-	4,776
Other comprehensive loss	-	-	-	-	-	(1,073)	-	(1,073)
Common stock dividends declared (\$0.07 per share)	-	-	-	(1,005)	-	-	-	(1,005)
Shares withheld related to income tax withholding	(534)	-	-	-	-	-	(10)	(10)
Stock-based compensation	-	-	820	-	-	-	-	820
ESOP shares committed to be released (24,419 shares)	-	-	222	-	245	-	-	467
Balance at September 30, 2022	15,334,323	3 \$ 187	\$ 194,935	\$ 166,033	\$ (8,963)	\$ (9,702)	\$ (61,353)	\$ 281,137

	Number of Common Shares	Commo n Stock	Additional Paid-In Capital	Retained Earnings	Unallocated Common Stock of ESOP	Accumulated Other Comprehensiv e Loss	Treasury Stock, at cost	Total Shareholders' Equity
Balance at July 1, 2021	15,770,645	7 \$ 187	\$ 189,926	\$ 150,987	\$ (10,176)	\$ (3,099)	\$ (53,265)	\$ 274,560
Net income	-	-	-	3,614	-	-	-	3,614
Other comprehensive income	-	-	-	-	-	(105)	-	(105)
Common stock dividends declared (\$0.06 per share)	-	-	-	(876)	-	-	-	(876)
Repurchase of common stock	(204,261)	-	-	-	-	-	(3,720)	(3,720)
Restricted stock awards granted	8,000	-	(145)	-	-	-	145	-
Shares withheld related to income tax withholding	(74)	-	-	-	-	-	(1)	(1)
Stock-based compensation	-	-	810	-	-	-	-	810
ESOP shares committed to be released (24,419 shares)	-	-	202	-	244	-	-	446
Balance at September 30, 2021	15,574,310	0 \$ 187	\$ 190,793	\$ 153,725	\$ (9,932)	\$ (3,204)	\$ (56,841)	\$ 274,728

See accompanying notes to the consolidated financial statements (unaudited)

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)
(Dollars in thousands)

	Three Months Ended September 30,	
	2022	2021
OPERATING ACTIVITIES		
Net income	\$ 4,776	\$ 3,614
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	82	13
Depreciation and amortization	749	738
Amortization of net premiums on securities and net deferred loan origination costs	237	20
Net increase in accrued interest receivable	(678)	(152)
Stock-based compensation	820	810
ESOP compensation	467	446
Earnings from cash surrender value of BOLI	(191)	(192)
Net accretion of purchase accounting adjustments	(19)	(35)
Other adjustments, principally net changes in other assets and liabilities	(2,224)	(1,080)
Net cash provided by operating activities	4,019	4,182
INVESTING ACTIVITIES		
Purchases of investment securities held to maturity	(1,500)	(75,504)
Maturities, calls and amortization of investment securities:		
Held to maturity	7,579	24,415
Available for sale	641	12,134
Loan (originations) repayments, net	(20,975)	19,021
Net redemption of FHLB stock	901	1
Net purchase of bank premises and equipment	(464)	(159)
Net cash used in investing activities	(13,818)	(20,092)
FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(32,984)	12,955
Repayment of long-term FHLB advances	(20,035)	(33)
Net decrease in mortgage escrow funds	(3,871)	(3,708)
Common stock dividends paid	(1,005)	(876)
Repurchase of shares from employees for income tax withholding purpose	(10)	(1)
Repurchase of common stock	-	(3,720)
Net cash (used in) provided by financing activities	(57,905)	4,617
Net decrease in cash and cash equivalents	(67,704)	(11,293)
Cash and cash equivalents at beginning of period	118,457	159,305
Cash and cash equivalents at end of period	\$ 50,753	\$ 148,012
Supplemental information:		
Cash paid for:		
Interest	\$ 1,940	\$ 1,694
Income taxes	1,160	917

See accompanying notes to the consolidated financial statements (unaudited)

PCSB Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

Note 1. Basis of Presentation

Nature of Operations: PCSB Financial Corporation (the "Holding Company" and together with its direct and indirect subsidiaries, the "Company") is a Maryland corporation organized by PCSB Bank (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in the Bank's conversion to stock ownership on April 20, 2017. At September 30, 2022, the significant assets of the Holding Company were the capital stock of the Bank, cash deposited in the Bank, and a loan to the PCSB Bank Employee Stock Ownership Plan ("ESOP"). The liabilities of the Holding Company were insignificant. The Company is subject to the financial reporting requirements of the Securities Exchange Act of 1934, as amended, and regulation and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and the New York State Department of Financial Services (the "NYSDFS").

PCSB Bank is a community-oriented financial institution that provides financial services to individuals and businesses within its market area of Putnam, Southern Dutchess, Rockland and Westchester Counties in New York. The Bank is a state-chartered commercial bank, and its deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC"). The Bank's primary regulators are the FDIC and the NYSDFS.

Basis of Presentation: The unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), and include the accounts of the Holding Company, the Bank and the Bank's two subsidiaries – PCSB Funding Corp. and UpCounty Realty Corp. (formerly PCSB Realty Ltd.). PCSB Funding Corp. is a real estate investment trust that holds certain mortgage assets. UpCounty Realty Corp. is a corporation that holds certain properties foreclosed upon by the Bank. All intercompany transactions and balances have been eliminated in consolidation.

The unaudited consolidated financial statements contained herein reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Such adjustments are the only adjustments reflected in the consolidated financial statements contained herein. The results of operations for the current period presented are not necessarily indicative of the results of operations that may be expected for the entire current fiscal year. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2022, included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2022.

Certain prior period amounts have been reclassified to conform to the current presentation. Reclassifications had no effect on prior period net income or equity.

Risks and Uncertainties:

In preparing these consolidated financial statements, management is required to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates based upon changing conditions, including economic conditions and future events, such as continued interest rate volatility, prolonged periods of inflation, continued trade and supply chain disruptions, economic recession and increased unemployment. Such conditions could cause the Company to experience a material adverse effect on our business operations, asset valuations, financial condition, and results of operations. Material adverse impacts may include, but are not limited to, the valuation impairments of the Company's intangible assets, investments, loans receivable, or deferred tax assets. Additionally, it is reasonably possible that the Company's allowance for loan loss estimate as of September 30, 2022 could change in the near term and could result in a material change to the Company's provision for loan losses, earnings and capital.

Use of Estimates: To prepare financial statements in conformity with GAAP management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Note 2. Recent Accounting Pronouncements

The pronouncements discussed below are not intended to be an all-inclusive list, but rather only those pronouncements that the Company has determined could potentially have a material impact on its consolidated financial position and results of operations or on its disclosures.

There were no accounting standards adopted in the current period.

Future Application of Accounting Pronouncements Previously Issued

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13 "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 which affects entities holding financial assets that are not accounted for at fair value through net income, including loans, debt securities, and other financial assets. The ASU requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected by recording an allowance for current expected credit losses. In October 2019, the FASB unanimously voted to delay the implementation of the standard for three years for certain companies, including small reporting companies (as defined by the SEC), non-SEC public companies and private companies. The Company currently qualifies as a small reporting company and is subject to the delayed implementation. Therefore, the amendments in this update will be effective for the Company for the fiscal year beginning on July 1, 2023, including interim periods within that fiscal year. The Company is actively working through the provisions of the Update. Management has established a steering committee which is identifying the methodologies and the additional data requirements necessary to implement the Update and has engaged a third-party software service provider to assist in the Company's implementation. On March 31, 2022 the FASB issued ASU 2022-02 "Financial Instruments - Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." The ASU eliminates the current accounting guidance on troubled debt restructurings ("TDRs") for creditors, enhances disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty and amends the guidance on vintage disclosures with respect to current period gross charge-offs. For entities that have not yet adopted ASU 2016-13, the amendments in ASU 2022-02 are effective upon the adoption of ASU 2016-13. Management is currently evaluating the impact that ASU 2016-13 and ASU 2022-02 will have on the Company's consolidated financial position, results of operations and disclosures.

The FASB issued ASU 2020-04 "Reference Rate Reform" and ASU 2021-01 "Reference Rate Reform Scope" which collectively address accounting considerations related to the expected discontinuation of LIBOR as a reference rate for financial contracts. These Updates provide optional expedites and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform (codified in ASC 848). They include optional expedites related to contract modifications that allow an entity to account for modifications (if certain criteria are met) as if the modifications were only minor (assets within the scope of ASC 310, Receivables), were not substantial (assets within the scope of ASC 470, Debt) and/or did not result in remeasurements or reclassifications (assets within the scope of ASC 842, Leases, and other Topics) of the existing contract. They also include optional expedites and exceptions for contract modifications and hedge accounting that apply to derivative instruments impacted by the market-wide discounting transition. The Updates also allow for a one-time election to sell, transfer, or both sell and transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that are classified as held to maturity before January 1, 2020. The guidance in these ASUs are effective as of March 12, 2020 through December 31, 2022. The Company has not yet elected to apply the practical expedites contained in these Updates and does not expect significant impact to the consolidated financial statements upon adoption.

Note 3. Investment Securities

The amortized cost, gross unrealized/unrecognized gains and losses and fair value of available for sale and held to maturity debt securities at September 30, 2022 and June 30, 2022 were as follows (in thousands):

	September 30, 2022			
	Amortized Cost	Gross Unrealized/ Unrecognized Gains	Losses	Fair Value
Available for sale debt securities				
U.S. Government and agency obligations	\$ 10,945	\$ -	\$ (1,502)	\$ 9,443
Corporate	5,000	- -	(235)	4,765
State and municipal	7,040	- -	(2,706)	4,334
Mortgage-backed securities – residential	13,695	2	(2,074)	11,623
Mortgage-backed securities – commercial	2,398	- -	(132)	2,266
Total available for sale debt securities	\$ 39,078	\$ 2	\$ (6,649)	\$ 32,431
Held to maturity debt securities				
U.S. Government and agency obligations	\$ 59,995	\$ - -	\$ (5,088)	\$ 54,907
Corporate	52,068	- -	(3,558)	48,510
State and municipal	88,490	64	(27,580)	60,974
Mortgage-backed securities – residential	97,886	- -	(13,727)	84,159
Mortgage-backed securities – collateralized mortgage obligations	22,916	- -	(3,047)	19,869
Mortgage-backed securities – commercial	84,895	- -	(14,171)	70,724
Total held to maturity debt securities	\$ 406,250	\$ 64	\$ (67,171)	\$ 339,143
	June 30, 2022			
	Amortized Cost	Gross Unrealized/ Unrecognized Gains	Losses	Fair Value
Available for sale debt securities				
U.S. Government and agency obligations	\$ 10,942	\$ - -	\$ (1,014)	\$ 9,928
Corporate	5,000	4	(150)	4,854
State and municipal	7,040	- -	(2,244)	4,796
Mortgage-backed securities – residential	14,351	5	(1,644)	12,712
Mortgage-backed securities – commercial	2,416	- -	(85)	2,331
Total available for sale debt securities	\$ 39,749	\$ 9	\$ (5,137)	\$ 34,621
Held to maturity debt securities				
U.S. Government and agency obligations	\$ 59,995	\$ 6	\$ (3,046)	\$ 56,955
Corporate	52,076	111	(2,796)	49,391
State and municipal	87,111	- -	(22,307)	64,804
Mortgage-backed securities – residential	101,525	4	(9,746)	91,783
Mortgage-backed securities – collateralized mortgage obligations	24,198	- -	(2,124)	22,074
Mortgage-backed securities – commercial	87,544	- -	(10,943)	76,601
Total held to maturity debt securities	\$ 412,449	\$ 121	\$ (50,962)	\$ 361,608

No securities were sold during the three months ended September 30, 2022 or 2021.

