

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended June 30, 2018

OR

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

Commission File No. 001-38065

PCSB FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Maryland
(State of Other Jurisdiction of
Incorporation or Organization)

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

81-4710738
(I.R.S. Employer
Identification No.)

10598
(Zip Code)

(914) 248-7272

(Registrant's Telephone Number, including area code)
Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, \$0.01 par value
(Title of each class)

The NASDAQ Stock Market, LLC
(Name of each exchange on which registered)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Smaller reporting company

Non-accelerated filer

Emerging growth company

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

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

As of December 29, 2017, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the voting common equity held by non-affiliates of the Registrant was \$306.8 million. The registrant does not have any non-voting common equity.

As of September 13, 2018, there were issued and outstanding 18,165,110 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2018 Annual Meeting of Stockholders (Part III).

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Forward Looking Statements

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

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

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

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

- 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 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.

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

Item 1. Business

PCSB Financial Corporation

PCSB Financial Corporation (“PCSB Financial” or the “Company”), a Maryland corporation, is the bank holding company for PCSB Bank (the “Bank”). On April 20, 2017, the Company completed its initial public offering in connection with the Bank’s conversion from a mutual savings bank to a stock savings bank, selling 17,826,408 shares of common stock at a price of \$10.00 per share. In addition, the Company contributed 338,702 shares of common stock and \$1.6 million in cash to the PCSB Community Foundation, a charitable foundation formed in connection with the conversion. As of June 30, 2018, we had consolidated assets of \$1.48 billion, consolidated deposits of \$1.16 billion and consolidated equity of \$287.6 million. Other than holding the common stock of PCSB Bank, PCSB Financial has not engaged in any significant business to date. In the future, we may pursue other business activities, including mergers and acquisitions, investment alternatives and diversification of operations; however, there are no current agreements for these activities.

The Company’s executive offices/headquarters are located at 2651 Strang Blvd., Suite 100, Yorktown Heights, NY 10598, and the telephone number at that address is (914) 248-7272.

PCSB Bank

PCSB Bank is a New York-chartered stock savings bank that serves the banking needs of customers in the Lower Hudson Valley of New York State. We operate from our executive offices/headquarters and 15 banking offices located in Dutchess (3 offices), Putnam (3 offices), Rockland (1 office) and Westchester (8 offices) Counties, New York. Our primary business activity is attracting deposits from the general public and using those funds primarily to originate and purchase commercial real estate, business loans, and one-to four-family loans and purchase investment securities. We are subject to comprehensive regulation and examination by the New York State Department of Financial Services (the “NYDFS”) and by the Federal Deposit Insurance Corporation (the “FDIC”).

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

Market Area

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

Competition

We face significant competition for deposits and loans. Our most direct competition for deposits has historically come from the many financial institutions operating in our market area, many of which are significantly larger than we are and, therefore, have greater resources. We compete with these larger institutions particularly in

our Westchester County market area. We also face competition for funds from other financial service companies such as brokerage firms, money market funds, mutual funds and other corporate and government securities issuers.

Competition for loans comes primarily from the many financial institutions operating in our market area. Our experience in recent years has been that many financial institutions in our market area, especially community banks seeking to expand their commercial loan portfolios and institutions located in highly competitive Westchester County, have been willing to price commercial loans aggressively in order to gain market share.

Lending Activities

Commercial Real Estate Loans. At June 30, 2018, commercial real estate loans were \$495.3 million, or 54.7%, of total loans receivable. Our commercial real estate loans are generally secured by properties used for business purposes such as office buildings, industrial facilities and retail facilities, and multi-family properties. At June 30, 2018, multi-family residential real estate loans, which are described below, totaled \$103.1 million. Excluding multi-family loans, \$76.1 million of our commercial real estate portfolio was owner occupied real estate and \$316.1 million was secured by income producing, or non-owner occupied real estate.

At June 30, 2018, substantially all of our commercial real estate loans were secured by properties located in the lower Hudson Valley; however, we will originate commercial real estate loans on properties located outside this area based on an established relationship with a strong borrower. We intend to continue to grow our commercial real estate loan portfolio while maintaining prudent underwriting standards. In addition to originating these loans, we also purchase and participate in commercial real estate loans with other financial institutions. At June 30, 2018, we had \$94.0 million in commercial real estate loan participations and whole loan purchases, which constituted 19.0% of our commercial loan portfolio, as compared with \$70.6 million in commercial loan participations and whole loan purchases, which constituted 16.1% of our commercial loan portfolio at June 30, 2017. Such loans are independently underwritten according to our policies and require satisfactory documentation review by our legal counsel before we will purchase or participate in such loans.

We originate a variety of adjustable-rate commercial real estate loans with terms and amortization periods generally up to 25 years, which may include balloon payment loans. Interest rates and payments on our adjustable-rate loans adjust every five, seven or ten years and generally are indexed to the prime rate or the corresponding Treasury rate, plus a margin. We generally include pre-payment penalties on commercial real estate loans we originate.

In underwriting commercial real estate loans, we consider a number of factors, which include the projected net cash flow to the loan's debt service requirement (generally requiring a minimum of 120%), the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Commercial real estate loans are generally originated in amounts up to 75% of the appraised value or the purchase price of the property securing the loan, whichever is lower. Generally, guarantees are obtained from commercial real estate customers. In addition, the borrower's and guarantor's financial information on such loans is monitored on an ongoing basis by requiring periodic financial statement updates. We encourage our commercial business borrowers to maintain their primary deposit accounts with us, which would enhance our interest rate spread and overall profitability.

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

At June 30, 2018, our largest commercial real estate loan had an outstanding balance of \$9.0 million and is secured by a non-owner occupied industrial property. At June 30, 2018, this loan was performing according to its original terms.

Multi-Family Residential Real Estate Loans. At June 30, 2018, multi-family real estate loans were \$103.1 million, or 11.4%, of total loans receivable. Our multi-family real estate loans are generally secured by properties consisting of five to 100 rental units in our market area. In addition to originating these loans, we also purchase and participate in multi-family residential real estate loans with other financial institutions. At June 30, 2018, we had \$63.4 million in multi-family residential real estate loan participations, which constituted 61.5% of our multi-family residential real estate loan portfolio, as compared with \$51.1 million in multi-family residential real estate loan participations, which constituted 55.9% of our multi-family residential real estate loan portfolio at June 30, 2017. Such loans are independently underwritten according to our policies and require satisfactory documentation review by our legal counsel before we will purchase or participate in such loans.

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

In underwriting multi-family residential real estate loans, we consider a number of factors, which include the projected net cash flow to the loan's debt service requirement (generally requiring a minimum of 120%), the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Multi-family residential real estate loans are generally originated in amounts up to 75% of the appraised value or the purchase price of the property securing the loan, whichever is lower. Generally, guarantees are obtained from multi-family residential real estate customers. In addition, the borrower's and guarantor's financial information on such loans is monitored on an ongoing basis by requiring periodic financial statement updates. We encourage our commercial business borrowers to maintain their primary deposit accounts with us, which would enhance our interest rate spread and overall profitability.

At June 30, 2018, our largest multi-family residential real estate loan had an outstanding balance of \$7.2 million and is secured by a 208-unit apartment complex. At June 30, 2018, this loan was performing according to its original terms.

Commercial Loans. We originate commercial term loans and variable lines of credit to a variety of small and medium sized businesses in our market area. These loans are generally secured by business assets, and we may support this collateral with junior liens on real property. At June 30, 2018, commercial business loans were \$104.1 million, or 11.5% of total loans receivable. Customers for these loans include professional businesses, multi-generational family-owned businesses, and not for profit businesses. We encourage our commercial business borrowers to maintain their primary deposit accounts with us, which would enhance our interest rate spread and overall profitability.

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

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

At June 30, 2018, \$2.9 million of commercial loans are to developers to purchase land. These loans are underwritten for projects with appropriate construction or development approvals already in place, have variable rates of interest and terms up to 3 years. Additionally, these loans are made in amounts up to 50% of the land value.

At June 30, 2018, our largest commercial loan had an outstanding balance of \$14.3 million and is secured by 165 individual loans to medical professionals. At June 30, 2018, this loan was performing according to its original terms.

Construction Loans. We originate loans to finance the construction of one- to four-family residential properties, and commercial and multi-family properties. At June 30, 2018, construction and land development loans were \$17.4 million, or 1.9% of total loans receivable, consisting of \$3.8 million of one- to four-family residential construction loans and \$13.6 million of commercial and multi-family real estate construction loans. The majority of these loans are secured by properties located in our primary market area. PCSB Bank will occasionally, through a local nonprofit, fund the construction of low-income multi-family properties.

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

At June 30, 2018, our largest construction and land development loan had an outstanding balance of \$7.0 million and is secured by a 75-unit apartment complex. At June 30, 2018, this loan was performing according to its original terms.

Residential Mortgage Loans. Our one- to four-family residential loan portfolio consists of mortgage loans that enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. At June 30, 2018, one- to four-family residential real estate loans were \$250.6 million, or 27.7% of total loans receivable, consisting of \$223.8 million of fixed-rate loans and \$26.4 million of adjustable-rate loans. In addition to originating these loans, we also purchase residential mortgage loans from other financial institutions. At June 30, 2018, purchased loans totaled \$56.3 million, or 22.5% of the residential mortgage loan portfolio, as compared to \$21.5 million, or 9.9% of the residential mortgage loan portfolio as of June 30, 2017.

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

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

We will originate one- to four-family residential mortgage loans with loan-to-value ratios up to 80% without private mortgage insurance. We will originate loans with loan-to-value ratios of up to 95% with private mortgage insurance and where the borrower’s debt does not exceed 45% of the borrower’s monthly cash flow. To encourage lending to low- and moderate-income home buyers, we have several in-house developed programs which can

include low down payments, lender-paid PMI, a lower than market interest rate, or a grant to be used towards closing costs.

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

Home Equity Lines of Credit. At June 30, 2018, the outstanding balance owed on home equity lines of credit was \$37.4 million, or 4.1 % of total loans receivable. Home equity lines of credit have adjustable rates of interest that are indexed to the prime rate, plus a margin.

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

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

Other Loans. We offer consumer and deposit overdraft loans. At June 30, 2018, other loans were \$745,000, or 0.1% of total loans receivable, and included \$255,000 of personal loans and \$490,000 of overdrafts. The procedures for underwriting these loans include an assessment of the applicant’s and guarantor’s, if applicable, payment history on other debts and ability to meet existing obligations and payments on the proposed loan.

Loan Underwriting Risks

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

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

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

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

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

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

Loan Approval Procedures and Authority

Our lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by our board of directors and management. The board of directors has granted loan approval authority to certain senior officers up to prescribed limits not exceeding \$4.0 million depending on the officer's experience. Loans approved under these officer authorities require dual signatures of the loan officer assigned to the loan and the officer with the appropriate approval authority. Loans in excess of \$4.0 million and up to \$11.0 million require approval of the Loan Committee of the board of directors, as do any extensions of credit to classified

borrowers in excess of \$2.0 million or loans up to \$4.0 million that involve an exception to policy. Loans greater than \$11.0 million and loans greater than \$4.0 million that involve exceptions to policy must be authorized by the board of directors. Exceptions are reported to the board of directors monthly.

Investment Activities

We have legal authority to invest in various types of investment securities and liquid assets, including U.S. Treasury obligations, securities of various government-sponsored enterprises, residential and commercial mortgage-backed securities, municipal government securities, deposits at the Federal Home Loan Bank of New York ("FHLBNY"), certificates of deposit of federally insured institutions, and investment grade corporate bonds. We also are required to maintain an investment in FHLBNY stock, which investment is based on the level of our FHLBNY borrowings. At June 30, 2018, our investment portfolio had a fair value of \$448.7 million and consisted primarily of U.S. Government securities, U.S. Government agency securities, including residential and commercial mortgage-backed securities, collateralized mortgage obligations and investment grade corporate bonds.

Although we have the authority under applicable law to invest in derivative securities, we had no investments in derivative securities at June 30, 2018.

Our investment objectives are to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, to provide a use of funds when demand for loans is weak and to generate a favorable return. Our board of directors has the overall responsibility for the investment portfolio, including approval of our investment policy. Our management is responsible for implementation of the investment policy and monitoring our investment performance. The Asset/Liability Committee reviews the status of our investment portfolio quarterly. See Note 4 to Notes to Consolidated Financial Statements.

Sources of Funds

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

Deposit Accounts. The substantial majority of our deposits are from depositors who reside in our primary market area. Deposits are attracted through the offering of a broad selection of deposit instruments for both individuals and businesses. At June 30, 2018, our deposits totaled \$1.16 billion and included \$60.0 million of brokered time deposits, as well as \$39.1 million of municipal deposits held by PCSB Bank's commercial bank subsidiary, PCSB Commercial Bank.

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

Borrowings. We primarily utilize advances from the FHLBNY to supplement our supply of investable funds. The FHLBNY functions as a central reserve bank providing credit for its member financial institutions. As a member, we are required to own capital stock in the FHLBNY and are authorized to apply for advances on the security of such stock and securities which are obligations of, or guaranteed by, the United States. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the FHLBNY's assessment of the institution's creditworthiness. At June 30, 2018, we had \$296.1 million of available borrowing capacity with the FHLBNY and had \$18.8 million in advances outstanding. All of our

borrowings from the FHLBNY are secured by investment securities. At June 30, 2018, we also had an available line of credit with the Federal Reserve Bank of New York's discount window program of \$122.1 million, none of which was outstanding at that date. This line of credit is secured by certain qualifying 1-4 family residential mortgage loans.

Personnel

At June 30, 2018, we had 155 full-time and 28 part-time employees, none of whom is represented by a collective bargaining unit.

Subsidiaries

PCSB Bank is the wholly-owned subsidiary of PCSB Financial. PCSB Bank has three wholly-owned subsidiaries: PCSB Commercial Bank, PCSB Funding Corp. and UpCounty Realty Inc. PCSB Commercial Bank, a New York-chartered special purpose commercial bank, is authorized to accept deposits from New York municipalities. PCSB Funding Corp., a Delaware corporation, is a real estate investment trust that holds certain mortgage assets. UpCounty Realty Inc., a New York corporation, holds title to real estate properties foreclosed upon by PCSB Bank.

Regulation and Supervision

General

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

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

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

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

In addition to creating the Consumer Financial Protection Bureau, the Dodd-Frank Act, among other things, directed changes in the way that institutions are assessed for deposit insurance, mandated the imposition of tougher

consolidated capital requirements on holding companies, required the issuance of regulations requiring originators of securitized loans to retain a percentage of the risk for the transferred loans, imposed regulatory rate-setting for certain debit card interchange fees, repealed restrictions on the payment of interest on commercial demand deposits and contained a number of reforms related to mortgage originations. The Dodd-Frank Act has increased our compliance costs and we expect that these costs will persist.

The Dodd-Frank Act contained the so-called “Volcker Rule,” which generally prohibits banking organizations from engaging in proprietary trading and from investing in, sponsoring or having certain relationships with hedge or private equity funds (“covered funds”). The federal agencies have issued a final rule implementing the Volcker Rule which, among other things, requires banking organizations to restructure and limit certain of their investments in and relationships with covered funds. PCSB Bank does not engage in activities subject to the Volcker Rule.

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

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

New York Banking Laws and Supervision

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

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

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

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

Loans to One Borrower Limitations. Under the New York Banking Law, PCSB Bank’s total loans or extensions of credit to a single borrower or group of related borrowers cannot exceed, with specified exceptions, 15% of its capital stock, surplus fund and undivided profits. The Bank’s lending limit as of June 30, 2018 was \$30.8

million. PCSB Bank may lend additional amounts up to 10% if the loans or extensions of credit are fully secured by readily-marketable collateral. At June 30, 2018, PCSB Bank complied with these loans-to-one-borrower limitations. At June 30, 2018, PCSB Bank's largest aggregate amount of loans to one borrower was \$23.7 million.

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

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

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

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

Recent New York Legislative and Regulatory Developments. The New York State Legislature and the NYSDFS have adopted and proposed new laws and regulations and issued new guidance in a number of areas affecting PCSB Bank's operations. These include:

- In June 2016, the New York Legislature enacted legislation to address "zombie properties", meaning residential property abandoned by a homeowner after the initiation, but prior to the completion of, a foreclosure proceeding. Under this law, a mortgagee bank has a duty to maintain and secure a residential real property where there is a reasonable basis to believe it is vacant and abandoned, and faces civil penalties up to \$500 per violation, per property, per day for failing to do so. As enacted, the legislation does not apply to PCSB Bank because we originate, own, service and maintain our own mortgages and we originate less than 0.3 percent of one- to four-family real property mortgages in New York. However, there can be no assurance that any future amendments to this law will not include us.
- In June 2016, the NYSDFS adopted a regulation that requires New York chartered banks to maintain programs to monitor and filter transactions for potential Bank Secrecy Act and anti-money laundering violations and prevent transactions with sanctioned entities. The regulation requires regulated institutions annually to submit a board resolution or senior officer compliance finding confirming steps taken to ascertain compliance with the regulation. Under the new regulation, which became effective

January 1, 2017, banks are required to review their transaction-monitoring and filtering programs and ensure that they are reasonably designed to comply with risk-based safeguards. The institutions also must adopt (at the institution's option) an annual board resolution or senior officer compliance finding to certify compliance with the regulation beginning April 15, 2018. The resolution or finding must state that documents, reports, certifications and opinions of officers and other relevant parties have been reviewed by the board of directors or senior official to certify compliance with the regulation.

- In March 2017, the NYSDFS adopted a regulation which requires New York chartered banks to establish and maintain a cybersecurity program designed to protect consumers and ensure the safety and soundness of the savings bank. The regulation, which is similar to guidance issued by the federal bank regulators, requires regulated financial institutions to establish a cybersecurity program; adopt a written cybersecurity policy; designate a Chief Information Security Officer responsible for implementing, overseeing and enforcing its new program and policy; and have policies and procedures designed to ensure the security of information systems and nonpublic information accessible to, or held by, third-parties, along with a variety of other requirements to protect the confidentiality, integrity and availability of information systems. Certain sections of the regulation have transitional periods requiring compliance 180 days to 2 years from the effective day, with written certification of compliance to NYSDFS commencing on February 15, 2018. We believe that our cybersecurity policies and procedures comply with the new regulation.
- In October 2016, the NYSDFS issued guidance regarding incentive compensation. The guidance prohibits the payment by New York chartered banks of incentive compensation tied to employee performance indicators, such as the number of accounts opened, or the number of products sold per customer, without effective risk management, oversight and control. Banks considering the adoption of such incentive compensation plans must balance between risks and rewards, emplace effective controls and risk management and have strong corporate governance, including active and effective oversight by the board of directors. We will ensure that any incentive compensation plan we adopt will conform to this guidance. See "Management – Executive Compensation-Proposed Short-Term Incentive Plan".

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

Federal Bank Regulation

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

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

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

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that has revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets), sets the leverage ratio at a uniform 4% of total assets and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on non-accrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain “available-for-sale” securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out is exercised. PCSB Bank has elected to exercise its one-time option to opt-out of the requirement under the final rule to include certain “available-for-sale” securities holdings for purposes of calculating its regulatory capital requirements. The rule limits a banking organization’s capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a “capital conservation buffer” which, when fully phased in, will consist of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule became effective on January 1, 2015. The “capital conservation buffer” will be phased in from January 1, 2016 to January 1, 2019, when the full capital conservation buffer will be effective.

