# Section 1: 10-Q (10-Q 03312020)

**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 March 31, 2020**

**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 Yorktown Heights, NY** | **10598** |
| **(Address of principal executive offices)** | **(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 ☒

16,898,137 shares of the Registrant's common stock, par value $0.01 per share, were outstanding as of May 6, 2020.

**Table of Contents**

## 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)

| | March 31, 2020 | June 30, 2019 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 83,665 | $ 58,756 |
| Federal funds sold | 1,247 | 1,273 |
| Total cash and cash equivalents | 84,912 | 60,029 |
| Investment securities: | | |
| Held to maturity debt securities, at amortized cost (fair value of $267,704, and $346,243, respectively) | 263,626 | 345,545 |
| Available for sale debt securities, at fair value | 45,992 | 72,228 |
| Total investment securities | 309,618 | 417,773 |
| Loans receivable, net of allowance for loan losses of $8,346 and $5,664, respectively | 1,220,682 | 1,093,121 |
| Accrued interest receivable | 5,384 | 4,797 |
| FHLB stock | 6,026 | 6,255 |
| Premises and equipment, net | 21,437 | 11,802 |
| Deferred tax asset, net | 2,421 | 2,478 |
| Foreclosed real estate | - | 1,158 |
| Bank-owned life insurance | 24,890 | 24,291 |
| Goodwill | 6,106 | 6,106 |
| Other intangible assets | 250 | 323 |
| Other assets | 14,149 | 9,446 |
| Total assets | $ 1,695,875 | $ 1,637,579 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Interest bearing deposits | $ 1,133,742 | $ 1,084,442 |
| Non-interest bearing deposits | 145,844 | 141,379 |
| Total deposits | 1,279,586 | 1,225,821 |
| Mortgage escrow funds | 7,924 | 9,355 |
| Advances from FHLB | 106,121 | 111,216 |
| Other liabilities | 29,827 | 9,880 |
| Total liabilities | 1,423,458 | 1,356,272 |
| Commitments and contingencies | - | - |
| Shareholders' equity: | | |
| Preferred stock ($0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding as of March 31, 2020 and June 30, 2019) | - | - |
| Common stock ($0.01 par value, 200,000,000 shares authorized, 18,712,295 shares issued as of March 31, 2020 and June 30, 2019, respectively, and 16,898,137 and 17,804,039 shares outstanding as of March 31, 2020 and June 30, 2019, respectively) | 187 | 187 |
| Additional paid in capital | 185,301 | 182,129 |
| Retained earnings | 138,957 | 134,500 |
| Unearned compensation - ESOP | (11,384) | (12,114) |
| Accumulated other comprehensive loss, net of income taxes | (4,230) | (5,090) |
| Treasury stock, at cost (1,814,158 and 908,256 shares as of March 31, 2020 and June 30, 2019, respectively) | (36,414) | (18,305) |
| Total shareholders' equity | 272,417 | 281,307 |
| Total liabilities and shareholders' equity | $ 1,695,875 | $ 1,637,579 |

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)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Interest and dividend income** | | | | |
| Loans receivable | $ 13,114 | $ 10,413 | $ 39,299 | $ 30,632 |
| Investment securities | 2,003 | 2,619 | 6,974 | 7,413 |
| Federal funds and other | 217 | 614 | 816 | 1,450 |
| Total interest and dividend income | 15,334 | 13,646 | 47,089 | 39,495 |
| **Interest expense** | | | | |
| Deposits and escrow interest | 3,268 | 2,741 | 9,927 | 7,172 |
| FHLB advances | 541 | 168 | 1,942 | 378 |
| Total interest expense | 3,809 | 2,909 | 11,869 | 7,550 |
| **Net interest income** | 11,525 | 10,737 | 35,220 | 31,945 |
| Provision for loan losses | 2,008 | 7 | 2,755 | 71 |
| **Net interest income after provision for loan losses** | 9,517 | 10,730 | 32,465 | 31,874 |
| **Noninterest income** | | | | |
| Fees and service charges | 366 | 436 | 1,170 | 1,311 |
| Bank-owned life insurance | 128 | 131 | 399 | 410 |
| Swap income | - | - | 170 | 146 |
| Gains on sales of securities, net | 38 | - | 38 | 55 |
| Other | 48 | 12 | 115 | 218 |
| Total noninterest income | 580 | 579 | 1,892 | 2,140 |
| **Noninterest expense** | | | | |
| Salaries and employee benefits | 5,782 | 5,579 | 17,435 | 15,907 |
| Occupancy and equipment | 1,311 | 1,340 | 3,959 | 3,865 |
| Communication and data processing | 521 | 476 | 1,559 | 1,430 |
| Professional fees | 393 | 396 | 1,176 | 1,182 |
| Postage, printing, stationary and supplies | 140 | 138 | 439 | 454 |
| FDIC assessment | - | 105 | - | 322 |
| Advertising | 100 | 131 | 300 | 349 |
| Amortization of intangible assets | 24 | 29 | 73 | 85 |
| Other operating expenses | 249 | 504 | 1,160 | 1,692 |
| Total noninterest expense | 8,520 | 8,698 | 26,101 | 25,286 |
| **Net income before income tax expense** | 1,577 | 2,611 | 8,256 | 8,728 |
| Income tax expense | 360 | 625 | 1,857 | 2,089 |
| Net income | $ 1,217 | $ 1,986 | $ 6,399 | $ 6,639 |
| **Earnings per common share:** | | | | |
| Basic | $ 0.08 | $ 0.12 | $ 0.41 | $ 0.40 |
| Diluted | $ 0.08 | $ 0.12 | $ 0.40 | $ 0.40 |
| **Weighted average common shares outstanding:** | | | | |
| Basic | 15,437,173 | 16,204,393 | 15,752,709 | 16,645,287 |
| Diluted | 15,447,217 | 16,261,755 | 15,814,322 | 16,659,746 |

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 March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net income | $ 1,217 | $ 1,986 | $ 6,399 | $ 6,639 |
| Other comprehensive income (loss): | | | | |
| Unrealized gains (losses) on available for sale debt securities: | | | | |
| Net change in unrealized gains/losses before reclassification adjustment | 186 | 757 | 406 | 1,110 |
| Reclassification adjustment for gains realized in net income | (20) | | (20) | (55) |
| Net change in unrealized gains/losses | 166 | 757 | 386 | 1,055 |
| Tax effect | (35) | (160) | (80) | (222) |
| Net of tax | 131 | 597 | 306 | 833 |
| 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 | 132 | 145 | 668 | 435 |
| Tax effect | (27) | (30) | (139) | (91) |
| Net of tax | 105 | 115 | 529 | 344 |
| 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 | 11 | 9 | 34 | 27 |
| Tax effect | (3) | (1) | (9) | (5) |
| Net of tax | 8 | 8 | 25 | 22 |
| Total other comprehensive income | 244 | 720 | 860 | 1,199 |
| Comprehensive income | $ 1,461 | $ 2,706 | $ 7,259 | $ 7,838 |

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 Shares | Common Stock | Additional Paid-In Capital | Retained Earnings | Unallocated Common Stock of ESOP | Treasury Stock, at cost | Accumulated Other Comprehensive Loss | Total Equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at July 1, 2019** | 17,804,039 | $ 187 | $ 182,129 | $ 134,500 | $ (12,114) | $ (18,305) | $ (5,090) | $ 281,307 |
| Net income | - | - | - | 2,829 | - | - | - | 2,829 |
| Other comprehensive income | - | - | - | - | - | - | 256 | 256 |
| Common stock dividends declared ($0.04 per share) | - | - | - | (659) | - | - | - | (659) |
| Repurchase of common stock | (179,800) | - | - | - | - | (3,524) | - | (3,524) |
| Stock-based compensation | - | - | 829 | - | - | - | - | 829 |
| ESOP shares committed to be released (24,419 shares) | - | - | 240 | - | 244 | - | - | 484 |
| **Balance at September 30, 2019** | 17,624,239 | 187 | 183,198 | 136,670 | (11,870) | (21,829) | (4,834) | 281,522 |
| Net income | - | - | - | 2,353 | - | - | - | 2,353 |
| Other comprehensive income | - | - | - | - | - | - | 360 | 360 |
| Common stock dividends declared ($0.04 per share) | - | - | - | (650) | - | - | - | (650) |
| Repurchase of common stock | (236,050) | - | - | - | - | (4,748) | - | (4,748) |
| Shares withheld related to income tax withholding | (15,881) | | | | | (320) | | (320) |
| Stock-based compensation | - | - | 829 | - | - | - | - | 829 |
| ESOP shares committed to be released (24,419 shares) | - | - | 249 | - | 244 | - | - | 493 |
| **Balance at December 31, 2019** | 17,372,308 | $ 187 | $ 184,276 | $ 138,373 | $ (11,626) | $ (26,897) | $ (4,474) | $ 279,839 |
| Net income | - | - | - | 1,217 | - | - | - | 1,217 |
| Other comprehensive income | - | - | - | - | - | - | 244 | 244 |
| Common stock dividends declared ($0.04 per share) | - | - | - | (633) | - | - | - | (633) |
| Repurchase of common stock | (474,171) | - | - | - | - | (9,517) | - | (9,517) |
| Stock-based compensation | - | - | 829 | - | - | - | - | 829 |
| ESOP shares committed to be released (24,154 shares) | - | - | 196 | - | 242 | - | - | 438 |
| **Balance at March 31, 2020** | 16,898,137 | $ 187 | $ 185,301 | $ 138,957 | $ (11,384) | $ (36,414) | $ (4,230) | $ 272,417 |

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 Shares | Common Stock | Additional Paid-In Capital | Retained Earnings | Unallocated Common Stock of ESOP | Treasury Stock, at cost | Accumulated Other Comprehensive Loss | Total Equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at July 1, 2018** | 18,165,110 | $ 182 | $ 179,045 | $ 128,365 | $ (13,083) | $ - | $ (6,950) | $ 287,559 |
| Net income | - | - | - | 2,329 | - | - | - | 2,329 |
| Other comprehensive income | - | - | - | - | - | - | 1 | 1 |
| Common stock dividends declared ($0.03 per share) | - | - | - | (505) | - | - | - | (505) |
| ESOP shares committed to be released (24,419 shares) | - | - | 249 | - | 244 | - | - | 493 |
| **Balance at September 30, 2018** | 18,165,110 | 182 | 179,294 | 130,189 | (12,839) | - | (6,949) | 289,877 |
| Net income | - | - | - | 2,324 | - | - | - | 2,324 |
| Other comprehensive income | - | - | - | - | - | - | 478 | 478 |
| Common stock dividends declared ($0.03 per share) | - | - | - | (520) | - | - | - | (520) |
| Repurchase of common stock | (222,070) | - | - | - | - | (4,336) | - | (4,336) |
| Restricted stock awards granted | 547,185 | 5 | (5) | - | - | - | - | - |
| Stock-based compensation | - | - | 482 | - | - | - | - | 482 |
| ESOP shares committed to be released (24,419 shares) | - | - | 232 | - | 245 | - | - | 477 |
| **Balance at December 31, 2018** | 18,490,225 | $ 187 | $ 180,003 | $ 131,993 | $ (12,594) | $ (4,336) | $ (6,471) | $ 288,782 |
| Net income | - | - | - | 1,986 | - | - | - | 1,986 |
| Other comprehensive loss | - | - | - | - | - | - | 720 | 720 |
| Common stock dividends declared ($0.03 per share) | | | | (496) | | | | (496) |
| Repurchase of common stock | (686,186) | | | | | (13,969) | | (13,969) |
| Stock-based compensation | | | 829 | | | | | 829 |
| ESOP shares committed to be released (23,092 shares) | - | - | 234 | - | 230 | - | - | 464 |
| **Balance at March 31, 2019** | $ 17,804,039 | $ 187 | $ 181,066 | $ 133,483 | $ (12,364) | $ (18,305) | $ (5,751) | $ 278,316 |

See accompanying notes to the consolidated financial statements (unaudited)