The following table presents the fair value and carrying amount of debt securities at September 30, 2022, by contractual maturity (in thousands). Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Held to maturity		Available for sale	
	Carrying Amount	Fair Value	Amortized Cost	Fair Value
1 year or less	\$ 5,280	\$ 5,265	\$ -	\$ -
1 to 5 years	66,230	60,805	12,944	11,440
5 to 10 years	45,100	41,303	3,001	2,768
over 10 years	80,102	53,753	7,040	4,334
Mortgage-backed securities and other	209,538	178,017	16,093	13,889
Total	\$ 406,250	\$ 339,143	\$ 39,078	\$ 32,431

Securities pledged had carrying amounts of \$211.4 million and \$202.9 million at September 30, 2022 and June 30, 2022, respectively, and were pledged principally to secure FHLB advances and public deposits.

The following table provides information regarding investment securities with unrealized/unrecognized losses, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position at September 30, 2022 and June 30, 2022 (in thousands):

	September 30, 2022					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized/Unrecognized Loss	Fair Value	Unrealized/Unrecognized Loss	Fair Value	Unrealized/Unrecognized Loss
Available for sale						
U.S. Government and agency obligations	\$ -	\$ -	\$ 9,443	\$ (1,502)	\$ 9,443	\$ (1,502)
Corporate	4,765	(235)	-	-	4,765	(235)
State and municipal	2,563	(1,460)	1,771	(1,246)	4,334	(2,706)
Mortgage-backed securities – residential	3,624	(104)	7,822	(1,970)	11,446	(2,074)
Mortgage-backed securities – commercial	2,266	(132)	-	-	2,266	(132)
Total available for sale	\$ 13,218	\$ (1,931)	\$ 19,036	\$ (4,718)	\$ 32,254	\$ (6,649)
Held to maturity						
U.S. Government and agency obligations	\$ 31,488	\$ (2,012)	\$ 23,419	\$ (3,076)	\$ 54,907	\$ (5,088)
Corporate	48,510	(3,558)	-	-	48,510	(3,558)
State and municipal	26,953	(9,722)	32,457	(17,858)	59,410	(27,580)
Mortgage-backed securities – residential	62,389	(8,570)	21,770	(5,157)	84,159	(13,727)
Mortgage-backed securities – collateralized mortgage obligations	10,344	(717)	9,525	(2,330)	19,869	(3,047)
Mortgage-backed securities – commercial	27,763	(3,546)	42,961	(10,625)	70,724	(14,171)
Total held to maturity	\$ 207,447	\$ (28,125)	\$ 130,132	\$ (39,046)	\$ 337,579	\$ (67,171)

	June 30, 2022					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized/Unrecognized Loss	Fair Value	Unrealized/Unrecognized Loss	Fair Value	Unrealized/Unrecognized Loss
Available for sale						
U.S. Government and agency obligations	\$ 2,774	\$ (226)	\$ 7,154	\$ (788)	\$ 9,928	\$ (1,014)
Corporate	2,850	(150)	-	-	2,850	(150)
State and municipal	2,860	(1,162)	1,936	(1,082)	4,796	(2,244)
Mortgage-backed securities – residential	3,616	(81)	8,394	(1,563)	12,010	(1,644)
Mortgage-backed securities – commercial	2,331	(85)	-	-	2,331	(85)
Total available for sale	\$ 14,431	\$ (1,704)	\$ 17,484	\$ (3,433)	\$ 31,915	\$ (5,137)
Held to maturity						
U.S. Government and agency obligations	\$ 39,883	\$ (2,616)	\$ 5,066	\$ (430)	\$ 44,949	\$ (3,046)
Corporate	39,758	(2,796)	-	-	39,758	(2,796)
State and municipal	61,847	(20,696)	2,957	(1,611)	64,804	(22,307)
Mortgage-backed securities – residential	87,364	(9,063)	3,994	(683)	91,358	(9,746)
Mortgage-backed securities – collateralized mortgage obligations	13,611	(642)	8,390	(1,482)	22,001	(2,124)
Mortgage-backed securities – commercial	50,434	(5,515)	26,166	(5,428)	76,600	(10,943)
Total held to maturity	\$ 292,897	\$ (41,328)	\$ 46,573	\$ (9,634)	\$ 339,470	\$ (50,962)

As of September 30, 2022, the Company's securities portfolio consisted of \$438.7 million in securities, of which 314 securities with a fair value of \$369.8 million were in an unrealized/unrecognized loss position. Non-U.S. government and agency obligations are internally pass rated and are subject to quarterly credit monitoring.

There were no securities for which the Company believes it is not probable that it will collect all amounts due according to the contractual terms of the security as of September 30, 2022 or June 30, 2022. Management believes the unrealized losses are primarily a result of changes in market interest rates. The Company has determined that it does not intend to sell, or it is not more likely than not that it will be required to sell, its securities that are in an unrealized loss position prior to the recovery of its amortized cost basis. Therefore, the Company did not consider any securities to be other-than-temporarily impaired as of September 30, 2022 or June 30, 2022.

Note 4. Loans Receivable

Loans receivable are summarized as follows (in thousands):

	September 30, 2022	June 30, 2022
Mortgage loans:		
Residential	\$ 214,586	\$ 214,167
Commercial	953,539	942,130
Construction	25,307	20,896
Net deferred loan origination fees	(145)	(100)
Total mortgage loans	1,193,287	1,177,093
Commercial and consumer loans:		
Commercial loans	141,902	136,304
Home equity lines of credit	22,955	23,688
Consumer and overdrafts	508	594
Net deferred loan origination costs	593	620
Total commercial and consumer loans	165,958	161,206
Total loans receivable	1,359,245	1,338,299
Allowance for loan losses	(9,048)	(8,927)
Loans receivable, net	\$ 1,350,197	\$ 1,329,372

The following tables present the activity in the allowance for loan losses by portfolio segment for the three months ended September 30, 2022 and 2021 (in thousands):

	Three Months Ended September 30, 2022				
	Beginning Allowance	Provision (benefit)	Charge-offs	Recoveries	Ending Allowance
Residential mortgages	\$ 323	\$ (3)	\$ -	\$ 2	\$ 322
Commercial mortgages	7,351	5	-	-	7,356
Construction	209	25	-	-	234
Commercial loans	982	32	(15)	74	1,073
Home equity lines of credit	51	(9)	-	1	43
Consumer and overdrafts	11	32	(24)	1	20
Total	\$ 8,927	\$ 82	\$ (39)	\$ 78	\$ 9,048

	Three Months Ended September 30, 2021				
	Beginning Allowance	Provision (benefit)	Charge-offs	Recoveries	Ending Allowance
Residential mortgages	\$ 337	\$ (13)	\$ -	\$ 2	\$ 326
Commercial mortgages	6,435	134	-	-	6,569
Construction	102	25	-	-	127
Commercial loans	948	(143)	(100)	367	1,072
Home equity lines of credit	54	(3)	-	2	53
Consumer and overdrafts	5	13	(7)	1	12
Total	\$ 7,881	\$ 13	\$ (107)	\$ 372	\$ 8,159

The following tables present the balance in the allowance for loan losses and the recorded investment in loans, excluding net deferred fees and accrued interest, by portfolio segment, and based on impairment method as of September 30, 2022 and June 30, 2022 (in thousands):

	September 30, 2022							
	Loans				Allowance for Loan Losses			
	Individual ly Evaluated for Impairme nt	Collective ly Evaluated for Impairme nt	Acquired With Deteriorated Credit Quality	Total	Individual ly Evaluated for Impairme nt	Collective ly Evaluated for Impairme nt	Acquired With Deteriorated Credit Quality	Total
Residential mortgages	\$ 1,664	\$ 212,704	\$ 218	\$ 214,586	\$ 109	\$ 213	\$ -	\$ 322
Commercial mortgages	3,504	949,185	850	953,539	-	7,356	-	7,356
Construction	2,792	22,515	-	25,307	-	234	-	234
Commercial loans	781	141,121	-	141,902	-	1,073	-	1,073
Home equity lines of credit	400	22,469	86	22,955	2	41	-	43
Consumer and overdrafts	-	508	-	508	-	20	-	20
Total	\$ 9,141	\$ 2	\$ 1,154	\$ 1,358,797	\$ 111	\$ 8,937	\$ -	\$ 9,048

	June 30, 2022							
	Loans				Allowance for Loan Losses			
	Individual ly Evaluated for Impairme nt	Collective ly Evaluated for Impairme nt	Acquired With Deteriorated Credit Quality	Total	Individual ly Evaluated for Impairme nt	Collective ly Evaluated for Impairme nt	Acquired With Deteriorated Credit Quality	Total
Residential mortgages	\$ 1,613	\$ 212,333	\$ 221	\$ 214,167	\$ 110	\$ 213	\$ -	\$ 323
Commercial mortgages	4,778	936,493	859	942,130	-	7,351	-	7,351
Construction	2,792	18,104	-	20,896	-	209	-	209
Commercial loans	783	135,521	-	136,304	-	982	-	982
Home equity lines of credit	452	23,147	89	23,688	9	42	-	51
Consumer and overdrafts	-	594	-	594	-	11	-	11
Total	\$ 10,418	\$ 2	\$ 1,169	\$ 1,337,779	\$ 119	\$ 8,808	\$ -	\$ 8,927

The following tables present information related to loans individually evaluated for impairment (excluding loans acquired with deteriorated credit quality) by portfolio segment as of September 30, 2022 and June 30, 2022 (in thousands):

	September 30, 2022			June 30, 2022		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses
With no related allowance recorded:						
Residential mortgages	\$ 1,382	\$ 1,313	\$ -	\$ 1,262	\$ 1,197	\$ -
Commercial mortgages	3,582	3,504	-	4,789	4,778	-
Construction	2,792	2,792	-	2,792	2,792	-
Commercial loans	793	781	-	795	783	-
Home equity lines of credit	383	376	-	379	399	-
With an allowance recorded:						
Residential mortgages	351	351	109	353	416	110
Home equity lines of credit	31	24	2	60	53	9
Total	\$ 9,314	\$ 9,141	\$ 111	\$ 10,430	\$ 10,418	\$ 119

The tables below present the average recorded investment and interest income recognized on loans individually evaluated for impairment, by portfolio segment, for the three months ended September 30, 2022 and 2021 (in thousands):

	September 30, 2022		September 30, 2021	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Residential mortgages	\$ 1,318	\$ 9	\$ 1,936	\$ 7
Commercial mortgages	3,543	-	3,582	-
Construction	2,792	-	-	-
Commercial loans	782	4	980	191
Home equity lines of credit	378	-	350	2
With an allowance recorded:				
Residential mortgages	352	3	424	3
Home equity lines of credit	27	-	33	-
Total	\$ 9,192	\$ 16	\$ 7,305	\$ 203

The following table presents the recorded investment in nonaccrual loans and in loans past due over 90 days and still on accrual status, by portfolio segment, as of September 30, 2022 and June 30, 2022 (in thousands):

	Loans Past Due Over 90 Days and Still Accruing			
	Nonaccrual		September 30, 2022	
	September 30, 2022	June 30, 2022	September 30, 2022	June 30, 2022
Residential mortgages	\$ 791	\$ 671	-	-
Commercial mortgages	3,504	4,778	-	-
Construction	2,792	2,792	-	-
Commercial loans	534	539	-	-
Home equity lines of credit	368	416	-	-
Consumer and overdrafts	-	-	-	39
Total	\$ 7,989	\$ 9,196	\$ -	\$ 39

Nonperforming loans include both smaller-balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. The table above excludes acquired loans that are accounted for as purchased credit impaired loans totaling \$133,000 and \$137,000 as of September 30, 2022 and June 30, 2022, respectively. Such loans are excluded because the loans are in pools that are considered performing. The discounts arising from recording these loans at fair value upon acquisition were due in part to credit quality and the accretable yield is being recognized as interest income over the life of the loans based on expected cash flows.