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

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

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

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

Interstate Banking and Branching. Federal law permits well capitalized and well managed bank holding companies to acquire banks in any state, subject to Federal Reserve Board approval, certain concentration limits and

other specified conditions. Inter state mergers of banks are also authorized, subject to regulatory approval and other specified conditions. In addition, among other things, the Dodd-Frank Act permits banks to establish de novo branches on an interstate basis provided that branching is authorized by the law of the host state for the banks chartered by that state.

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

The FDIC has adopted regulations to implement the prompt corrective action legislation. An institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is “undercapitalized” if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be “critically undercapitalized” if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%. At June 30, 2018, PCSB Bank was classified as a “well capitalized” institution.

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

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

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

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

Federal Insurance of Deposit Accounts. PCSB Bank is a member of the Deposit Insurance Fund, which is administered by the FDIC. Deposit accounts in PCSB Bank are insured up to a maximum of \$250,000 for each separately insured depositor.

The FDIC imposes an assessment for deposit insurance on all depository institutions. Under its risk-based assessment system, insured institutions are assigned to risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned and certain adjustments specified by regulation, with less risky institutions paying lower rates. Assessment rates (inclusive of possible adjustments) currently range from 2 1/2 to 45 basis points of each institution's total assets less tangible capital. The FDIC may increase or decrease the scale uniformly, except that no adjustment can deviate by more than two basis points from the base scale without notice and comment rulemaking. The FDIC's current system represents a change, required by the Dodd-Frank Act, from its prior practice of basing the assessment on an institution's volume of deposits.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of \$10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC. It has recently exercised that discretion by establishing a long range fund ratio of 2%.

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

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

In addition to the FDIC assessments, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019.

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

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

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

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

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

Other Regulations

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

- Truth in Lending Act, which requires lenders to disclose the terms and conditions of consumer credit;

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

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

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

Federal Reserve System

Federal Reserve Board regulations require depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2018, the regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for that portion of transaction accounts aggregating \$122.3 million or less (which may be adjusted by the Federal Reserve Board) the reserve requirement is 3.0% and the amounts greater than \$122.3 million require a 10.0% reserve (which may be adjusted annually by the Federal Reserve Board between 8.0% and 14.0%). The first \$16.0 million of otherwise reservable balances (which may be adjusted by the Federal Reserve Board) are exempted from the reserve requirements. PCSB Bank is in compliance with these requirements.

Federal Home Loan Bank System

PCSB Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Members of the Federal Home Loan Bank are required to acquire and hold shares of capital stock in the Federal Home Loan Bank. PCSB Bank complied with this requirement at June 30, 2018. Based on redemption provisions of the FHLBNY, the stock has no quoted market value and is carried at cost. PCSB Bank reviews for impairment based on the ultimate recoverability of the cost basis of the FHLBNY stock. At June 30, 2018, no impairment has been recognized.

At its discretion, the FHLBNY may declare dividends on the stock. The Federal Home Loan Banks are required to provide funds for certain purposes including the resolution of insolvent thrifts in the late 1980s and to contributing funds for affordable housing programs. These requirements could reduce the amount of dividends that the FHLB pay to their members and result in the FHLB imposing a higher rate of interest on advances to their members. While the FHLBNY currently pays a dividend on its capital stock, there can be no assurance that such dividends will continue in the future. Further, there can be no assurance that the impact of recent or future legislation on the FHLB also will not cause a decrease in the value of the FHLBNY stock held by PCSB Bank.

Holding Company Regulation

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

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

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

PCSB Financial is subject to the Federal Reserve Board’s capital adequacy guidelines for bank holding companies (on a consolidated basis), which have historically been similar to, though less stringent than, those of the FDIC for PCSB Bank. The Dodd-Frank Act, however, required the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to depository institutions themselves. Instruments such as cumulative preferred stock and trust preferred securities would no longer be includable as Tier 1 capital, as is currently the case with bank holding companies, subject to certain grandfathering rules. The previously discussed final rule regarding regulatory capital requirements implements the Dodd-Frank Act as to bank holding company capital standards. Consolidated regulatory capital requirements identical to those applicable to the subsidiary banks apply to bank holding companies (with greater than \$1.0 billion of assets) at January 1, 2015. As is the case with depository institutions themselves, the capital conservation buffer will be phased-in between 2016 and 2019.

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

The Federal Reserve Board has issued a policy statement regarding capital distributions, including dividends, by bank holding companies. In general, the policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with

the organization's capital needs, asset quality and overall financial condition. The policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The Dodd-Frank Act codified the source of strength doctrine. Under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of PCSB Financial to pay dividends or otherwise engage in capital distributions.

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

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

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

Federal Securities Laws

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

Emerging Growth Company Status

PCSB Financial qualifies as an emerging growth company under the The Jumpstart Our Business Startups Act (the "JOBS Act"). Under the JOBS Act, a company with total annual gross revenues of less than \$1.0 billion (adjusted for inflation) during its most recently completed fiscal year qualifies as an "emerging growth company."

An "emerging growth company" may choose not to hold shareholder votes to approve annual executive compensation (more frequently referred to as "say-on-pay" votes) or executive compensation payable in connection with a merger (more frequently referred to as "say-on-golden parachute" votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company's internal control over financial reporting, and can provide scaled disclosure regarding executive compensation. Finally, an emerging growth company may elect to comply with new or amended accounting pronouncements in the same manner as a private company but must make such election when the company is first required to file a registration statement. Such an election is irrevocable during the period a company is an emerging growth company. PCSB Financial has elected to comply with new or amended accounting pronouncements in the same manner as a public company.

A company loses emerging growth company status on the earlier of: (i) the last day of the fiscal year of the company during which it had total annual gross revenues of \$1.0 billion or more; (ii) the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the company pursuant to an effective registration statement under the Securities Act of 1933; (iii) the date on which such company has, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt; or (iv) the date on which such company is deemed to be a "large accelerated filer" under Securities and Exchange Commission regulations (generally, at least \$700 million of voting and non-voting equity held by non-affiliates).

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by

improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. PCSB Financial has policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

Change in Control Regulations

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

Federal regulations provide that no company may acquire control (as defined in the Bank Holding Company Act) of a bank holding company without the prior approval of the Federal Reserve Board. Any company that acquires such control becomes a "bank holding company" subject to registration, examination and regulation by the Federal Reserve Board. In addition, under the New York Banking Law, for a period of three years following completion of a conversion to stock form, no person may directly or indirectly offer to acquire or acquire beneficial ownership of more than 10% of any class of equity security of a converting mutual savings bank without prior written approval of NYSDFS.

Taxation

Federal Taxation

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

Tax Reform. On December 22, 2017, the Tax Act was enacted, which among other changes included a reduction of the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result, the Company was required to remeasure, through income tax expense, the Company's deferred tax assets and liabilities using the enacted rate at which the deferred items are expected to be recovered or settled. The remeasurement of our net deferred tax asset resulted in additional income tax expense of \$1.6 million for the year ended June 30, 2018.

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

Minimum Tax. As a result of the aforementioned tax reform, the alternative minimum tax rate is reduced from 20% to 0% for all tax years beginning after December 31, 2017. Alternative minimum tax credit carryforwards from prior tax years can be applied to reduce future taxable income and are refundable, subject to certain limitations. At June 30, 2018, PCSB Bank had no alternative minimum tax credit carryforwards.

Net Operating Loss Carryovers. Generally, a financial institution may carry forward net operating losses indefinitely and are subject to a limitation of 80% of taxable income. See Note 14 to Consolidated Financial Statements for additional information.

Charitable Contributions Carryovers. Generally, charitable contributions are limited to 10% of taxable income, however financial institutions may carryforward unused contributions for up to 5 years. At June 30, 2018 the Company has charitable contributions carryforwards totaling \$3.8 million, for which we expect to fully realize the benefit. See Note 14 to Consolidated Financial Statements for additional information.

Capital Loss Carryovers. Generally, a financial institution may carry back capital losses to the preceding three taxable years and forward to the succeeding five taxable years. Any capital loss carryback or carryover is treated as a short-term capital loss for the year to which it is carried. As such, it is grouped with any other capital losses for the year to which carried and is used to offset any capital gains. Any undeducted loss remaining after the five-year carryover period is not deductible. At June 30, 2018, PCSB Bank had no capital loss carryovers.

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

Audit of Tax Returns. PCSB Bank's federal income tax returns and New York State income tax returns have not been audited in the last three years.

State Taxation

In March 2014, tax legislation was enacted that changed the manner in which financial institutions and their affiliates are taxed in New York State. Taxable income is apportioned to New York State based on the location of the taxpayer's customers, with special rules for income from certain financial transactions. The location of the taxpayer's offices and branches are not relevant to the determination of income apportioned to New York State. The statutory tax rate is currently 6.5%. An alternative tax of 0.15% on apportioned capital is imposed to the extent that it exceeds the tax on apportioned income. The New York State alternative tax is capped at \$5 million for a tax year and is gradually phased out over a six-year period. Thrift institutions that maintain a qualified residential loan portfolio are entitled to a specially computed modification that reduces the income taxable to New York State.

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

Item 1A. Risk Factors

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

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

We originate and purchase commercial real estate and commercial business loans. At June 30, 2018, our commercial real estate and commercial business loans totaled \$616.8 million, or 68.0% of our loan portfolio. While these types of loans are potentially more profitable than residential mortgage loans, they are generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. These loans also generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, any charge-offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. See "—Loan Underwriting Risks."

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

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

loans to commercial real estate related entities, represent 300% or more of total risk-based capital. At June 30, 2018, the Bank's ADC loans and total commercial real estate loans represented 13.13% and 228.58% of total risk-based capital.

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

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

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

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

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

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

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

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

Changes in interest rates could reduce our profits.

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

If rates on our deposits reprice upwards faster than the rates on our long-term loans and investments, we would experience compression of our interest rate spread, which would have a negative effect on our profitability. Furthermore, increases in interest rates may adversely affect the ability of our borrowers to make loan repayments on adjustable-rate loans, as the interest owed on such loans would increase as interest rates increase. Conversely, decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such loan or securities proceeds into lower-yielding assets, which might also negatively impact our income. If interest rates rise, we expect that our net portfolio value of equity would decrease. Net portfolio value of equity represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities adjusted for the value of off-balance sheet contracts. At June 30, 2018, and assuming a 200 basis point increase in market interest rates, we estimate that our net portfolio value of equity would decrease by \$50.7 million, or 15.2%. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk—Net Portfolio Value Simulation.”

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

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

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

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

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

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

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

We have become subject to more stringent capital requirements, which may adversely impact our return on equity, require us to raise additional capital, or constrain us from paying dividends or repurchasing shares.

In July 2013, the federal banking agencies approved a new rule that has substantially amended regulatory risk-based capital rules. The final rule implements the regulatory capital reforms from the Basel Committee on Banking Supervision (“Basel III”) and changes required by the Dodd-Frank Act.

The final rule includes new minimum risk-based capital and leverage ratios, which were effective for us on January 1, 2015, and refines the definition of what constitutes “capital” for purposes of calculating these ratios. The new minimum capital requirements are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from prior rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also requires unrealized gains and losses on certain “available-for-sale” securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out is exercised. We have elected to exercise our one-time option to opt-out of the requirement under the final rule to include certain “available-for-sale” securities holdings for purposes of calculating our regulatory capital requirements. The final rule also establishes a “capital conservation buffer” of 2.5%, and, when fully phased in, will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 to risk-based assets capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement has been phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

We have analyzed the effects of these new capital requirements, and we believe that we would meet all of these new requirements, including the full 2.5% capital conservation buffer, as if these new requirements had been in effect as of June 30, 2018.

The application of more stringent capital requirements could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy, and could limit our ability to make distributions, including paying out dividends or buying back shares. See “Supervision and Regulation—Federal Bank Regulation—Capital Requirements.”

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

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

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

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

Various factors may make takeover attempts more difficult to achieve.

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

Under Federal Reserve Board regulations, for a period of three years following completion of the conversion and offering, no person may directly or indirectly acquire or offer to acquire beneficial ownership of more than 10% of our common stock without prior approval of the Federal Reserve Board. Under federal law, subject to certain exemptions, a person, entity or group must notify the Federal Reserve Board before acquiring control of a bank holding company. Acquisition of 10% or more of any class of voting stock of a bank holding company creates a rebuttable presumption that the acquirer “controls” the bank holding company. Also, a bank holding company must obtain the prior approval of the Federal Reserve Board and the NYSDFS before, among other things, acquiring direct or indirect ownership or control of more than 5% of any class of voting shares of any bank, including PCSB Bank.

There also are provisions in our articles of organization that may be used to delay or block a takeover attempt, including a provision that prohibits any person from voting more than 10% of the shares of common stock outstanding. Furthermore, shares of restricted stock and stock options that we have granted or may grant to employees and directors, stock ownership by our management and directors, employment agreements that we have entered into with our executive officers and other factors may make it more difficult for companies or persons to

acquire control of the Company without the consent of our board of directors. Taken as a whole, these statutory provisions and provisions in our articles of incorporation could result in our being less attractive to a potential acquirer and thus could adversely affect the market price of our common stock.

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

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

Our success depends on retaining certain key personnel.

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

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

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

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

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

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

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

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

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

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

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

Counterparties expose the Company to risks.

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

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

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

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

The Company's business strategy includes growth through acquisitions, which present risks, including: regulatory approval delays, operations and personnel integration challenges, potential ongoing business disruption,

difficulty maintaining uniform standards, controls, procedures and policies, issues with information systems integration and the impairment of relationships with employees and customers as a result of changes in ownership and management. Further, the asset quality or other financial characteristics of a company may deteriorate after the acquisition agreement is signed or after the acquisition closes.

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

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

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

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

Loan participations could expose the Company to losses.

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

We may be adversely affected by recent changes in U.S. tax laws and regulations.

Changes in tax laws contained in the Tax Cuts and Jobs Act, which was enacted in December 2017, include a number of provisions that will have an impact on the banking industry, borrowers and the market for single-family residential real estate. Included in this legislation is a reduction of the corporate income tax rate from 34% to 21%. In addition, other changes include (i) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (ii) the elimination of interest deductions for home equity loans, (iii) a limitation on the deductibility of business interest expense and (iv) a limitation on the deductibility of property taxes and state and local income taxes. These recent changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future and could make it harder for borrowers to make their loan payments. In addition, these recent changes may also have a disproportionate effect on taxpayers in states with high residential home prices and high state and local taxes, such as New York. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in our

loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations.

Our ability to pay dividends is subject to regulatory limitations and other limitations.

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

At June 30, 2018, we conducted business through our administrative/headquarters office in Yorktown Heights and our 15 banking offices located in Brewster (main banking office), Eastchester, Fishkill, Greenburgh, Jefferson Valley, Kent, Mahopac, Mount Kisco, Mount Vernon, New City, Pawling (2 branch offices), East White Plains, Somers, and Yorktown Heights, all of which are located in New York. We own 4 and lease 12 of our properties. At June 30, 2018, the net book value of our land, buildings, furniture, fixtures and equipment was \$11.6 million. The Company's and Bank's executive offices/headquarters are located in a leased facility at 2651 Strang Blvd., Suite 100, Yorktown Heights, New York.

Item 3. Legal Proceedings

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

The Company's shares of common stock are traded on the NASDAQ Capital Market under the symbol "PCSB". The approximate number of stockholders of record of the Company's common stock as of June 30, 2018 is 1,438.

The following tables set forth for the periods indicated the intra-day high and low sales prices per share of common stock as reported by The Nasdaq Stock Market. The Company completed its initial public offering on April 20, 2017, and its stock commenced trading on April 21, 2017. Prior to the initial public offering, the Company had no shares issued or outstanding. On June 30, 2018, the closing market price of the Company's common stock was \$19.87.

	Year Ended June 30, 2018		
	High	Low	Dividend
Fourth Quarter	\$ 21.66	\$ 19.61	\$ 0.03
Third Quarter	21.95	18.92	—
Second Quarter	20.12	18.25	—
First Quarter	18.94	16.69	—

	Year Ended June 30, 2017		
	High	Low	Dividend
Fourth Quarter (from April 21, 2017)	\$ 17.91	\$ 16.24	\$ —
Third Quarter	N/A	N/A	—
Second Quarter	N/A	N/A	—
First Quarter	N/A	N/A	—

Dividends

The Company's board of directors has the authority to declare dividends on our shares of common stock, subject to statutory and regulatory requirements. In determining whether to pay a cash dividend and the amount of such cash dividend, the board of directors is expected to take into account a number of factors, including capital requirements, our consolidated financial condition and results of operations, other uses of funds for the long-term value of stockholders, tax considerations, statutory and regulatory limitations and general economic conditions. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in the future. Special cash dividends, stock dividends or returns of capital, to the extent permitted by applicable law, may be paid in addition to, or in lieu of, regular cash dividends. PCSB Financial files a consolidated tax return with PCSB Bank. Accordingly, any cash distributions made by us to our stockholders would be treated as cash dividends and not as a non-taxable return of capital for federal and state tax purposes. Additionally, pursuant to applicable regulations, during the three-year period following our stock offering, we will not take any action to declare an extraordinary dividend to stockholders that would be treated by recipients as a tax-free return of capital for federal income tax purposes.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. In addition, the Federal Reserve Board has established requirements with respect to the maintenance of appropriate levels of capital by registered bank holding companies. These regulatory policies and requirements could affect our ability to pay dividends. See "Regulation and Supervision-Holding Company Regulation." and "Federal Bank Regulation-Capital Requirements."

Initially, dividends we can declare and pay will depend upon the net proceeds retained from the stock offering and the earnings received from the investment of those proceeds. In the future, dividends will depend in large part

upon receipt of dividends from PCSB Bank, because we expect to have limited sources of income other than dividends from PCSB Bank, net income earned on the net proceeds of the offering and interest payments received in connection with the loan to the employee stock ownership plan

Pursuant to our articles of incorporation, we are authorized to issue preferred stock. If we issue preferred stock, the holders thereof may have a priority over the holders of our shares of common stock with respect to the payment of dividends. We have no preferred stock outstanding and currently have no plans to issue preferred stock in the future.

New York banking law and FDIC regulations impose limitations on capital distributions by savings institutions. See “Supervision and Regulation-New York Banking Laws and Supervision-Dividends.”

Any payment of dividends by PCSB Bank to us that would be deemed to be drawn out of PCSB Bank’s bad debt reserves, if any, would require a payment of taxes at the then-current tax rate by PCSB Bank on the amount of earnings deemed to be removed from the reserves for such distribution. PCSB Bank does not intend to make any distribution to us that would create such a federal tax liability.

On August 2, 2018, the Board of Directors declared a regular quarterly cash dividend of \$0.03 per share. The dividend was paid on August 31, 2018 to stockholders of record on August 17, 2018.

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

None.

Securities Authorized for Issuance under Equity Compensation Plans

None.

Issuer Purchases of Equity Securities

None.