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

| | Nine Months Ended March 31, 2020 | Nine Months Ended March 31, 2019 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | $ 6,399 | $ 6,639 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan loss | 2,755 | 71 |
| Depreciation and amortization | 943 | 877 |
| Amortization of net premiums on securities and net deferred loan origination costs | 1,242 | 1,055 |
| Net increase in accrued interest receivable | (587) | (679) |
| Net gains on sales of foreclosed real estate | (87) | (24) |
| Net gains on sales of securities | (38) | (55) |
| Gains on sales of bank premises | - | (156) |
| Write-downs on foreclosed real estate | - | 21 |
| Stock-based compensation | 2,487 | 1,311 |
| ESOP compensation | 1,415 | 1,434 |
| Earnings from cash surrender value of BOLI | (399) | (410) |
| Net accretion of purchase accounting adjustments | (437) | (276) |
| Other adjustments, principally net changes in other assets and liabilities | 806 | (535) |
| **Net cash provided by operating activities** | 14,499 | 9,273 |
| **INVESTING ACTIVITIES** | | |
| Purchases of investment securities: | | |
| Held to maturity | (13,189) | (49,220) |
| Sales of investment securities available for sale | 4,245 | 2,069 |
| Maturities, calls and amortization of investment securities: | | |
| Held to maturity | 99,572 | 47,968 |
| Available for sale | 22,148 | 18,314 |
| Loan principal disbursements, net | (86,045) | (20,789) |
| Purchase of loans | (44,579) | (13,398) |
| Net redemption (purchase) of FHLB stock | 229 | (334) |
| Purchase of bank premises and equipment, net of sales | (563) | (535) |
| Purchase of BOLI | (200) | - |
| Proceeds from sales of foreclosed real estate | 1,578 | 487 |
| **Net cash used in investing activities** | (16,804) | (15,438) |
| **FINANCING ACTIVITIES** | | |
| Net increase in deposits | 53,765 | 44,672 |
| Net decrease in short-term FHLB advances | (50,000) | - |
| Proceeds from long-term FHLB advances | 50,000 | 12,500 |
| Repayment of long-term FHLB advances | (5,095) | (5,093) |
| Net decrease in mortgage escrow funds | (1,431) | (1,128) |
| Common stock dividends paid | (1,942) | (1,521) |
| Repurchase of shares from employees for income tax withholding purposes | (320) | - |
| Repurchase of common stock | (17,789) | (18,305) |
| **Net cash provided by financing activities** | 27,188 | 31,125 |
| **Net increase in cash and cash equivalents** | 24,883 | 24,960 |
| Cash and cash equivalents at beginning of period | 60,029 | 62,145 |
| **Cash and cash equivalents at end of period** | $ 84,912 | $ 87,105 |

See accompanying notes to the consolidated financial statements (unaudited)

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

| | Nine Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Supplemental information:** | | |
| Cash paid for: | | |
| Interest | $ 11,822 | $ 7,491 |
| Income taxes (net of refunds) | 2,069 | 1,718 |
| Loans transferred to foreclosed real estate and other assets | 333 | 677 |
| Establishment of right to use lease asset (ASU 2016-13) | 12,687 | - |

See accompanying notes to the 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 March 31, 2020, 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, 2019, 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.

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. The New York City Metropolitan area and environs have the highest incidence of COVID-19 in the nation, and the neighboring Tri-State area of New Jersey and Connecticut also has been particularly affected by COVID-19. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including 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 are rapidly evolving and 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.

The potential financial impact is unknown at this time. However, if these actions are sustained, it may adversely impact 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 all or a combination of valuation impairments the Company’s intangible assets, investments, loans, or deferred tax assets.

As it relates to the allowance for loan losses, the current quarter provision for loan losses includes a $1.7 million increase in qualitative reserves as the Company assessed the economic impacts the COVID-19 pandemic has had on our local economy and loan portfolio. The Company has taken actions to identify, assess and address its COVID-19 related credit exposure. Many factors are unknown, including the length of the resulting economic shutdown imposed by New York State and other neighboring states, the impacts of the government's fiscal and monetary relief measures, including payment deferral programs, as well as the long-term impacts COVID-19 may have on our consumer and commercial borrowers. It is reasonably possible that the Company's allowance for loan loss estimate as of March 31, 2020 will 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 could potentially have a material impact on our financial position, results of operations or disclosures.

***Accounting Standards Adopted in the Period***

In February 2016, the FASB issued ASU 2016-02 "Leases." ASU 2016-02 affects any entity that enters into a lease and is intended to increase the transparency and comparability of financial statements among organizations. The ASU requires, among other changes, a lessee to recognize on its balance sheet a lease asset and a lease liability for those leases longer than 12 months previously classified as operating leases. The lease asset would represent the right to use the underlying asset for the lease term and the lease liability would represent the discounted value of the required lease payments to the lessor. The ASU also requires entities to disclose key information about leasing arrangements. The Company currently leases eleven branches and two administrative offices. The Company adopted this standard and the related amendments (collectively "ASC 842") on July 1, 2019 and utilized the modified retrospective approach provided by ASU 2018-11, "Leases (Topic 842): Targeted Improvements," that allowed for a cumulative effect adjustment in the period of adoption. Under this method of adoption, the comparative information in the consolidated financial statements has not been revised and continues to be reported under the previously applicable lease accounting guidance (ASC 840). We also utilized the package of practical expedients permitted under the transition guidance which included the carry-forward of historical lease classification. The Company recorded a right to use asset totaling $11.9 million and lease liability totaling $12.0 million on the balance sheet for Company's outstanding lease obligations on July 1, 2019. The right to use asset is disclosed within premises and equipment and the lease liability is disclosed within other liabilities on the balance sheet.

In January 2017, the FASB issued ASU 2017-04 "Intangibles – Goodwill and Other (Topic 350)." ASU 2017-04 simplifies the test for goodwill impairment, which eliminates the second step in the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit's goodwill. Instead, an entity should recognize an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. The adoption of ASU 2017-04 on July 1, 2019 did not have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08 "Receivables - Non-Refundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." The ASU requires premiums on callable debt securities to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The adoption of ASU 2017-08 on July 1, 2019 did not have a material impact on the Company's consolidated financial statements.

***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, results of operations and disclosures.

**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 March 31, 2020 and June 30, 2019 were as follows:

| | March 31, 2020 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized/Unrecognized Gains | Gross Unrealized/Unrecognized Losses | Fair Value |
| | (in thousands) | | | |
| **Available for sale:** | | | | |
| U.S. Government and agency obligations | $ 19,006 | $ 83 | $ - | $ 19,089 |
| Corporate and other debt securities | 5,044 | 71 | (89) | 5,026 |
| Mortgage-backed securities – residential | 21,819 | 149 | (91) | 21,877 |
| Total available for sale | $ 45,869 | $ 303 | $ (180) | $ 45,992 |
| **Held to maturity:** | | | | |
| U.S. Government and agency obligations | $ 33,002 | $ 500 | $ - | $ 33,502 |
| Corporate and other debt securities | 46,107 | 90 | (2,762) | 43,435 |
| Mortgage-backed securities – residential | 116,666 | 3,839 | (2) | 120,503 |
| Mortgage-backed securities – collateralized mortgage obligations | 47,581 | 1,589 | - | 49,170 |
| Mortgage-backed securities – commercial | 20,270 | 826 | (2) | 21,094 |
| Total held to maturity | $ 263,626 | $ 6,844 | $ (2,766) | $ 267,704 |

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized/Unrecognized Gains | Gross Unrealized/Unrecognized Losses | Fair Value |
| | (in thousands) | | | |
| **Available for sale:** | | | | |
| U.S. Government and agency obligations | $ 37,027 | $ 5 | $ (121) | $ 36,911 |
| Corporate and other debt securities | 8,349 | 20 | (9) | 8,360 |
| Mortgage-backed securities – residential | 27,115 | 23 | (181) | 26,957 |
| Total available for sale | $ 72,491 | $ 48 | $ (311) | $ 72,228 |
| **Held to maturity:** | | | | |
| U.S. Government and agency obligations | $ 96,545 | $ 192 | $ (246) | $ 96,491 |
| Corporate and other debt securities | 34,033 | 133 | (413) | 33,753 |
| Mortgage-backed securities – residential | 133,602 | 818 | (372) | 134,048 |
| Mortgage-backed securities – collateralized mortgage obligations | 52,940 | 311 | (147) | 53,104 |
| Mortgage-backed securities – commercial | 28,425 | 451 | (29) | 28,847 |
| Total held to maturity | $ 345,545 | $ 1,905 | $ (1,207) | $ 346,243 |

During the three and nine months ended March 31, 2020, the Company sold $4.7 million of securities which resulted in $38,000 of realized gains, which included the disposal of $426,000 of securities classified as held to maturity, resulting in $17,000 of gross 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. During the nine months ended March 31, 2019, the Company sold $2.1 million of securities resulting in $55,000 of realized gains.

The following table presents the fair value and carrying amount of debt securities at March 31, 2019, by contractual maturity. 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 | $ 22,000 | $ 22,088 | $ 18,007 | $ 18,076 |
| 1 to 5 years | 19,002 | 18,963 | 6,043 | 6,039 |
| 5 to 10 years | 34,125 | 31,814 | - | - |
| Mortgage-backed securities and other | 188,499 | 194,839 | 21,819 | 21,877 |
| Total | $ 263,626 | $ 267,704 | $ 45,869 | $ 45,992 |

Securities pledged had carrying amounts of $185.0 million and $166.4 million at March 31, 2020 and June 30, 2019, 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 March 31, 2020 and June 30, 2019:

| | March 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or greater | | Total | |
| | Fair Value | Unrealized/ Unrecognized Loss | Fair Value | Unrealized/ Unrecognized Loss | Fair Value | Unrealized/ Unrecognized Loss |
| | *(in thousands)* | | | | | |
| **Available for sale:** | | | | | | |
| Corporate and other debt securities | $ 1,911 | $ (89) | $ - | $ - | $ 1,911 | $ (89) |
| Mortgage-backed securities – residential | 6,412 | (40) | 2,368 | (51) | 8,780 | (91) |
| Total available for sale | $ 8,323 | $ (129) | $ 2,368 | $ (51) | $ 10,691 | $ (180) |
| **Held to maturity:** | | | | | | |
| Corporate and other debt securities | $ 30,291 | $ (2,334) | $ 2,071 | $ (428) | $ 32,362 | $ (2,762) |
| Mortgage-backed securities – residential | 914 | (2) | - | - | 914 | (2) |
| Mortgage-backed securities – commercial | - | - | 1,438 | (2) | 1,438 | (2) |
| Total held to maturity | $ 31,205 | $ (2,336) | $ 3,509 | $ (430) | $ 34,714 | $ (2,766) |

| | June 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or greater | | Total | |
| | Fair Value | Unrealized/ Unrecognized Loss | Fair Value | Unrealized/ Unrecognized Loss | Fair Value | Unrealized/ Unrecognized Loss |
| | (in thousands) | | | | | |
| **Available for sale** | | | | | | |
| U.S. Government and agency obligations | $ - | $ - | $ 32,919 | $ (121) | $ 32,919 | $ (121) |
| Corporate and other debt securities | - | - | 3,269 | (9) | 3,269 | (9) |
| Mortgage-backed securities – residential | - | - | 24,000 | (181) | 24,000 | (181) |
| Total available for sale | $ - | $ - | $ 60,188 | $ (311) | $ 60,188 | $ (311) |
| **Held to maturity** | | | | | | |
| U.S. Government and agency obligations | $ - | $ - | $ 59,306 | $ (246) | $ 59,306 | $ (246) |
| Corporate and other debt securities | 17,087 | (413) | - | - | 17,087 | (413) |
| Mortgage-backed securities – residential | 1,666 | (26) | 54,648 | (346) | 56,314 | (372) |
| Mortgage-backed securities – collateralized mortgage obligations | - | - | 29,372 | (147) | 29,372 | (147) |
| Mortgage-backed securities – commercial | - | - | 6,972 | (29) | 6,972 | (29) |
| Total held to maturity | $ 18,753 | $ (439) | $ 150,298 | $ (768) | $ 169,051 | $ (1,207) |

As of March 31, 2020, the Company's securities portfolio consisted of $309.6 million in securities, of which 23 securities with a fair value of $45.4 million were in an unrealized loss position. The majority of unrealized losses are related to the Company's U.S. Government and agency obligations and mortgage-backed securities.

There were no securities as of March 31, 2020 or June 30, 2019 for which the Company believes it is not probable that it will collect all amounts due according to the contractual terms of the security. Management believes the unrealized losses are primarily a result of changes in interest rates and credit spreads. 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 March 31, 2020 or June 30, 2019.

**Note 4. Loans Receivable**

Loans receivable are summarized as follows (in thousands):

| | March 31, 2020 | June 30, 2019 |
|---|---|---|
| Mortgage loans: | | |
| Residential | $ 266,684 | $ 265,167 |
| Commercial | 775,378 | 651,396 |
| Construction | 24,929 | 13,231 |
| Net deferred loan origination costs | 925 | 1,031 |
| Total mortgage loans | 1,067,916 | 930,825 |
| Commercial and consumer loans: | | |
| Commercial loans | 128,869 | 133,614 |
| Home equity lines of credit | 30,994 | 33,204 |
| Consumer and overdrafts | 444 | 365 |
| Net deferred loan origination costs | 805 | 777 |
| Total commercial and consumer loans | 161,112 | 167,960 |
| Total loans receivable | 1,229,028 | 1,098,785 |
| Allowance for loan losses | (8,346) | (5,664) |
| Loans receivable, net | $ 1,220,682 | $ 1,093,121 |

In 2015, the Company completed a merger with CMS Bancorp and its wholly owned subsidiary, CMS Bank. References to acquired loans in this note pertain only to those loans acquired as part of the merger.