The following tables present the aging of the recorded investment in past due loans by portfolio segment as of September 30, 2022 and June 30, 2022 (in thousands):

	September 30, 2022					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
Residential mortgages	\$ -	\$ 104	\$ 427	\$ 531	\$ 214,055	\$ 214,586
Commercial mortgages	-	-	-	-	953,539	953,539
Construction	-	-	2,792	2,792	22,515	25,307
Commercial loans	-	51	533	584	141,318	141,902
Home equity lines of credit	-	-	296	296	22,659	22,955
Consumer and overdrafts	-	-	-	-	508	508
Total	\$ -	\$ 155	\$ 4,048	\$ 4,203	\$ 1,354,594	\$ 1,358,797

	June 30, 2022					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
Residential mortgages	\$ -	\$ -	\$ 367	\$ 367	\$ 213,800	\$ 214,167
Commercial mortgages	-	-	1,197	1,197	940,933	942,130
Construction	-	-	1,113	1,113	19,783	20,896
Commercial loans	-	16	400	416	135,888	136,304
Home equity lines of credit	-	-	399	399	23,289	23,688
Consumer and overdrafts	-	-	39	39	555	594
Total	\$ -	\$ 16	\$ 3,515	\$ 3,531	\$ 1,334,248	\$ 1,337,779

Troubled Debt Restructurings

The terms of certain loans have been modified as troubled debt restructurings ("TDRs"). The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. All TDRs are considered impaired loans.

As of both September 30, 2022 and June 30, 2022, the Company had 9 loans, classified as TDRs totaling \$1.4 million, including \$1.2 million of loans still accruing interest. The Company has allocated \$111,000 and \$19,000, respectively, of specific reserves to customers whose loan terms have been modified in TDRs as of September 30, 2022 and June 30, 2022. As of September 30, 2022, the Company has no commitments to lend additional funds to customers with outstanding loans that are classified as TDRs.

The Company did not modify any loans during the three months ended September 30, 2022 or 2021 that were classified as TDRs.

There were no defaults of TDRs occurring in the three months ended September 30, 2022 or 2021 that were modified in the twelve months prior to default.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. Section 4013 of the CARES Act, "Temporary Relief From Troubled Debt Restructurings," provides banks the option to temporarily suspend certain requirements under U.S. GAAP related to TDRs for a limited period of time to account for the effects of COVID-19. On December 27, 2020, the Consolidated Appropriations Act 2021 was signed into law. Section 541 of this legislation, "Extension of Temporary Relief From Troubled Debt Restructurings and Insurer Clarification," extends Section 4013 of the CARES Act to the earlier of January 1, 2022 or 60 days after the termination of the national emergency declared relating to COVID-19. This extension expired as of January 1, 2022. Additionally, on April 7, 2020, the banking agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, issued a statement, "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working With Customers Affected by the Coronavirus (Revised)" ("Interagency Statement"), to encourage banks to work prudently with borrowers

and to describe the agencies' interpretation of how accounting rules under ASC 310-40, "Troubled Debt Restructurings by Creditors," apply to certain COVID-19-related modifications.

During the three months ended September 30, 2022, no loan payment deferrals were granted or extended by the Company. During the three months ended September 30, 2021, the Company granted or extended loan payment deferrals for 5 residential mortgage, construction and commercial loans totaling \$3.7 million. In accordance with either the CARES Act (as amended) or Interagency Statement, these modifications are not considered TDRs. The Company had no loans on loan payment deferral as of September 30, 2022 nor June 30, 2022.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a monthly basis. The Company utilizes the same grading process for acquired loans as it does for originated loans. The Company uses the following definitions for risk ratings:

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above-described process and loans in groups of homogenous loans are considered to be pass rated loans. These loans are monitored based on delinquency and performance. Based on the most recent analysis performed, the risk category of loans by portfolio segment is as follows (in thousands):

	September 30, 2022				
	Pass	Special Mention	Substandard	Total	
Residential mortgages	\$ 213,581	\$ 383	\$ 622	\$ 214,586	
Commercial mortgages	944,482	1,538	7,519	953,539	
Construction	22,515	1,679	1,113	25,307	
Commercial loans	141,295	145	462	141,902	
Home equity lines of credit	22,587	-	368	22,955	
Consumer and overdrafts	508	-	-	508	
Total	\$ 1,344,968	\$ 3,745	\$ 10,084	\$ 1,358,797	

	June 30, 2022				
	Pass	Special Mention	Substandard	Total	
Residential mortgages	\$ 212,810	\$ 154	\$ 1,203	\$ 214,167	
Commercial mortgages	931,178	1,548	9,404	942,130	
Construction	18,104	1,679	1,113	20,896	
Commercial loans	135,725	156	423	136,304	
Home equity lines of credit	23,220	43	425	23,688	
Consumer and overdrafts	594	-	-	594	
Total	\$ 1,321,631	\$ 3,580	\$ 12,568	\$ 1,337,779	

Purchased Credit Impaired Loans

The Company has acquired loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans as of September 30, 2022 and June 30, 2022 is as follows (in thousands):

	September 30, 2022	June 30, 2022
Residential mortgages	\$ 218	\$ 221
Commercial mortgages	850	859
Home equity lines of credit	86	89
Carrying amount, net of allowance of \$0	<u>\$ 1,154</u>	<u>\$ 1,169</u>

There was no provision for loan losses on purchased credit impaired loans during the three months ended September 30, 2022 or 2021.

Accrivable yield, or income expected to be collected, for acquired loans is as follows (in thousands):

	Three Months Ended September 30,	
	2022	2021
Beginning balance	\$ 89	\$ 130
Accretion income	(3)	(10)
Ending balance	<u>\$ 86</u>	<u>\$ 120</u>

Note 5. Accumulated Other Comprehensive (Loss) Income

The following is a summary of the accumulated other comprehensive income (loss) balances, net of tax (in thousands):

	Net unrealized gain (loss) on available for sale securities ⁽¹⁾	Unrealized loss on pension benefits ⁽²⁾	Unrealized loss on SERP benefits ⁽²⁾	Total
Balance at July 1, 2022	\$ (4,052)	\$ (4,452)	\$ (125)	\$ (8,629)
Other comprehensive loss before reclassifications				
Amounts reclassified from accumulated other comprehensive income	(1,519)	141	20	(1,358)
Tax effect	319	(30)	(4)	285
Net other comprehensive (loss) income	<u>(1,200)</u>	<u>111</u>	<u>16</u>	<u>(1,073)</u>
Balance at September 30, 2022	<u>\$ (5,252)</u>	<u>\$ (4,341)</u>	<u>\$ (109)</u>	<u>\$ (9,702)</u>
	Net unrealized gain (loss) on available for sale securities	Unrealized loss on pension benefits	Unrealized loss on SERP benefits	Total
Balance at July 1, 2021	\$ 137	\$ (3,055)	\$ (181)	\$ (3,099)
Other comprehensive loss before reclassifications				
Amounts reclassified from accumulated other comprehensive income	-	38	16	54
Tax effect	40	(9)	(3)	28
Net other comprehensive (loss) income	<u>(147)</u>	<u>29</u>	<u>13</u>	<u>(105)</u>
Balance at September 30, 2021	<u>\$ (10)</u>	<u>\$ (3,026)</u>	<u>\$ (168)</u>	<u>\$ (3,204)</u>

Note 6. Post-Retirement Benefits**Employee Pension Plan**

The Company maintains a non-contributory defined benefit pension plan that covers employees meeting specific requirements as to age and length of service. The Company's contributions to this qualified plan are determined on the basis of (i) the maximum amount that can be deducted for federal income tax purposes, and (ii) the amount determined by a consulting actuary as necessary to avoid an accumulated funding deficiency as defined by the Employee Retirement Income Security Act of 1974 ("ERISA"). Contributions are intended to provide for benefits attributed to service to date but also those expected to be earned in the future. On February 15, 2017, the Board of Directors approved the freezing of the defined benefit pension plan effective May 1, 2017.

Supplemental Executive Retirement Plans

The Company also maintains unfunded and non-qualified supplemental executive retirement plans ("SERP") to provide pension benefits in addition to those provided under the qualified pension plan.

Net periodic benefit cost and other amounts recognized in other comprehensive income for the three months ended September 30, 2022 and 2021 (in thousands):

	Three Months Ended September 30, 2022		Three Months Ended September 30, 2021	
	Defined Benefit Plan	Supplemental Retirement Plans	Defined Benefit Plan	Supplemental Retirement Plans
Service cost	\$ -	\$ 82	\$ -	\$ 131
Interest cost	196	26	149	17
Expected return on plan assets	(410)	-	(510)	-
Amortization of prior net loss	141	20	38	16
Settlement charges	-	-	-	-
Net periodic (benefit) cost	\$ (73)	\$ 128	\$ (323)	\$ 164

The Company made no contributions to the defined benefit plan during the three months ended September 30, 2022.

Employee Stock Ownership Plan

On January 1, 2017, the Company established an Employee Stock Ownership Plan ("ESOP") to provide eligible employees the opportunity to own Company stock. The ESOP is a tax-qualified retirement plan for the benefit of Company employees. On April 20, 2017, the Holding Company granted a loan to the ESOP in the amount of \$14.5 million for the purchase of 1,453,209 shares of the Company's common stock at a price of \$10.00 per share. The loan obtained by the ESOP from the Holding Company to purchase the common stock is payable annually over 15 years at a rate per annum equal to the Prime Rate, reset annually on January 1st (3.25% for 2022). Loan payments are principally funded by cash contributions from the Bank. The loan is secured by the shares purchased, which are held in a suspense account for allocation among participants as the loan is repaid. The balance of the ESOP loan at September 30, 2022 was \$9.7 million. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax limits. The number of shares committed to be released annually is 96,881 through 2032. Dividends on allocated shares increase participant accounts and are used to purchase additional shares of stock. Participants receive the shares at the end of employment.

Shares held by the ESOP include the following (Dollars in thousands):

	September 30, 2022	June 30, 2022
Allocated to participants	541,097	518,371
Unearned	896,348	920,767
Total ESOP shares	1,437,445	1,439,138
 Fair value of unearned shares	 \$ 16,072	 \$ 17,577

Total compensation expense recognized in connection with the ESOP for the three months ended September 30, 2022 and 2021 was \$467,000 and \$446,000, respectively.

Note 7. Fair Value of Financial Instruments

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

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

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

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

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as general classification of such instruments pursuant to the valuation hierarchy, is set forth below. While management believes the Company's valuation methodologies are appropriate and consistent with other financial institutions, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Investment Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs), matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs), or a broker's opinion of value (Level 3 inputs).

Impaired Loans: The fair value of collateral-dependent impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. Appraisals are generally obtained annually and may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Management performs a review of all appraisals, including any such adjustments. The fair value of uncollateralized or non-collateral-dependent loans are generally based on discounted cash flows which utilize management's assumption of discount rates and expected future cash flows, resulting in a Level 3 classification.