Item 6. Selected Financial Data

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

	At June 30,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Selected Financial Condition Data:					
Total Assets	\$ 1,480,187	\$ 1,426,458	\$ 1,262,071	\$ 1,200,750	\$ 976,630
Cash and cash equivalents	62,145	60,486	41,578	77,761	105,250
Securities held-to-maturity	353,183	383,551	270,679	269,913	267,146
Securities available-for-sale	105,504	111,889	112,351	84,943	72,109
Loans receivable, net	902,336	809,648	782,336	727,134	507,161
Goodwill and other intangibles	6,539	6,665	6,808	6,703	-
Total Liabilities	1,192,628	1,146,612	1,152,122	1,090,479	864,991
Deposits	1,157,457	1,088,461	1,112,695	1,060,505	856,518
Federal Home Loan Bank advances	18,841	42,598	20,081	14,000	-
Total shareholders' equity (total equity before June 30, 2017)	287,559	279,846	109,949	110,271	111,639

	For the Year Ended June 30,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Selected Operating Data:					
Interest and dividend income	\$ 47,960	\$ 40,958	\$ 39,044	\$ 28,827	\$ 25,864
Interest expense	6,323	5,293	4,812	3,884	3,634
Net interest income	41,637	35,665	34,232	24,943	22,230
Provision for loan losses	414	823	1,859	1,326	903
Net interest income after provision	41,223	34,842	32,373	23,617	21,327
Non-interest income (1)	2,519	4,084	1,951	1,567	1,650
Non-interest expense (2)(3)	32,116	34,431	30,265	23,974	20,651
Income before income tax expense	11,626	4,495	4,059	1,210	2,326
Income tax expense (4)	5,022	1,266	1,133	702	699
Net income	\$ 6,604	\$ 3,229	\$ 2,926	\$ 508	\$ 1,627

- (1) Non-interest income for the year ended June 30, 2018 includes \$236,000 of gains on sale of securities and the year ended June 30, 2017 includes a \$1.6 million settlement on an acquired loan, respectively.
- (2) Non-interest expense for the years ended June 30, 2016 and 2015 include merger expenses of \$790,000 and \$1.1 million, respectively.
- (3) Non-interest expense for the year ended June 30, 2017 includes a \$5.0 million contribution expense related to the Company's contribution and establishment of the PCSB Community Foundation, as well as a \$919,000 curtailment gain on the Bank's defined benefit pension plan.
- (4) In connection with the passage of the Tax Cuts and Jobs Act, the Company recorded a \$1.6 million charge to income tax expense for the year ended June 30, 2018, primarily reflecting a write-down of our deferred tax asset resulting from a decrease in the corporate income tax rate from 34% to 21%.

At or For the Year Ended June 30,

	2018	2017	2016	2015	2014
Selected Financial Ratios:					
Return on average assets (1)	0.46%	0.25%	0.24%	0.05%	0.17%
Return on average equity (2)	2.33	2.14	2.59	0.45	1.47
Noninterest income to average assets	0.18	0.31	0.16	0.15	0.17
Noninterest expense to average assets	2.24	2.64	2.48	2.34	2.14
Interest rate spread	2.86	2.79	2.84	2.41	2.27
Net interest margin (3)	3.03	2.88	2.92	2.50	2.30
Efficiency ratio (4)(7)	72.73	86.62	83.64	90.43	86.46
Dividend payout ratio (8)	7.63	n/a	n/a	n/a	n/a
Average interest-earning assets to average interest-bearing liabilities	135.94	122.32	120.01	122.55	125.00
Loans to deposits	77.96	74.38	70.31	68.56	59.21
Equity to assets (5)	19.80	11.59	9.27	11.03	11.47
Tangible equity to tangible assets (6)	19.43	11.13	8.77	10.93	11.47
Book value per common share	\$ 15.83	\$ 15.41	n/a	n/a	n/a
Tangible book value per common share (7)	\$ 15.47	\$ 15.04	n/a	n/a	n/a
Capital Ratios:					
Tier 1 capital (to adjusted total assets)	19.54%	19.95%	8.92%	8.88%	11.73%
Tier 1 capital (to risk-weighted assets)	30.29	31.63	13.47	15.47	22.49
Total capital (to risk-weighted assets)	30.29	31.63	13.96	16.03	23.29
Common equity Tier 1 capital (to risk-weighted assets)	30.81	32.21	13.47	15.47	22.49
Asset Quality Ratios:					
Allowance for loan losses as a percent of total gross loans	0.54	0.63	0.51	0.54	0.80
Allowance for loan losses as a percent of non-performing loans	81.71	42.66	32.17	18.69	22.70
Net charge-offs (recoveries) to average outstanding loans during the period	0.08	(0.04)	0.23	0.27	0.17
Non-performing loans as a percent of total loans	0.66	1.48	1.60	2.87	3.51
Non-performing assets as a percent of total assets	0.44	0.92	1.07	1.78	1.85
Other Data:					
Number of offices	15	15	15	15	10
Number of full-time equivalent employees	170	171	169	174	138

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

(2) Represents net income divided by average equity.

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

(4) Represents non-interest expense divided by the sum of net interest income and non-interest income.

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

(6) Average tangible equity to average tangible assets is a non-GAAP financial measure and represents average tangible equity calculated as a percentage of average tangible assets for the period presented. We believe that a disclosure of tangible equity to tangible assets may be helpful for those investors who seek to evaluate our equity without giving effect to goodwill and other intangible assets. The following table presents a reconciliation of average tangible equity to average tangible assets for the periods presented:

	For the Year Ended June 30,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Average equity	\$ 283,672	\$ 151,026	\$ 112,955	\$ 112,760	\$ 110,671
Less: Average goodwill and other intangibles	6,606	6,741	6,663	1,158	-
Average tangible equity	\$ 277,066	\$ 144,285	\$ 106,292	\$ 111,602	\$ 110,671
Average assets	\$ 1,432,778	\$ 1,302,584	\$ 1,218,073	\$ 1,022,363	\$ 964,700
Less: Goodwill and other intangibles	6,606	6,741	6,663	1,158	-
Average tangible assets	\$ 1,426,172	\$ 1,295,843	\$ 1,211,410	\$ 1,021,205	\$ 964,700
Tangible equity to tangible assets	19.43%	11.13%	8.77%	10.93%	11.47%

(7) Represent non-GAAP financial measures, which we believe may be helpful for investors in evaluating our equity and profitability.

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

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

General

This section is intended to help investors understand the consolidated financial performance of PCSB Financial through a discussion of the factors affecting our financial condition at June 30, 2018 and 2017 and our results of operations for the years ended June 30, 2018 and 2017. This section should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements contained in this annual report.

Overview

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

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

Expenses. The noninterest expenses we incur in operating our business consist of salaries and employee benefits, occupancy and equipment, data processing, federal deposit insurance and other general and administrative expenses. Our noninterest expenses have increased as a result of operating as a public company. These additional expenses consist primarily of legal and accounting fees, expenses of stockholder communications and meetings and stock exchange listing fees.

Salaries and employee benefits consist primarily of salaries and wages paid to our employees, payroll taxes, and expenses for health insurance, retirement plans and other employee benefits. We anticipate that we will also recognize additional annual employee compensation expenses stemming from the adoption of new equity benefit plans, subject to shareholder approval. We cannot determine the actual amount of these new stock-related compensation and benefit expenses at this time because applicable accounting practices require that they be based on the fair market value of the shares of common stock or stock options at specific points in the future.

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

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

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

Critical Accounting Policies

A summary of our accounting policies is described in Note 2 to Notes to Consolidated Financial Statements. Critical accounting estimates are necessary in the application of certain accounting policies and procedures and are particularly susceptible to significant change. Critical accounting policies are defined as those involving significant judgments and assumptions by management that could have a material impact on the carrying value of certain assets

or on income under different assumptions or conditions. Management believes that the most critical accounting policies, which involve the most complex or subjective decisions or assessments, are as follows:

Allowance for Loan Losses. The allowance for loan losses is established as probable losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. See Note 5 to Notes to Consolidated Financial Statements for a complete discussion of the allowance for loan losses.

Income Taxes. We recognize income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of our assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. See Note 14 to Notes to Consolidated Financial Statements for a complete discussion of income taxes.

Loan Portfolio

General. Loans are our primary interest-earning asset. At June 30, 2018, net loans represented 61.0% of our total assets. The following tables set forth certain information about our loan portfolio.

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

	At June 30,									
	2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
Mortgage loans:										
Residential	\$ 250,578	27.67%	\$ 217,778	26.77%	\$ 226,073	28.79%	\$ 240,448	32.93%	\$ 161,740	31.74%
Commercial	495,265	54.70	437,651	53.80	385,827	49.14	324,574	44.46	188,741	37.03
Construction	17,352	1.92	22,404	2.75	25,050	3.19	11,886	1.63	19,517	3.83
Total	763,195	84.29	677,833	83.32	636,950	81.12	576,908	79.02	369,998	72.60
Commercial loans	104,135	11.50	93,631	11.50	106,738	13.60	112,092	15.36	105,044	20.62
Home equity lines of credit	37,395	4.13	41,927	5.15	41,180	5.24	40,605	5.56	33,952	6.66
Consumer and overdrafts	745	0.08	233	0.03	338	0.04	465	0.06	612	0.12
Total loans receivable	905,470	100.00%	813,624	100.00%	785,206	100.00%	730,070	100.00%	509,606	100.00%
Plus: net deferred loans origination costs and fees	1,770		1,174		1,172		985		1,612	
Less: allowance for loan losses	(4,904)		(5,150)		(4,042)		(3,921)		(4,057)	
Loans receivable, net	\$ 902,336		\$ 809,648		\$ 782,336		\$ 727,134		\$ 507,161	

Loan Maturity. The following tables set forth certain information at June 30, 2018 regarding the dollar amount of loan maturities for the periods indicated. The tables do not include scheduled amortization or any estimate of prepayments that significantly shorten the average loan life and may cause actual repayment experience to differ from that shown below.

	At June 30, 2018						Total Loans
	Residential Mortgage Loans	Commercial Mortgage Loans	Construction Loans	Commercial Loans	Home equity Lines of Credit	Consumer and Overdrafts	
(Dollars in thousands)							
Amounts due in:							
One year or less	\$ 412	\$ 12,899	\$ 15,184	\$ 36,631	\$ -	\$ 674	\$ 65,800
More than one year through two years	115	6,458	2,168	9,402	-	21	18,164
More than two years through three years	646	10,593	-	5,681	11	10	16,941
More than three years through five years	1,686	27,866	-	15,462	-	40	45,054
More than five years through ten years	17,779	197,200	-	27,207	541	-	242,727
More than ten years through fifteen years	26,740	77,383	-	6,150	3,447	-	113,720
More than fifteen years	203,200	162,866	-	3,602	33,396	-	403,064
Total	\$ 250,578	\$ 495,265	\$ 17,352	\$ 104,135	\$ 37,395	\$ 745	\$ 905,470

The following table sets forth the dollar amount of all loans at June 30, 2018 that are due after June 30, 2019 and have either fixed interest rates or floating or adjustable interest rates.

	Fixed Rates		Floating or Adjustable Rates		Total
		%		%	
(Dollars in thousands)					
Residential mortgage loans	\$ 223,770	89.45%	\$ 26,396	10.55%	\$ 250,166
Commercial mortgage loans	131,873	27.34%	350,493	72.66%	482,366
Construction loans	17	0.78%	2,151	99.22%	2,168
Commercial loans	59,933	88.78%	7,571	11.22%	67,504
Home equity lines of credit	395	1.06%	37,000	98.94%	37,395
Consumer and overdrafts	71	100.00%	-	0.00%	71
Total	\$ 416,059	49.55%	\$ 423,611	50.45%	\$ 839,670

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

We occasionally purchase whole loans and loan participation interests from other financial institutions, which consist of interests in commercial mortgage loans, multi-family mortgage loans and residential mortgages, primarily in our market area. At June 30, 2018, we had \$164.1 million in purchased whole loan and participation interests.

Asset Quality

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

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

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

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

	At June 30, 2018			
	30-89 Days		90 Days or More	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance
	(Dollars in thousands)			
Residential mortgage loans	2	\$ 626	8	\$ 2,016
Commercial mortgage loans	-	-	3	1,374
Construction loans	-	-	1	2,260
Commercial loans	-	-	1	500
Home equity lines of credit	2	30	3	341
Total	4	\$ 656	16	\$ 6,491

	At June 30, 2017			
	30-89 Days		90 Days or More	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance
	(Dollars in thousands)			
Residential mortgage loans	5	\$ 1,101	10	\$ 3,634
Commercial mortgage loans	-	-	2	993
Construction loans	-	-	2	3,661
Commercial loans	-	-	2	544
Home equity lines of credit	1	200	4	477
Total	6	\$ 1,301	20	\$ 9,309

	At June 30, 2016			
	30-89 Days		90 Days or More	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance
	(Dollars in thousands)			
Residential mortgage loans	4	\$ 1,735	12	\$ 3,305
Commercial mortgage loans	-	-	2	820
Construction loans	-	-	2	144
Commercial loans	2	765	17	2,304
Home equity lines of credit	1	296	3	310
Total	7	\$ 2,796	36	\$ 6,883

Non-performing Assets. Non-performing assets include loans that are 90 or more days past due or on non-accrual status, and real estate and other loan collateral acquired through foreclosure and repossession. Non-accrual loans exclude acquired loans that are accounted for as purchased credit impaired loans because the loans are in pools that are considered performing. Loans 90 days or greater past due may remain on an accrual basis if adequately collateralized and in the process of collection. For non-accrual loans, interest previously accrued but not collected is reversed and charged against income at the time a loan is placed on non-accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

The following table sets forth information regarding our non-performing assets at the dates indicated.

	At June 30,				
	2018	2017	2016	2015	2014
(Dollars in thousands)					
Non-accrual loans:					
Residential mortgage loans	\$ 1,911	\$ 4,357	\$ 5,881	\$ 4,389	\$ 3,659
Commercial mortgage loans	794	497	300	6,308	2,562
Construction loans	2,260	3,661	144	2,020	5,951
Commercial business loans	788	2,959	5,048	7,011	5,361
Home equity lines of credit	349	598	602	424	132
Other loans	-	-	584	310	-
Total	<u>6,102</u>	<u>12,072</u>	<u>12,559</u>	<u>20,462</u>	<u>17,665</u>
Accruing loans past due 90 days or more:					
Residential mortgage loans	-	-	-	-	-
Commercial mortgage loans	-	-	-	-	-
Construction loans	-	-	-	-	-
Commercial business loans	-	-	-	514	204
Home equity lines of credit	-	-	-	-	-
Other loans	-	-	4	4	-
Total	<u>-</u>	<u>-</u>	<u>4</u>	<u>518</u>	<u>204</u>
Total non-performing loans	6,102	12,072	12,563	20,980	17,869
Real estate owned	460	977	905	368	211
Total non-performing assets	<u>\$ 6,562</u>	<u>\$ 13,049</u>	<u>\$ 13,468</u>	<u>\$ 21,348</u>	<u>\$ 18,080</u>
Total non-performing loans to total loans	0.67%	1.48%	1.60%	2.87%	3.51%
Total non-performing assets to total assets	0.44%	0.91%	1.07%	1.78%	1.85%

Interest income that would have been recorded for the year ended June 30, 2018 had non-accruing loans been current according to their original terms, amounted to \$366,000.

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

Other potential problem loans are those loans that are currently performing, but where known information about possible credit problems of the borrowers causes us to have concerns as to the ability of such borrowers to comply with contractual loan repayment terms. These loans are not classified as impaired. At June 30, 2018, other potential problem loans totaled \$7.0 million.

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

	At June 30,		
	2018	2017	2016
	(Dollars in thousands)		
Special mention	\$ 1,984	\$ 192	\$ 5,368
Substandard	15,378	25,146	35,265
Doubtful	-	-	349
Loss	-	-	-
Total	\$ 17,362	\$ 25,338	\$ 40,982

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

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

	Year Ended June 30,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Allowance for loan losses at beginning of period	\$ 5,150	\$ 4,042	\$ 3,921	\$ 4,057	\$ 3,985
Provision for loan losses	414	823	1,859	1,326	903
Charge-offs:					
Residential mortgage loans	136	275	400	175	105
Commercial mortgage loans	-	-	10	361	-
Construction loans	997	108	-	327	-
Commercial loans	54	743	1,677	1,285	763
Home equity lines of credit	60	-	24	43	-
Consumer and overdrafts	23	3	22	-	8
Total charge-offs	\$ 1,270	\$ 1,129	\$ 2,133	\$ 2,191	\$ 876
Recoveries:					
Residential mortgage loans	1	70	-	5	16
Commercial mortgage loans	370	19	178	8	10
Construction loans	-	-	192	-	-
Commercial loans	220	1,321	25	710	19
Home equity lines of credit	19	-	-	6	-
Consumer and overdrafts	-	4	-	-	-
Total recoveries	610	1,414	395	729	45
Net charge-offs (recoveries)	660	(285)	1,738	1,462	831
Allowance for loan losses at end of period	\$ 4,904	\$ 5,150	\$ 4,042	\$ 3,921	\$ 4,057
Allowance for loan losses to non-performing loans at end of period	80.37%	42.66%	32.17%	18.69%	22.70%
Allowance for loan losses to total loans outstanding at end of period	0.54% ⁽¹⁾	0.63% ⁽¹⁾	0.51% ⁽¹⁾	0.54% ⁽¹⁾	0.80%
Net charge-offs (recoveries) to average loans outstanding during period	0.08%	(0.04)%	0.23%	0.27%	0.17%

(1) Loans acquired in the CMS Bancorp, Inc./CMS Bank acquisition were recorded at their estimated fair value at the acquisition date and did not include a carry-over of the related pre-acquisition allowance for loan losses.

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

	At June 30,					
	2018			2017		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in thousands)					
Residential mortgage loans	\$ 459	9.36%	27.67%	\$ 386	7.50%	26.77%
Commercial mortgage loans	3,073	62.66	54.70	2,589	50.26	53.80
Construction loans	505	10.30	1.92	1,150	22.33	2.75
Commercial loans	780	15.91	11.50	949	18.43	11.50
Home equity lines of credit	80	1.63	4.13	76	1.48	5.15
Consumer and overdrafts	7	0.14	0.08	-	-	0.03
Total	\$ 4,904	100.00%	100.00%	\$ 5,150	100.00%	100.00%

	At June 30,								
	2016			2015			2014		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in thousands)								
Residential mortgage loans	\$ 237	5.86%	28.79%	\$ 193	4.92%	32.93%	\$ 219	5.40%	31.74%
Commercial mortgage loans	2,149	53.17	49.14	1,766	45.04	44.46	1,622	39.98	37.03
Construction loans	269	6.66	3.19	100	2.55	1.63	828	20.41	3.83
Commercial loans	1,313	32.48	13.60	1,793	45.73	15.36	1,200	29.58	20.62
Home equity lines of credit	73	1.81	5.24	69	1.76	5.56	186	4.58	6.66
Consumer and overdrafts	1	0.02	0.04	-	-	0.06	2	0.05	0.12
Total	\$ 4,042	100.00%	100.00%	\$ 3,921	100.00%	100.00%	\$ 4,057	100.00%	100.00%

See Note 5 to Notes to Consolidated Financial Statements for a complete discussion of the allowance for loan losses. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with generally accepted accounting principles in the United States of America, there can be no assurance that regulators, in reviewing our loan portfolio, will not require us to increase our allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

Securities Portfolio

The following table sets forth the amortized cost and estimated fair value of our available-for-sale securities portfolio at the dates indicated.