The following tables present the activity in the allowance for loan losses by portfolio segment for the three and nine months ended March 31, 2020 and 2019 (in thousands):

| | Three Months Ended March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Beginning Allowance | Provision (credit) | Charge-offs | Recoveries | Ending Allowance |
| Originated: | | | | | |
| Residential | $ 352 | $ 102 | $ - | $ 3 | $ 457 |
| Commercial | 4,568 | 1,099 | - | 125 | 5,792 |
| Construction | 273 | 173 | - | - | 446 |
| Commercial loans | 953 | 600 | - | - | 1,553 |
| Home equity lines of credit | 60 | 23 | - | 2 | 85 |
| Consumer and overdrafts | 10 | 11 | (9) | 1 | 13 |
| Total | $ 6,216 | $ 2,008 | $ (9) | $ 131 | $ 8,346 |

| | Three Months Ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Beginning Allowance | Provision (credit) | Charge-offs | Recoveries | Ending Allowance |
| Originated: | | | | | |
| Residential | $ 379 | $ 8 | $ - | $ 2 | $ 389 |
| Commercial | 3,261 | (26) | - | - | 3,235 |
| Construction | 258 | (58) | - | - | 200 |
| Commercial loans | 880 | 69 | - | 2 | 951 |
| Home equity lines of credit | 82 | (8) | - | - | 74 |
| Consumer and overdrafts | 10 | 6 | (11) | 2 | 7 |
| Acquired: | | | | | |
| Residential | 73 | 16 | - | - | 89 |
| Total | $ 4,943 | $ 7 | $ (11) | $ 6 | $ 4,945 |

| | Nine Months Ended March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Beginning Allowance | Provision (credit) | Charge-offs | Recoveries | Ending Allowance |
| Originated: | | | | | |
| Residential | $ 363 | $ 86 | $ - | $ 8 | $ 457 |
| Commercial | 3,853 | 1,814 | - | 125 | 5,792 |
| Construction | 159 | 287 | - | - | 446 |
| Commercial loans | 1,130 | 573 | (150) | - | 1,553 |
| Home equity lines of credit | 65 | 10 | - | 10 | 85 |
| Consumer and installment loans | 11 | 37 | (42) | 7 | 13 |
| Acquired: | | | | | |
| Residential | 83 | (52) | (31) | - | - |
| Total | $ 5,664 | $ 2,755 | $ (223) | $ 150 | $ 8,346 |

| | Nine Months Ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Beginning Allowance | Provision (credit) | Charge-offs | Recoveries | Ending Allowance |
| Originated: | | | | | |
| Residential | $ 386 | $ (4) | $ - | $ 7 | $ 389 |
| Commercial | 3,073 | 276 | (114) | - | 3,235 |
| Construction | 505 | (401) | - | 96 | 200 |
| Commercial loans | 780 | 169 | - | 2 | 951 |
| Home equity lines of credit | 80 | (6) | - | - | 74 |
| Consumer and installment loans | 7 | 21 | (27) | 6 | 7 |
| Acquired: | | | | | |
| Residential | 73 | 16 | - | - | 89 |
| Total | $ 4,904 | $ 71 | $ (141) | $ 111 | $ 4,945 |

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 March 31, 2020 and June 30, 2019 (in thousands):

| | March 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $ 2,458 | $ 263,478 | $ 748 | $ 266,684 | $ 118 | $ 339 | $ - | $ 457 |
| Commercial | - | 774,501 | 877 | 775,378 | - | 5,792 | - | 5,792 |
| Construction | - | 24,929 | - | 24,929 | - | 446 | - | 446 |
| Commercial loans | 1,960 | 126,909 | - | 128,869 | 1 | 1,552 | - | 1,553 |
| Home equity lines of credit | 349 | 30,502 | 143 | 30,994 | 4 | 81 | - | 85 |
| Consumer and overdrafts | - | 444 | - | 444 | - | 13 | - | 13 |
| Total | $ 4,767 | $ 1,220,763 | $ 1,768 | $1,227,298 | $ 123 | $ 8,223 | $ - | $8,346 |

| | June 30, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $ 1,774 | $ 262,124 | $ 1,269 | $ 265,167 | $ 130 | $ 233 | $ 83 | $ 446 |
| Commercial | 1,418 | 649,088 | 890 | 651,396 | - | 3,853 | - | 3,853 |
| Construction | - | 13,231 | - | 13,231 | - | 159 | - | 159 |
| Commercial loans | 2,016 | 131,598 | - | 133,614 | 39 | 1,091 | - | 1,130 |
| Home equity lines of credit | 689 | 32,359 | 156 | 33,204 | 4 | 61 | - | 65 |
| Consumer and overdrafts | - | 365 | - | 365 | - | 11 | - | 11 |
| Total | $ 5,897 | $ 1,088,765 | $ 2,315 | $1,096,977 | $ 173 | $ 5,408 | $ 83 | $5,664 |

The following tables present information related to loans individually evaluated for impairment (excluding loans acquired with deteriorated credit quality) by portfolio segment as of March 31, 2020 and June 30, 2019 (in thousands):

| | March 31, 2020 | | |
|---|---|---|---|
| | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses |
| With no related allowance recorded: | | | |
| Residential | $ 2,131 | $ 2,024 | $ - |
| Commercial loans | 2,105 | 1,934 | - |
| Home equity lines of credit | 389 | 338 | - |
| With an allowance recorded: | | | |
| Residential | 373 | 434 | 118 |
| Commercial loans | 26 | 26 | 1 |
| Home equity lines of credit | 11 | 11 | 4 |
| Total | $ 5,035 | $ 4,767 | $ 123 |

| | June 30, 2019 | | |
|---|---|---|---|
| | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses |
| With no related allowance recorded: | | | |
| Residential | $ 1,061 | $ 1,028 | $ - |
| Commercial | 1,471 | 1,418 | - |
| Commercial loans | 2,007 | 1,836 | - |
| Home equity lines of credit | 750 | 678 | - |
| With an allowance recorded: | | | |
| Residential | 723 | 746 | 130 |
| Commercial loans | 180 | 180 | 39 |
| Home equity lines of credit | 11 | 11 | 4 |
| Total | $ 6,203 | $ 5,897 | $ 173 |

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 nine months ended March 31, 2020 and 2019 (in thousands):

| | Three months ended March 31, 2020 | | Three months ended March 31, 2019 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | |
| Residential | $ 2,060 | $ 13 | $ 1,317 | $ 9 |
| Commercial | 485 | 9 | 1,408 | 11 |
| Commercial loans | 1,932 | 51 | 1,862 | 42 |
| Home equity lines of credit | 403 | 7 | 616 | - |
| With an allowance recorded: | | | | |
| Residential | 435 | 4 | 750 | 4 |
| Commercial loans | 38 | - | 39 | - |
| Home equity lines of credit | 11 | (6) | 87 | - |
| Total | $ 5,364 | $ 78 | $ 6,079 | $ 66 |

| | Nine Months Ended March 31, 2020 | | Nine Months Ended March 31, 2019 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | |
| Residential | $ 2,050 | $ 40 | $ 1,516 | $ 20 |
| Commercial | 946 | 149 | 1,494 | 37 |
| Construction | - | - | 2,131 | 138 |
| Commercial loans | 2,015 | 154 | 628 | 9 |
| Home equity lines of credit | 574 | 20 | - | - |
| With an allowance recorded: | | | | |
| Residential | 437 | 11 | 752 | 11 |
| Construction | - | - | 1,130 | - |
| Commercial loans | 42 | 1 | 40 | 1 |
| Home equity lines of credit | 11 | - | 88 | - |
| Total | $ 6,075 | $ 375 | $ 7,779 | $ 216 |

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 March 31, 2020 and June 30, 2019 (in thousands):

| | Nonaccrual | | Loans Past Due Over 90 Days and Still Accruing | |
|---|---|---|---|---|
| | March 31, 2020 | June 30, 2019 | March 31, 2020 | June 30, 2019 |
| Originated: | | | | |
| Residential | $ 1,242 | $ 536 | $ - | $ - |
| Commercial loans | - | 150 | - | - |
| Home equity lines of credit | 42 | 383 | - | - |
| Consumer and overdrafts | - | - | - | 1 |
| Acquired: | | | | |
| Residential | 222 | 795 | - | - |
| Commercial | - | 568 | - | - |
| Home equity lines of credit | 296 | 294 | - | - |
| Total | $ 1,802 | $ 2,726 | $ - | $ 1 |

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 $404,000 and $501,000 as of March 31, 2020 and June 30, 2019, 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 March 31, 2020 and June 30, 2019 (in thousands):

| | March 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total |
| Originated: | | | | | | |
| Residential | $ 58 | $ - | $ 576 | $ 634 | $ 225,823 | $ 226,457 |
| Commercial | - | - | - | - | 733,781 | 733,781 |
| Construction | - | - | - | - | 24,929 | 24,929 |
| Commercial loans | 252 | - | - | 252 | 128,431 | 128,683 |
| Home equity lines of credit | 75 | 12 | 30 | 117 | 27,738 | 27,855 |
| Consumer and overdrafts | - | - | - | - | 427 | 427 |
| Total originated | 385 | 12 | 606 | 1,003 | 1,141,129 | 1,142,132 |
| Acquired: | | | | | | |
| Residential | 288 | 214 | 221 | 723 | 39,504 | 40,227 |
| Commercial | - | - | - | - | 41,597 | 41,597 |
| Commercial loans | - | - | - | - | 186 | 186 |
| Home equity lines of credit | 59 | - | 317 | 376 | 2,763 | 3,139 |
| Consumer and overdrafts | - | - | - | - | 17 | 17 |
| Total acquired | 347 | 214 | 538 | 1,099 | 84,067 | 85,166 |
| Total | $ 732 | $ 226 | $ 1,144 | $ 2,102 | $ 1,225,196 | $ 1,227,298 |

| | June 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total |
| Originated: | | | | | | |
| Residential | $ - | $ - | $ 86 | $ 86 | $ 217,970 | $ 218,056 |
| Commercial | - | - | - | - | 600,675 | 600,675 |
| Construction | - | - | - | - | 13,231 | 13,231 |
| Commercial loans | - | 150 | - | 150 | 133,286 | 133,436 |
| Home equity lines of credit | 344 | - | 312 | 656 | 28,767 | 29,423 |
| Consumer and overdrafts | - | - | 1 | 1 | 348 | 349 |
| Total originated | 344 | 150 | 399 | 893 | 994,277 | 995,170 |
| Acquired: | | | | | | |
| Residential | 220 | 116 | 709 | 1,045 | 46,066 | 47,111 |
| Commercial | - | - | 568 | 568 | 50,153 | 50,721 |
| Commercial loans | - | - | - | - | 178 | 178 |
| Home equity lines of credit | - | 67 | 296 | 363 | 3,418 | 3,781 |
| Consumer and overdrafts | - | - | - | - | 16 | 16 |
| Total acquired | 220 | 183 | 1,573 | 1,976 | 99,831 | 101,807 |
| Total | $ 564 | $ 333 | $ 1,972 | $ 2,869 | $ 1,094,108 | $ 1,096,977 |

Troubled Debt Restructurings

The terms of certain loans have been 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. All troubled debt restructurings are considered impaired loans.

As of March 31, 2020 and June 30, 2019, the Company had 16 and 14 loans, respectively, classified as troubled debt restructurings totaling $3.3 million and $4.1 million, including $3.0 million and $3.2 million, respectively, of loans still accruing interest. The Company has allocated $123,000 and $135,000, of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2020 and June 30, 2019, respectively. As of March 31, 2020, the Company has committed to lend an additional $25,000 to customers with outstanding loans that are classified as troubled debt restructurings.

The Company has modified one and two commercial loans in troubled debt restructurings during the three and nine months ended March 31, 2020, respectively. These loans had a carrying amount as of March 31, 2020 of $156,000. The Company modified two loans with a total carrying amount of $428,000, one residential mortgage and one home equity line of credit, in troubled debt restructurings during the nine months ended March 31, 2019. The Company did not modify any loans during the three months ended March 31, 2019.

The Company had one troubled debt restructuring, a residential mortgage with a carrying amount of $370,000 as of March 31, 2020, default in the nine months ended March 31, 2020 that was modified in the twelve months prior to default, with no such defaults occurring in the three months ended March 31, 2020. This default did not result in a charge-off nor an increase to the allowance for loan losses. The Company had no troubled debt restructurings for which there was a payment default in the three or nine months ended March 31, 2019, 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 troubled debt restructurings ("TDR") for a limited period of time to account for the effects of COVID-19. 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.