Foreclosed Real Estate: Assets acquired through or instead of loan foreclosure are initially recorded at fair value, less estimated costs to sell, when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value, less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Foreclosed properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Credit Department, as well as a third-party specialist, where deemed appropriate, reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Once appraisals are considered appropriate, management discounts the appraised value for estimated selling costs, such as legal, broker, and property maintenance and insurance costs. The most recent analysis performed indicated discount rates ranging between 10% and 20% should be applied to properties with appraisals performed.

Derivatives: The Company's derivative assets and liabilities consist of transactions undertaken as part of management's strategy to manage interest rate risk. The valuation of the Company's interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest

rate curves. The Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy.

Assets and liabilities measured at fair value are summarized below (in thousands):

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
September 30, 2022				
Measured on a recurring basis:				
Available for sale debt securities:				
U.S. Government and agency obligations	\$ -	\$ 9,443	\$ -	\$ 9,443
Corporate	-	1,997	2,768	4,765
State and municipal	-	4,334	-	4,334
Mortgage-backed securities – residential	-	11,623	-	11,623
Mortgage-backed securities – commercial	-	2,266	-	2,266
Derivatives – interest rate contracts	-	14,774	-	14,774
Total assets at fair value	<u>\$ -</u>	<u>\$ 44,437</u>	<u>\$ 2,768</u>	<u>\$ 47,205</u>
Derivatives – interest rate contracts	\$ -	\$ 14,774	\$ -	\$ 14,774
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 14,774</u>	<u>\$ -</u>	<u>\$ 14,774</u>
Measured on a non-recurring basis:				
Impaired loans:				
Residential mortgages	\$ -	\$ -	\$ 242	\$ 242
Home equity lines of credit	-	-	22	22
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 264</u>	<u>\$ 264</u>
June 30, 2022				
Measured on a recurring basis:				
Available for sale debt securities:				
U.S. Government and agency obligations	\$ -	\$ 9,928	\$ -	\$ 9,928
Corporate	-	2,004	2,850	4,854
State and municipal	-	4,796	-	4,796
Mortgage-backed securities – residential	-	12,712	-	12,712
Mortgage-backed securities – commercial	-	2,331	-	2,331
Derivatives – interest rate contracts	-	8,223	-	8,223
Total assets at fair value	<u>\$ -</u>	<u>\$ 39,994</u>	<u>\$ 2,850</u>	<u>\$ 42,844</u>
Derivatives – interest rate contracts	\$ -	\$ 8,223	\$ -	\$ 8,223
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 8,223</u>	<u>\$ -</u>	<u>\$ 8,223</u>
Measured on a non-recurring basis:				
Impaired loans:				
Residential mortgages	\$ -	\$ -	\$ 306	\$ 306
Home equity lines of credit	-	-	44	44
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 350</u>	<u>\$ 350</u>

There were no transfers between levels within the fair value hierarchy during the three months ended September 30, 2022 or 2021.

Impaired loans in the preceding table had a carrying amount of \$375,000 and a remaining valuation allowance of \$111,000, at September 30, 2022, as compared to \$469,000 and \$119,000, respectively, as of June 30, 2022. Impaired loans measured at fair value incurred no net charge-offs and resulted in a benefit for loan losses of \$2,000 during the three months ended September 30, 2022. Impaired loans measured at fair value as of September 30, 2021 incurred no net charge-offs and resulted in a credit for loan losses of \$2,000 during the three months ended September 30, 2021.

The following tables present quantitative information about Level 3 fair value measurements for selected financial instruments measured at fair value on a non-recurring basis at September 30, 2022 and June 30, 2022 (Dollars in thousands):

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range or Rate Used
September 30, 2022				
Impaired loans - residential mortgages	\$ 242	Discounted cash flow	Discount rate	5.4% to 6.3%
Impaired loans - home equity lines of credit	22	Discounted cash flow	Discount rate	4.8% to 6.3%
June 30, 2022				
Impaired loans - residential mortgages	\$ 306	Discounted cash flow	Discount rate	5.4% to 6.3%
Impaired loans - home equity lines of credit	44	Discounted cash flow	Discount rate	4.8% to 6.3%

The following is a summary of the carrying amounts and estimated fair values of the Company's financial assets and liabilities, none of which are held for trading purposes (in thousands):

	Carrying Amount	Fair Value Measurements				
		Level 1	Level 2	Level 3	Total	
September 30, 2022						
Financial assets:						
Cash and cash equivalents	\$ 50,753	\$ 50,753	\$ -	\$ -	\$ 50,753	
Held to maturity debt securities	406,250	-	307,553	31,590	339,143	
Available for sale debt securities	32,431	-	29,663	2,768	32,431	
Loans receivable, net	1,350,197	-	-	1,280,789	1,280,789	
Accrued interest receivable	7,074	-	1,845	5,229	7,074	
FHLB stock	2,865	N/A	N/A	N/A	N/A	
Derivative assets - interest rate contracts	14,774	-	14,774	-	14,774	
Financial liabilities:						
Demand, NOW, money market deposits and savings accounts	1,269,942	1,269,942	-	-	1,269,942	
Time deposits	323,324	-	324,778	-	324,778	
Mortgage escrow funds	7,302	7,302	-	-	7,302	
Advances from FHLB	28,288	-	27,347	-	27,347	
Accrued interest payable	53	-	53	-	53	
Derivative liabilities - interest rate contracts	14,774	-	14,774	-	14,774	
June 30, 2022						
Financial assets:						
Cash and cash equivalents	\$ 118,457	\$ 118,457	\$ -	\$ -	\$ 118,457	
Held to maturity debt securities	412,449	-	331,262	30,346	361,608	
Available for sale debt securities	34,621	-	31,771	2,850	34,621	
Loans receivable, net	1,329,372	-	-	1,261,035	1,261,035	
Accrued interest receivable	6,396	-	1,751	4,645	6,396	
FHLB stock	3,766	N/A	N/A	N/A	N/A	
Derivative assets - interest rate contracts	8,223	-	8,223	-	8,223	
Financial liabilities:						
Demand, NOW, money market deposits and savings accounts	1,298,661	1,298,661	-	-	1,298,661	
Time deposits	327,589	-	329,885	-	329,885	
Mortgage escrow funds	11,173	11,173	-	-	11,173	
Advances from FHLB	48,323	-	48,094	-	48,094	
Accrued interest payable	94	1	93	-	94	
Derivative liabilities - interest rate contracts	8,223	-	8,223	-	8,223	

The methods of determining the fair value of assets and liabilities presented in the table above are consistent with our methodologies disclosed in the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2022.

Note 8. Regulatory Matters

The following is a summary of the Bank's actual capital amounts and ratios as of September 30, 2022 and June 30, 2022, compared to the required ratios for minimum capital adequacy and for classification as well capitalized (Dollars in thousands).

	Bank Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2022						
Leverage (Tier 1)	\$ 256,469	13.0 %	\$ 78,658	4.0 %	\$ 98,323	5.0 %
Risk-based:						
Common Tier 1	256,469	17.3	66,842	4.5	96,549	6.5
Tier 1	256,469	17.3	89,122	6.0	118,829	8.0
Total	265,517	17.9	118,829	8.0	148,537	10.0
June 30, 2022						
Leverage (Tier 1)	\$ 251,144	12.8 %	\$ 78,490	4.0 %	\$ 98,112	5.0 %
Risk-based:						
Common Tier 1	251,144	17.2	65,630	4.5	94,799	6.5
Tier 1	251,144	17.2	87,507	6.0	116,676	8.0
Total	260,071	17.8	116,676	8.0	145,845	10.0

In addition to the ratios above, the Basel III Capital Rules have established that community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonus payments to executive officers.

Management believes that as of September 30, 2022 and June 30, 2022, the Bank met all capital adequacy requirements to which it was subject, including the capital conservation buffer. Further, the most recent FDIC notification categorized the Bank as a well-capitalized institution under the prompt corrective action regulations. There have been no conditions or events since that notification that management believes have changed the Bank's capital classification.

Note 9. Earnings Per Share ("EPS")

Basic EPS is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated in a similar matter, except that the denominator includes the number of additional common shares that would have been outstanding if potentially dilutive common shares were issued using the treasury stock method. Dilutive financial instruments include stock options and unvested restricted stock.

The following table provides factors used in the earnings per share computation for the three months ended September 30, 2022 and 2021:

	2022 (Dollars in thousands, except per share data)	2021
Net income applicable to common stock	\$ 4,776	\$ 3,614
Average number of common shares outstanding	15,122,732	15,342,975
Less: Average unallocated ESOP shares	(908,419)	(1,005,432)
Average number of common shares outstanding used to calculate basic earnings per common share	<u>14,214,313</u>	<u>14,337,543</u>
Effect of equity-based awards	87,287	68,273
Average number of common shares outstanding used to calculate diluted earnings per common share	<u>14,301,600</u>	<u>14,405,816</u>
Earnings per common share:		
Basic	\$ 0.34	\$ 0.25
Diluted	\$ 0.33	\$ 0.25

Stock options for

1,314,963 and 1,325,935 shares of common stock were not considered in computing diluted earnings per common share for the three months ended September 30, 2022 and 2021, respectively, because they were antidilutive.

Note 10. Derivatives and Hedging

Derivatives not designated as hedges may be used to manage the Company's exposure to interest rate movements or to provide service to customers. The Company executes interest rate swaps with commercial lending customers to facilitate their respective risk management strategies. These interest rate swaps with customers are simultaneously offset by interest rate swaps that the Company executes with a third party in order to minimize the net risk exposure resulting from such transactions. The Company presents interest rate swap assets and liabilities in other assets and other liabilities, respectively, in the Consolidated Balance Sheets. These interest rate swap agreements do not qualify for hedge accounting treatment, and therefore changes in fair value are reported in current period earnings.

The following table presents summary information about the interest rate swaps as of September 30, 2022 and June 30, 2022 (Dollars in thousands).

	September 30, 2022	June 30, 2022
Notional amounts	\$ 287,485	\$ 264,462
Weighted average pay rates	4.31 %	3.57 %
Weighted average receive rates	4.31 %	3.57 %
Weighted average maturity	8.14 years	8.22 years
Fair value of combined interest rate swaps	\$ -	\$ -

Note 11. Revenue From Contracts With Customers

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services. The Company applies the following five steps to properly recognize revenue:

1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to performance obligations in the contract.
5. Recognize revenue when (or as) the Company satisfies a performance obligation.

The following table presents summary information about sources of revenue from contracts with customers for the periods indicated (in thousands).

	Three months ended September 30,	
	2022	2021
Noninterest income:		
Service charges on deposits	\$ 234	\$ 183
Interchange fees	153	156
Other fees and service charges ⁽¹⁾	66	62
Fees and service charges	453	401
Swap income ⁽¹⁾	141	-
Bank-owned life insurance ⁽¹⁾	191	192
Other noninterest income ⁽¹⁾	8	20
Total noninterest income	\$ 793	\$ 613

(1) Not within the scope of ASC 606.

Fees and Service Charges on Deposit Accounts. The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payments, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing the period over which the Company satisfied the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange Income. The Company earns interchange fees from debit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Gain on Sales of Foreclosed Real Estate. The Company records a gain or loss from the sale of foreclosed real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed real estate asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

Note 12. Stock-Based Compensation

On October 24, 2018, the Company's shareholders approved the PCSB Financial Corporation 2018 Equity Incentive Plan (the "Plan"), which permits the grant of stock options and restricted stock and/or restricted stock units. The total number of shares that may be granted under the Plan is 2,543,115, of which 1,816,511 shares may be granted as stock options and 726,604 shares may be granted as restricted stock and restricted stock units. Total compensation cost that has been charged against income for the Plan was \$820,000 and \$810,000 for the three months ended September 30, 2022 and 2021, respectively.