	At June 30,					
	2018		2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Securities held to maturity:						
U.S. Government and agency obligations	\$ 122,048	\$ 119,774	\$ 155,559	\$ 155,008	\$ 145,896	\$ 146,202
Corporate and other debt securities	4,000	3,874	999	999	-	-
Mortgage-backed securities – residential	140,478	135,664	143,452	143,783	72,842	74,139
Mortgage-backed securities – collateralized mortgage obligations	53,547	51,732	59,476	59,387	30,268	30,580
Mortgage-backed securities – commercial	33,110	32,144	24,065	24,411	21,673	22,396
Total	<u>\$ 353,183</u>	<u>\$ 343,188</u>	<u>\$ 383,551</u>	<u>\$ 383,588</u>	<u>\$ 270,679</u>	<u>\$ 273,317</u>
Securities available for sale:						
U.S. Government and agency obligations	\$ 64,389	\$ 63,430	\$ 63,630	\$ 63,445	\$ 65,953	\$ 66,132
Corporate and other debt securities	8,406	8,235	8,460	8,482	8,514	8,646
Mortgage-backed securities – residential	34,619	33,807	39,710	39,930	37,043	37,524
Equity securities	32	32	32	32	49	49
Total	<u>\$ 107,446</u>	<u>\$ 105,504</u>	<u>\$ 111,832</u>	<u>\$ 111,889</u>	<u>\$ 111,559</u>	<u>\$ 112,351</u>

At June 30, 2018, we had no investments in a single issuer, other than securities issued by the U.S. government and government agencies, which had an aggregate book value in excess of 10% of our shareholders' equity.

Securities Portfolio Maturities and Yields . The following table sets forth the stated maturities and weighted average yields of investment securities at June 30, 2018. The tables do not include any estimate of principal payments or prepayments that significantly shorten the average life of mortgage- backed securities. Certain mortgage-backed securities have adjustable interest rates and will reprice annually within the various maturity ranges. These repricing schedules are not reflected in the following table. Weighted average yield calculations on investment securities available for sale do not give effect to changes in fair value that are reflected as a component of equity. At June 30, 2018, we did not have any investments in any private-label collateralized mortgage obligations.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
(Dollars in thousands)											
Securities held to maturity:											
U.S. Government and agency obligations	\$ 25,504	1.19%	\$ 96,544	1.80%	\$ -	- %	\$ -	- %	\$ 122,048	\$ 119,774	1.68%
Corporate and other debt securities	-	-	-	-	-	-	4,000	2.85	4,000	3,874	2.85
Mortgage-backed securities – residential	-	-	6,882	2.34	38,686	2.10	94,910	2.56	140,478	135,664	2.42
Mortgage-backed securities – collateralized mortgage obligations	1,866	1.66	-	-	7,553	2.20	44,128	2.36	53,547	51,732	2.32
Mortgage-backed securities – commercial	-	-	17,697	2.25	11,024	2.64	4,389	2.87	33,110	32,144	2.46
Total	<u>\$ 27,370</u>	1.22%	<u>\$ 121,123</u>	1.90%	<u>\$ 57,263</u>	2.22%	<u>\$ 147,427</u>	2.52%	<u>\$ 353,183</u>	<u>\$ 343,188</u>	2.16%
Securities available for sale:											
U.S. Government and agency obligations	\$ 12,402	1.34%	\$ 51,987	1.78%	\$ -	- %	\$ -	- %	\$ 64,389	\$ 63,430	1.70%
Corporate and other debt securities	-	-	6,406	2.34	2,000	3.37	-	-	8,406	8,235	2.58
Mortgage-backed securities – residential	-	-	-	-	3,150	2.20	31,469	1.94	34,619	33,807	1.97
Equity securities	-	-	-	-	-	-	32	-	32	32	-
Total	<u>\$ 12,402</u>	1.34%	<u>\$ 58,393</u>	1.84%	<u>\$ 5,150</u>	2.66%	<u>\$ 31,501</u>	1.94%	<u>\$ 107,446</u>	<u>\$ 105,504</u>	1.85%

Other-than-temporary Impairment . Each reporting period, we evaluate all securities with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other-than-temporary. Other-than-temporary impairment (“OTTI”) is required to be recognized if (1) we intend to sell the security; (2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. Marketable equity securities are evaluated for OTTI based on the severity and duration of the impairment and, if deemed to be other than temporary, the declines in fair value are reflected in earnings as realized losses. For impaired debt securities that we intend to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI, resulting in a realized loss that is charged to earnings through a reduction in our noninterest income. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income/loss, net of applicable taxes. We did not recognize any OTTI during the years ended June 30, 2018, 2017 and 2016.

Deposits

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

	At June 30,					
	2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Non-interest bearing demand accounts	\$ 131,883	11.39%	\$ 136,361	12.53%	\$ 122,740	11.03%
NOW Accounts	117,875	10.18	115,527	10.61	111,455	10.02
Money market accounts	49,885	4.31	29,097	2.67	31,194	2.80
Savings accounts	465,441	40.22	512,697	47.11	516,249	46.40
Time deposits						
Less than \$100,000	169,517	14.65	161,961	14.88	181,827	16.34
Greater than or equal to \$100,000	222,856	19.25	132,818	12.20	149,230	13.41
Total	<u>\$ 1,157,457</u>	<u>100.00%</u>	<u>\$ 1,088,461</u>	<u>100.00%</u>	<u>\$ 1,112,695</u>	<u>100.00%</u>

At June 30, 2018 and 2017, we had municipal deposits of \$39.1 million and \$38.4 million, respectively. Municipal deposits are held by our commercial bank subsidiary, PCSB Commercial Bank. Additionally, as of June 30, 2018, deposits included \$60.0 million of brokered time deposits with remaining maturities of between two and 47 months. We had no brokered deposits as of June 30, 2017 or 2016.

The following table indicates the amount of jumbo time deposits by time remaining until maturity at June 30, 2018. Jumbo time deposits require minimum deposits of \$100,000.

<u>Maturity Period</u>	<u>Dollar Amount</u>
	<u>(In thousands)</u>
Three months or less	\$ 15,462
Over three through six months	25,111
Over six through twelve months	58,419
Over twelve months	123,864
Total	<u>\$ 222,856</u>

The following tables set forth time deposit accounts classified by rate and maturity at June 30, 2018.

	Amount Due				Total	Percent of Total Time Deposit Accounts
	Less Than One Year	More Than One Year to Two Years	More Than Two Years to Three Years	More Than Three Years		
	(Dollars in thousands)					
0.00 - 1.00%	\$ 44,517	\$ 11,246	\$ 1,842	\$ 356	\$ 57,961	14.77%
1.01 - 2.00%	116,608	28,133	44,945	84,658	274,344	69.92
2.01 - 3.00%	22,151	9,971	9,959	17,987	60,068	15.31
Total	<u>\$ 183,276</u>	<u>\$ 49,350</u>	<u>\$ 56,746</u>	<u>\$ 103,001</u>	<u>\$ 392,373</u>	<u>100.00%</u>

Borrowings

We primarily utilize advances from the Federal Home Loan Bank of New York to supplement our supply of investable funds. At June 30, 2018 and 2017, we had \$296.0 million and \$308.1 million, respectively, of available borrowing capacity with the Federal Home Loan Bank of New York and had \$18.8 million and \$42.6 million, respectively, in advances outstanding. At June 30, 2018 and 2017, we also had an available line of credit with the Federal Reserve Bank of New York's discount window program of \$122.1 million and \$85.9 million, respectively, none of which was outstanding at that date. The following table sets forth information concerning our borrowings at the dates and for the periods indicated.

	Year Ended June 30,		
	2018	2017	2016
	(Dollars in thousands)		
Maximum balance outstanding at any month-end during period:			
Federal Home Loan Bank advances	\$ 83,861	\$ 42,598	\$ 34,000
Average balance outstanding during period:			
Federal Home Loan bank advances	42,719	15,911	23,974
Weighted average interest rate during period:			
Federal Home Loan bank advances	1.80%	1.32%	0.83%
Balance outstanding at end of period:			
Federal Home Loan bank advances	\$ 18,841	\$ 42,598	\$ 20,081
Weighted average interest rate at end of period:			
Federal Home Loan bank advances	1.91%	1.55%	1.16%

Average Balance Sheets and Related Yields and 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.

	Year ended June 30,								
	2018			2017			2016		
	Average Balance	Interest/ Dividends	Average Rate	Average Balance	Interest/ Dividends	Average Rate	Average Balance	Interest/ Dividends	Average Rate

(dollars in thousands)

Assets:									
Loans receivable	\$ 846,353	\$ 37,798	4.47%	\$ 773,590	\$ 33,664	4.35%	\$ 743,995	\$ 32,832	4.41%
Securities	474,201	9,266	1.95	389,910	6,661	1.71	365,593	5,897	1.61
Other interest-earning assets	54,528	896	1.64	74,149	633	0.85	62,034	315	0.51
Total interest-earning assets	<u>1,375,082</u>	<u>47,960</u>	3.49	<u>1,237,649</u>	<u>40,958</u>	3.31	<u>1,171,622</u>	<u>39,044</u>	3.33
Non-interest-earning assets	57,696			64,935			46,451		
Total assets	<u>\$ 1,432,778</u>			<u>\$ 1,302,584</u>			<u>\$ 1,218,073</u>		

Liabilities and equity:

NOW accounts	\$ 113,952	197	0.17	\$ 125,818	195	0.16	\$ 92,165	146	0.16
Money market accounts	36,917	163	0.44	31,260	83	0.26	32,770	89	0.27
Savings accounts and escrow	502,310	1,223	0.24	525,486	1,289	0.25	512,321	1,487	0.29
Time deposits	<u>315,652</u>	<u>3,971</u>	1.26	<u>313,334</u>	<u>3,516</u>	1.12	<u>315,028</u>	<u>2,891</u>	0.92
Total interest-bearing deposits	968,831	5,554	0.57	995,898	5,083	0.52	952,284	4,613	0.49
Federal Home Loan Bank advances	42,719	769	1.80	15,911	210	1.32	23,974	199	0.83
Total interest-bearing liabilities	<u>1,011,550</u>	<u>6,323</u>	0.63	<u>1,011,809</u>	<u>5,293</u>	0.52	<u>976,258</u>	<u>4,812</u>	0.49
Non-interest-bearing deposits	130,196			126,666			118,871		
Other non-interest-bearing liabilities	7,360			13,083			9,989		
Total liabilities	<u>1,149,106</u>			<u>1,151,558</u>			<u>1,105,118</u>		
Total equity	283,672			151,026			112,955		
Total liabilities and equity	<u>\$ 1,432,778</u>			<u>\$ 1,302,584</u>			<u>\$ 1,218,073</u>		

Net interest income		<u>\$ 41,637</u>			<u>\$ 35,665</u>			<u>\$ 34,232</u>	
Interest rate spread			2.86			2.79			2.84
Net interest margin			3.03			2.88			2.92
Average interest-earning assets to interest-bearing liabilities	135.94%			122.32%			120.01%		

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.

	Year ended June 30, 2018 Compared to 2017			Year ended June 30, 2017 Compared to 2016		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Rate	Volume	Net	Rate	Volume	Net
(Dollars in thousands)						
Interest income:						
Loans receivable	\$ 804	3,330	4,134	\$ (644)	1,476	832
Securities	695	1,910	2,605	75	689	764
Other interest-earning assets	460	(197)	263	235	83	318
Total interest-earning assets	<u>1,959</u>	<u>5,043</u>	<u>7,002</u>	<u>(334)</u>	<u>2,248</u>	<u>1,914</u>
Interest expense:						
NOW accounts	5	(3)	2	2	47	49
Money market accounts	64	16	80	(2)	(4)	(6)
Savings and escrow accounts	(8)	(58)	(66)	(244)	46	(198)
Time deposits	428	27	455	641	(16)	625
Federal Home Loan Bank advances	98	461	559	92	(81)	11
Total interest-bearing liabilities	<u>587</u>	<u>443</u>	<u>1,030</u>	<u>489</u>	<u>(8)</u>	<u>481</u>
Increase (decrease) in net interest income	<u>\$ 1,372</u>	<u>\$ 4,600</u>	<u>\$ 5,972</u>	<u>\$ (823)</u>	<u>\$ 2,256</u>	<u>\$ 1,433</u>

Comparison of Financial Condition at June 30, 2018 and June 30, 2017

Total Assets. Total assets increased \$53.7 million, or 3.8%, to \$1.48 billion at June 30, 2018 from \$1.43 billion at June 30, 2017. The increase is primarily the result of increases of \$92.7 million in net loans, partially offset by decreases of \$30.4 million in held to maturity securities, \$6.4 million in securities available for sale, and \$2.1 million in deferred tax asset.

Cash and Cash Equivalents. Cash and cash equivalents increased \$1.6 million, or 2.7%, to \$62.1 million at June 30, 2018 from \$60.5 million at June 30, 2017. The increase is due primarily to a \$69.0 million increase in deposits and a \$36.8 million decrease in investment securities, partially offset by a \$92.7 million increase in loans and a \$23.8 million decrease in advances from the Federal Home Loan Bank.

Securities Held-to-Maturity. Total securities held to maturity decreased \$30.4 million, or 7.9%, to \$353.2 million at June 30, 2018 from \$383.6 million at June 30, 2017. This decrease was caused primarily by \$33.5 million of net maturities of US government and agency obligations, partially offset by net purchases of \$3.0 million of corporate and debt securities and \$142,000 of mortgage-backed securities.

Securities Available for Sale. Total securities available for sale decreased \$6.4 million, or 5.7%, to \$105.5 million at June 30, 2018 from \$111.9 million at June 30, 2017. This decline was due primarily to \$5.1 million in sales and amortization of mortgage backed securities net of purchases, a \$2.0 million increase in net unrealized losses driven primarily by an increase in market interest rates and a \$54,000 decrease in corporate and other debt securities, partially offset by \$759,000 of net purchases of U.S. government and agency obligations.

Net Loans Receivable. Net loans receivable increased \$92.7 million, or 11.4%, to \$902.3 million at June 30, 2018 from \$809.6 million at June 30, 2017. The increase is due primarily to increases of \$57.6 million in commercial mortgage loans, \$32.8 million in residential mortgage loans, and \$10.5 million in commercial loans,

partially offset by decreases of \$5.1 million in construction loans and \$4.5 million in home equity credit lines. The Company purchased \$50.9 million of commercial mortgage loans and \$42.3 million of residential mortgage loans during the year ended June 30, 2018.

Deposits. Total deposits increased \$69.0 million, or 6.3%, to \$1.16 billion at June 30, 2018 from \$1.09 billion at June 30, 2017. This increase primarily reflects increases of \$97.6 million in time deposits, and \$20.8 million in money market accounts, partially offset by decreases of \$47.3 million in savings and \$2.1 million in demand deposits and NOW accounts.

Federal Home Loan Bank Advances. Federal Home Loan Bank advances decreased \$23.8 million, or 55.8%, to \$18.8 million at June 30, 2018 from \$42.6 million at June 30, 2017, due primarily to net maturities of short-term advances.

Total Shareholder's Equity. Total shareholders' equity increased \$7.8 million to \$287.6 million at June 30, 2018 from \$279.8 million at June 30, 2017. This increase was due primarily to net income of \$6.6 million and a \$2.2 million reduction in unearned ESOP shares for plan shares earned during the period, partially offset by other comprehensive losses of \$618,000 due largely to increased unrealized losses in the available for sale investment securities portfolio driven by increased market interest rates, as well as \$504,000 of cash dividends paid. At June 30, 2018, the Company's book value per share and tangible book value per share were \$15.83 and \$15.47, respectively, compared to \$15.41 and \$15.04, respectively, at June 30, 2017. At June 30, 2018, the Bank was considered "well capitalized" under applicable regulatory guidelines.

Comparison of Operating Results for the Years Ended June 30, 2018 and June 30, 2017

General. Net income increased \$3.4 million, or 104.5%, to \$6.6 million for the year ended June 30, 2018 compared to \$3.2 million for the year ended June 30, 2017. The increase was due primarily to a \$5.9 million increase in net interest income, a \$2.3 million decrease in noninterest expense, and a \$409,000 decrease in the provision for loan losses, partially offset by a \$3.8 million increase in income taxes and a \$1.6 million decrease in noninterest income.

Net Interest Income. Net interest income increased \$5.9 million, or 16.7%, to \$41.6 million for the year ended June 30, 2018 compared to a \$35.7 million for the year ended June 30, 2017. The increase primarily reflects a \$137.7 million increase in average net interest-earning assets and a 15 basis point increase in the net interest margin to 3.03% for the year ended June 30, 2018 compared to 2.88% for the year ended June 30, 2017. The increase in average net interest-earning assets primarily reflects the investment of the net proceeds received in the Company's initial public offering completed in April 2017.

Interest and Dividend Income. Interest and dividend income increased \$7.0 million, or 17.1%, to \$48.0 million for the year ended June 30, 2018 compared to \$41.0 million for the year ended June 30, 2017. The increase primarily reflects a \$137.4 million increase in total average interest-earning assets and an 18 basis point increase in the yield on total interest-earning assets.

Interest income on loans receivable increased \$4.1 million, or 12.3%, due primarily to a \$72.8 million increase in the average balance of loans receivable to \$846.4 million for the year ended June 30, 2018 from \$773.6 million for the same period last year, and a 12 basis point increase in the average yield on loans to 4.47% for the year ended June 30, 2018 from 4.35% for the same period last year.

Interest income on securities increased \$2.6 million, or 39.1%, due primarily to an \$84.3 million increase in the average balance of securities and a 24 basis point increase in the average yield on securities to 1.95% for the year ended June 30, 2018 from 1.71% for the same period last year. The increase in the yield on securities was due primarily to an increase in market interest rates as well as an increase in the percentage of the portfolio being invested in generally higher-yielding mortgage-backed securities.

Interest income on other interest-earning assets, primarily consisting of cash balances at correspondent banks including the Federal Reserve, increased \$263,000, or 41.5%, due primarily to a 79 basis point increase in the

average yield on other interest-earning assets to 1.64% for the year ended June 30, 2018 from 0.85% for the same period last year, partially offset by a \$19.6 million decrease in the average balance of other interest-earning assets. The increase in the yield on other interest-earning assets was due primarily to an increase in market interest rates.

Interest Expense. Interest expense increased \$1.0 million, or 19.5%, to \$6.3 million for the year ended June 30, 2018 compared to \$5.3 million for the year ended June 30, 2017. The increase primarily reflects a 11 basis point increase in the average cost of interest-bearing liabilities to 0.63% for the year ended June 30, 2018 from 0.52% for the same period last year, partially offset by a \$259,000 decrease in the average balance on interest-bearing liabilities.

Interest expense on interest-bearing deposits increased \$471,000 or 9.3%, due primarily to a 5 basis point increase in the average cost of deposits to 0.57% for the year ended June 30, 2018 from 0.52% for the same period last year, partially offset by a \$27.1 million decrease in the average balance to \$968.8 million for the year ended June 30, 2018 from a \$995.9 million for the year ended June 30, 2017. The decrease in the average balance of interest-bearing deposits primarily reflects lower average savings and NOW accounts balances. The increase in the average rate paid on interest-bearing deposits was caused primarily by an 18 basis point increase in the average rate paid on money market accounts and a 14 basis point increase in the average interest rate on time deposits as the Bank offered increased rates on the deposits due to increased rates offered by competitor banks.