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 and small businesses who can demonstrate financial hardship caused by COVID-19. As of May 4, 2020, the Company has granted loan payment deferrals for 97 residential mortgage loans and home equity line of credit totaling $27.0 million, as well as deferrals for 196 commercial mortgage, commercial loan and construction loans totaling $136.4 million. In accordance with the CARES Act and Interagency Statement, these modifications are not considered troubled debt restructurings. All payment deferrals were granted subsequent to March 31, 2020.

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):

| | March 31, 2020 | | | |
|---|---|---|---|---|
| | **Pass** | **Special Mention** | **Substandard** | **Total** |
| Originated: | | | | |
| Residential | $ 224,719 | $ 481 | $ 1,257 | $ 226,457 |
| Commercial | 733,449 | 332 | - | 733,781 |
| Construction | 24,929 | - | - | 24,929 |
| Commercial loans | 123,174 | 3,986 | 1,523 | 128,683 |
| Home equity lines of credit | 27,382 | 406 | 67 | 27,855 |
| Consumer and overdrafts | 427 | - | - | 427 |
| Total originated | 1,134,080 | 5,205 | 2,847 | 1,142,132 |
| Acquired: | | | | |
| Residential | 39,171 | 201 | 855 | 40,227 |
| Commercial | 40,720 | - | 877 | 41,597 |
| Commercial loans | 186 | - | - | 186 |
| Home equity lines of credit | 2,700 | 58 | 381 | 3,139 |
| Consumer and overdrafts | 17 | - | - | 17 |
| Total acquired | 82,794 | 259 | 2,113 | 85,166 |
| Total | $ 1,216,874 | $ 5,464 | $ 4,960 | $ 1,227,298 |

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Total |
| Originated: | | | | |
| Residential | $ 216,438 | $ 1,071 | $ 547 | $ 218,056 |
| Commercial | 600,216 | 339 | 120 | 600,675 |
| Construction | 13,231 | - | - | 13,231 |
| Commercial loans | 123,361 | 6,423 | 3,652 | 133,436 |
| Home equity lines of credit | 28,996 | 67 | 360 | 29,423 |
| Consumer and overdrafts | 349 | - | - | 349 |
| Total originated | 982,591 | 7,900 | 4,679 | 995,170 |
| Acquired: | | | | |
| Residential | 44,959 | 211 | 1,941 | 47,111 |
| Commercial | 45,726 | 3,537 | 1,458 | 50,721 |
| Commercial loans | 178 | - | - | 178 |
| Home equity lines of credit | 3,331 | 68 | 382 | 3,781 |
| Consumer and overdrafts | 16 | - | - | 16 |
| Total acquired | 94,210 | 3,816 | 3,781 | 101,807 |
| Total | $ 1,076,801 | $ 11,716 | $ 8,460 | $ 1,096,977 |

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 March 31, 2020 and June 30, 2019 is as follows (in thousands):

| | March 31, 2020 | June 30, 2019 |
|---|---|---|
| Residential | $ 748 | $ 1,186 |
| Commercial | 877 | 890 |
| Home equity lines of credit | 143 | 156 |
| Carrying amount, net of allowance of $0 and $83, respectively | $ 1,768 | $ 2,232 |

The allowance for loan losses on purchased credit impaired loans decreased $0 and $83,000 during the three and nine months ended March 31, 2020, respectively.

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Beginning balance | $ 174 | $ 219 | $ 192 | $ 245 |
| New loans acquired | - | - | - | - |
| Accretion income | (9) | (14) | (27) | (40) |
| Reclassification from non-accretable difference | - | - | - | - |
| Disposals | - | - | - | - |
| Ending balance | $ 165 | $ 205 | $ 165 | $ 205 |

**Note 5. 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 | Unrealized loss on pension benefits | Unrealized loss on SERP benefits | Total |
|---|---|---|---|---|
| **Balance at January 1, 2020** | $ (34) | $ (4,207) | $ (233) | $ (4,474) |
| Other comprehensive income before reclassifications | 186 | - | - | 186 |
| Amounts reclassified from accumulated other comprehensive income | (20) | 132 | 11 | 123 |
| Less tax effect | (35) | (27) | (3) | (65) |
| Net other comprehensive income | 131 | 105 | 8 | 244 |
| **Balance at March 31, 2020** | $ 97 | $ (4,102) | $ (225) | $ (4,230) |

| | Net unrealized gain (loss) on available for sale securities | Unrealized loss on pension benefits | Unrealized loss on SERP benefits | Total |
|---|---|---|---|---|
| **Balance at January 1, 2019** | $ (1,300) | $ (4,921) | $ (250) | $ (6,471) |
| Other comprehensive income before reclassifications | 757 | - | - | 757 |
| Amounts reclassified from accumulated other comprehensive income | - | 145 | 9 | 154 |
| Less tax effect | (160) | (30) | (1) | (191) |
| Net other comprehensive income | 597 | 115 | 8 | 720 |
| **Balance at March 31, 2019** | $ (703) | $ (4,806) | $ (242) | $ (5,751) |

| | Net unrealized gain (loss) on available for sale securities | Unrealized loss on pension benefits | Unrealized loss on SERP benefits | Total |
|---|---|---|---|---|
| **Balance at July 1, 2019** | $ (209) | $ (4,631) | $ (250) | $ (5,090) |
| Other comprehensive income before reclassifications | 406 | - | - | 406 |
| Amounts reclassified from accumulated other comprehensive income | (20) | 668 | 34 | 682 |
| Tax effect | (80) | (139) | (9) | (228) |
| Net other comprehensive income | 306 | 529 | 25 | 860 |
| **Balance at March 31, 2020** | $ 97 | $ (4,102) | $ (225) | $ (4,230) |

| | Net unrealized gain (loss) on available for sale securities | Unrealized loss on pension benefits | Unrealized loss on SERP benefits | Total |
|---|---|---|---|---|
| **Balance at July 1, 2018** | $ (1,536) | $ (5,150) | $ (264) | $ (6,950) |
| Other comprehensive income before reclassifications | 1,110 | - | - | 1,110 |
| Amounts reclassified from accumulated other comprehensive income | (55) | 435 | 27 | 407 |
| Tax effect | (222) | (91) | (5) | (318) |
| Net other comprehensive income | 833 | 344 | 22 | 1,199 |
| **Balance at March 31, 2019** | $ (703) | $ (4,806) | $ (242) | $ (5,751) |

## 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 nine months ended March 31, 2020 and 2019 (in thousands):

| | Three Months Ended March 31, 2020 | | Three Months Ended March 31, 2019 | |
|---|---|---|---|---|
| | Defined Benefit Plan | Supplemental Retirement Plans | Defined Benefit Plan | Supplemental Retirement Plans |
| Service cost | $ - | $ 90 | $ - | $ 78 |
| Interest cost | 180 | 28 | 250 | 36 |
| Expected return on plan assets | (479) | - | (513) | - |
| Amortization of prior net loss | 132 | 11 | 145 | 9 |
| Net periodic cost (benefit) | $ (167) | $ 129 | $ (118) | $ 123 |

| | Nine Months Ended March 31, 2020 | | Nine Months Ended March 31, 2019 | |
|---|---|---|---|---|
| | Defined Benefit Plan | Supplemental Retirement Plan | Defined Benefit Plan | Supplemental Retirement Plan |
| Service cost | $ - | $ 248 | $ - | $ 373 |
| Interest cost | 540 | 89 | 750 | 88 |
| Expected return on plan assets | (1,436) | - | (1,539) | - |
| Amortization of prior net loss | 396 | 34 | 435 | 27 |
| Settlement charges | 272 | - | - | - |
| Net periodic (benefit) cost | $ (228) | $ 371 | $ (354) | $ 488 |

The Company made no contributions to the defined benefit plan during the three or nine months ended March 31, 2020.

**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 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 (4.75% for 2020). 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 March 31, 2020 was $11.6 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):

| | March 31, 2020 | June 30, 2019 |
|---|---|---|
| Allocated to participants | 304,645 | 234,059 |
| Unearned | 1,138,418 | 1,211,410 |
| Total ESOP shares | 1,443,063 | 1,445,469 |
| | | |
| Fair value of unearned shares | $ 15,926 | $ 24,531 |

Total compensation expense recognized in connection with the ESOP for the three and nine months ended March 31, 2020 was $438,000 and $1.4 million, respectively, and for the three and nine months ended March 31, 2019 was $464,000 and $1.4 million, 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 |
| **March 31, 2020** | | | | |
| Measured on a recurring basis: | | | | |
| Available for sale securities: | | | | |
| U.S. Government and agency obligations | $ - | $ 19,089 | $ - | $ 19,089 |
| Corporate and other debt securities | - | 5,026 | - | 5,026 |
| Mortgage-backed securities – residential | - | 21,877 | - | 21,877 |
| Derivatives – interest rate contracts | - | 6,644 | - | 6,644 |
| Total assets at fair value | $ - | $ 52,636 | $ - | $ 52,636 |
| | | | | |
| Derivatives – interest rate contracts | $ - | $ 6,644 | $ - | $ 6,644 |
| Total liabilities at fair value | $ - | $ 6,644 | $ - | $ 6,644 |
| | | | | |
| Measured on a non-recurring basis: | | | | |
| Impaired loans: | | | | |
| Residential mortgages | $ - | $ - | $ 316 | $ 316 |
| Commercial loans | - | - | 101 | 101 |
| Home equity lines of credit | - | - | 8 | 8 |
| Total assets at fair value | $ - | $ - | $ 425 | $ 425 |

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **June 30, 2019** | | | | |
| Measured on a recurring basis: | | | | |
| Available for sale securities: | | | | |
| U.S. Government and agency obligations | $ - | $ 36,911 | $ - | $ 36,911 |
| Corporate and other debt securities | - | 8,360 | - | 8,360 |
| Mortgage-backed securities – residential | - | 26,957 | - | 26,957 |
| Derivatives – interest rate contracts | - | 1,339 | - | 1,339 |
| Total assets at fair value | $ - | $ 73,567 | $ - | $ 73,567 |
| | | | | |
| Derivatives – interest rate contracts | $ - | $ 1,339 | $ - | $ 1,339 |
| Total liabilities at fair value | $ - | $ 1,339 | $ - | $ 1,339 |
| | | | | |
| Measured on a non-recurring basis: | | | | |
| Impaired loans: | | | | |
| Residential mortgages | $ - | $ - | $ 616 | $ 616 |
| Commercial loans | - | - | 141 | 141 |
| Home equity lines of credit | - | - | 7 | 7 |
| Foreclosed real estate | - | - | 653 | 653 |
| Total assets at fair value | $ - | $ - | $ 1,417 | $ 1,417 |

There were no transfers between levels within the fair value hierarchy during the three and nine months ended March 31, 2020 and 2019.

Impaired loans in the preceding table had a carrying amount of $547,000, and a remaining valuation allowance of $123,000, at March 31, 2020, as compared to $937,000 and $173,000, respectively, as of June 30, 2019. Impaired loans measured at fair value incurred no net charge-offs and resulted in a credit for loan losses of $6,000 during the nine months ended March 31, 2020. Impaired loans measured at fair value as of March 31, 2019 incurred no net charge-offs and resulted in an additional credit for loan losses of $9,000 during the nine months ended March 31, 2019.