Restricted Stock Awards ("RSAs")

RSAs awarded under the Plan provide for the issuance of shares to both employees and non-employee directors. These awards generally vest over a 5-year period, with 20% vesting each year on the anniversary of the award. All awards were made at the fair value of common stock on the grant date. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at grant date. The fair value of the stock was determined to be the closing price of the stock on the NASDAQ exchange. Total shares available for grant under the Plan are 726,000, of which 549,467 shares were granted as of September 30, 2022.

The following table presents a summary of RSA activity during the period ended September 30, 2022.

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested granted shares outstanding at July 1, 2022	223,450	\$ 18.89
Shares granted	-	-
Shares vested	(2,200)	16.21
Shares forfeited	-	-
Unvested granted shares at September 30, 2022	221,250	\$ 18.92

As of September 30, 2022, there was \$2.4 million of total unrecognized compensation cost related to non-vested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.4 years.

Stock Option Awards

Stock options awarded to employees under the Plan are considered incentive stock options (ISOs), up to applicable limits. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant. Those issued to non-employee directors, as well as those exceeding ISO limitations, are considered non-qualified stock options (NQSOs). Options generally vest over a 5-year period, with 20% vesting each year on the anniversary of the award, however, may not vest more rapidly than over a three-year period, and have a contractual term of 10 years. The Company has a policy of using shares held as a treasury stock to satisfy share option exercises. Currently, the Company has a sufficient number of treasury shares to satisfy the current level of exercisable share options.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the following table. Expected volatilities are based on the historical volatilities of a peer group of publicly traded financial institutions. The expected term of options granted is based on the simplified

"mid-point" approach which utilizes the weighted average vesting period and contractual term. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

Total options available for grant under the Plan are 1,816,511, of which 1,320,963 options were granted as of September 30, 2022. The following table presents a summary of activity related to stock options granted under the Plan, and changes during the period then ended:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Years	Aggregate Intrinsic Value
(Dollars in thousands, except per share data)				
Options outstanding at July 1, 2022	1,320,963	\$ 18.98	6.4	\$ 411
Options granted	-	-		
Options expired	-	-		
Options forfeited	-	-		
Options exercised	-	-		
Options outstanding at September 30, 2022	<u>1,320,963</u>	<u>\$ 18.98</u>	<u>6.1</u>	<u>\$ 37</u>
Exercisable at September 30, 2022	786,578	\$ 19.00	6.1	\$ 14

As of September 30, 2022, there was \$1.4 million of total unrecognized compensation cost related to non-vested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.4 years.

Note 13. Leases

As of September 30, 2022, the Company leases real estate for eleven branch offices and one administrative office, including its corporate headquarters, under various operating lease agreements. The Company's leases have maturities which range from 2023 to 2041, some of which include lessee options to extend the lease term. The weighted average remaining life of the lease terms for these leases was 9.4 years as of September 30, 2022.

The operating lease asset and lease liability are determined at the commencement date of the lease based on the present value of the lease payments. As most of our leases do not provide an implicit rate, the Company used its incremental borrowing rate, the rate of interest to borrow on a collateralized basis for a similar term, at the lease commencement date. The Company utilized a weighted average discount rate of 2.49% in determining the lease liability as of September 30, 2022.

The Company made a policy election to exclude the recognition requirements of ASC 842 to short-term leases, those leases with original terms of 12 months or less. Short-term lease payments are recognized in the income statement on a straight-line basis over the lease term. The Company had no short-term lease cost for the three months ended September 30, 2022 or 2021. Certain leases may include one or more options to renew. The exercise of lease renewal options is typically at the Company's discretion and are included in the operating lease liability if it is reasonably certain that the renewal option will be exercised. Certain real estate leases may contain lease and non-lease components, such as common area maintenance charges, real estate taxes, and insurance, which are generally accounted for separately and are not included in the measurement of the lease liability since they are generally able to be segregated. The Company does not sublease any of its leased properties. There were no sale and leaseback transactions, leveraged leases or lease transactions with related parties during the three months ended September 30, 2022 or 2021.

Total operating lease cost was \$505,000 for the three months ended September 30, 2022 and 2021, respectively. The right-of-use asset, included in premises and equipment, net, was \$8.1 million and the corresponding lease liability, included in other liabilities was \$8.4 million as of September 30, 2022.

Future minimum lease payments for the fiscal years ending June 30th and a reconciliation of undiscounted lease cash flows and the lease liability recognized in the consolidated balance sheet as of September 30, 2022 is shown below (in thousands):

2023	\$ 1,550
2024	1,719
2025	1,426
2026	907
2027	547
Thereafter	3,442
Total future minimum lease payments (undiscounted)	9,591
Discounting effect on cash flows	(1,228)
Lease liability (discounted)	\$ 8,363

Note 14. Pending Merger With and Into Brookline Bancorp, Inc.

On May 23, 2022, the Company and Brookline Bancorp, Inc. ("Brookline"), the holding company of Brookline Bank and Bank Rhode Island, entered into an Agreement and Plan of Merger (the "Merger Agreement"). Pursuant to the Merger Agreement, the Company will merge with and into Brookline, with Brookline as the surviving corporation (the "Merger"). Following the Merger, PCSB Bank will operate as a separate bank subsidiary of Brookline. Pursuant to the terms of the Merger Agreement, at the effective time of the Merger, each stockholder of PCSB will receive, at the holder's election, either \$

22.00 in cash consideration or 1.3284 shares of Brookline common stock for each share of PCSB common stock, subject to allocation procedures to ensure that 60% of the outstanding shares of PCSB common stock will be converted to Brookline common stock. On September 21, 2022, the Company's shareholders approved the Merger Agreement. The consummation of the Merger remains subject to customary closing conditions, including the receipt of regulatory approvals. The Merger is currently expected to be completed in the fourth calendar quarter of 2022.

For the three months ended September 30, 2022, the Company recognized \$311,000 of merger-related expenses. No merger-related expenses were recognized for the three months ended September 30, 2021.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**General**

Management's discussion and analysis of financial condition at September 30, 2022 and June 30, 2022, and results of operations for the three months ended September 30, 2022 and 2021 is intended to assist in understanding the consolidated financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited consolidated financial statements and the notes thereto appearing in Part I, Item 1, of this quarterly report on Form 10-Q and with the audited consolidated financial statements included in the annual report on Form 10-K for the fiscal year ended June 30, 2022.

Cautionary Note Regarding Forward-Looking Statements

This quarterly report contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect," "will," "may" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- extent, duration and severity of the COVID-19 pandemic and government action in response to the pandemic, including their impact on our business and operations, including the impact on lost fee revenue and operating expenses, as well as their effects on our customers and issuers of securities, including their ability to make timely payments on obligations, service providers, and on economies and markets more generally;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and charge-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to continue to implement our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans we have made and make whether held in portfolio or sold in the secondary markets;
- adverse changes in the securities or credit markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to manage market risk, credit risk and operational risk in the current economic conditions;
- our ability to enter new markets successfully and capitalize on growth opportunities;

- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, or the Securities and Exchange Commission;
- our ability to retain key employees;
- our compensation expense associated with equity allocated or awarded to our employees; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Additional factors that may affect our results are discussed in the annual report on Form 10-K for the fiscal year ended June 30, 2022, under the heading "Risk Factors" and in this quarterly report on Form 10-Q under Part II, Item 1A.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. The Company assumes no obligation to update any forward-looking statements except as may be required by applicable law or regulation.

Critical Accounting Policies and Critical Accounting Estimates

Critical accounting estimates are necessary in the application of certain accounting policies and procedures and are particularly susceptible to significant change. Critical accounting policies are defined as those involving significant judgments, estimates and assumptions by management that could have a material impact on the carrying value of certain assets or on income under different assumptions or conditions. For additional information regarding critical accounting policies, refer to the section captioned "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the June 30, 2022 Form 10-K. There have been no significant changes in our application of critical accounting policies for the three months ended September 30, 2022.

Overview

PCSB Financial Corporation (the "Holding Company" and together with its direct and indirect subsidiaries, the "Company") is a Maryland corporation organized by PCSB Bank (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in the Bank's conversion to stock ownership on April 20, 2017. At September 30, 2022, the significant assets of the Holding Company were the capital stock of the Bank, cash deposited in the Bank, and a loan to the PCSB Bank Employee Stock Ownership Plan ("ESOP"). The liabilities of the Holding Company were insignificant. The Company is subject to the financial reporting requirements of the Securities Exchange Act of 1934, as amended, and regulation and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and the New York State Department of Financial Services (the "NYSDFS").

PCSB Bank is a community-oriented financial institution that provides financial services to individuals and businesses within its market area of Putnam, Southern Dutchess, Rockland and Westchester Counties in New York. The Bank is a state-chartered commercial bank, and its deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC"). The Bank's primary regulators are the FDIC and the NYSDFS.

The Company's primary market area encompasses all of Putnam and Westchester Counties and parts of Dutchess and Rockland Counties in New York, which are the counties in which our offices are located, and the surrounding areas. It is considered a primary area for growth, particularly for commercial lending and deposit opportunities. Westchester County includes a high concentration of office, medical, retail, industrial, mixed use and multi-family real estate buildings and businesses. Our primary focus in this marketplace is small to middle market businesses in these segments. Rising real estate values and lack of available commercial space in Brooklyn and Manhattan have caused businesses to migrate to central and lower Westchester County, which has increased the demand for flex-industrial and multi-family property loans in our market area. Dutchess, Putnam and Rockland Counties offer similar commercial opportunities to Westchester County, but on a significantly smaller scale, and provide greater opportunities in residential mortgage lending and consumer lending and in retail deposit gathering. The close proximity of Bronx County, New York City, Fairfield County, Connecticut, and Bergen County, New Jersey, to our market area also creates a secondary area of opportunity for office, industrial and multi-family property loans.

Selected Financial Ratios

The summary information presented below as of and for the three months ended September 30, 2022 and 2021 is derived in part from and should be read in conjunction with the consolidated financial statements of the Company presented in Part I (Dollars in thousands, except per share data).

	Three Months Ended	
	September 30, 2022	September 30, 2021
Performance Ratios⁽¹⁾:		
Return on average assets	0.98 %	0.78 %
Return on average equity	6.90 %	5.29 %
Interest rate spread	3.06 %	2.71 %
Net interest margin	3.19 %	2.82 %
Efficiency ratio	61.07 %	65.59 %
Noninterest income to average assets	0.16 %	0.13 %
Noninterest expense to average assets	1.96 %	1.85 %
Average interest-earning assets to average interest-bearing liabilities	131.62 %	131.14 %
Average equity to average assets ⁽²⁾	14.17 %	14.66 %
Dividend payout ratio ⁽²⁾	21.04 %	24.24 %
 As of or for the three months ended		
Loans to deposits	September 30, 2022	September 30, 2021
	84.74 %	80.46 %
Share Data:		
Shares outstanding	15,334,323	15,574,310
Book value per common share	\$ 18.33	\$ 17.64
Tangible book value per common share ⁽³⁾	\$ 17.93	\$ 17.24
 Asset Quality Ratios:		
Non-performing loans receivable	\$ 7,989	\$ 5,732
Non-performing assets	\$ 7,989	\$ 5,732
Allowance for loan losses as a percent of total loans receivable ⁽⁴⁾	0.67 %	0.68 %
Allowance for loan losses as a percent of non-performing loans receivable	113.26 %	142.34 %
Non-performing loans as a percent of total loans receivable, net ⁽⁴⁾	0.59 %	0.48 %
Non-performing assets as a percent of total assets	0.41 %	0.31 %
Net recoveries	\$ (39)	\$ (265)
Net recoveries to average outstanding loans during the period ⁽¹⁾	(0.01)	(0.09)
 Capital Ratios⁽⁵⁾:		
Tier 1 capital (to adjusted total assets)	13.02 %	12.72 %
Common equity Tier 1 capital (to risk-weighted assets)	17.27 %	17.84 %
Tier 1 capital (to risk-weighted assets)	17.27 %	17.84 %
Total capital (to risk-weighted assets)	17.88 %	18.46 %

(1) Performance ratios are annualized.