Interest expense on Federal Home Loan Bank advances increased \$559,000, or 266.2%, due primarily to a \$26.8 million increase in the average balance to \$42.7 million for the year ended June 30, 2018 from \$15.9 million for the same period last year, and a 48 basis point increase in the average cost to 1.80% for the year ended June 30, 2018 from 1.32% for the same period last year. The increase in the average cost is due primarily to an increase in market interest rates.

Provision for Loan Losses. The provision for loan losses decreased by \$409,000 to \$414,000 for the year ended June 30, 2018, compared to \$823,000 for the year ended June 30, 2017 due primarily to the Bank establishing specific reserves on impaired loans in the prior year period. Charge-offs, net of recoveries were \$660,000 and recoveries, net of charge-offs were \$285,000 for the year ended June 30, 2018 and 2017, respectively.

Non-Interest Income. Non-interest income decreased \$1.6 million, or 38.3% to \$2.5 million for the year ended June 30, 2018 compared to \$4.1 million for the year ended June 30, 2017. The decrease was caused primarily by a one-time settlement on an acquired loan of \$1.6 million in the prior year.

Non-Interest Expense. Non-interest expense decreased \$2.3 million, or 6.7%, to \$32.1 million for the year ended June 30, 2018 compared to \$34.4 million for the year ended June 30, 2017. The decrease was caused primarily by a \$5.0 million contribution expense recognized in the prior year related to the Company's establishment of the PCSB Community Foundation, a \$671,000 decrease in occupancy and equipment expense, and a \$230,000 decrease in FDIC insurance, partially offset by increases of \$2.3 million in salaries and benefits, \$401,000 in professional fees and \$851,000 in all other operating expenses, including a \$570,000 loss on a receivable. The increase in salaries and benefits was due primarily to a \$1.8 million increase in ESOP expense, \$919,000 benefit recognized on the curtailment of the defined benefit pension plan recognized in the prior year, and a \$671,000 increase due to increased staffing, partially offset by a \$186,000 decrease in other retirement expenses. The increase in professional fees was due primarily to expenses related to being a public company. The increase in other operating expenses was caused primarily by increases in Director and Officer insurance and data processing fees. The decrease in occupancy and equipment expense was caused primarily by a \$521,000 lease obligation write-off recorded in the prior year.

Income Tax Expense. Income tax expense increased \$3.7 million, or 296.7%, to \$5.0 million for the year ended June 30, 2018 from \$1.3 million for the year ended June 30, 2017. The increase was caused primarily by a \$1.6 million tax re-measurement charge associated with the recent tax reform and higher pre-tax income, partially offset by lower marginal tax rates in the current year related to the reduction of the corporate income tax rate from 34% to 21%. The effective income tax rate was 43.2% (29.7% excluding the effects of the current year re-measurement charge) for the year ended June 30, 2018 as compared to 28.2% for the year ended June 30, 2017.

Comparison of Operating Results for the Years Ended June 30, 2017 and June 30, 2016

General. Net income increased \$303,000, or 10.4%, to \$3.2 million for the year ended June 30, 2017 compared to \$2.9 million for the year ended June 30, 2016. The increase was due primarily to a \$1.4 million increase in net interest income, a \$2.1 million increase in noninterest income, a \$1.0 million decrease in the provision for loan losses, partially offset by a \$4.2 million increase in noninterest expense and a \$133,000 increase in income taxes.

Net Interest Income. Net interest income increased \$1.4 million, or 4.2%, to \$35.7 million for the year ended June 30, 2017 from \$34.2 million for the year ended June 30, 2016. The increase primarily reflects a \$1.9 million increase in interest and dividend income, partially offset by a \$481,000 increase in interest expense.

Interest and Dividend Income. Interest and dividend income increased \$1.9 million, or 4.9%, to \$41.0 million for the year ended June 30, 2017 from \$39.0 million for the year ended June 30, 2016. The increase primarily reflects a \$66.0 million increase in the average balance on interest-earning assets, partially offset by a 2-basis point decrease in the average yield to 3.31% for the year ended June 30, 2017 from 3.33% for the same period last year.

Interest income on loans increased \$832,000, or 2.5%, due primarily to a \$29.6 million increase in the average balance to \$773.6 million for the year ended June 30, 2017 from \$744.0 million for the year ended June 30, 2016, partially offset by a 6-basis point decrease in the average yield to 4.35% for the year ended June 30, 2017 from 4.41% for the same period last year.

Interest income on securities increased \$764,000, or 13.0%, due primarily to a \$24.3 million increase in the average balance of securities to \$389.9 million for the year ended June 30, 2017 from \$365.6 million for the year ended June 30, 2016 and a 10-basis point increase in the average yield on securities to 1.71% for the current year period due primarily to an increase in market interest rates.

Interest income on other interest-earning assets increased \$318,000, or 101.0%, due primarily to a \$12.1 million increase in the average balance for the year ended June 30, 2017 and a 34-basis point increase in the average yield to 0.85% from 0.51% for the year ended June 30, 2016. The increase in the yield on other interest-earning assets was due primarily to an increase in market interest rates.

Interest Expense. Interest expense increased \$481,000, or 10.0%, to \$5.3 million for the year ended June 30, 2017 from \$4.8 million for the year ended June 30, 2016. The increase primarily reflects a \$35.6 million increase in the average balance on interest-bearing liabilities and a 3-basis point increase in the average cost to 0.52% for the year ended June 30, 2017 from 0.49% for the same period last year.

Interest expense on interest-bearing deposits and mortgage escrow funds increased \$470,000 due primarily to a \$43.6 million increase in the average balance to \$995.9 million for the year ended June 30, 2017 from \$952.3 million for the year ended June 30, 2016 and a 3-basis point increase in the average cost to 0.52% from 0.49% for the year ended June 30, 2016. The increase in the average rate paid on deposits was caused by growth in the medium-term and long-term certificates of deposit, which caused a 20-basis point increase in the rate paid on certificates of deposit .

Interest expense on Federal Home Loan Bank advances increased \$11,000 due primarily to a 49-basis point increase in the average cost to 1.32% for the year ended June 30, 2017 from 0.83% for the same period last year, partially offset by an \$8.1 million decrease in the average balance to \$15.9 million for the year ended June 30, 2017 from \$24.0 million for the year ended June 30, 2016.

Provision for Loan Losses. We recorded a provision for loan losses of \$823,000 and \$1.9 million for the years ended June 30, 2017 and 2016, respectively. The decrease was caused primarily by the Company recognizing \$285,000 in net recoveries for the year ended June 30, 2017 compared to \$1.7 million in net charge-offs for the year ended June 30, 2016.

Non-Interest Income. Non-interest income increased \$2.1 million, or 109.3%, to \$4.1 million for the years ended June 30, 2017 compared to \$2.0 million for the year ended June 30, 2016. The increase was caused primarily by the receipt of \$1.6 million in settlement on a loan charged-off by CMS Bank before the 2015 merger.

Non-Interest Expense. Non-interest expense increased \$4.2 million, or 13.8%, to \$34.4 million for the year ended June 30, 2017 compared to \$30.3 million for the year ended June 30, 2016. The increase was caused primarily by a \$5.0 million contribution to PCSB Community Foundation, a \$742,000 increase in occupancy and equipment expense, and a \$141,000 increase in advertising, partially offset by a \$790,000 decrease in merger and acquisition related expenses and a \$927,000 decrease in other operating expenses. The increase in occupancy expense was due primarily to a non-recurring impairment charge on an operating lease totaling \$521,000. The \$927,000 decrease in other operating expenses was caused primarily by decreases of \$330,000 in FDIC assessment, \$336,000 in professional fees, \$134,000 in postage and supplies expense and \$60,000 in salaries and employee benefits expense. The decrease in salaries and employee benefits expense was due to a \$919,000 benefit recognized on the curtailment of the defined benefit pension plan, partially offset by increases in other salaries and employee benefits.

Income Tax Expense. Income tax expense increased \$133,000, or 11.7%, to \$1.3 million for the year ended June 30, 2017 from \$1.1 million for the year ended June 30, 2016. The increase was caused primarily by a \$436,000, or 10.7%, increase in pre-tax income. The effective tax rate was 28.2% and 27.9% for the year ended June 30, 2017 and 2016, respectively.

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; 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 100 and 150 basis points from current market rates. Based on recent increases in the fed funds rate, as of June 30, 2018 we now also evaluate NPV considering a 150 basis point decrease in market rates. As this scenario was not evaluated prior to June 30, 2018, prior period information is not available.

The following table presents the estimated changes in our NPV that would result from changes in market interest rates at June 30, 2018 and June 30, 2017. All estimated changes presented in the table are within the policy limits approved by our Board of Directors.

Basis Point Change in Interest Rates	NPV			NPV as Percent of Portfolio Value of Assets	
	Dollar Amount	(dollars in thousands) Dollar Change	Percent Change	Ratio	Change (in bps)
June 30, 2018:					
200	\$ 282,017	\$ (50,676)	(15.2) %	20.75%	(219)
100	313,606	(19,087)	(5.7)	22.25	(69)
-	332,693	-	-	22.94	-
(100)	342,520	9,827	3.0	23.02	8
(150)	348,648	15,955	4.8	23.14	20
June 30, 2017:					
200	\$ 290,781	\$ (35,848)	(11.0) %	21.62%	(130)
100	311,728	(14,901)	(4.6)	22.49	(43)
-	326,629	-	-	22.92	-
(100)	331,139	4,510	1.4	22.69	(23)
(150)	n/a	n/a	n/a	n/a	n/a

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

Liquidity and Capital Resources

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

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

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At June 30, 2018, cash and cash equivalents totaled \$62.1 million, an increase from \$60.5 million as of June 30, 2017. Securities classified as available-for-sale, which provide an additional source of liquidity, totaled \$105.5 million at June 30, 2018, a decrease from \$111.9 million as of June 30, 2017.

We had the ability to borrow up to \$314.9 million and \$350.7 million from the Federal Home Loan Bank of New York, at June 30, 2018 and June 30, 2017, respectively, of which \$18.8 million and \$42.6 million was outstanding as of June 30, 2018 and June 30, 2017, respectively. We also had an available line of credit with the Federal Reserve Bank of New York's discount window program of \$122.1 million and \$85.9 million as of June 30, 2018 and June 30, 2017, respectively, none of which was outstanding at either date.

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 Federal Home Loan Bank of New York or the Federal Reserve Bank of New York.

We had \$99.7 million and \$77.6 million of loan commitments outstanding as of June 30, 2018 and June 30, 2017, respectively, and \$59.5 million and \$45.4 million as of June 30, 2018 and June 30, 2017, respectively, of approved, but unadvanced, funds to borrowers. We also had \$1.4 million and \$705,000 in outstanding letters of credit at June 30, 2018 and June 30, 2017, respectively.

Time deposit due within one year of June 30, 2018 totaled \$183.3 million, an increase of \$76.2 million from \$107.1 million as of June 30, 2017. If these deposits do not remain with us, we will be required to seek other sources of funds, including other time deposits and Federal Home Loan Bank 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 June 30, 2018. We believe, however, based on past experience that a significant portion of our time deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

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

	Year ended June 30,		
	2018	2017	2016
	<i>(in thousands)</i>		
Investing activities:			
Loan purchases	\$ (93,166)	\$ (30,926)	\$ (43,981)
Disbursement for loan originations, net of principal repayments	(818)	(1,131)	(14,314)
Proceeds from maturities and calls of securities held-to-maturity	80,997	72,152	107,656
Proceeds from maturities and calls of securities available-for-sale	24,202	32,750	33,058
Proceeds from sales of securities available-for-sale	-	-	-
Purchases of securities held-to-maturity	(51,218)	(195,566)	(112,896)
Purchases of securities available-for-sale	(27,498)	(23,314)	(56,420)
Financing activities:			
Net increase (decrease) in deposits	69,019	(24,109)	52,778
(Decrease) increase in Federal Home Loan Bank advances	(23,757)	22,517	6,081
Issuance of common stock	(17)	160,072	-

The Company is a separate legal entity from the Bank and must provide for its own liquidity to pay any dividends to its stockholders and for other corporate purposes. The Company's primary source of liquidity is dividend payments it may receive from the Bank. The Bank's ability to pay dividends to the Company is governed by applicable law and regulations. At June 30, 2018, the Company (on an unconsolidated, stand-alone basis) had liquid assets of \$72.1 million.

Capital Resources. PCSB Financial and PCSB Bank are subject to various regulatory capital requirements administered by the Federal Reserve Board, NYSDFS and the FDIC. At June 30, 2018, PCSB Financial and PCSB Bank each exceeded all applicable regulatory capital requirements, and the Bank was considered "well capitalized" under applicable regulatory guidelines. See Note 16 of Notes to the Consolidated Financial Statements.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. The following tables present our contractual obligations at June 30, 2018.

Contractual Obligations	Total	Payments Due by Period			
		Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
		(In thousands)			
Federal Home Loan Bank advances	\$ 18,841	\$ 10,125	\$ 5,259	\$ 273	\$ 3,184
Operating lease obligations	17,505	2,145	3,763	3,314	8,283
Time deposits	392,373	183,276	106,096	102,797	204
Total	<u>\$ 428,719</u>	<u>\$ 195,546</u>	<u>\$ 115,118</u>	<u>\$ 106,384</u>	<u>\$ 11,671</u>

Off-Balance Sheet Arrangements. We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to originate loans, unused lines of credit and standby letters of credit, which involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. Our exposure to credit loss is represented by the contractual amount of the instruments. We use the same credit policies in making commitments as we do for on-balance sheet instruments. See Note 10 of Notes to the Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PCSB Financial Corporation and Subsidiaries (the "Company") as of June 30, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion in accordance with the standards of the PCAOB.

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

Crowe LLP

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

New York, New York
September 13, 2018

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

	June 30,	
	2018	2017
ASSETS		
Cash and due from banks	\$ 60,684	\$ 59,115
Federal funds sold	1,461	1,371
Total cash and cash equivalents	62,145	60,486
Investment securities:		
Held to maturity investment securities, at amortized cost (fair value of \$343,188 and \$383,588, respectively)	353,183	383,551
Available for sale securities, at fair value	105,504	111,889
Total investment securities	458,687	495,440
Loans receivable, net of allowance for loan losses of \$4,904 and \$5,150, respectively	902,336	809,648
Accrued interest receivable	4,358	3,693
Federal Home Loan Bank stock	2,050	3,132
Premises and equipment, net	11,598	12,959
Deferred tax asset, net	2,622	4,770
Foreclosed real estate	460	977
Bank-owned life insurance	23,747	23,179
Goodwill	6,106	6,106
Other intangible assets	433	559
Other assets	5,645	5,509
Total assets	<u>\$ 1,480,187</u>	<u>\$ 1,426,458</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Interest bearing deposits	\$ 1,025,574	\$ 952,109
Non-interest bearing deposits	131,883	136,352
Total deposits	1,157,457	1,088,461
Mortgage escrow funds	8,803	8,084
Advances from Federal Home Loan Bank	18,841	42,598
Other liabilities	7,527	7,469
Total liabilities	1,192,628	1,146,612
Commitments and contingencies (Notes 1, 4 and 10)	-	-
Shareholders' equity:		
Preferred stock (\$0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding as of June 30, 2018 and June 30, 2017)	-	-
Common stock (\$0.01 par value, 200,000,000 shares authorized, 18,165,110 shares issued and outstanding as of June 30, 2018 and June 30, 2017)	182	182
Additional paid in capital	179,045	177,993
Retained earnings	128,365	121,148
Unearned compensation - ESOP	(13,083)	(14,262)
Accumulated other comprehensive loss, net of income taxes	(6,950)	(5,215)
Total shareholders' equity	287,559	279,846
Total liabilities and shareholders' equity	<u>\$ 1,480,187</u>	<u>\$ 1,426,458</u>

See accompanying notes to the consolidated financial statements

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Operations

	Year Ended June 30,		
	2018	2017	2016
Interest and dividend income			
Loans	\$ 37,798	\$ 33,664	\$ 32,832
Investment securities	9,266	6,661	5,897
Federal funds and other	896	633	315
Total interest and dividend income	<u>47,960</u>	<u>40,958</u>	<u>39,044</u>
Interest expense			
Deposits and escrow interest	5,554	5,083	4,613
FHLB advances	769	210	199
Total interest expense	<u>6,323</u>	<u>5,293</u>	<u>4,812</u>
Net interest income	41,637	35,665	34,232
Provision for loan losses	414	823	1,859
Net interest income after provision for loan losses	41,223	34,842	32,373
Noninterest income			
Fees and service charges	1,070	1,178	1,053
Bank-owned life insurance	568	622	458
Gains on sale of securities	236	-	-
Settlement on acquired loan	-	1,615	-
Other	645	669	440
Total noninterest income	<u>2,519</u>	<u>4,084</u>	<u>1,951</u>
Noninterest expense			
Salaries and employee benefits	19,235	16,901	16,961
Occupancy and equipment	5,193	5,864	5,122
Communications and data processing	1,974	1,768	1,790
Professional fees	1,709	1,308	1,644
Postage, printing, stationary and supplies	578	547	681
Loss on other receivable	570	-	-
Advertising	456	529	388
FDIC assessment	328	558	888
Amortization of intangible assets	126	143	158
Charitable foundation contribution	-	5,000	-
Merger and acquisition related expenses	-	-	790
Other operating expenses	1,947	1,813	1,843
Total noninterest expense	<u>32,116</u>	<u>34,431</u>	<u>30,265</u>
Net income before income tax expense	11,626	4,495	4,059
Income tax expense	5,022	1,266	1,133
Net income	<u>\$ 6,604</u>	<u>\$ 3,229</u>	<u>\$ 2,926</u>
Earnings per common share:			
Basic	\$ 0.39	N/A	N/A
Diluted	\$ 0.39	N/A	N/A
Weighted average common shares outstanding - basic and diluted	16,802,894	N/A	N/A

See accompanying notes to the consolidated financial statements

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)

	Year Ended June 30,		
	2018	2017	2016
Net Income	\$ 6,604	\$ 3,229	\$ 2,926
Other comprehensive (loss) income:			
Unrealized gains (losses) on available for sale securities:			
Net change in unrealized gains/losses before reclassification adjustment	(1,835)	(735)	255
Reclassification adjustment for gains realized in net income	(164)		
Net change in unrealized gains/losses	(1,999)	(735)	255
Tax effect	558	249	(55)
Net of tax	(1,441)	(486)	200
Defined benefit pension plan:			
Net gain (loss) arising during the period	335	3,973	(5,022)
Reclassification adjustment for amortization of prior service cost and net gain (loss) included in net periodic pension cost	725	89	398
Net change in unrealized gains/losses	1,060	4,062	(4,624)
Tax effect	(270)	(1,381)	1,252
Net of tax	790	2,681	(3,372)
Supplemental retirement plans:			
Net gain (loss) arising during the period	10	(755)	89
Reclassification adjustment for amortization of prior service cost and net gain included in net periodic pension cost	34	93	84
Net change in unrealized gains/losses	44	(662)	173
Tax effect	(11)	1,222	(249)
Net of tax	33	560	(76)
Total other comprehensive (loss) income	(618)	2,755	(3,248)
Comprehensive income (loss)	<u>\$ 5,986</u>	<u>\$ 5,984</u>	<u>\$ (322)</u>

See accompanying notes to the consolidated financial statements

PCSB Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
(amounts in thousands, except number of shares)

	Number of Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Unallocated Common Stock of ESOP	Accumulated Other Comprehensive Loss	Total Equity
Balance at June 30, 2015	-	\$ -	\$ -	\$ 114,993	\$ -	\$ (4,722)	\$ 110,271
Net Income	-	-	-	2,926	-	-	2,926
Other comprehensive income	-	-	-	-	-	(3,248)	(3,248)
Balance at June 30, 2016	-	\$ -	\$ -	\$ 117,919	\$ -	\$ (7,970)	\$ 109,949
Net Income	-	-	-	3,229	-	-	3,229
Other comprehensive income	-	-	-	-	-	2,755	2,755
Issuance of common stock	17,826,408	179	174,425	-	-	-	174,604
Issuance of common stock to PCSB Community Foundation	338,702	3	3,384	-	-	-	3,387
Stock purchased by the ESOP	-	-	-	-	(14,532)	-	(14,532)
ESOP shares committed to be released (26,975 shares)	-	-	184	-	270	-	454
Balance at June 30, 2017	18,165,110	\$ 182	\$ 177,993	\$ 121,148	\$ (14,262)	\$ (5,215)	\$ 279,846
Net Income	-	-	-	6,604	-	-	6,604
Other comprehensive income	-	-	-	-	-	(618)	(618)
Reclassification of certain tax effects on other comprehensive income (1)	-	-	-	1,117	-	(1,117)	-
Common stock dividends declared (\$0.03 per share)	-	-	-	(504)	-	-	(504)
Issuance of common stock (2)	-	-	(17)	-	-	-	(17)
ESOP shares committed to be released (117,948 shares)	-	-	1,069	-	1,179	-	2,248
Balance at June 30, 2018	<u>18,165,110</u>	<u>\$ 182</u>	<u>\$ 179,045</u>	<u>\$ 128,365</u>	<u>\$ (13,083)</u>	<u>\$ (6,950)</u>	<u>\$ 287,559</u>

(1) The adoption of ASU 2018-02 requires the reclassification from accumulated other comprehensive income to retained earnings of certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017. Refer to Footnote 2 - Recent Accounting Pronouncements for additional information.