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 March 31, 2020 and June 30, 2019 (dollars in thousands):

| | Fair Value | Valuation Technique(s) | Unobservable Input(s) | Range or Rate Used |
|---|---|---|---|---|
| **March 31, 2020** | | | | |
| Impaired loans - residential mortgages | $ 316 | Discounted cash flow | Discount rate | 5.4% to 6.3% |
| Impaired loans - commercial loans | 101 | Discounted cash flow | Discount rate | 6.8% to 7.5% |
| Impaired loans - home equity lines of credit | 8 | Discounted cash flow | Discount rate | 6.3% |
| | | | | |
| **June 30, 2019** | | | | |
| Impaired loans - residential mortgages | $ 616 | Discounted cash flow | Discount rate | 5.4% to 6.3% |
| Impaired loans - commercial loans | 141 | Discounted cash flow | Discount rate | 6.0% to 7.0% |
| Impaired loans - home equity lines of credit | 7 | Discounted cash flow | Discount rate | 6.3% |
| Foreclosed real estate | 653 | Sales comparison | Adjustments for differences in sales comparables | -8.0% to 45.0% |

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 |
|---|---|---|---|---|---|
| **March 31, 2020** | | | | | |
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 84,912 | $ 84,912 | $ - | $ - | $ 84,912 |
| Investment securities held to maturity | 263,626 | - | 262,804 | 4,900 | 267,704 |
| Investment securities available for sale | 45,992 | - | 45,992 | - | 45,992 |
| Loans receivable, net | 1,220,682 | - | - | 1,181,218 | 1,181,218 |
| Accrued interest receivable | 5,384 | - | 1,142 | 4,242 | 5,384 |
| FHLB stock | 6,026 | N/A | N/A | N/A | N/A |
| Derivative assets - interest rate contracts | 6,644 | - | 6,644 | - | 6,644 |
| Financial liabilities: | | | | | |
| Demand, NOW, money market deposits and savings accounts | 797,036 | 797,036 | - | - | 797,036 |
| Time deposits | 482,550 | - | 491,942 | - | 491,942 |
| Mortgage escrow funds | 7,924 | 7,924 | - | - | 7,924 |
| Accrued interest payable | 256 | 1 | 255 | - | 256 |
| FHLB advances | 106,121 | - | 110,336 | - | 110,336 |
| Derivative liabilities - interest rate contracts | 6,644 | - | 6,644 | - | 6,644 |
| **June 30, 2019** | | | | | |
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 60,029 | $ 60,029 | $ - | $ - | $ 60,029 |
| Investment securities held to maturity | 345,545 | - | 346,243 | - | 346,243 |
| Investment securities available for sale | 72,228 | - | 72,228 | - | 72,228 |
| Loans receivable, net | 1,093,121 | - | - | 1,092,878 | 1,092,878 |
| Accrued interest receivable | 4,797 | - | 1,330 | 3,467 | 4,797 |
| FHLB stock | 6,255 | N/A | N/A | N/A | N/A |
| Derivative assets - interest rate contracts | 1,339 | - | 1,339 | - | 1,339 |
| Financial liabilities: | | | | | |
| Demand, NOW, money market deposits and savings accounts | 770,426 | 770,426 | - | - | 770,426 |
| Time deposits | 455,395 | - | 460,554 | - | 460,554 |
| Mortgage escrow funds | 9,355 | 9,355 | - | - | 9,355 |
| Accrued interest payable | 209 | 16 | 193 | | 209 |
| FHLB advances | 111,216 | - | 111,818 | - | 111,818 |
| Derivative liabilities - interest rate contracts | 1,339 | - | 1,339 | - | 1,339 |

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 March 31, 2020 and June 30, 2019, 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 |
| **March 31, 2020** | | | | | | |
| **PCSB Bank** | | | | | | |
| Leverage (Tier 1) | $ 217,068 | 13.2% | $ 65,825 | 4.0% | $ 82,282 | 5.0% |
| Risk-based: | | | | | | |
| Common Tier 1 | 217,068 | 16.8 | 58,154 | 4.5 | 84,001 | 6.5 |
| Tier 1 | 217,068 | 16.8 | 77,539 | 6.0 | 103,386 | 8.0 |
| Total | 225,414 | 17.4 | 103,386 | 8.0 | 129,232 | 10.0 |
| **June 30, 2019** | | | | | | |
| **PCSB Bank** | | | | | | |
| Leverage (Tier 1) | $ 209,885 | 13.8% | $ 60,774 | 4.0% | $ 75,968 | 5.0% |
| Risk-based: | | | | | | |
| Common Tier 1 | 209,885 | 18.0 | 52,579 | 4.5 | 75,948 | 6.5 |
| Tier 1 | 209,885 | 18.0 | 70,105 | 6.0 | 93,474 | 8.0 |
| Total | 215,549 | 18.4 | 93,474 | 8.0 | 116,842 | 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 March 31, 2020 and June 30, 2019, the Bank met all capital adequacy requirements to which it was subject, including the capital conservation buffer of 2.5%, as of March 31, 2020 and June 30, 2019, respectively. 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 and nine months ended March 31, 2020 and 2019.

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | *(amounts in thousands, except share and per share data)* | | | |
| Net income applicable to common stock | $ 1,217 | $ 1,986 | $ 6,399 | $ 6,639 |
| Average number of common shares outstanding | 16,587,563 | 17,451,763 | 16,927,496 | 17,917,077 |
| Less: Average unallocated ESOP shares | (1,150,390) | (1,247,370) | (1,174,787) | (1,271,790) |
| Average number of common shares outstanding used to calculate basic earnings per common share | 15,437,173 | 16,204,393 | 15,752,709 | 16,645,287 |
| Effect of equity-based awards | 10,044 | 57,362 | 61,613 | 14,459 |
| Average number of common shares outstanding used to calculate diluted earnings per common share | 15,447,217 | 16,261,755 | 15,814,322 | 16,659,746 |
| Earnings per common share: | | | | |
| Basic | $ 0.08 | $ 0.12 | $ 0.41 | $ 0.40 |
| Diluted | $ 0.08 | $ 0.12 | $ 0.40 | $ 0.40 |

Stock options for 1,339,293 shares of common stock were not considered in computing diluted earnings per common share for both the three and nine months ended March 31, 2020 and 2019 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. 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 March 31, 2020 and June 30, 2019.

| | March 31, 2020 | June 30, 2019 |
|---|---|---|
| | **(dollars in thousands)** | |
| Notional amounts | $ 95,628 | $ 68,535 |
| Weighted average pay rates | 3.14% | 3.89% |
| Weighted average receive rates | 3.14% | 3.89% |
| Weighted average maturity | 9.18 years | 9.84 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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (in thousands) | | | |
| **Noninterest income:** | | | | |
| Service charges on deposits | $ 236 | $ 295 | $ 737 | $ 892 |
| Interchange fees | 95 | 95 | 324 | 314 |
| Other (1) | 35 | 46 | 109 | 105 |
| Fees and service charges | 366 | 436 | 1,170 | 1,311 |
| | | | | |
| Bank-owned life insurance (1) | 128 | 131 | 399 | 410 |
| Gains on sales of securities, net (1) | 38 | - | 38 | 55 |
| Swap income (1) | - | - | 170 | 146 |
| | | | | |
| Net gain on sale of bank premises (1) | - | - | - | 156 |
| Net gain on sale of foreclosed real estate | 40 | - | 87 | 24 |
| Other (1) | 8 | 12 | 28 | 38 |
| Other noninterest income | 48 | 12 | 115 | 218 |
| **Total noninterest income** | $ 580 | $ 579 | $ 1,892 | $ 2,140 |

(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 $829,000 and $2.5 million for the three and nine months ended March 31, 2020 and $829,000 and $1.3 million for the three and nine months ended March 31, 2019.

**Restricted Stock Awards ("RSAs")**

RSAs 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 726,604, of which 547,185 shares were granted as of March 31, 2020.

The following table presents a summary of RSA activity during the period ended March 31, 2020.

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Unvested granted shares outstanding at July 1, 2019 | 547,185 | $ 19.02 |
| Shares granted | - | - |
| Shares vested | (109,448) | 19.02 |
| Shares forfeited | - | - |
| Unvested granted shares at March 31, 2020 | 437,737 | $ 19.02 |

As of March 31, 2020, there was $7.5 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 3.6 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.

As of March 31, 2020, there was $4.4 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 3.6 years.

Total shares available for grant under the Plan are 1,816,511, of which 1,339,293 shares were granted as of March 31, 2020. 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 share and per share data)* | | | |
| Options outstanding at July 1, 2019 | 1,339,293 | $ 19.04 | | |
| Options granted | - | - | | |
| Options expired | - | - | | |
| Options exercised | - | - | | |
| Options outstanding at March 31, 2020 | 1,339,293 | $ 19.04 | 8.6 | $ - |
| Exercisable at March 31, 2020 | 267,859 | $ 19.04 | 8.6 | $ - |

**Note 13. Leases**

As of March 31, 2020, the Company leases real estate for eleven branch offices and two administrative offices, including its corporate headquarters, under various operating lease agreements. The Company's leases have maturities which range from 2020 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 10.0 years as of March 31, 2020.

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 2.41% in determining the lease liability as of March 31, 2020.

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 three or nine months ended March 31, 2020, respectively. 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 nine months ended March 31, 2020.

For the three and nine months ended March 31, 2020, total operating lease costs were $501,000 and $1.5 million, respectively, and is included in occupancy and equipment expense. The right-of-use asset, included in premises and equipment, net, was $11.4 million and the corresponding lease liability, included in other liabilities was $11.6 million as of March 31, 2020, 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 March 31, 2020 is shown below:

| *(dollars in thousands)* | | |
|---|---|---|
| 2020 | $ | 521 |
| 2021 | | 1,960 |
| 2022 | | 1,937 |
| 2023 | | 1,850 |
| 2024 | | 1,479 |
| Thereafter | | 5,661 |
| Total future minimum lease payments (undiscounted) | | 13,408 |
| Discounting effect on cash flows | | (1,759) |
| Lease liability (discounted) | $ | 11,649 |

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

**General**

Management’s discussion and analysis of financial condition at March 31, 2020 and June 30, 2019, and results of operations for the three and nine months ended March 31, 2020 and 2019 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, 2019.

**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:

- the scope, duration and severity of the COVID-19 pandemic and its effects on our business and operations, our customers, including their ability to make timely payments on loans, our service providers, and on the economy and financial markets in general;
- 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, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- 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, 2019, under the heading "Risk Factors."

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 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, 2019 Form 10-K. There have been no significant changes in our application of critical accounting policies for the three and nine months ended March 31, 2020.

**COVID-19 Response**

In response to the COVID-19 pandemic, the Company has been active in providing assistance to our employees, customers and communities, as well as assessing the risks and potential impact on the Company's financial position, including liquidity, credit quality, earnings and capital. The following is a summary of these actions through May 4, 2020:

***Support for our Employees and Branch Locations***

- No furloughs; all employees at 100% pay
- Administrative employees with ability to work from home; stagger essential front-line employee schedules.
- Reduced branch hours and use of lobbies, use of drive-thru capabilities, promote use of personal protective equipment by employees and customers.

***Support for Individual and Business Customers***

- Waive or reduce certain fees, including overdraft fees, ATM fees, late charges and early CD withdrawal penalties.
- Moratorium on foreclosures and certain credit bureau reporting.
- Consumer loan payment deferrals granted for 97 loans totaling $27.0 million, representing approximately 9.1% of the residential mortgage and home equity line of credit portfolios.
- Commercial loan payment deferrals granted for 196 loans totaling $136.4 million, representing approximately 14.7% of the commercial mortgage, commercial loan and construction portfolios.
- Processed $46.4 million in PPP loans to over 240 small business employing over 3,900 employees across our local communities.

***Support for Our Communities***

- Through the PCSB Community Foundation, since the beginning of the year we have donated over $150,000 to a number of local organizations providing essential services to our community.

***Risk Assessment and Financial Impact***

*Liquidity*

At March 31, 2020, cash and cash equivalents totaled $84.9 million and securities available for sale totaled $46.0 million. Additionally, the Company had remaining borrowing capacity of $270.6 million, including $127.1 million from the Federal Home Loan Bank of New York, $118.5 million from the Federal Reserve Bank of New York discount window, as well as $25.0 million in other lines of credit. The Company did not experience significant draws on working capital lines of credit or home equity lines of credit during the quarter. Unused lines of credit totaled $98.6 million (43% usage rate) as of March 31, 2020, compared to $105.5 million (41% usage rate) as of December 31, 2019.

*Capital*

At March 31, 2020, all of the Bank's regulatory capital ratios significantly exceeded well-capitalized standards. Specifically, the Bank's Tier 1 Leverage Ratio was 13.2% as of March 31, 2020, which represents 2 ½ times the well-capitalized regulatory standard of 5.0%. Additionally, as of March 31, 2020, PCSB Financial Corporation (parent of PCSB Bank) has $41.1 million of additional funds that could be contributed to the Bank as capital, which would result in a proforma Tier 1 Leverage ratio of 15.7%.

*Credit Risk*

The Company has taken actions to identify, assess and address its COVID-19 related credit exposure. Many factors are unknown, including the length of the resulting economic shutdown imposed by New York State and other neighboring states, the impacts of the government fiscal and monetary relief measures, including payment deferral programs, as well as the long-term impacts COVID-19 may have on our consumer and commercial borrowers. The Company has begun to assess its credit exposures based on asset class and borrower type. The following table provides the Company's commercial and construction exposures to those industries believed to be the most directly and significantly impacted by the pandemic:

| **Industry Sector:** | **Total Balance Outstanding as of March 31, 2020 (amounts in thousands)** | **% of Total Loans Receivable** | **% Secured by Real Estate Collateral** |
|---|---|---|---|
| Retail (1) | $ 126,976 | 10.3% | 97.8% |
| Mixed-use with retail component | 119,444 | 9.7 | 98.7 |
| Hotels and accommodation services (2) | 39,569 | 3.2 | 100.0 |
| Food service (incl. restaurants) | 22,364 | 1.8 | 95.3 |
| Arts, entertainment and recreation | 10,371 | 0.8 | 97.4 |

(1) Includes $42.5 million of loans supported by properties with credit-rated or anchored tenants.
(2) Includes one construction relationship with an outstanding balance of $4.5 million.