(2) Dividends declared per share divided by net income per share.

(3) Tangible book value per share is a non-GAAP measure and equals total shareholders' equity, less goodwill and other intangible assets, divided by shares outstanding. We believe this disclosure may be meaningful to those investors who seek to evaluate our equity without giving effect to goodwill and other intangible assets. Reconciliations of GAAP to non-GAAP measures appear below this table.

(4) Total loans receivable excludes PPP loans.

(5) Represents Bank ratios.

Non-GAAP Financial Measures

The following table is a reconciliations of book value per share (GAAP measure) to tangible book value per share (non-GAAP measure) (Dollars in thousands, except share and per share data).

	As of	
	September 30, 2022	June 30, 2022
Computation of Tangible Book Value per Common Share		
Total shareholders' equity (GAAP)	\$ 281,137	\$ 277,162
Adjustments:		
Goodwill	(6,106)	(6,106)
Other intangible assets	(77)	(89)
Tangible common shareholders' equity (Non-GAAP)	\$ 274,954	\$ 270,967
Common shares outstanding	15,334,323	15,334,857
Book value per share (GAAP)	\$ 18.33	\$ 18.07
Adjustments:		
Effects of intangible assets	(0.40)	(0.40)
Tangible book value per common share (Non-GAAP)	\$ 17.93	\$ 17.67

Financial Condition

Cash and Cash Equivalents. Cash and cash equivalents decreased \$67.7 million, or 57.2%, to \$50.8 million at September 30, 2022 from \$118.5 million at June 30, 2022. The decrease is primarily due to a \$33.0 million decrease in deposits, a \$20.8 million increase in net loans receivable, and a \$20.0 million decrease in FHLB advances, partially offset by an \$8.4 million decrease in total investment securities.

Investment Securities Portfolio. The following table is a summary of the Company's investment securities portfolio, at carrying value, as of September 30, 2022 and June 30, 2022 (Dollars in thousands):

	September 30, 2022	June 30, 2022	Increase / (Decrease)
			\$ %
Available for sale debt securities			
U.S. Government and agency obligations	\$ 9,443	\$ 9,928	\$ (485) -4.9%
Corporate	4,765	4,854	(89) -1.8
State and municipal	4,334	4,796	(462) -9.6
Mortgage-backed securities – residential	11,623	12,712	(1,089) -8.6
Mortgage-backed securities – commercial	2,266	2,331	(65) -2.8
Total available for sale debt securities	\$ 32,431	\$ 34,621	\$ (2,190) -6.3%
Held to maturity debt securities			
U.S. Government and agency obligations	\$ 59,995	\$ 59,995	\$ - 0.0%
Corporate	52,068	52,076	(8) 0.0
State and municipal	88,490	87,111	1,379 1.6
Mortgage-backed securities – residential	97,886	101,525	(3,639) -3.6
Mortgage-backed securities – collateralized mortgage obligations	22,916	24,198	(1,282) -5.3
Mortgage-backed securities – commercial	84,895	87,544	(2,649) -3.0
Total held to maturity debt securities	\$ 406,250	\$ 412,449	\$ (6,199) -1.5%

The decrease in investment securities was primarily the result of principal payments in mortgage-backed securities.

Loans Receivable Portfolio. The following table is a summary of the Company's loan portfolio, as of September 30, 2022 and June 30, 2022 (Dollars in thousands):

	September 30, 2022	June 30, 2022	Increase / (Decrease)	\$	%
Mortgage loans					
Residential	\$ 214,586	\$ 214,167	\$ 419	0.2%	
Commercial	953,539	942,130	11,409	1.2	
Construction	25,307	20,896	4,411	21.1	
Net deferred loan origination (fees) costs	(145)	(100)	(45)	45.0	
Total mortgage loans	1,193,287	1,177,093	16,194	1.4	
Commercial and consumer loans:					
Commercial loans	141,902	136,304	5,598	4.1	
Home equity lines of credit	22,955	23,688	(733)	-3.1	
Consumer and overdrafts	508	594	(86)	-14.5	
Net deferred loan origination costs (fees)	593	620	(27)	-4.4	
Total commercial and consumer loans	165,958	161,206	4,752	2.9	
Total loans receivable	1,359,245	1,338,299	20,946	1.6	
Allowance for loan losses	(9,048)	(8,927)	(121)	1.4	
Loans receivable, net	\$ 1,350,197	\$ 1,329,372	\$ 20,825	1.6%	

Allowance for Loan Losses. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable incurred loan losses inherent in the loan portfolio at the consolidated balance sheet reporting dates. The allowance for loan losses is based on management's assessment of various factors affecting the loan portfolio, including portfolio composition, delinquent and non-accrual loans, national and local business conditions, loss experience and an overall evaluation of the quality of the underlying collateral.

The allowance for loan losses increased \$121,000, or 1.4%, to \$9.0 million at September 30, 2022 from \$8.9 million at June 30, 2022. The increase is primarily due to loan portfolio growth. Non-performing loans as a percent of total loans receivable were 0.59% as of September 30, 2022, a decrease from 0.69% as of June 30, 2022.

Deposits. Deposits have traditionally been our primary source of funds for our lending and investment activities. The substantial majority of our deposits are from depositors who reside in our primary market area. Deposits are attracted through the offering of a broad selection of deposit instruments for both individuals and businesses.

The following table is a summary of the Company's deposits, as of September 30, 2022 and June 30, 2022 (Dollars in thousands):

	September 30, 2022	June 30, 2022	Increase / (Decrease)	\$	%
Demand	\$ 227,635	\$ 245,297	\$ (17,662)	-7.2%	
NOW accounts	253,857	243,006	10,851	4.5	
Money market accounts	385,470	399,026	(13,556)	-3.4	
Savings	402,980	411,332	(8,352)	-2.0	
Time deposits	323,324	327,589	(4,265)	-1.3	
Total deposits	\$ 1,593,266	\$ 1,626,250	\$ (32,984)	-2.0%	

Federal Home Loan Bank Advances. FHLB advances decreased \$20.0 million, or 41.5%, to \$28.3 million at September 30, 2022 as compared to \$48.3 million at June 30, 2022. This decrease is due to maturities and principal paydowns.

Total Shareholders' Equity. Total shareholders' equity increased \$3.9 million, or 1.4%, to \$281.1 million at September 30, 2022 from \$277.2 million at June 30, 2022. This increase was primarily due to net income of \$4.8 million and \$1.3 million of stock-based compensation and reduction in unearned ESOP shares for plan shares earned during the period, partially offset by \$1.1 million of other comprehensive losses related primarily to unrealized losses on available for sale investment securities driven by higher market interest rates and \$1.0 million of cash dividends declared and paid. We would expect that further increases in market interest rates would lead to additional unrealized losses on available for sale investment securities. At September 30, 2022, the Bank was considered "well capitalized" under applicable regulatory guidelines.

Results of Operations for the Three Months Ended September 30, 2022 and September 30, 2021

Net Income. Net income increased \$1.2 million, or 32.2%, to \$4.8 million for the three months ended September 30, 2022 compared to \$3.6 million for the three months ended September 30, 2021. The increase was primarily due to increases of \$2.3 million in net interest income and \$180,000 in noninterest income, partially offset by increases of \$933,000 in noninterest expense, \$338,000 in income tax expense and \$69,000 in provision for loan losses.

Net Interest Income. The following tables present information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average tax equivalent yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Average balances have been calculated using daily balances. Nonaccrual loans are included in average balances only. Loan fees are included in interest income on loans and are not material (Dollars in thousands).

	Three Months Ended September 30,					
	2022		2021			
	Average Balance	Interest/Dividends	Average Rate	Average Balance	Interest/Dividends	Average Rate
Assets:						
Loans receivable ⁽¹⁾	\$ 1,346,194	\$ 13,849	4.12 %	\$ 1,223,532	\$ 12,107	3.96 %
Investment securities ⁽¹⁾	445,231	2,420	2.26	404,565	2,011	2.07
Other interest-earning assets	85,377	487	2.26	160,659	109	0.27
Total interest-earning assets	1,876,802	16,756	3.59	1,788,756	14,227	3.20
Non-interest-earning assets	78,342			76,375		
Total assets	<u>\$ 1,955,144</u>			<u>\$ 1,865,131</u>		
Liabilities and equity:						
NOW accounts	\$ 243,354	250	0.41	\$ 182,531	70	0.15
Money market accounts	390,619	376	0.38	350,575	186	0.21
Savings accounts and escrow	422,178	186	0.18	397,292	113	0.11
Time deposits	323,219	852	1.05	367,641	985	1.06
Total interest-bearing deposits	1,379,370	1,664	0.48	1,298,039	1,354	0.41
FHLB advances	46,522	235	2.00	65,935	338	2.03
Total interest-bearing liabilities	1,425,892	1,899	0.53	1,363,974	1,692	0.49
Non-interest-bearing deposits	230,076			207,806		
Other non-interest-bearing liabilities	22,180			19,943		
Total liabilities	<u>\$ 1,678,148</u>			<u>1,591,723</u>		
Total shareholders' equity	276,996			273,408		
Total liabilities and shareholders' equity	<u>\$ 1,955,144</u>			<u>\$ 1,865,131</u>		
Net interest income		\$ 14,857			\$ 12,535	
Interest rate spread - tax equivalent ⁽²⁾			3.06			2.71
Net interest margin - tax equivalent ⁽³⁾			3.19			2.82
Average interest-earning assets to interest-bearing liabilities		131.62 %			131.14 %	

(1) Tax exempt yield is shown on a tax equivalent basis for proper comparison using statutory federal income tax rate of 21% for all periods presented. See reconciliation of GAAP to non-GAAP measures in the table below.

(2) Net interest rate spread represents the difference between the average yield on average interest-earning assets and the average cost of average interest-bearing liabilities.

(3) Net interest margin represents annualized net interest income divided by average interest-earning assets. See reconciliation of GAAP to non-GAAP measures in the table below.

The following table presents information regarding tax equivalent adjustment used in the calculation of certain financial metrics (Dollars in thousands).

	Three Months Ended September 30,		2022
Total interest income	\$	16,756	\$ 14,227
Total interest expense		1,899	1,692
Net interest income (GAAP)		14,857	12,535
Tax equivalent adjustment		116	89
Net interest income - tax equivalent (non-GAAP)	\$	14,973	\$ 12,624

Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. Changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume (Dollars in thousands).

	Three Months Ended September 30, 2022 versus 2022		
	Rate	Volume	Net
Interest income:			
Loans receivable	\$ 440	\$ 1,302	\$ 1,742
Investment securities	224	185	409
Other interest-earning assets	452	(74)	378
Total interest-earning assets	<u>1,116</u>	<u>1,413</u>	<u>2,529</u>
Interest expense:			
NOW accounts	150	30	180
Money market accounts	166	24	190
Savings and escrow accounts	66	7	73
Time deposits	(16)	(117)	(133)
FHLB advances	(5)	(98)	(103)
Total interest-bearing liabilities	<u>361</u>	<u>(154)</u>	<u>207</u>
Net increase in net interest income	<u>\$ 755</u>	<u>\$ 1,567</u>	<u>\$ 2,322</u>

Provision for Loan Losses. The provision for loan losses increased for the three months ended September 30, 2022, compared to the same period last year. The increase is primarily due to higher loan portfolio growth in the current period. Recoveries net of charge-offs were \$39,000 for the three months ended September 30, 2022, compared to recoveries, net of charge-offs of \$265,000 for the same period last year.