(2) Represents costs incurred in association with the Company's initial public offering completed in the prior period.

See accompanying notes to the consolidated financial statements

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

	Year Ended June 30,		
	2018	2017	2016
OPERATING ACTIVITIES			
Net income	\$ 6,604	\$ 3,229	\$ 2,926
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan loss	414	823	1,859
Depreciation and amortization	1,432	1,427	1,265
Amortization of net premiums on securities and net deferred loan origination costs	1,679	1,002	943
Deferred income tax expense (credit), net of valuation reserves	2,425	(26)	1,299
Net increase in accrued interest receivable	(665)	(332)	(127)
Net loss (gain) on sale of foreclosed real estate	7	(99)	(9)
Net gains on sale of securities	(236)	-	-
Write-downs on foreclosed real estate	-	-	30
Contribution to PCSB Community Foundation	-	3,387	-
ESOP Compensation	2,248	454	-
Earnings from cash surrender value of BOLI	(568)	(622)	(458)
Net accretion of purchase account adjustments	(563)	(820)	(1,352)
Other adjustments, principally net changes in other assets and liabilities	1,834	(588)	(431)
Net cash provided by operating activities	14,611	7,835	5,945
INVESTING ACTIVITIES			
Purchases of investment securities:			
Held to maturity	(51,218)	(195,566)	(112,896)
Available for sale	(27,498)	(23,314)	(56,420)
Sales of investment securities available for sale	7,511	-	-
Maturities and calls of investment securities:			
Held to maturity	80,997	72,152	107,656
Available for sale	24,202	32,750	33,058
Principal repayments net of disbursement for loan originations	(818)	(1,131)	(14,314)
Purchase of loans	(93,166)	(30,926)	(43,981)
Net redemption (purchase) of FHLB stock	1,082	(1,085)	(328)
Purchase of bank premises and equipment	(753)	(3,469)	(3,902)
Purchase of BOLI	-	-	(11,275)
Proceeds from sale of foreclosed real estate	1,249	2,121	1,030
Net cash used in investing activities	(58,412)	(148,468)	(101,372)
FINANCING ACTIVITIES			
Net increase (decrease) in deposits	69,019	(24,109)	52,778
Net increase (decrease) in short-term FHLB advances	(23,636)	23,636	(5,019)
Proceeds from long-term FHLB advances	-	15,000	20,100
Repayment of long-term FHLB advances	(121)	(16,119)	(9,000)
Net increase in mortgage escrow funds	719	1,061	385
Common stock dividends paid	(504)	-	-
Issuance of common stock	(17)	160,072	-
Net cash provided by financing activities	45,460	159,541	59,244
Net increase (decrease) in cash and cash equivalents	1,659	18,908	(36,183)
Cash and cash equivalents:			
Cash and cash equivalents at beginning of period	60,486	41,578	77,761
Cash and cash equivalents at end of period	\$ 62,145	\$ 60,486	\$ 41,578

See accompanying notes to the consolidated financial statements

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

Supplemental information:

Cash paid for:					
Interest	\$	6,204	\$	5,293	\$ 4,814
Income taxes (net of refunds)		2,766		1,100	(351)
Loans transferred to foreclosed real estate and other assets		739		2,075	1,575

See accompanying notes to the consolidated financial statements

PCSB Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Basis of Presentation

Nature of Operations : PCSB Financial Corporation (the “Holding Company” and together with its direct and indirect subsidiaries, the “Company”) is a Maryland corporation organized by PCSB Bank (the “Bank”) for the purpose of acquiring all of the capital stock of the Bank issued in the Bank’s conversion to stock ownership on April 20, 2017. At June 30, 2018, the significant assets of the Holding Company were the capital stock of the Bank, investments retained by the Holding Company, and a loan to the PCSB Bank Employee Stock Ownership Plan (“ESOP”). The liabilities of the Holding Company were insignificant. The Company is subject to the financial reporting requirements of the Securities Exchange Act of 1934, as amended. The Company is subject to regulation and examination by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”).

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

Merger with CMS Bancorp : On April 28, 2015, CMS Bancorp and CMS Bank merged with and into the Bank.

Basis of Presentation : The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and include the accounts of the Holding Company, the Bank and the Bank’s three subsidiaries – PCSB Funding Corp., PCSB Commercial Bank and UpCounty Realty Corp. (formerly PCSB Realty Ltd.) PCSB Funding Corp. is a real estate investment trust that holds certain mortgage assets. PCSB Commercial Bank is a state-chartered commercial bank authorized to accept the deposits of local governments in New York State. 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. Financial information for the periods before the Company’s initial public offering (“IPO”) on April 20, 2017 are those of the Bank and its subsidiaries.

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

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

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

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

Premiums and discounts on debt securities are amortized to interest income on a level-yield basis over the terms of the securities. Realized gains and losses on sales of securities are determined based on the amortized cost of the specific securities sold.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and

near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

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

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

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

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

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

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

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

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for loans evaluated under the Company's normal loan review procedures. Loans evaluated on an individual basis for impairment may be measured by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

The Company's impaired loans are generally collateral dependent. If the fair value of an impaired loan is less than its recorded investment, an impairment allowance is recognized and included in the allowance for loan losses.

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

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

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

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

Commercial Mortgage Loans – commercial mortgage loans, including multifamily real estate loans, are secured by multifamily and nonresidential real estate and generally have larger balances and involve a greater degree of risk than residential real estate loans. Repayment of commercial mortgage loans depend on the

global cash flow analysis of the borrower and the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. Of primary concern in commercial real estate lending is the borrower's creditworthiness and the cash flow generated from the property securing the loan. As a result, repayment of such loans may be subject, to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy. Commercial real estate is also subject to adverse market conditions that cause a decrease in market value or lease rates, obsolescence in location or function and market conditions associated with over supply of units in a specific region.

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

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

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

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

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

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

Premises and Equipment: Premises and equipment are reported at cost less accumulated depreciation and amortization, except for land which is carried at cost. Depreciation expense is recognized on a straight-line basis over the estimated useful lives of the related assets. Amortization of leasehold improvements is recognized on a straight-line basis over the term of the lease or the life of the improvement, whichever is shorter. Costs incurred to improve or extend the life of the existing assets are capitalized. Repairs and maintenance, as well as renewals and replacements of a routine nature, are charged to expense as incurred.

Bank Owned Life Insurance (BOLI): BOLI policies are reflected on the consolidated statements of financial condition at cash surrender value, net of any deferred fees or loans. Changes in the net cash surrender value of the policies, as well as insurance proceeds received, are reflected in non-interest income on the consolidated statements of operations and are not subject to income taxes.

Goodwill and Other Intangible Assets: Goodwill resulting from business combinations is determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company has selected June 30th as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

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

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

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

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

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

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

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

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

The Holding Company and Bank maintain the PCSB Bank Employee Stock Ownership Plan (the “ESOP”). Compensation expense related to the ESOP is recorded during the period in which the shares become committed to be released to participants. The compensation expense is measured based upon the average fair market value of the

stock during the period, and, to the extent that the fair value of the shares committed to be released differs from the original cost of such shares, the difference is recorded as an adjustment to additional paid-in capital.

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

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

Segment Reporting: While management monitors the revenue streams of the various products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

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

Earnings per share: Basic earnings per share excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Unallocated ESOP shares are not deemed outstanding for earnings per share calculation. There were no dilutive instruments at June 30, 2018 or 2017. Due to the IPO taking place on April 20, 2017, earnings per share for the period from IPO to June 30, 2017 was deemed not meaningful by management.

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.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 “Revenue from Contracts with Customers,” and was later amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and 2016-20. These updates provide a comprehensive framework for addressing revenue recognition issues that can be applied to all contracts with customers. The amendments also include improved disclosures to enable users of financial statements to better understand the nature, amount, timing and uncertainty of revenue that is recognized.

While the guidance in ASU 2014-09 supersedes most existing industry-specific revenue recognition accounting guidance, much of PCSB Bank’s revenue comes from financial instruments such as debt securities and loans that are outside the scope of the guidance. The Company’s material revenue streams that are in the scope of ASU 2014-09 are fees on deposit accounts (including interchange fees) and foreclosed real estate gains and losses. All other revenue streams are immaterial or are in the scope of other GAAP requirements which take precedence and therefore are not in the scope of ASU 2014-09. Based on the Company’s analysis, ASU 2014-09 will not materially change the recognition of revenue on service fees on deposit accounts as the contracts are day to day and recognized as the service is provided. Gains and losses on the sale of foreclosed real estate are generally accounted for under ASC 610. However, ASU 2014-09 also added a new Subtopic 610-20 which addresses the recognition of gains and losses on the transfer of nonfinancial and in-substance nonfinancial assets. Gain and loss recognition is not expected to change except for foreclosed real estate and other nonfinancial asset sales that are financed by the Company. In the case of financed sales, the Company will need to evaluate each contract to determine whether each contract criteria are met, including whether it is probable that it will collect substantially all consideration to which it is entitled. The Company will also need to evaluate whether the financing terms offered to the buyer of the nonfinancial asset are market terms when determining the transaction price.

The Company has evaluated the impact of ASU 2014-09 and the amendments upon adoption as of July 1, 2018. In evaluating this standard, management has determined that the majority of revenue earned by the Company is from revenue streams not included in the scope of this standard and for in scope revenue streams management determined that, based on the modified retrospective method, a cumulative-effect adjustment to opening retained earnings as a result of adopting this standard is not needed. ASU 2014-09 will require additional disclosures beginning with the quarter ending September 30, 2018.

In January 2016, the FASB issued ASU 2016-01, an amendment to “Recognition and Measurement of Financial Assets and Financial Liabilities.” The amendments in ASU 2016-01 are intended to improve the recognition, measurement, presentation and disclosure of financial assets and liabilities to provide users of financial statements with information that is more useful for decision-making purposes. Among other changes, ASU 2016-01 would: (1) require equity securities to be reclassified out of available for sale and measured at fair value with changes in fair value recognized through net income but would allow equity securities that do not have readily determinable fair values to be re-measured at fair value either upon the occurrence of an observable price change or upon identification of an impairment, (2) simplify the impairment assessment of such equity securities and would require enhanced disclosure about these investments, (3) require separate presentation of financial assets and liabilities by measurement category and type of instrument, such as securities or loans, on the balance sheet or in the notes, and would eliminate certain other disclosures relating to the methods and assumptions used to estimate fair value for financial assets measured at amortized cost on the balance sheet, and (4) require the use of an exit price notion when measuring the fair value of financial instruments. The Company has evaluated the impact of ASU 2016-01 and subsequent amendments upon adoption on July 1, 2018 and has concluded that there is not a material impact on the Company’s consolidated financial statements.

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 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 would also require entities to disclose key information about leasing arrangements. The amendments in this update will be effective for the Company for the fiscal year beginning on July 1, 2019, including interim periods within that fiscal year. Early adoption is permitted. The Company currently leases eleven branches and two administrative offices. ASU 2016-02 will result in the establishment of a right to use asset and corresponding lease obligation, the materiality of which has yet to be determined by management, however the ASU is not expected to have a material impact on the Company’s consolidated results of operations or disclosures.

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. The amendments in this update will be effective for the Company for the fiscal year beginning on July 1, 2020, including interim periods within that fiscal year. Early adoption is permitted beginning after December 15, 2018, including interim periods within those fiscal years. 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 is evaluating the need for 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.

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 amendments in this update will be effective for the Company for the fiscal year beginning on July 1, 2019, including interim periods within that fiscal year. Early adoption is permitted for interim or annual goodwill impairment testing performed on testing dates after January 1, 2017. Management expects ASU 2017-04 will not have a significant impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07 "Compensation – Retirement Benefits". The ASU requires companies that offer employee defined pension plans, other postretirement benefit plans, or other types of benefit plans accounted for under Topic 715 to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Management has evaluated the impact of ASU 2017-07 upon adoption on July 1, 2018 and has concluded that there is not 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 amendments in this update will be effective for the Company for the fiscal year beginning on July 1, 2020, including interim periods within that fiscal year. Early adoption is permitted beginning after December 15, 2018, including interim periods within those fiscal years. ASU 2017-08 will not have a material impact on the Company's consolidated financial position, results of operations or disclosures.

On February 14, 2018, the FASB issued ASU 2018-02 "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of certain tax effects from accumulated other comprehensive income." The ASU intended to help organizations reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017. The ASU requires the reclassification of stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act 2017 (or portion thereof) is recorded. The amount of the reclassification is the difference between the historical corporate income tax rate (34 percent) and the newly enacted 21 percent corporate income tax rate. The Company has elected to early adopt the ASU as of March 31, 2018, resulting in a \$1.1 million reclassification between accumulated other comprehensive income and retained earnings. There is no impact to current earnings and no prior period information has been retroactively adjusted as a result of implementing the ASU. No additional reclassifications will be required in the future periods as a result of this guidance. The ASU is applied specifically to the impacts of the Tax Cuts and Jobs Act of 2017 and is not effective for other or future state or federal tax law changes.

Note 3. Shareholders' Equity

The Company completed its IPO on April 20, 2017, in connection with the Bank's mutual-to-stock conversion, resulting in gross proceeds of \$178.3 million, through the sale of 17,826,408 shares, including 1,453,209 shares sold to the PCSB Bank Employee Stock Ownership Plan (ESOP), at the offering price of \$10.00 per share. In addition, the Company also contributed 338,702 shares of its common stock and \$1.6 million in cash to the PCSB Community Foundation. Expenses related to the offering were approximately \$3.7 million, which resulted in net proceeds of approximately \$174.6 million prior to the contribution to PCSB Community Foundation. The Company lent approximately \$14.5 million to the ESOP and retained approximately \$87.3 million of the net proceeds of the offering prior to the contribution to PCSB Community Foundation. The remainder of the net proceeds was contributed to the Bank. Prior to the IPO, the Company had no outstanding shares.

Note 4 . Investment Securities

The amortized cost, gross unrealized/unrecognized gains and losses and fair value of available for sale and held to maturity securities at June 30, 2018 and 2017 were as follows:

	June 30, 2018			
	Amortized Cost	Gross Unrealized/Unrecognized		Fair Value
		Gains	Losses	
(Dollars in thousands)				
Available for sale:				
U.S. Government and agency obligations	\$ 64,389	\$ -	\$ (959)	\$ 63,430
Corporate and other debt securities	8,406	-	(171)	8,235
Mortgage-backed securities – residential	34,619	81	(893)	33,807
Equity securities	32	-	-	32
Total available for sale	<u>\$ 107,446</u>	<u>\$ 81</u>	<u>\$ (2,023)</u>	<u>\$ 105,504</u>
Held to maturity:				
U.S. Government and agency obligations	\$ 122,048	\$ -	\$ (2,274)	\$ 119,774
Corporate and other debt securities	4,000	-	(126)	3,874
Mortgage-backed securities – residential	140,478	32	(4,846)	135,664
Mortgage-backed securities – collateralized mortgage obligations	53,547	-	(1,815)	51,732
Mortgage-backed securities – commercial	33,110	11	(977)	32,144
Total held to maturity	<u>\$ 353,183</u>	<u>\$ 43</u>	<u>\$ (10,038)</u>	<u>\$ 343,188</u>

	June 30, 2017			
	Amortized Cost	Gross Unrealized/Unrecognized		Fair Value
		Gains	Losses	
(Dollars in thousands)				
Available for sale:				
U.S. Government and agency obligations	\$ 63,630	\$ 31	\$ (216)	\$ 63,445
Corporate and other debt securities	8,460	58	(36)	8,482
Mortgage-backed securities – residential	39,710	363	(143)	39,930
Equity securities	32	-	-	32
Total available for sale	<u>\$ 111,832</u>	<u>\$ 452</u>	<u>\$ (395)</u>	<u>\$ 111,889</u>
Held to maturity:				
U.S. Government and agency obligations	\$ 155,559	\$ 23	\$ (574)	\$ 155,008
Corporate and other debt securities	999	-	-	999
Mortgage-backed securities – residential	143,452	828	(497)	143,783
Mortgage-backed securities – collateralized mortgage obligations	59,476	146	(235)	59,387
Mortgage-backed securities – commercial	24,065	412	(66)	24,411
Total held to maturity	<u>\$ 383,551</u>	<u>\$ 1,409</u>	<u>\$ (1,372)</u>	<u>\$ 383,588</u>

For the year ended June 30, 2018, the Company sold securities with a carrying amount of \$8.6 million, resulting in \$236,000 of net realized gains. Included was a disposal of \$1.3 million of securities classified as held to maturity, resulting in net realized gains of \$72,000. These 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. There were no sales of or realized gains or losses on investment securities for the years ended June 30, 2017 or 2016.