As of March 31, 2020, the Company had no exposure to leveraged lending, shared national credits or energy exploration

**Comparison of Financial Condition at March 31, 2020 and June 30, 2019**

***Total Assets.*** Total assets increased $58.3 million, or 3.6%, to $1.70 billion at March 31, 2020 from $1.64 billion at June 30, 2019. The increase is primarily the result of increases of $127.6 million in net loans receivable,

$24.9 million in cash and cash equivalents and $9.6 million in premises and equipment, partially offset by decreases of $81.9 million in held to maturity securities and $26.2 million in securities available for sale.

***Cash and Cash Equivalents.*** Cash and cash equivalents increased $24.9 million, or 41.5%, to $84.9 million at March 31, 2020 from $60.0 million at June 30, 2019. The increase is primarily due to an $108.2 million decrease in total investment securities and a $53.8 million increase in deposits, partially offset by an $127.6 million increase in loans receivable and a $5.1 million decrease in FHLB advances.

***Securities Held to Maturity.*** Total securities held to maturity decreased $81.9 million, or 23.7%, to $263.6 million at March 31, 2020 from $345.5 million at June 30, 2019. This decrease was caused primarily by $63.5 million of calls and maturities of U.S. government and agency obligations and $34.2 million of amortization of mortgage-backed securities, partially offset by net purchases of corporate bonds and mortgage-backed securities of $12.1 million and $4.1 million, respectively.

***Securities Available for Sale.*** Total securities available for sale decreased $26.2 million, or 36.3%, to $46.0 million at March 31, 2020 from $72.2 million at June 30, 2019. This decrease was primarily due to $18.0 million in maturities of U.S. government and agency obligations, amortization and sales of mortgage-backed securities of $5.3 million and sales of corporate bonds of $3.2 million, partially offset by a $386,000 increase in net unrealized gains.

***Net Loans Receivable.*** Net loans receivable increased $127.6 million, or 11.7%, to $1.22 billion at March 31, 2020 from $1.09 billion at June 30, 2019. The increase in loans receivable was the result of $172.4 million of originations and $47.9 million of loan purchases, partially offset by $92.7 million of net amortization, repayments and other loan activity. Commercial mortgage loans and construction loans increased $124.0 million and $11.7 million, respectively, while all other loans had a net decrease of $8.1 million.

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 are not classified as impaired. At March 31 2020, other potential problem loans totaled $5.4 million.

Additionally, as detailed in Note 4 to the consolidated financial statements, in association with the COVID-19 pandemic, including the New York State Department of Financial Services emergency regulations on providing consumer and small business payment accommodations, the Company has granted loan payment deferrals, generally for a 90-day period, for 293 loans totaling $163.4 million. A vast majority of these loans were performing according to their contractual terms prior to modification, and thus are not reported as nonperforming as of March 31, 2020, however the potential impact of the COVID-19 pandemic causes us to have concerns as to the ability of such borrowers to comply with contractual loan repayment terms following the deferral period provided by the modification.

***Premises and Equipment.*** Premises and equipment, net, increased $9.6 million, to $21.4 million at March 31, 2020 from $11.8 million at June 30, 2019. This increase is primarily the result of an $11.4 million net increase in lease assets (a net increase in lease liabilities of $11.4 million is included as part of other liabilities) associated with the adoption of ASU 2016-02.

***Deposits.*** Total deposits increased $53.8 million, or 4.4%, to $1.28 billion at March 31, 2020 as compared to $1.23 billion at June 30, 2019. This increase primarily reflects increases of $44.6 million in money market accounts, $27.2 million in time deposits, $5.0 million in NOW accounts and $4.5 million in demand deposits, partially offset by $27.5 million decrease in savings accounts.

***Federal Home Loan Bank Advances.*** FHLB advances decreased $5.1 million, or 4.6%, to $106.1 million at March 31, 2020 as compared to $111.2 million at June 30, 2019. This decrease is primarily due to $50.0 million of net repayments of short-term advances and $5.1 million of repayments of long-term amortizing advances, partially offset by $50.0 million of additional long-term advances.

***Total Shareholder's Equity.*** Total shareholders' equity decreased $8.9 million, or 3.2%, to $272.4 million at March 31, 2020 from $281.3 million at June 30, 2019. This decrease was primarily due to the repurchase of $18.1 million (905,902 shares) of common stock and $1.9 million of cash dividends declared and paid, partially offset by net income of $6.4 million, as well as $3.9 million of stock-based compensation and reduction in unearned ESOP shares for plan shares earned during the period. On February 19, 2020, PCSB Financial Corporation (the "Company") completed its second stock repurchase plan where the Company repurchased 890,021 shares at an average price of $19.99 per share. To date, no additional repurchase plans have been authorized.

**Comparison of Operating Results for the Three Months Ended March 31, 2020 and 2019**

***General.*** Net income decreased $769,000, or 38.7%, to $1.2 million for the three months ended March 31, 2020 compared to $2.0 million for the three months ended March 31, 2019. The decrease was primarily due to a $2.0 million increase in provision for loan losses, partially offset by a $788,000 increase in net interest income, and a $265,000 decrease in income tax expense, and a $178,000 decrease in noninterest expense.

***Net Interest Income.*** Net interest income increased $788,000, or 7.3%, to $11.5 million for the three months ended March 31, 2020 compared to $10.7 million for the three months ended March 31, 2019. The increase primarily reflects a $131.4 million increase in average interest-earning assets, partially offset by a 5 basis point decrease in net interest margin to 2.89% for the three months ended March 31, 2020 compared to 2.94% for the three months ended March 31, 2019. The increase in average interest-earning assets reflects a $296.3 million increase in average loans receivable, partially offset by a $121.7 million decrease in average investment securities and a $43.3 million decrease in average other interest-earning assets. Despite continued asset growth and a higher yielding asset mix, which resulted in a 11 basis point increase in the yield on interest earning assets, the interest rate margin has been impacted by rising funding costs due to higher short-term interest rates along with competitive pricing, which caused an 18 basis point increase in the average cost of interest-bearing liabilities.

***Interest and Dividend Income.*** Interest and dividend income increased $1.7 million, or 12.4%, to $15.3 million for the three months ended March 31, 2020 compared to $13.6 million for the three months ended March 31, 2019. The increase primarily reflects a $131.4 million increase in total average interest-earning assets and an 11 basis point increase in the yield on total interest-earning assets.

Interest income on loans receivable increased $2.7 million, or 25.9%, primarily due to a $296.3 million increase in the average balance of loans receivable to $1.21 billion for the three months ended March 31, 2020 from $913.6 million for the same period last year, partially offset by a 23 basis point decrease in the average yield on loans to 4.34% for the three months ended March 31, 2020 from 4.57% for the same period last year. The decrease in yield is primarily due to downward pressures on market interest rates, affecting both existing adjustable rate loans as well as new originations.

Interest income on investment securities decreased $616,000, or 23.5%, primarily due to a $121.7 million decrease in the average balance of investment securities to $323.9 million for the three months ended March 31, 2020 from $445.6 million for the same period last year, partially offset by a 12 basis point increase in the average yield on investment securities to 2.47% for the three months ended March 31, 2020 from 2.35% for the same period last year. The increase in yield is a result of a more profitable investment securities mix in the current quarter. The decrease in the average balance of investment securities is the result of the Company utilizing investment securities portfolio runoff to fund loan growth.

Interest income on other interest-earning assets, primarily consisting of cash balances at correspondent banks including the Federal Reserve, decreased $397,000 or 64.7%, primarily due to a $43.3 million decrease in the average balance of other interest-earning assets to $56.2 million for the three months ended March 31, 2020 compared to $99.5 million for the three months ended March 31, 2019 and a 94 basis point decrease in the average yield on other interest-earning assets. The decrease in the yield on other interest-earning assets was primarily due to a decrease in short-term market interest rates.

***Interest Expense.*** Interest expense increased $900,000, or 30.9%, to $3.8 million for the three months ended March 31, 2020 compared to $2.9 million for the three months ended March 31, 2019. The increase primarily reflects a $133.5 million increase in the average balance of interest-bearing liabilities to $1.23 billion for the three months ended March 31, 2020 from $1.09 billion for the same period last year and an 18 basis point increase in the rate paid on average interest-bearing liabilities to 1.26% for the three months ended March 31, 2020 from 1.08% for the same period last year.

Interest expense on interest-bearing deposits increased $527,000, or 19.2%, primarily due to a $61.4 million increase in the average balance to $1.13 billion for the three months ended March 31, 2020 from $1.07 billion for the three months ended March 31, 2019 and a 14 basis point increase in the average cost of interest-bearing deposits to 1.18% for the three months ended March 31, 2020 from 1.04% for the same period last year. The Company has experienced a shift in deposit mix as customers in lower costing saving products have moved funds to generally higher costing money market accounts and time deposits. In response to the recent decrease in market interest rates, deposit rate reductions were implemented late in the current quarter, the effects of which are expected to be fully realized in future quarters.

Interest expense on FHLB advances increased $373,000, primarily due to a $72.1 million increase in the average balance to $98.4 million for the three months ended March 31, 2020 from $26.3 million for the same period last year, partially offset by a 38 basis point decrease in the average cost to 2.23% for the three months ended March 31, 2020 from 2.61% for the same period last year. The decrease in the average cost is primarily due to a decrease in market interest rates.

***Provision for Loan Losses.*** The provision for loan losses was $2.0 million for the three months ended March 31, 2020, compared to $7,000 for the three months ended March 31, 2019. The increase is primarily due to loan portfolio growth and a $1.7 million increase in qualitative reserves as the Company begins to assess the economic impacts the COVID-19 pandemic has had on the local economy and our loan portfolio. Recoveries, net of charge-offs were $122,000 and $5,000 for the three months ended March 31, 2020 and 2019, respectively. Current quarter recoveries related primarily to one commercial loan. Loans classified as substandard or doubtful decreased $4.1 million, or 45.0%, to $4.9 million at March 31, 2020 from $9.0 million at March 31, 2019. Non-performing loans as a percent of total loans receivable was 0.15% as of March 31, 2020, a decrease from 0.30% as of March 31, 2019.

***Noninterest Income.*** Noninterest income was $580,000 for the three months ended March 31, 2020 compared to $579,000 for the three months ended March 31, 2019. The increase was caused primarily by increases of $40,000 in net gains on sale of foreclosed real estate and $38,000 in net gains on sales of securities, mostly offset by a decrease of $70,000 in fees and service charges. The reduction in fee and service charge income was due to a $31,000 reduction in early withdrawal fees on CDs as well as approximately $22,000 in fee waivers granted by the Company in the current quarter, as directed by New York State to all financial institutions in response to COVID-19, including overdraft fees, ATM transaction fees, wire fees, as well as early withdrawal fees on CDs.

***Noninterest Expense.*** Noninterest expense decreased $178,000, or 2.0%, to $8.5 million for the three months ended March 31, 2020 compared to $8.7 million for the three months ended March 31, 2019. The decrease was caused primarily by decreases of $232,000 in other post-retirement benefit costs, $105,000 in FDIC assessment costs and $44,000 in all other expenses, partially offset by a $203,000 increase in salaries and benefits expense. During the current quarter, the Bank applied small bank assessment credits of $108,000 which fully offset the Bank's FDIC assessment for the current quarter. The remaining credits available are approximately $22,000.

***Income Tax Expense.*** Income tax expense decreased $265,000, or 42.4%, to $360,000 for the three months ended March 31, 2020 from $625,000 for the three months ended March 31, 2019. The decrease was caused primarily by lower pre-tax income in the current year period as well as a slight reduction in the effective tax rate. The effective income tax rate was 22.8% for the three months ended March 31, 2020 as compared to 23.9% for the three months ended March 31, 2019.

**Comparison of Operating Results for the Nine Months Ended March 31, 2020 and 2019**

***General.*** Net income decreased $240,000, or 3.6%, to $6.4 million for the nine months ended March 31, 2020 compared to $6.6 million for the nine months ended March 31, 2019. The decrease was primarily due to a $2.7 million increase in the provision for loan losses, an $815,000 increase in noninterest expense and a $248,000 decrease in noninterest income, partially offset by $3.3 million increase in net interest income and a $232,000 decrease in income tax expense.

***Net Interest Income.*** Net interest income increased $3.3 million, or 10.3%, to $35.2 million for the nine months ended March 31, 2020 compared to $31.9 million for the nine months ended March 31, 2019. The increase primarily reflects a $151.8 million increase in average interest-earning assets, partially offset by a 1 basis point decrease in net interest margin to 2.95% for the nine months ended March 31, 2020 compared to 2.96% for the nine months ended March 31, 2019. The increase in average interest-earning assets reflects a $268.1 million increase in average loans receivable, partially offset by a $85.8 million decrease in average investment securities and a $30.5 million decrease in average other interest earning assets. Despite continued asset growth and a higher yielding asset mix, which resulted in a 29 basis point increase in the yield on interest earning assets, the interest rate spread has been impacted by rising funding costs due to higher short-term interest rates along with competitive pricing, which caused a 36 basis point increase in the average cost of interest-bearing liabilities, resulting in net interest margin compression.