Noninterest Income. The following table displays noninterest income for the three months ended September 30, 2022 and 2021 (Dollars in thousands).

	Three Months Ended September 30,		Net Change	
	2022	2021	\$	%
Fees and service charges	\$ 453	\$ 401	\$ 52	13.0%
Bank-owned life insurance	191	192	(1)	-0.5%
Swap income	141	-	141	100.0%
Other	8	20	(12)	-60.0%
Total noninterest income	<u>\$ 793</u>	<u>\$ 613</u>	<u>\$ 180</u>	<u>29.4%</u>

The increase in fees and service charges for the three months ended September 30, 2022 compared to the same period last year was primarily the result of increases in deposit and loan processing fees.

Noninterest Expense. The following table displays noninterest expense for the three months ended September 30, 2022 and 2021 (Dollars in thousands).

	Three Months Ended September 30,		Net Change		%
	2022	2021	\$		
Salaries and employee benefits	\$ 5,985	\$ 5,773	\$ 212	3.7%	
Occupancy and equipment	1,403	1,353	50	3.7%	
Communication and data processing	610	527	83	15.7%	
Professional fees	335	393	(58)	-14.8%	
Merger-related expenses	311	-	311	100.0%	
Postage, printing, stationery and supplies	174	143	31	21.7%	
Advertising	128	100	28	28.0%	
FDIC assessment	125	125	-	0.0%	
Amortization of intangible assets	12	16	(4)	-25.0%	
Other operating expenses	474	194	280	144.3%	
Total noninterest expense	\$ 9,557	\$ 8,624	\$ 933	10.8%	

The increase in salaries and employee benefits for the three months ended September 30, 2022 compared to the same period last year is primarily driven by higher salary and benefit costs. Merger-related expenses associated with the pending Brookline Bancorp merger largely include professional services fees. The increase in other operating expenses for the three months ended September 30, 2022 compared to the same period last year is primarily due to higher pension costs in the current period.

Income Tax Expense. The effective income tax rate was 20.5% for the three months ended September 30, 2022 as compared to 19.9% for the same period last year.

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage our exposure to changes in market interest rates. Accordingly, we have established a management-level Asset/Liability Management Committee, which takes initial responsibility for developing an asset/liability management process and related procedures, establishing and monitoring reporting systems and developing asset/liability strategies. On at least a quarterly basis, the Asset/Liability Management Committee reviews asset/liability management with the Investment Asset/Liability Committee of the Board of Directors. This Committee also reviews any changes in strategies as well as the performance of any specific asset/liability management actions that have been implemented previously. On a quarterly basis, an outside consulting firm provides us with detailed information and analysis as to asset/liability management, including our interest rate risk profile. Ultimate responsibility for effective asset/liability management rests with our Board of Directors.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. We have implemented the following strategies to manage our interest rate risk: originating loans with adjustable interest rates; utilizing interest rate swaps, promoting core deposit products; and adjusting the interest rates and maturities of funding sources, as necessary. By following these strategies, we believe that we are better positioned to react to changes in market interest rates.

Net Portfolio Value Simulation. We analyze our sensitivity to changes in interest rates through a net portfolio value of equity ("NPV") model. NPV represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities. The NPV ratio represents the dollar amount of our NPV divided by the present value of our total assets for a given interest rate scenario. NPV attempts to quantify our economic value using a discounted cash flow methodology while the NPV ratio reflects that value as a form of equity ratio. We estimate what our NPV would be at a specific date. We then calculate what the NPV would be at the same date throughout a series of interest rate scenarios representing immediate and permanent, parallel shifts in the yield curve. We currently calculate NPV under the assumptions that interest rates increase 100 and 200 basis points from current market rates and that interest rates decrease 50 and 100 basis points from current market rates.

The following table presents the estimated changes in our NPV that would result from changes in market interest rates at September 30, 2022 and June 30, 2022 (Dollars in thousands). All estimated changes presented in the table are within the policy limits approved by our Board of Directors.

Basis Point Change in Interest Rates	NPV			NPV as Percent of Portfolio Value of Assets	
	Dollar Amount	Dollar Change	Percent Change	NPV Ratio	Change (in bps)
September 30, 2022:					
200	\$ 256,664	\$ (47,850)	(15.7)%	15.06 %	(188)
100	281,394	(23,120)	(7.6)	16.07	(87)
-	304,514	-	-	16.94	-
(100)	335,857	31,343	10.3	18.09	115
(200)	366,247	61,733	20.3	19.10	216
June 30, 2022:					
200	\$ 267,563	\$ (50,616)	(19.9)%	14.94 %	(187)
100	294,042	(24,137)	(7.6)	15.96	(85)
-	318,179	-	-	16.81	-
(100)	349,957	31,778	10.0	17.90	109
(200)	382,642	64,463	20.3	18.96	215

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The above table assumes that the composition of our interest-sensitive assets and liabilities existing at the date indicated remains constant uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our NPV and will differ from actual results.

Liquidity and Capital Resources

Liquidity. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments and maturities and sales of securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly review the need to adjust our investments in liquid assets based upon our assessment of: (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities, and (4) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At September 30, 2022, cash and cash equivalents totaled \$50.8 million, a decrease from \$118.5 million as of June 30, 2022. Unpledged securities classified as available for sale, which provide an additional source of liquidity, totaled \$9.5 million at September 30, 2022, a decrease from \$18.5 million as of June 30, 2022.

We had the ability to borrow up to \$223.0 million from the FHLB of New York, at September 30, 2022 of which \$28.3 million was outstanding as of September 30, 2022. Additionally, as of September 30, 2022, we had an available line of credit with the FRB of New York's discount window program of \$102.8 million, and \$25.0 million of fed funds lines of credit, neither of which had outstanding balances as of September 30, 2022.

We have no material commitments or demands that are likely to affect our liquidity other than as set forth below. If loan demand was to increase faster than expected, or any unforeseen demand or commitment was to occur, we could access our borrowing sources detailed above.

We had \$14.4 million of loan commitments outstanding as of September 30, 2022 and \$171.2 million of approved, but unadvanced, funds to borrowers. We also had \$2.9 million in outstanding letters of credit at September 30, 2022.

Time deposits due within one year of September 30, 2022 totaled \$203.0 million. If these deposits do not remain with us, we will be required to seek other sources of funds, including other time deposits and FHLB of New York advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the time deposits at September 30, 2022. We believe, however, based on past experience that a significant portion of our time deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

The Holding Company is a separate legal entity from the Bank and must provide for its own liquidity to pay any dividends to its shareholders, to repurchase shares of its common stock and for other corporate purposes. The Holding Company's primary source of liquidity is dividend payments it may receive from the Bank. The Bank's ability to pay dividends to the Holding Company is governed by applicable law and regulations. At September 30, 2022, the Holding Company (on an unconsolidated, stand-alone basis) had liquid assets of \$18.0 million.

Capital Resources. The Bank is subject to various regulatory capital requirements administered by the NYSDFS and the FDIC. At September 30, 2022, the Bank exceeded all applicable regulatory capital requirements, and the Bank was considered "well capitalized" under applicable regulatory guidelines. See Note 8 to the accompanying unaudited consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The information required by this item is included in Part I, Item 2 of this report under "Management of Market Risk."

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of September 30, 2022. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

During the quarter ended September 30, 2022, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business.

In addition, the Company has received demand letters from putative stockholders of the Company regarding the pending merger between the Company and Brookline Bancorp, Inc. In addition, on August 25, 2022, a complaint captioned Stephen Bushansky v. PCSB Financial Corporation et al. was filed in the United States District Court, Southern District of New York, naming as defendants the Company and the members of the Company's board of directors (the "Complaint"). The complaint and the demand letters allege, among other things, that the proxy statement/prospectus contains materially incomplete and misleading information regarding the process that culminated in the merger agreement and the proposed transaction, the valuation analyses performed by the Company's financial advisor, and potential conflicts of interest in connection with the proposed merger. The relief sought includes enjoining the consummation of the merger unless and until certain additional and allegedly material information is disclosed to the Company's stockholders, rescinding and setting aside the merger to the extent already implemented, or granting rescissory damages, and awarding the plaintiff the cost of the action, including reasonable attorneys' and experts' fees. The Company believes that all allegations in the demand letters and complaint are without merit and intends to defend against them as appropriate.

We do not believe that any pending legal proceedings would have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Item 1A. Risk Factors

For information regarding the Company's risk factors, see Part 1, Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2022, filed with the Securities and Exchange Commission. As of September 30, 2022, the risk factors of the Company have not changed materially from those disclosed in the Annual Report on Form 10-K for the fiscal year ended June 30, 2022.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds of Registered Securities

- (a) Not applicable
- (b) Not applicable
- (c) On February 3, 2021, a repurchase program was authorized by the Board of Directors to repurchase up to 801,856 shares, or 5.0% of the Company's then outstanding common stock. As of September 30, 2022, the Company repurchased 682,561 shares at an average cost of \$18.23 per share.

There were no repurchases of PCSB Financial Corporation common stock during the quarter ended September 30, 2022.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation of PCSB Financial Corporation (1)
3.2	Amended and Restated Bylaws of PCSB Financial Corporation (2)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials for the quarter ended September 30, 2022, formatted in Inline XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101).

(1) Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-215052).
(2) Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on June 24, 2021.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PCSB FINANCIAL CORPORATION

Date: November 4, 2022

/s/ Joseph D. Roberto

Joseph D. Roberto
Chairman, President and Chief Executive Officer

Date: November 4, 2022

/s/ Jeffrey M. Helf

Jeffrey M. Helf
Senior Vice President and Chief Financial Officer

BROOKLINE BANCORP INC.
CONDENSED CONSOLIDATED PRO FORMA STATEMENTS OF FINANCIAL CONDITION (Unaudited)
(in thousands)

	At December 31, 2022				
	Brookline Historical	PCSB Historical	Adjustments (1)	Proforma	
Assets					
Cash and short term investments	\$ 382,959	\$ 42,373	\$ (130,462) (2)	\$ 294,870	
Securities	656,766	430,488	(63,712) (3)	1,023,542	
Loans, net of deferred fees and costs	7,644,388	1,381,665	(47,040) (4)	8,979,013	
Allowance for credit losses	(98,482)	(9,296)	(6,083) (5)	(113,861)	
Bank premises and equipment	71,391	12,675	4,216 (6)	88,282	
Goodwill	160,427	6,106	68,064 (7)	234,597	
Identifiable intangible assets	1,781	65	30,200 (8)	32,046	
Other assets	366,606	75,699	31,040 (9)	473,345	
Total Assets	<u>\$ 9,185,836</u>	<u>\$ 1,939,775</u>	<u>\$ (113,777)</u>	<u>\$ 11,011,834</u>	
Liabilities					
Deposits	\$ 6,522,146	\$ 1,573,725	\$ (3,162) (10)	\$ 8,092,709	
Borrowings	1,432,652	53,254	(331) (11)	1,485,575	
Reserve for unfunded credits	20,602	-	1,596 (12)	22,198	
Other liabilities	218,311	40,023	6,036 (13)	264,370	
Stockholders' equity	992,125	272,773	(117,916) (14)	1,146,982	
Total Liabilities and Shareholders' Equity	<u>\$ 9,185,836</u>	<u>\$ 1,939,775</u>	<u>\$ (113,777)</u>	<u>\$ 11,011,834</u>	
Common shares	76,844,232	15,334,323	\$ (3,513,420) (15)	\$ 88,665,135	