The following table presents the fair value and carrying amount of debt securities at June 30, 2018 and 2017, 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
<i>(in thousands)</i>				
June 30, 2018:				
1 year or less	\$ 25,504	\$ 25,342	\$ 12,402	\$ 12,353
1 to 5 years	96,544	94,432	58,393	57,335
5 to 10 years	-	-	2,000	1,977
Mortgage-backed securities and other	231,135	223,414	34,619	33,807
Total	<u>\$ 353,183</u>	<u>\$ 343,188</u>	<u>\$ 107,414</u>	<u>\$ 105,472</u>
<i>(in thousands)</i>				
June 30, 2017:				
1 year or less	\$ 50,486	\$ 50,413	\$ 16,005	\$ 15,988
1 to 5 years	106,073	105,594	54,085	53,975
5 to 10 years	-	-	2,000	1,964
Mortgage-backed securities and other	226,992	227,581	39,710	39,930
Total	<u>\$ 383,551</u>	<u>\$ 383,588</u>	<u>\$ 111,800</u>	<u>\$ 111,857</u>

Securities pledged had carrying amounts of \$140.5 million and \$95.5 million at June 30, 2018 and 2017, 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 June 30, 2018 and 2017:

	June 30, 2018					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized/Unrecognized Loss	Fair Value	Unrealized/Unrecognized Loss	Fair Value	Unrealized/Unrecognized Loss
	<i>(in thousands)</i>					
Available for sale:						
U.S. Government and agency obligations	\$ 41,762	\$ (569)	\$ 21,668	\$ (390)	\$ 63,430	\$ (959)
Corporate and other debt securities	6,258	(148)	1,977	(23)	8,235	(171)
Mortgage-backed securities – residential	13,397	(379)	14,718	(514)	28,115	(893)
Total available for sale	<u>\$ 61,417</u>	<u>\$ (1,096)</u>	<u>\$ 38,363</u>	<u>\$ (927)</u>	<u>\$ 99,780</u>	<u>\$ (2,023)</u>
Held to maturity:						
U.S. Government and agency obligations	\$ 46,163	\$ (871)	\$ 71,611	\$ (1,403)	\$ 117,774	\$ (2,274)
Corporate and other debt securities	3,874	(126)	-	-	3,874	(126)
Mortgage-backed securities – residential	102,496	(3,338)	32,490	(1,508)	134,986	(4,846)
Mortgage-backed securities – collateralized mortgage obligations	31,124	(884)	20,608	(931)	51,732	(1,815)
Mortgage-backed securities – commercial	21,762	(582)	8,629	(395)	30,391	(977)
Total held to maturity	<u>\$ 205,419</u>	<u>\$ (5,801)</u>	<u>\$ 133,338</u>	<u>\$ (4,237)</u>	<u>\$ 338,757</u>	<u>\$ (10,038)</u>

	June 30, 2017					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized/Unrecognized Loss	Fair Value	Unrealized/Unrecognized Loss	Fair Value	Unrealized/Unrecognized Loss
	<i>(in thousands)</i>					
Available for sale						
U.S. Government and agency obligations	\$ 41,900	\$ (200)	\$ 3,993	\$ (16)	\$ 45,893	\$ (216)
Corporate and other debt securities	1,964	(36)	-	-	1,964	(36)
Mortgage-backed securities – residential	18,861	(111)	3,200	(32)	22,061	(143)
Total available for sale	<u>\$ 62,725</u>	<u>\$ (347)</u>	<u>\$ 7,193</u>	<u>\$ (48)</u>	<u>\$ 69,918</u>	<u>\$ (395)</u>
Held to maturity						
U.S. Government and agency obligations	\$ 113,511	\$ (531)	\$ 5,981	\$ (43)	\$ 119,492	\$ (574)
Corporate and other debt securities	999	-	-	-	999	0
Mortgage-backed securities – residential	39,754	(467)	1,626	(30)	41,380	(497)
Mortgage-backed securities – collateralized mortgage obligations	26,622	(141)	4,444	(94)	31,066	(235)
Mortgage-backed securities – commercial	9,092	(66)	-	-	9,092	(66)
Total held to maturity	<u>\$ 189,978</u>	<u>\$ (1,205)</u>	<u>\$ 12,051</u>	<u>\$ (167)</u>	<u>\$ 202,029</u>	<u>\$ (1,372)</u>

For the year ended June 30, 2018, the Company's securities portfolio consisted of \$458.7 million in securities, of which 254 securities with a fair value of \$438.5 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.

For the year ended June 30, 2017, the Company's securities portfolio consisted of \$495.4 million in securities, of which 156 securities with a fair value of \$271.9 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 for which the Company believes it is not probable that it will collect all amounts due according to the contractual terms of the security as of June 30, 2018 and 2017. Management believes the unrealized losses are primarily a result of changing interest rates. The Company has determined that it does not intend to sell, or it is 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 June 30, 2018 and 2017.

Note 5. Loans Receivable

Loans receivable are summarized as follows at June 30 (in thousands):

	June 30,	
	2018	2017
Mortgage loans:		
Residential	\$ 250,578	\$ 217,778
Commercial	495,265	437,651
Construction	17,352	22,404
Net deferred loan origination costs	1,041	397
Total mortgages	764,236	678,230
Commercial and consumer loans:		
Commercial loans	104,135	93,631
Home equity lines of credit	37,395	41,927
Consumer and overdrafts	745	233
Net deferred loan origination costs	729	777
Total commercial and consumer loans	143,004	136,568
Total loans receivable	907,240	814,798
Allowance for loan losses	(4,904)	(5,150)
Loans receivable, net	\$ 902,336	\$ 809,648

In 2015, the Bank 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 years ended June 30, 2018, 2017 and 2016 (in thousands):

	For the year ended June 30, 2018				
	Beginning Allowance	Provision (Credit)	Charge-offs	Recoveries	Ending Allowance
Originated:					
Residential	\$ 360	\$ 161	\$ (136)	\$ 1	\$ 386
Commercial	2,589	114	-	370	3,073
Construction	1,150	352	(997)	-	505
Commercial loans	949	(335)	(54)	220	780
Home equity lines of credit	76	45	(60)	19	80
Consumer and overdrafts	-	30	(23)	-	7
Acquired:					
Residential	26	47	-	-	73
Total	\$ 5,150	\$ 414	\$ (1,270)	\$ 610	\$ 4,904

	For the year ended June 30, 2017				
	Beginning Allowance	Provision (Credit)	Charge-offs	Recoveries	Ending Allowance
Originated:					
Residential	\$ 237	\$ 290	\$ (237)	\$ 70	\$ 360
Commercial	2,149	421	-	19	2,589
Construction	269	989	(108)	-	1,150
Commercial loans	1,313	(944)	(741)	1,321	949
Home equity lines of credit	73	3	-	-	76
Consumer and overdrafts	1	(5)	-	4	-
Acquired:					
Residential	-	64	(38)	-	26
Commercial loans	-	2	(2)	-	-
Consumer and overdrafts	-	3	(3)	-	-
Total	\$ 4,042	\$ 823	\$ (1,129)	\$ 1,414	\$ 5,150

	For the year ended June 30, 2016				
	Beginning Allowance	Provision (Credit)	Charge-offs	Recoveries	Ending Allowance
Originated:					
Residential	\$ 193	\$ 444	\$ (400)	\$ -	\$ 237
Commercial	1,766	215	(10)	178	2,149
Construction	100	(23)	-	192	269
Commercial loans	1,793	1,172	(1,677)	25	1,313
Home equity lines of credit	69	28	(24)	-	73
Consumer and overdrafts	-	23	(22)	-	1
Total	\$ 3,921	\$ 1,859	\$ (2,133)	\$ 395	\$ 4,042

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 June 30, 2018 and June 30, 2017 (in thousands):

	June 30, 2018							
	Loans							
	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	\$ 2,360	\$ 246,913	\$ 1,305	\$ 250,578	\$ 154	\$ 232	\$ 73	\$ 459
Commercial	1,683	492,105	1,477	495,265	-	3,073	-	3,073
Construction	2,260	15,092	-	17,352	276	229	-	505
Commercial loans	2,451	101,684	-	104,135	9	771	-	780
Home equity lines of credit	360	36,867	168	37,395	12	68	-	80
Consumer and overdrafts	-	745	-	745	-	7	-	7
Total	\$ 9,114	\$ 893,406	\$ 2,950	\$ 905,470	\$ 451	\$ 4,380	\$ 73	\$ 4,904

June 30, 2017

	Loans				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	\$ 4,471	\$ 211,983	\$ 1,324	\$ 217,778	\$ 131	\$ 229	\$ 26	\$ 386
Commercial	2,411	433,416	1,824	437,651	-	2,589	-	2,589
Construction	3,661	18,743	-	22,404	997	153	-	1,150
Commercial loans	6,169	87,420	42	93,631	9	940	-	949
Home equity lines of credit	610	41,140	177	41,927	5	71	-	76
Consumer and overdrafts	-	233	-	233	-	-	-	-
Total	\$ 17,322	\$ 792,935	\$ 3,367	\$ 813,624	\$ 1,142	\$ 3,982	\$ 26	\$ 5,150

The following tables present information related to loans individually evaluated for impairment (excluding loans acquired with deteriorated credit quality) by class of loans as of and for the years ended June 30, 2018, 2017 and 2016 (in thousands):

	June 30, 2018		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses
With no related allowance recorded:			
Residential	\$ 1,659	\$ 1,576	\$ -
Commercial	1,765	1,683	-
Commercial loans	2,254	2,098	-
Home equity lines of credit	341	341	-
With an allowance recorded:			
Residential	742	784	154
Construction	3,257	2,260	276
Commercial loans	353	353	9
Home equity lines of credit	84	19	12
Total	\$ 10,455	\$ 9,114	\$ 451

	June 30, 2017		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses
With no related allowance recorded:			
Residential	\$ 4,216	\$ 4,014	\$ -
Commercial	2,935	2,411	-
Construction	404	404	-
Commercial loans	9,433	4,979	-
Home equity lines of credit	599	599	-
With an allowance recorded:			
Residential	395	457	131
Construction	3,257	3,257	997
Commercial loans	1,190	1,190	9
Home equity lines of credit	11	11	5
Total	\$ 22,440	\$ 17,322	\$ 1,142

	For the year ended June 30, 2018		For the year ended June 30, 2017		For the year ended June 30, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:						
Residential	\$ 3,041	\$ 184	\$ 4,238	\$ 42	\$ 5,577	\$ 6
Commercial	2,350	248	2,448	137	9,324	88
Construction	93	17	406	12	13	-
Commercial loans	3,457	1,049	5,065	239	10,755	71
Home equity lines of credit	507	22	599	(2)	430	-
With an allowance recorded:						
Residential	453	15	432	15	-	-
Construction	2,720	-	3,015	71	132	-
Commercial loans	1,491	66	1,224	61	422	12
Home equity lines of credit	11	-	11	-	-	-
Total	<u>\$ 14,123</u>	<u>\$ 1,601</u>	<u>\$ 17,438</u>	<u>\$ 575</u>	<u>\$ 26,653</u>	<u>\$ 177</u>

The following table presents the recorded investment in nonaccrual loans and in loans past due over 90 days still on accrual status, by class of loans as of June 30, 2018 and June 30, 2017 (in thousands):

	Nonaccrual		Loans Past Due Over 90 Days and Still Accruing	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Originated:				
Residential	\$ 604	\$ 2,581	\$ -	\$ -
Commercial	262	-	-	-
Construction	2,260	3,661	-	-
Commercial loans	788	2,959	-	-
Home equity lines of credit	45	302	-	-
Acquired:				
Residential	1,308	1,776	-	-
Commercial	532	497	-	-
Home equity lines of credit	303	296	-	-
Total	<u>\$ 6,102</u>	<u>\$ 12,072</u>	<u>\$ -</u>	<u>\$ -</u>

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 \$1.8 million and \$2.7 million as of June 30, 2018 and June 30, 2017, respectively. Such loans are excluded because the loans are in pools that are considered performing. The discounts arising from recording these loans at fair value upon acquisition were due in part to credit quality and the accretable yield is being recognized as interest income over the life of the loans based on expected cash flows.

The following tables present the aging of the recorded investment in past due loans by class of loans as of June 30, 2018 and June 30, 2017 (in thousands):

	June 30, 2018					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
Originated:						
Residential	\$ -	\$ 394	\$ 210	\$ 604	\$ 194,986	\$ 195,590
Commercial	-	-	262	262	420,320	420,582
Construction	-	-	2,260	2,260	15,092	17,352
Commercial loans	-	-	500	500	102,767	103,267
Home equity lines of credit	-	-	45	45	32,311	32,356
Consumer and overdrafts	-	-	-	-	733	733
Total originated	-	394	3,277	3,671	766,209	769,880
Acquired:						
Residential	-	232	1,806	2,038	52,950	54,988
Commercial	-	-	1,112	1,112	73,571	74,683
Construction	-	-	-	-	-	-
Commercial loans	-	-	-	-	868	868
Home equity lines of credit	30	-	296	326	4,713	5,039
Consumer and overdrafts	-	-	-	-	12	12
Total acquired	30	232	3,214	3,476	132,114	135,590
Total	\$ 30	\$ 626	\$ 6,491	\$ 7,147	\$ 898,323	\$ 905,470

	June 30, 2017					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
Originated:						
Residential	\$ 94	\$ 275	\$ 1,973	\$ 2,342	\$ 153,390	\$ 155,732
Commercial	-	-	-	-	355,247	355,247
Construction	-	-	3,661	3,661	18,743	22,404
Commercial loans	-	-	544	544	88,449	88,993
Home equity lines of credit	-	199	103	302	35,246	35,548
Consumer and overdrafts	-	-	-	-	211	211
Total originated	94	474	6,281	6,849	651,286	658,135
Acquired:						
Residential	237	463	1,472	2,172	59,874	62,046
Commercial	-	-	1,054	1,054	81,350	82,404
Construction	-	-	-	-	-	-
Commercial loans	-	-	-	-	4,638	4,638
Home equity lines of credit	-	-	296	296	6,083	6,379
Consumer and overdrafts	-	-	-	-	22	22
Total acquired	237	463	2,822	3,522	151,967	155,489
Total	\$ 331	\$ 937	\$ 9,103	\$ 10,371	\$ 803,253	\$ 813,624

Troubled Debt Restructurings

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

As of June 30, 2018 and June 30, 2017, the Company had 12 and 20 loans classified as troubled debt restructurings totaling \$3.8 million and \$9.9 million, respectively. The Company has allocated \$139,000 and \$145,000, respectively, of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2018 and June 30, 2017, and has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents loans by modified in troubled debt restructurings that occurred during the years ended June 30, 2018, 2017 and 2016 (dollars in thousands):

	Number of loans	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Year ended June 30, 2018:			
Commercial loans	1	\$ 275	\$ 289
Total	<u>1</u>	<u>\$ 275</u>	<u>\$ 289</u>
Year ended June 30, 2017:			
Residential	1	\$ 165	\$ 210
Commercial loans	1	276	276
Total	<u>2</u>	<u>\$ 441</u>	<u>\$ 486</u>
Year ended June 30, 2016:			
Residential	3	\$ 1,697	\$ 1,697
Commercial	1	1,178	1,178
Commercial loans	1	64	64
Home equity lines of credit	1	200	200
Total	<u>4</u>	<u>\$ 3,139</u>	<u>\$ 3,139</u>

The Company had two troubled debt restructurings, both commercial loans, for which there was a payment default in the year ended June 30, 2018 that were modified in the twelve months prior to default, which resulted in a \$2,000 increase to the allowance for loan loss. There were two troubled debt restructurings, one residential mortgage and one home equity line of credit, for which there was a payment default in the year ended June 30, 2017 that were modified in the twelve months prior to default, and resulted in no increase to the allowance for loan loss. There was one such default, on a residential mortgage, in the year ended June 30, 2016 which resulted in no increase to the allowance for loan losses.

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.

Credit Quality Indicators

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

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

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

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

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

	June 30, 2018			
	Pass	Special Mention	Substandard	Total
Originated:				
Residential	\$ 194,341	\$ 571	\$ 678	\$ 195,590
Commercial	418,370	-	2,212	420,582
Construction	15,092	-	2,260	17,352
Commercial loans	98,205	167	4,895	103,267
Home equity lines of credit	32,167	144	45	32,356
Consumer and overdrafts	733	-	-	733
Total originated	758,908	882	10,090	769,880
Acquired:				
Residential	51,858	249	2,881	54,988
Commercial	71,832	842	2,009	74,683
Construction	-	-	-	-
Commercial loans	857	11	-	868
Home equity lines of credit	4,641	-	398	5,039
Consumer and overdrafts	12	-	-	12
Total acquired	129,200	1,102	5,288	135,590
Total	\$ 888,108	\$ 1,984	\$ 15,378	\$ 905,470

	June 30, 2017			
	Pass	Special Mention	Substandard	Total
Originated:				
Residential	\$ 153,165	\$ -	\$ 2,567	\$ 155,732
Commercial	352,203	134	2,910	355,247
Construction	18,743	-	3,661	22,404
Commercial loans	79,406	-	9,587	88,993
Home equity lines of credit	35,246	58	244	35,548
Consumer and overdrafts	211	-	-	211
Total originated	638,974	192	18,969	658,135
Acquired:				
Residential	58,665	-	3,381	62,046
Commercial	80,082	-	2,322	82,404
Construction	-	-	-	-
Commercial loans	4,638	-	-	4,638
Home equity lines of credit	5,906	-	473	6,379
Consumer and overdrafts	22	-	-	22
Total acquired	149,313	-	6,176	155,489
Total	\$ 788,287	\$ 192	\$ 25,145	\$ 813,624

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 June 30, 2018 and 2017 is as follows (in thousands):

	June 30, 2018	June 30, 2017
Residential	\$ 1,232	\$ 1,298
Commercial	1,477	1,824
Commercial loans	-	42
Home equity lines of credit	168	177
Carrying amount, net of allowance of \$73 and \$26, respectively	<u>\$ 2,877</u>	<u>\$ 3,341</u>

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

	Year ended June 30,		
	2018	2017	2016
Beginning balance	\$ 403	\$ 578	\$ 713
New loans acquired	-	-	-
Accretion income	(70)	(190)	(185)
Reclassification from non-accretable difference	5	15	132
Disposals	(93)	-	(82)
Ending balance	<u>\$ 245</u>	<u>\$ 403</u>	<u>\$ 578</u>

Note 6. Premises and Equipment

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

	<u>2018</u>	<u>2017</u>
Land	\$ 1,997	\$ 1,997
Building and Leasehold improvements	13,430	11,128
Furniture, fixtures and equipment	6,096	5,841
Construction and improvements in process	355	3,015
	<u>21,878</u>	<u>21,981</u>
Less: accumulated depreciation and amortization	(10,280)	(9,022)
Total Bank premises and equipment, net	<u>\$ 11,598</u>	<u>\$ 12,959</u>

Depreciation expense was \$1.3 million, \$1.3 million and \$1.1 million for the years ended June 30, 2018, 2017 and 2016, respectively.

Note 7. Goodwill and Intangible Assets

The change in goodwill during the years ended June 30, 2018, 2017 and 2016 are as follows (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance at July 1	\$ 6,106	\$ 6,106	\$ 5,843
Adjustment to CMS goodwill	-	-	263
Impairment	-	-	-
Total at June 30	<u>\$ 6,106</u>	<u>\$ 6,106</u>	<u>\$ 6,106</u>

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. The Company tests for goodwill impairment on an annual basis as of June 30th. No impairment was recorded on goodwill for 2018, 2017, or 2016.