***Interest and Dividend Income.*** Interest and dividend income increased $7.6 million, or 19.2%, to $47.1 million for the nine months ended March 31, 2020 compared to $39.5 million for the nine months ended March 31, 2019. The increase primarily reflects a $151.8 million increase in total average interest-earning assets and a 29 basis point increase in the yield on total interest-earning assets.

Interest income on loans receivable increased $8.7 million, or 28.3%, primarily due to a $268.1 million increase in the average balance of loans receivable to $1.18 billion for the nine months ended March 31, 2020 from $908.7 million for the same period last year, partially offset by a 4 basis point decrease in the average yield on loans to 4.45% for the nine months ended March 31, 2020 from 4.49% for the same period last year, as growth in higher yielding loan products, such as commercial mortgages, commercial loans and installment loans, were more than offset by decreases in market interest rates.

Interest income on investment securities decreased $439,000, or 5.9%, primarily due to a $85.8 million decrease in the average balance of investment securities to $360.6 million for the nine months ended March 31, 2020 from $446.4 million for the same period last year, partially offset by a 37 basis point increase in the average yield on investment securities to 2.58% for the nine months ended March 31, 2020 from 2.21% for the same period last year. The decrease in the average balance of investment securities is the result of the Company utilizing securities portfolio runoff to fund loan growth. The increase in yield is a result of prepayment income earned in the current year as well as a more profitable asset mix as higher yielding corporate bonds and mortgage-backed securities increased as a percentage of the total portfolio.

Interest income on other interest-earning assets, primarily consisting of cash balances at correspondent banks including the Federal Reserve, decreased $634,000, or 43.7%, primarily due to a $30.5 million decrease in the average balance of other interest-earning assets to $53.9 million for the nine months ended March 31, 2020 compared to $84.4 million for the nine months ended March 31, 2019 and a 28 basis point decrease in the average yield on other interest-earning assets. The decrease in the yield on other interest-earning assets was primarily due to a decrease in market interest rates, specifically fed funds.

***Interest Expense.*** Interest expense increased $4.3 million, or 57.2%, to $11.9 million for the nine months ended March 31, 2020 compared to $7.6 million for the nine months ended March 31, 2019. The increase primarily reflects a $152.4 million increase in the average balance of interest-bearing liabilities to $1.22 billion for the nine months ended March 31, 2020 from $1.07 billion for the same period last year, and a 36 basis point increase in the average cost of interest-bearing liabilities to 1.30% for the nine months ended March 31, 2020 from 0.94% for the same period last year.

Interest expense on interest-bearing deposits increased $2.8 million, or 38.4%, primarily due to a 28 basis point increase in the average cost of interest-bearing deposits to 1.19% for the nine months ended March 31, 2020 from 0.91% for the same period last year and a $62.2 million increase in the average balance to $1.11 billion for the nine months ended March 31, 2020 from a $1.05 billion for the nine months ended March 31, 2019. The increase in the average rate paid on interest-bearing deposits was primarily caused by rising funding costs due to higher short-term interest rates along with competitive pricing. The Company has experienced a shift in deposit mix over the past several quarters as customers in generally lower rate savings products moved to generally higher rate money market and time deposits, however the pace of this shift has slowed in recent quarters. In response to the decrease in market interest rates late in the current quarter, deposit rate reductions were implemented, the effects of which are expected to be fully realized in future quarters. As of March 31, 2020, the Company had $192.8 million of money market accounts with a weighted average cost of 0.55% compared to 1.03% as of December 31, 2019. Additionally, as of the end of the quarter, time deposits maturing in the next three and twelve months totaled $104.9 million and $277.9 million, with weighted average costs of 2.21% and 2.00%, respectively. These deposits, should they remain with the

Company in their current products and at our current offer rates, are expected to carry an estimated weighted average cost of 1.02% and 0.99%, respectively.

Interest expense on FHLB advances increased $1.6 million, primarily due to a $90.2 million increase in the average balance to $112.6 million for the nine months ended March 31, 2020 from $22.4 million for the same period last year and a 5 basis point increase in the average cost to 2.30% for the nine months ended March 31, 2020 from 2.25% for the same period last year.

***Provision for Loan Losses.*** The provision for loan losses was $2.8 million for the nine months ended March 31, 2020, compared to $71,000 for the nine months ended March 31, 2019. The increase is primarily due to loan portfolio growth and a $1.7 million increase in qualitative reserves as the Company begins to assess the economic impacts the COVID-19 pandemic has had on the local economy and our loan portfolio. Charge-offs, net of recoveries, were $73,000 and $30,000 for the nine months ended March 31, 2020 and 2019, respectively.

***Noninterest Income.*** Noninterest income decreased $248,000, or 11.6%, to $1.9 million for the nine months ended March 31, 2020 compared to $2.1 million for the nine months ended March 31, 2019. The decrease was caused primarily by decreases of $155,000 in gain on sale of bank premises, $141,000 in fees and service charges, and $17,000 in net gains on sale of securities, partially offset by increases of $63,000 in net gains on sale of foreclosed real estate and $24,000 in swap income.

***Noninterest Expense.*** Noninterest expense increased $815,000, or 3.2%, to $26.1 million for the nine months ended March 31, 2020 compared to $25.3 million for the nine months ended March 31, 2019. The increase was caused primarily by a $1.5 million increase in salaries and benefits expense, partially offset by decreases of $322,000 in FDIC assessment costs, $300,000 in other post-retirement benefit costs and $91,000 in all other expenses. The increase in salaries and benefits was primarily due to a $1.2 million increase in stock-based compensation as the current compensation plan was implemented midway through the prior year period. During the current year, the Bank applied small bank assessment credits of $314,000 which fully offset the Bank's FDIC assessment for the current year.

***Income Tax Expense.*** Income tax expense decreased $232,000, or 11.1%, for the nine months ended March 31, 2020 in comparison to the nine months ended March 31, 2019. The decrease was caused primarily by lower pre-tax income, as well as a lower effective tax rate in the current year. The effective income tax rate was 22.5% for the nine months ended March 31, 2020 as compared to 23.9% for the nine months ended March 31, 2019.

***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 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.

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Average Balance | Interest/ Dividends | Average Rate | Average Balance | Interest/ Dividends | Average Rate |
| | | | *(dollars in thousands)* | | | |
| **Assets:** | | | | | | |
| Loans receivable | $ 1,209,920 | $ 13,114 | 4.34% | $ 913,634 | $ 10,413 | 4.57% |
| Investment securities | 323,942 | 2,003 | 2.47 | 445,604 | 2,619 | 2.35 |
| Other interest-earning assets | 56,242 | 217 | 1.56 | 99,473 | 614 | 2.50 |
| Total interest-earning assets | 1,590,104 | 15,334 | 3.86 | 1,458,711 | 13,646 | 3.75 |
| Non-interest-earning assets | 67,889 | | | 61,382 | | |
| Total assets | $ 1,657,993 | | | $ 1,520,093 | | |
| **Liabilities and equity:** | | | | | | |
| NOW accounts | $ 125,103 | 66 | 0.21 | $ 116,781 | 52 | 0.18 |
| Money market accounts | 179,230 | 423 | 0.96 | 127,509 | 368 | 1.17 |
| Savings accounts and escrow | 342,254 | 209 | 0.25 | 392,537 | 239 | 0.25 |
| Time deposits | 480,233 | 2,570 | 2.17 | 428,643 | 2,082 | 1.97 |
| Total interest-bearing deposits | 1,126,820 | 3,268 | 1.18 | 1,065,470 | 2,741 | 1.04 |
| FHLB advances | 98,364 | 541 | 2.23 | 26,259 | 168 | 2.61 |
| Total interest-bearing liabilities | 1,225,184 | 3,809 | 1.26 | 1,091,729 | 2,909 | 1.08 |
| Non-interest-bearing deposits | 137,930 | | | 136,196 | | |
| Other non-interest-bearing liabilities | 19,706 | | | 11,243 | | |
| Total liabilities | 1,382,820 | | | 1,239,168 | | |
| Total equity | 275,173 | | | 280,925 | | |
| Total liabilities and equity | $ 1,657,993 | | | $ 1,520,093 | | |
| Net interest income | | $ 11,525 | | | $ 10,737 | |
| Interest rate spread (1) | | | 2.60 | | | 2.67 |
| Net interest margin (2) | | | 2.89 | | | 2.94 |
| Average interest-earning assets to interest-bearing liabilities | 129.78% | | | 133.61% | | |

(1) 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.

(2) Net interest margin represents annualized net interest income divided by average interest-earning assets.

| | Nine Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Average Balance | Interest/ Dividends | Average Rate | Average Balance | Interest/ Dividends | Average Rate |
| | (dollars in thousands) | | | | | |
| **Assets:** | | | | | | |
| Loans receivable | $ 1,176,733 | $ 39,299 | 4.45% | $ 908,674 | $ 30,632 | 4.49% |
| Investment securities | 360,631 | 6,974 | 2.58 | 446,398 | 7,413 | 2.21 |
| Other interest-earning assets | 53,944 | 816 | 2.01 | 84,408 | 1,450 | 2.29 |
| Total interest-earning assets | 1,591,308 | 47,089 | 3.95 | 1,439,480 | 39,495 | 3.66 |
| Non-interest-earning assets | 68,983 | | | 57,256 | | |
| Total assets | $ 1,660,291 | | | $ 1,496,736 | | |
| **Liabilities and equity:** | | | | | | |
| NOW accounts | $ 122,470 | 191 | 0.21 | $ 117,522 | 157 | 0.18 |
| Money market accounts | 163,395 | 1,358 | 1.11 | 96,421 | 788 | 1.09 |
| Savings accounts and escrow | 353,373 | 674 | 0.25 | 423,922 | 780 | 0.25 |
| Time deposits | 469,022 | 7,704 | 2.19 | 408,210 | 5,447 | 1.78 |
| Total interest-bearing deposits | 1,108,260 | 9,927 | 1.19 | 1,046,075 | 7,172 | 0.91 |
| FHLB advances | 112,644 | 1,942 | 2.30 | 22,395 | 378 | 2.25 |
| Total interest-bearing liabilities | 1,220,904 | 11,869 | 1.30 | 1,068,470 | 7,550 | 0.94 |
| Non-interest-bearing deposits | 138,968 | | | 132,884 | | |
| Other non-interest-bearing liabilities | 20,914 | | | 8,345 | | |
| Total liabilities | 1,380,786 | | | 1,209,699 | | |
| Total equity | 279,505 | | | 287,037 | | |
| Total liabilities and equity | $ 1,660,291 | | | $ 1,496,736 | | |
| Net interest income | | $ 35,220 | | | $ 31,945 | |
| Interest rate spread (1) | | | 2.65 | | | 2.72 |
| Net interest margin (2) | | | 2.95 | | | 2.96 |
| Average interest-earning assets to interest-bearing liabilities | 130.34% | | | 134.72% | | |

(1) 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.

(2) Net interest margin represents annualized net interest income divided by average interest-earning assets.

***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.

| | Three Months Ended March 31, 2020 versus 2019 | | |
|---|---|---|---|
| | **Rate** | **Volume** | **Net** |
| | | *(in thousands)* | |
| **Interest income:** | | | |
| Loans receivable | $ (566) | $ 3,267 | $ 2,701 |
| Investment securities | (86) | (530) | (616) |
| Other interest-earning assets | (184) | (213) | (397) |
| Total interest-earning assets | (836) | 2,524 | 1,688 |
| **Interest expense:** | | | |
| NOW accounts | 10 | 4 | 14 |
| Money market accounts | (76) | 131 | 55 |
| Savings and escrow accounts | 12 | (42) | (30) |
| Time deposits | 225 | 263 | 488 |
| FHLB advances | (28) | 401 | 373 |
| Total interest-bearing liabilities | 143 | 757 | 900 |
| Net (decrease) increase in net interest income | $ (979) | $ 1,767 | $ 788 |

| | Nine Months Ended March 31, 2020 versus 2019 | | |
|---|---|---|---|
| | **Rate** | **Volume** | **Net** |
| | | *(in thousands)* | |
| **Interest income:** | | | |
| Loans receivable | $ (368) | $ 9,035 | $ 8,667 |
| Investment securities | 435 | (874) | (439) |
| Other interest-earning assets | (157) | (477) | (634) |
| Total interest-earning assets | (90) | 7,684 | 7,594 |
| **Interest expense:** | | | |
| NOW accounts | 27 | 7 | 34 |
| Money market accounts | 14 | 556 | 570 |
| Savings and escrow accounts | 64 | (170) | (106) |
| Time deposits | 1,372 | 885 | 2,257 |
| FHLB advances | 8 | 1,556 | 1,564 |
| Total interest-bearing liabilities | 1,485 | 2,834 | 4,319 |
| Net (decrease) increase in net interest income | $ (1,575) | $ 4,850 | $ 3,275 |

**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. Based on the recent decreases in the fed funds rate, as of March 31, 2020 we have removed the 200 basis point decrease scenario in favor of a 50 basis point decrease to evaluate NPV.