BROOKLINE BANCORP INC.
CONDENSED CONSOLIDATED PRO FORMA STATEMENTS OF INCOME (Unaudited)
(in thousands, except for share data)

	Twelve Months Ended December 31, 2022			
	Brookline Historical	PCSB Historical	Adjustments (1)(2)	Pro Forma
INTEREST AND DIVIDEND INCOME				
Loans and leases	\$ 328,769	\$ 53,605	\$ 9,408 (16)	\$ 391,782
Debt and equity securities	14,977	9,286	12,742 (17)	37,005
Short term investments	1,440	1,197	-	2,637
Total Interest and Dividend Income	<u>345,186</u>	<u>64,088</u>	<u>22,150</u>	<u>431,424</u>
INTEREST EXPENSE				
Deposits	29,592	6,651	744 (18)	36,987
Borrowed Funds	15,823	978	5,433 (19)	22,234
Total Interest Expense	<u>45,415</u>	<u>7,629</u>	<u>6,177</u>	<u>59,221</u>
Net Interest Income	299,771	56,459	15,973	372,203
Less Provision for Credit Losses	8,627	841	15,903 (20)	25,371
Net Interest Income after Provision for Loan Losses	<u>291,144</u>	<u>55,618</u>	<u>70</u>	<u>346,832</u>
NONINTEREST INCOME				
Fees and service charges	13,127	1,765	-	14,892
Loan level derivative income	4,246	785	-	5,031
Gain (Loss) on investment securities, net	321	141	-	462
Gain on sales of loans	4,136	9	-	4,145
Other noninterest income	6,517	781	-	7,298
Total Noninterest Income	<u>28,347</u>	<u>3,481</u>	<u>-</u>	<u>31,828</u>
NONINTEREST EXPENSE				
Compensation and employee benefits	113,487	31,516	(7,927) (21)	137,076
Occupancy, equipment and data processing	36,835	5,614	(229) (22)	42,220
Professional services	5,060	1,480	-	6,540
FDIC assessment	3,177	500	-	3,677
Advertising and marketing	4,980	532	-	5,512
Amortization of identified intangible assets	494	54	7,512 (23)	8,060
Merger and acquisition expense	2,249	18,061	(20,310) (24)	-
Other noninterest expense	13,260	4,696	-	17,956
Total Noninterest Expense	<u>179,542</u>	<u>62,453</u>	<u>(20,954)</u>	<u>221,041</u>
Income Before Income Taxes	139,949	(3,354)	21,024	157,619
Provision For Income Taxes	30,205	3,015	5,443 (25)	38,663
NET INCOME	\$ 109,744	\$ (6,369)	\$ 15,581	\$ 118,956
Basic Earnings Per Share	\$ 1.42	\$ (0.45)	\$ -	\$ 1.34
Diluted Earnings Per Share	\$ 1.42	\$ (0.45)	\$ -	\$ 1.33
Basic Average Shares	77,079,278	14,214,313	(2,393,409) (15)	88,900,182
Diluted Average Shares	77,351,834	14,301,600	(2,480,696) (15)	89,172,738

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On January 1, 2023, Brookline Bancorp, Inc. ("Company") completed the acquisition of PCSB Financial Corporation ("PCSB") pursuant to an Agreement and Plan of Merger, dated as of May 23, 2022, between the Company and PCSB (the "Merger Agreement"). Under the Merger Agreement, PCSB merged with and into the Company, with the Company as the surviving corporation (the "Merger"). Pursuant to the Merger Agreement, each share of PCSB common stock outstanding at the effective time of the Merger was converted into the right to receive, at the holder's election, either \$22.00 in cash consideration or 1.3284 shares of Company common stock for each share of PCSB common stock, subject to allocation procedures to ensure that 60% of the outstanding shares of PCSB common stock will be converted to Company common stock. The transaction is accounted for as an acquisition and accordingly, PCSB assets and liabilities are recorded by the Company at their fair market value as of January 1, 2023.

The following unaudited pro forma condensed combined financial information and notes present how the combined financial statements of the Company and PCSB may have appeared had the Merger been completed at the beginning of the period presented. The unaudited pro forma condensed combined financial information reflects the impact of the Merger on the combined balance sheets and combined statements of income under the acquisition method of accounting with the Company as the acquirer. Under the acquisition method of accounting, PCSB assets and liabilities are recorded by the Company at their fair market value as of the date the Merger is completed. The unaudited pro forma condensed combined balance sheet as of December 31, 2022 assumes the Merger was completed on that date. The unaudited condensed combined statement of income for the period ending December 31, 2022 assumes the Merger was completed on January 1, 2022.

The unaudited pro forma condensed combined financial information is derived from and should be read in conjunction with the historical consolidated financial statements and related notes of the Company, which are available on the Company's 2022 Annual Report on Form 10-K and the financial statements and related notes of PCSB, which are incorporated into this document by reference.

Brookline and PCSB have different fiscal years. PCSB's fiscal year ends on June 30 of each year and Brookline's fiscal year ends on December 31 of each year. As the fiscal years differed by more than 93 days, pursuant to SEC rules, PCSB's financial information was adjusted for the purpose of preparing the unaudited pro forma condensed statements of income. The historical income statement information of PCSB used in the unaudited pro forma condensed combined statements of income for the year ended December 31, 2022 was prepared by taking the audited condensed combined income statement for the year ended June 30, 2022, subtracting the unaudited condensed combined income statement for the six months ended December 31, 2021 and adding the unaudited condensed combined income statement for the six months ended December 31, 2022.

The unaudited pro forma condensed combined financial information is presented for illustrative and informative purposes only and is not necessarily indicative or representative of the financial position or results of operations presented as of the date or for the periods indicated, or the results of operations or financial position that may be achieved in the future. In addition, the unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements the Company may achieve as a result of its acquisition of PCSB, the costs to integrate the operations of the Company and PCSB or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

Notes to Pro Forma Combined Condensed Consolidated Financial Statements (Unaudited)

1 Estimated merger costs of \$22.9 million (net of \$4.3 million of taxes) are excluded from the pro forma financial statements. It is expected these costs will be recognized over time. These cost estimates for both the Company and PCSB are forward-looking. The type and amount of actual costs incurred could vary materially from these estimates if future developments differ from the underlying assumptions used by management in determining the current estimate of these costs. The current estimates of the merger costs, primarily comprised of anticipated cash charges, are as follows:

Change in control contract and severance contracts	\$ 8.7
Termination of vendor and system contracts	2.7
Professional and legal fees	13.1
Other acquisition related expenses	1.4
Pre-tax merger costs	25.9
Tax impact of merger costs	4.3
Subtotal merger costs	21.6
Estimated excise tax impact of cash consideration paid to PCSB stockholders pursuant to the August 16, 2022 Inflation Reduction Act	1.3
Total merger costs	\$ 22.9

2 Represents cash paid of \$130.5 million for approximately 45% of outstanding PCSB stock.

3 Adjustment to reflect the estimated fair value of securities classified as held to maturity as of December 31, 2022.

4 Write-off of legacy purchase accounting and deferred fees and adjustments to reflect acquired loans at their estimated fair value, inclusive of \$41.3 million yield adjustment and \$6.1 million credit mark for non-purchased credit-deteriorated (“Non-PCD”) loans and leases.

5 Adjustments to the allowance for credit losses include the following:

Reversal of historical PCSB's allowance for credit losses	9,296
Increase in allowance for credit losses for gross-up of estimated lifetime credit losses for purchased credit-deteriorated (“PCD”) loans and leases, inclusive of previously charged-off loans.	(2,344)
Immediate charge-off of previously charged-off loans	2,112
Provision for estimate of lifetime credit losses on non-PCD loans and leases	(15,147)
	(6,083)

6 Adjustment to reflect bank premises and equipment values to their estimated fair value.

7 Adjustment to eliminate historical PCSB goodwill of \$6.1 million and to establish \$74.2 million of goodwill for amount of consideration paid in excess of fair value of assets received over liabilities assumed.

8 Adjustment to reflect core deposit intangibles at the estimated fair value and eliminate historical PCSB intangible assets.

9 Adjustments to the other assets include the following:

Reversal of historical PCSB Right of Use Asset.	(7,690)
Establish PCSB Right of Use Asset at estimated fair value.	6,407
To record value of Defined Benefit Obligation at fair value.	6,154
To record fair value of Back-to-back hedges	240
Adjustment to net deferred tax assets due to the business combination and day 1 CECL reserves	25,929
	31,040

10 Adjustment to reflect the estimate of fair value on time deposits and eliminate historical PCSB premiums or discounts.

11 Adjustment to reflect the fair value of borrowings at current market rates.

12 Establish the day 1 reserve for unfunded credits under CECL.

13	Adjustment to reverse historical PCSB define benefit plan and lease liabilities; and record lease liabilities at current market rates	
	Reverse historical PCSB define benefit plan	5,923
	Reverse historical lease liability	(7,898)
	Record lease liability at current market rates	7,771
	To record fair value of Back-to-back hedges	240
		<hr/>
		6,036
14	Adjustments to stockholders' equity:	
	To eliminate PCSB's stockholders' equity	(272,773)
	To reflect issuance of the Company's common stock in the merger	167,266
	Adjustment to record provision for credit losses on non-PCD acquired loans and leases, net of tax	(12,409)
		<hr/>
		(117,916)
15	Adjustment to eliminate shares of PCSB common stock outstanding, and to record shares of the Company's common stock issued of 11,820,904.	
16	Adjustment reflects the estimated yield adjustment for interest income on loans.	
17	Adjustment reflects the estimated yield adjustment for interest income on securities.	
18	Adjustment reflects the estimated yield adjustment for interest expense on deposits.	
19	Adjustment reflects the estimated yield adjustment for interest expense on borrowings and the estimated interest expense to fund the cash portion of consideration at an estimated blended rate of 4%.	
20	Adjustment to record day 1 provision for credit losses on non-PCD acquired loans and leases of \$15.1 million and reserve for unfunded credits of \$1.6 million and the elimination of the historical provision for credit losses of \$0.8 million.	
21	Termination costs of \$7.9 million for the PCSB Employee Stock Ownership Plan which is a non-recurring expense associated with the merger, charged against income for the year ended December 31, 2022 has been eliminated from the pro forma statements of income.	
22	Adjustment reflects the estimated net impact associated with the fair value adjustment for the acquired bank premises and equipment; and the change in right of use assets and lease liabilities.	
23	Adjustment reflects the net increase in amortization of other intangible assets for the acquired core deposit intangible over seven years on an accelerated basis.	
24	Merger and acquisition expenses, which are non-recurring expenses, charged against income for the year ended December 31, 2022 have been eliminated from the pro forma statements of income. This included \$14.8 million of merger costs and \$5.5 million of acquisition expenses associated with restricted stock awards and options.	
25	Adjustment represents income tax expense on the pro-forma adjustments at an estimated rate of 25.89%.	

26 PCSB Pro forma Income adjusted for merger related expenses and cost of terminating the PCSB Employee Stock Ownership Plan:

	Twelve months ended December 31, 2022	Three months ended December 31, 2022
Pretax income	(3,354)	(18,303)
Adj. Merger chg	18,061	16,498
Adj. ESOP term	7,927	7,927
Adj Pretax Income	22,634	6,122
Tax @ 21%	4,753	1,286
Net Income	17,881	4,836