The following table presents the estimated changes in our NPV that would result from changes in market interest rates at March 31, 2020 and June 30, 2019. All estimated changes presented in the table are within the policy limits approved by our Board of Directors.

| | NPV (dollars in thousands) | | | NPV as Percent of Portfolio Value of Assets | |
|---|---|---|---|---|---|
| **Basis Point Change in Interest Rates** | **Dollar Amount** | **Dollar Change** | **Percent Change** | **NPV Ratio** | **Change (in bps)** |
| **March 31, 2020:** | | | | | |
| 200 | $ 277,713 | $ (26,160) | (8.6) % | 17.01% | (73) |
| 100 | 298,952 | (4,921) | (1.6) | 17.83 | 9 |
| - | 303,873 | - | - | 17.74 | - |
| (50) | 312,787 | 8,914 | 2.9 | 18.05 | 31 |
| (100) | 320,900 | 17,027 | 5.6 | 18.38 | 64 |
| | | | | | |
| **June 30, 2019:** | | | | | |
| 200 | $ 286,711 | $ (39,593) | (12.1) % | 18.52% | (143) |
| 100 | 309,974 | (16,330) | (5.0) | 19.45 | (50) |
| - | 326,304 | - | - | 19.95 | - |
| (100) | 330,749 | 4,445 | 1.4 | 19.79 | (16) |
| (200) | 329,929 | 3,625 | 1.1 | 19.39 | (56) |

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 March 31, 2020, cash and cash equivalents totaled $84.9 million, an increase from $60.0 million as of June 30, 2019. Securities classified as available for sale that are not pledged to support borrowing, which provide an additional source of liquidity, totaled $14.2 million at March 31, 2020, a decrease from $23.7 million as of June 30, 2019.

We had the ability to borrow up to $233.2 million and $291.2 million from the FHLB of New York, at March 31, 2020 and June 30, 2019, respectively, of which $106.1 million and $111.2 million was outstanding as of March 31, 2020 and June 30, 2019, respectively. We also had an available line of credit with the Federal Reserve Bank of New York's discount window program of $118.5 million and $118.0 million as of March 31, 2020 and June 30, 2019, respectively, none of which was outstanding at either date. Additionally, as of March 31, 2020, the Company had $25.0 million of fed funds lines of credit, none of which was outstanding as of March 31, 2020.

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 FHLB of New York, Federal Reserve Bank of New York or other available lines of credit.

We had $118.4 million and $136.8 million of loan commitments outstanding as of March 31, 2020 and June 30, 2019, respectively, and $56.5 million and $52.6 million as of March 31, 2020 and June 30, 2019, respectively, of approved, but unadvanced, funds to borrowers. We also had $1.8 million and $1.7 million in outstanding letters of credit at March 31, 2020 and June 30, 2019, respectively.

Time deposits due within one year of March 31, 2020 totaled $278.0 million, an increase of $56.2 million from $221.8 million as of June 30, 2019. 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 March 31, 2020. 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 March 31, 2020, the Holding Company (on an unconsolidated, stand-alone basis) had liquid assets of $41.1 million.

***Capital Resources.*** The Bank is subject to various regulatory capital requirements administered by the NYSDFS and the FDIC. At March 31, 2020, 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 March 31, 2020. 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 March 31, 2020, 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 March 31, 2020, 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 1, Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended June 30, 2019, filed with the Securities and Exchange Commission. As of March 31, 2020, except for the additional risk factor described below, 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, 2019.

**The COVID-19 pandemic has adversely impacted our business and financial results and that of many of our customers, and the ultimate impact will depend on future developments, which are highly uncertain, cannot be predicted and outside of our control, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.**

The COVID-19 pandemic has created extensive disruptions to the global and U.S. economies and to the lives of individuals throughout the world. The New York City Metropolitan area and environs have the highest incidence of COVID-19 in the nation, and the neighboring Tri-State area of New Jersey and Connecticut also has been particularly affected by COVID-19. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including 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 are rapidly evolving and 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. If these effects continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified in our Form 10-K could be exacerbated and the effects of COVID-19 could have a material adverse impact on us in a number of ways as described in more detail below.

*Credit Risk* – Our risks of timely loan repayment and the value of collateral supporting the loans are affected by the strength of our borrowers' businesses. Concern about the spread of COVID-19 has caused and is likely to continue to cause business shutdowns, limitations on commercial activity and financial transactions, labor shortages, supply chain interruptions, increased unemployment and commercial property vacancy rates, reduced profitability and ability for property owners to make mortgage payments, and overall economic and financial market instability, all of which may cause our customers to be unable to make scheduled loan payments. Hotel and restaurant operators and others in the leisure, hospitality and travel industries and the agricultural industry, among other industries, have been particularly hurt by COVID-19. For additional details on the Company's exposure to industries deemed more susceptible to these events, see Note 1 to Notes to Consolidated Financial Statements included in this Form 10-Q. If the effects of COVID-19 result in widespread and sustained repayment shortfalls on loans in our portfolio, we could incur significant delinquencies, foreclosures and credit losses, particularly if the available collateral is insufficient to cover our credit exposure. The future effects of COVID-19 on economic activity could negatively affect the collateral values associated with our existing loans, the ability to liquidate the real estate collateral securing our residential and commercial real estate loans, our ability to maintain loan origination volume and to obtain additional financing, the future demand for or profitability of our lending and services, and the financial condition and credit risk of our customers. Further, in the event of delinquencies, regulatory changes and policies designed to protect borrowers may slow or prevent us from making our business decisions or may result in a delay in our taking certain remediation actions, such as foreclosure. In addition, we have unfunded commitments to extend credit to customers. During a challenging economic environment like now, our customers depend more on our credit commitments and increased borrowings under these commitments could adversely impact our liquidity. Furthermore, in an effort to support our communities during the pandemic, we are participating in the Paycheck Protection Program under the CARES Act ("PPP") whereby loans to small businesses are made and those loans are subject to the regulatory requirements that would require forbearance of loan payments for a specified time or that would limit our ability to pursue all available remedies in the event of a loan default. If the borrower under the PPP loan fails to qualify for loan forgiveness, we are at the heightened risk of holding these loans at unfavorable interest rates as compared to the loans to customers that we would have otherwise extended credit. Additionally, it is the Company's understanding that loans funded through PPP are fully guaranteed by the U.S. government. Should those circumstances change, the Company could be required to establish additional allowance for loan losses through a provision for loan losses charged to earnings.

*Strategic Risk* – Our success may be affected by a variety of external factors that may affect the price or marketability of our products and services, changes in interest rates that may increase our funding costs, reduced demand for our financial products due to economic conditions and the various response of governmental and nongovernmental authorities. The COVID-19 pandemic has significantly increased economic and demand uncertainty and has led to disruption and volatility in the global capital markets. Furthermore, many of the governmental actions have been directed toward curtailing household and business activity to contain COVID-19. These actions have been rapidly expanding in scope and intensity. For example, in many of our markets, local governments have acted to temporarily close or restrict the operations of most businesses. The future effects of COVID-19 on economic activity could negatively affect the future banking products we provide, including a decline in originating loans.

*Operational Risk* – Current and future restrictions on our workforce's access to our facilities could limit our ability to meet customer servicing expectations and have a material adverse effect on our operations. We rely on business processes and branch activity that largely depend on people and technology, including access to information technology systems as well as information, applications, payment systems and other services provided by third parties. In response to COVID-19, we have modified our business practices with a portion of our employees working remotely from their homes to have our operations uninterrupted as much as possible. Further, technology in employees' homes may not be as robust as in our offices and could cause the networks, information systems, applications, and other tools available to employees to be more limited or less reliable than in our offices. The continuation of these work-from-home measures also introduces additional operational risk, including increased cybersecurity risk from phishing, malware, and other cybersecurity attacks, all of which could expose us to risks of data or financial loss and could seriously disrupt our operations and the operations of any impacted customers.

Moreover, we rely on many third parties in our business operations, including the appraiser of the real property collateral, vendors that supply essential services such as loan servicers, providers of financial information, systems and analytical tools and providers of electronic payment and settlement systems, and local and federal government agencies, offices, and courthouses. In light of the developing measures responding to the pandemic, many of these entities may limit the availability and access of their services. If the third-party service providers continue to have limited capacities for a prolonged period or if additional limitations or potential disruptions in these services materialize, it may negatively affect our operations.

*Interest Rate Risk/Market Value Risk* – Our net interest income, lending and investment activities, deposits and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from COVID-19. In March 2020, the Federal Reserve lowered the target range for the federal funds rate to a range from 0% to 0.25%, citing concerns about the impact of COVID-19 on financial markets and market stress in the energy sector. A prolonged period of extremely volatile and unstable market conditions would likely increase our funding costs and negatively affect market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices could cause a loss of future net interest income and a decrease in prevailing fair market values of our investment securities and other assets. Fluctuations in interest rates will impact both the level of income and expense recorded on most of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, which in turn could have a material adverse effect on our net income, operating results, or financial condition.

Because there have been no comparable recent global pandemics that resulted in similar global impact, we do not yet know the full extent of COVID-19's effects on our business, operations, or the global economy as a whole. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the effectiveness of our work-from-home arrangements, third party providers' ability to support our operations, and any actions taken by governmental authorities and other third parties in response to the pandemic. The uncertain future development of this crisis could materially and adversely affect our business, operations, operating results, financial condition, liquidity or capital levels.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds of Registered Securities**

(a) Not applicable

(b) Not applicable

(c) On June 20, 2019, a second repurchase program was authorized by the Board of Directors to repurchase up to 890,021 shares, or 5.0% of the Company's common stock. On February 19, 2020, PCSB Financial Corporation (the "Company") completed the program. The Company repurchased 890,021 shares at an average price of $19.99 per share.

The following table presents information regarding stock repurchases by the Company during the quarter ended March 31, 2020.

| | 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 |
|---|---|---|---|---|
| January 1, 2020 through January 31, 2020 | 285,260 | $ 20.00 | 285,260 | 188,911 |
| February 1, 2020 through February 29, 2020 | 188,911 | 20.18 | 188,911 | - |
| March 1, 2020 through March 31, 2020 | - | - | - | - |
| Total | 474,171 | $ 20.07 | 474,171 | |

**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 | 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 March 31, 2020, formatted in 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 |

(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 Registration Statement on Form S-1, as amended (Commission File No. 333-215052).

**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: May 6, 2020 | /s/ Joseph D. Roberto<br>Joseph D. Roberto<br>Chairman, President and Chief Executive Officer |
| Date: May 6, 2020 | /s/ Jeffrey M. Helf<br>Jeffrey M. Helf<br>Senior Vice President and Chief Financial Officer |



(Back To Top)

# Section 2: EX-31.1 (EX-31.1)

**Exhibit 31.1**

**Certification of Chief Executive Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Joseph D. Roberto, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PCSB Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2020

/s/ Joseph D. Roberto
Joseph D. Roberto
Chairman, President and Chief Executive Officer

(Back To Top)

# Section 3: EX-31.2 (EX-31.2)

**Exhibit 31.2**

**Certification of Chief Financial Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jeffrey M. Helf, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PCSB Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2020

/s/ Jeffrey M. Helf
Jeffrey M. Helf
Senior Vice President and Chief Financial Officer

(Back To Top)

# Section 4: EX-32 (EX-32)

**Exhibit 32**

**Certification of Chief Executive Officer and Chief Financial Officer**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Joseph D. Roberto, Chairman, President and Chief Executive Officer of PCSB Financial Corporation (the "Company"), and Jeffrey M. Helf, Senior Vice President and Chief Financial Officer of the Company, each certify in his capacity as an executive officer of the Company that he has reviewed the quarterly report on Form 10-Q for the quarter ended March 31, 2020 (the "Report") and that to the best of his knowledge:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | |
|---|---|
| Date: May 6, 2020 | /s/ Joseph D. Roberto<br>Joseph D. Roberto<br>Chairman, President and Chief Executive Officer |
| Date: May 6, 2020 | /s/ Jeffrey M. Helf<br>Jeffrey M. Helf<br>Senior Vice President and Chief Financial Officer |

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

(Back To Top)