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

	<u>2018</u>		<u>2017</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Amortized intangible assets:				
Core deposit intangible	<u>\$ 887</u>	<u>\$ (454)</u>	<u>\$ 887</u>	<u>\$ (328)</u>

Aggregate amortization expense was \$126,000, \$143,000 and \$158,000 for the years ended June 30, 2018, 2017 and 2016, respectively.

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

2019	\$ 110
2020	94
2021	78
2022	62
2023	46

Note 8 . Deposits

Deposit balances are summarized as follows at June 30, 2018 and 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
Demand	\$ 131,883	\$ 136,361
NOW Accounts	117,875	115,527
Money market accounts	49,885	29,097
Savings	465,441	512,697
Time deposits	392,373	294,779
Total	<u>\$ 1,157,457</u>	<u>\$ 1,088,461</u>

Time deposits that meet or exceed the FDIC insurance limit of \$250,000 were \$116.0 million and \$49.2 million at June 30, 2018 and 2017, respectively.

Scheduled maturities of time deposits were as follows as of June 30, 2018 and 2017 and exclude fair value adjustments on acquired time deposits (in thousands):

	<u>2018</u>	<u>2017</u>
Within 1 year	\$ 183,276	\$ 107,097
1 year to 2 years	49,350	62,331
2 years to 3 years	56,746	31,143
3 years to 4 years	56,458	41,508
4 years to 5 years	46,339	52,503
Thereafter	204	197
Total	<u>\$ 392,373</u>	<u>\$ 294,779</u>

Deposits of local governments held by PCSB Commercial Bank were \$39.1 million and \$38.4 million at June 30, 2018 and 2017, respectively. Additionally, as of June 30, 2018, deposits included \$60.0 million of brokered time deposits with remaining maturities between five and 47 months. We had no brokered deposits as of June 30, 2017.

Note 9 . FHLB and Other Borrowings

Borrowings consist of advances from the Federal Home Loan Bank of New York. As of June 30, 2018, FHLB advances consisted of \$15.0 million of short and long-term advances with original maturities ranging from 3 to 18 months, as well as a \$3.8 million amortizing term loan with a balloon payment of \$2.8 million in 2026. The maturity schedule of advances is summarized as follows as of June 30 (dollars in thousands):

	<u>2018</u>		<u>2017</u>	
	<u>Amount Due</u>	<u>Weighted Avg. Rate</u>	<u>Amount Due</u>	<u>Weighted Avg. Rate</u>
Within 1 year	\$ 10,125	1.70%	\$ 23,757	1.27%
1 year to 2 years	5,128	1.81	10,125	1.70
2 years to 3 years	131	2.62	5,128	1.81
3 years to 4 years	135	2.62	131	2.62
4 years to 5 years	138	2.62	135	2.62
Thereafter	3,184	2.62	3,322	2.62
Total	<u>\$ 18,841</u>	<u>1.91%</u>	<u>\$ 42,598</u>	<u>1.55%</u>

As a member of the FHLB of New York, the Bank had access to funds in the form of FHLB advances of approximately \$314.9 million and \$350.7 million from the Federal Home Loan Bank of New York, at June 30, 2018

and June 30, 2017, \$18.8 million and \$42.6 million of which was outstanding as of June 30, 2018 and June 30, 2017, respectively. Advances are secured by the Bank's investment in FHLB stock and by a blanket security agreement. This agreement requires the Bank to maintain as collateral certain qualifying assets (such as U.S. Government agency and MBSs) with a discounted fair value, as defined, at least equal to 110% of any outstanding advances.

At June 30, 2018, the Bank also had access to funds of approximately \$122.1 million in the form of secured borrowings through the discount window of the Federal Reserve Bank of New York. Collateral for these borrowings may include qualifying assets, such as one-to-four family residential loans. The Bank had no outstanding FRB borrowings as of June 30, 2018 or 2017.

Note 10 . Commitments and Contingencies

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

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

The contract amounts of credit-related financial instruments at June 30, 2018 and 2017, are summarized below (in thousands):

	2018	2017
Commitments to originate loans	\$ 102,644	\$ 77,600
Unused lines of credit	56,553	45,439
Standby letter of credit	1,420	705

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

The Company issues financial standby letters of credit that are irrevocable undertakings by the Company to guarantee payment of a specified financial obligation. Most of the Company's financial standby letters of credit arise in connection with lending relationships and have terms of one year or less. The maximum potential future payments the Company could be required to make equals the contract amount of standby letters of credit shown in the preceding table. The Company's recognized liability for financial standby letters of credit was insignificant at June 30, 2018 and 2017.

Operating Lease Commitments : The Company leases certain branch properties under operating leases. Rent expense was \$1.9 million, \$2.7 million and \$2.1 million for the years ended June 30, 2018, 2017 and 2016, respectively. Rent commitments, before considering renewal options that generally are present, were as follows as of June 30, 2018 (in thousands):

Within 1 year	\$ 2,145
1 year to 2 years	2,026
2 year to 3 years	1,737
3 year to 4 years	1,675
4 year to 5 years	1,639
Thereafter	8,283
Total	\$ 17,505

Legal Proceedings : In the normal course of business, the Company is involved in certain legal proceedings. In the opinion of management, the consolidated financial statements of the Company are not expected to be affected materially by the outcome of such legal proceedings.

Note 11 . Comprehensive Income

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

	Net unrealized gain (loss) on available for sale securities	Unrealized loss on pension benefits	Unrealized loss on SERP benefits	Total
Balance at July 1, 2017	\$ 37	\$ (5,002)	\$ (250)	\$ (5,215)
Other comprehensive income before reclassifications	(1,835)	335	10	(1,490)
Amounts reclassified from accumulated other comprehensive income	(164)	725	34	595
Tax effect	558	(270)	(11)	277
Net other comprehensive income	(1,441)	790	33	(618)
Reclassification of certain tax effects on other comprehensive income ⁽¹⁾	(132)	(938)	(47)	(1,117)
Balance at June 30, 2018	<u>\$ (1,536)</u>	<u>\$ (5,150)</u>	<u>\$ (264)</u>	<u>\$ (6,950)</u>

	Net unrealized gain (loss) on available for sale securities	Unrealized loss on pension benefits	Unrealized loss on SERP benefits	Total
Balance at July 1, 2016	\$ 523	\$ (7,683)	\$ (810)	\$ (7,970)
Other comprehensive income before reclassifications	(735)	3,973	(755)	2,483
Amounts reclassified from accumulated other comprehensive income	—	89	93	182
Tax effect	249	(1,381)	1,222	90
Net other comprehensive income	(486)	2,681	560	2,755
Balance at June 30, 2017	<u>\$ 37</u>	<u>\$ (5,002)</u>	<u>\$ (250)</u>	<u>\$ (5,215)</u>

	Net unrealized gain (loss) on available for sale securities	Unrealized loss on pension benefits	Unrealized loss on SERP benefits	Total
Balance at July 1, 2015	\$ 323	\$ (4,311)	\$ (734)	\$ (4,722)
Other comprehensive income before reclassifications	255	(5,022)	89	(4,678)
Amounts reclassified from accumulated other comprehensive income	—	398	84	482
Tax effect	(55)	1,252	(249)	948
Net other comprehensive income	200	(3,372)	(76)	(3,248)
Balance at June 30, 2016	\$ 523	\$ (7,683)	\$ (810)	\$ (7,970)

(1) Represents the impact of adopting ASU 2018-02 requiring the reclassification of certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017 from accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017 (or portion thereof) is recorded. The amount of the reclassification is the difference between the historical corporate income tax rate (34 percent) and the newly enacted 21 percent corporate income tax rate. The reclassification is as of March 31, 2018; no prior period information has been retroactively adjusted as a result of implementing the ASU.

Note 12 . Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Unallocated ESOP shares are not deemed outstanding for earnings per share calculations. There were no potentially dilutive common stock equivalents during the year ended June 30, 2018. Due to the IPO taking place on April 20, 2017, earnings per share for the year-ended June 30, 2017 was deemed not meaningful by management.

	<u>Year ended June 30, 2018</u> (dollars in thousands, except per share data)
Net income applicable to common stock	\$ 6,604
Average number of common shares outstanding	18,165,110
Less: Average unallocated ESOP shares	1,362,216
Average number of common shares outstanding used to calculate basic earnings per common share	16,802,894
Earnings per Common share:	
Basic	\$ 0.39
Diluted	\$ 0.39

Note 13 . 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 costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower cost or fair value, less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

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

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

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

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
June 30, 2018:				
Measured on a recurring basis:				
Available for sale securities:				
U.S. Government and agency obligations	\$ -	\$ 63,430	\$ -	\$ 63,430
Corporate and other debt securities	-	8,235	-	8,235
Mortgage-backed securities – residential	-	33,807	-	33,807
Equity securities	-	32	-	32
Total assets at fair value	<u>\$ -</u>	<u>\$ 105,504</u>	<u>\$ -</u>	<u>\$ 105,504</u>

Measured on a non-recurring basis:				
Impaired loans:				
Residential mortgages	\$ -	\$ -	\$ 688	\$ 688
Construction	-	-	1,984	1,984
Commercial loans	-	-	845	845
Home equity lines of credit	-	-	7	7
Foreclosed real estate	-	-	460	460
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,984</u>	<u>\$ 3,984</u>

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
June 30, 2017				
Measured on a recurring basis:				
Available for sale securities:				
U.S. Government and agency obligations	\$ -	\$ 63,445	\$ -	\$ 63,445
Corporate and other debt securities	-	8,482	-	8,482
Mortgage-backed securities – residential	-	39,930	-	39,930
Equity securities	-	32	-	32
Total assets at fair value	<u>\$ -</u>	<u>\$ 111,889</u>	<u>\$ -</u>	<u>\$ 111,889</u>

Measured on a non-recurring basis:				
Impaired loans:				
Residential mortgages	\$ -	\$ -	\$ 1,126	\$ 1,126
Construction	-	-	2,260	2,260
Commercial loans	-	-	1,681	1,681
Home equity lines of credit	-	-	5	5
Foreclosed real estate	-	-	977	977
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,049</u>	<u>\$ 6,049</u>

Impaired loans in the table above had a carrying amount of \$3.9 million, a remaining valuation allowance of \$451,000 at June 30, 2018, incurred \$1.1 million of net charge-offs during the year ended June 30, 2018, and resulted in an additional provision for loan losses of \$435,000. Impaired loans as of June 30, 2017 in the table above had a carrying amount of \$6.3 million, a remaining valuation allowance of \$1.1 million at June 30, 2017, and incurred \$245,000 of net charge-offs during the year ended June 30, 2017, which resulted in an additional provision for loan losses of \$1.4 million for the year.

The following tables present quantitative information about Level 3 fair value measurements for selected financial instruments measured at fair value on a non-recurring basis at June 30, 2018 and June 30, 2017 (dollars in thousands):

	<u>Fair Value</u>	<u>Valuation Technique(s)</u>	<u>Unobservable Input(s)</u>	<u>Range or Rate Used</u>
June 30, 2018:				
Impaired loans - residential mortgages	\$ 688	Sales comparison	Adjustments for differences in sales comparables	-5.1% to 20.9%
		Discounted cash flow	Discount rate	5.4% to 6.3%
Impaired loans - construction	1,984	Sales contract	Discount to sales contract	9.8%
Impaired loans - commercial loans	845	Discounted cash flow	Discount rate	5.3% to 7.5%
		Sales contract	Discount to sales contract	9.8%
Impaired loans - home equity lines of credit	7	Sales comparison	Adjustments for differences in sales comparables	-5.1% to 20.9%
		Discounted cash flow	Discount rate	6.3%
Foreclosed real estate	460	Sales comparison	Adjustments for differences in sales comparables	-8.1% to -0.4%
June 30, 2017:				
Impaired loans - residential mortgages	\$ 1,126	Sales comparison	Adjustments for differences in sales comparables	-5.1% to 7.8%
		Discounted cash flow	Discount rate	5.4% to 6.3%
Impaired loans - construction	2,260	Cost approach	Discount for distressed property	50.0%
Impaired loans - commercial loans	1,681	Discounted cash flow	Discount rate	6.0% to 7.5%
		Sales comparison	Adjustments for differences in sales comparables	0.0%
Impaired loans - home equity lines of credit	5	Discounted cash flow	Discount rate	6.3%
Foreclosed real estate	977	Sales comparison	Adjustments for differences in sales comparables	-23.4% to 7.2%

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

	Carrying Amount	Fair Value Measurements			Total
		Level 1	Level 2	Level 3	
June 30, 2018:					
Financial assets:					
Cash and cash equivalents	\$ 62,145	\$ 62,145	\$ -	\$ -	\$ 62,145
Investment securities held to maturity	353,183	-	343,188	-	343,188
Investment securities available for sale	105,504	-	105,504	-	105,504
Loans receivable, net	902,336	-	-	882,319	882,319
Accrued interest receivable	4,358	-	1,402	2,956	4,358
Federal Home Loan Bank stock	2,050	N/A	N/A	N/A	N/A
Financial liabilities:					
Demand, NOW, money market deposits and savings accounts	765,084	765,084	-	-	765,084
Time deposits	392,373	-	394,205	-	394,205
Mortgage escrow funds	8,803	8,803	-	-	8,803
FHLB advances	18,841	-	20,574	-	20,574
June 30, 2017:					
Financial assets:					
Cash and cash equivalents	\$ 60,486	\$ 60,486	\$ -	\$ -	\$ 60,486
Investment securities held to maturity	383,551	-	383,318	270	383,588
Investment securities available for sale	111,889	-	111,889	-	111,889
Loans receivable, net	809,648	-	-	817,814	817,814
Accrued interest receivable	3,693	-	1,243	2,450	3,693
Federal Home Loan Bank stock	3,132	N/A	N/A	N/A	N/A
Financial liabilities:					
Demand, NOW, money market deposits and savings accounts	793,681	793,681	-	-	793,681
Time deposits	294,780	-	297,508	-	297,508
Mortgage escrow funds	8,084	8,084	-	-	8,084
FHLB advances	42,598	-	45,504	-	45,504

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and Cash Equivalents: The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Loans Receivable, Net: For valuation purposes, the loan portfolio was segregated into its significant categories such as one-to-four family residential mortgage loans, other mortgage loans, consumer loans and commercial loans. These categories were further analyzed, where appropriate, into components based on significant financial characteristics such as type of interest rate (adjustable or fixed). For adjustable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price. The fair value of loans is considered Level 3.

FHLB Stock: It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Accrued Interest Receivable: The carrying amount of accrued interest approximates fair value.

Deposits and escrow funds: The fair values disclosed for demand deposits (e.g., non-interest-bearing demand, NOW, money market, savings deposits and escrow accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) and are considered Level 1. Fair values for time deposits are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits, resulting in a Level 2 classification.

FHLB Advances: Fair value of the advances is estimated using a discounted cash flow calculation that applies current FHLB interest rates for advances of similar maturity to the Company's current advance maturity schedules, resulting in a Level 2 classification.

Off Balance Sheet Instruments: Fair values of the off-balance-sheet loan commitments, unused lines of credit and standby letters of credit described in Note 10 were estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the instruments and the creditworthiness of the potential borrowers. At June 30, 2018 and 2017, the fair values of these instruments approximated the related carrying amounts (deferred fees), which were not material.

Note 14 . Income Taxes

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current tax expense (benefit)			
Federal	\$ 2,577	\$ 1,344	\$ (6)
State	20	(52)	(476)
	<u>2,597</u>	<u>1,292</u>	<u>(482)</u>
Deferred tax expense (benefit)			
Federal	2,414	(52)	1,216
State	313	(21)	250
	<u>2,727</u>	<u>(73)</u>	<u>1,466</u>
State tax valuation allowances, net of federal benefit	<u>(302)</u>	<u>47</u>	<u>149</u>
Total	<u>\$ 5,022</u>	<u>\$ 1,266</u>	<u>\$ 1,133</u>

On December 22, 2017, as part of the Tax Cuts and Jobs Act, the federal government enacted comprehensive tax reform containing provisions with a number of impacts on corporate income taxes, the most significant of which provides a decrease in the corporate income tax rate from 34% to 21% for tax years beginning on or after January 1, 2018. The company is required to re-measure as of the date the law is enacted, its net deferred tax asset to reflect the income tax rate expected to be effective when deferred tax positions will be realized. As a result, the Company recorded a re-measurement charge through income tax expense of \$1.6 million for the year ended June 30, 2018.

The Company utilizes a calendar year tax year. As a result of the aforementioned tax reform, a “blended” federal statutory rate of 28.06% is used for 2018, based on the daily weighted average statutory rate effective throughout the fiscal year. Effective tax rates differ from federal statutory rate applied to income before income taxes due to the following (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Federal statutory rate	28.06%	34.00%	34.00%
Tax at federal statutory rate	\$ 3,262	\$ 1,529	\$ 1,380
State Taxes, net of federal benefit	24	—	—
Tax-exempt income	(61)	(47)	(49)
BOLI income	(157)	(211)	(156)
ESOP Compensation	300	63	—
Deferred tax re-measurement charge	1,570	—	—
Other, net	84	(68)	(42)
Total	<u>\$ 5,022</u>	<u>\$ 1,266</u>	<u>\$ 1,133</u>
Effective tax rate	43.20%	28.16%	27.91%

Year-end deferred tax assets and liabilities were due to the following (in thousands):

	<u>2018</u>	<u>2017</u>
Deferred Tax Assets:		
Allowance for Loan Losses	\$ 1,222	\$ 1,983
Deferred compensation	836	1,071
Accrued incentive compensation	110	—
Purchase accounting adjustments	70	277
Deferred rent	182	380
Other compensation loss (defined benefit plans)	1,439	2,706
Depreciation of premises and equipment	413	405
NOL carryforward	131	602
Charitable contribution carryforward	949	1,820
Nonaccrual loan interest	118	540
Other comprehensive loss (securities)	408	—
Other	—	104
Total deferred tax assets	<u>5,878</u>	<u>9,888</u>
Deferred Tax Liabilities:		
Prepaid pension costs	\$ 2,424	\$ 3,622
Deferred loan costs and fees, net	451	457
Other comprehensive income (securities)	—	19
Other	31	368
Total deferred tax liabilities	<u>2,906</u>	<u>4,466</u>
Deferred tax asset valuation allowance	<u>(350)</u>	<u>(652)</u>
Net Deferred Tax Asset	<u>\$ 2,622</u>	<u>\$ 4,770</u>

The Company has an apportioned New York State net operating loss carryforward of approximately \$2.1 million which will begin to expire in 2034. In addition, the Company has approximately \$3.8 million of charitable contribution carryforwards that may be carried forward up to 5 years and will begin to expire in 2022.

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

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

Retained earnings at June 30, 2018 included approximately \$2.8 million for which deferred income taxes of approximately \$588,000 have not been provided. The retained earnings amount represents the base year allocation of income to bad debt deductions for tax purposes only. Base year reserves are subject to recapture if the Bank makes certain non-dividend contributions, repurchases any of its stock, pays dividends in excess of tax earnings and profits, or ceases to maintain a bank charter. Under ASC 740, this amount is treated as a permanent difference and deferred taxes are not recognized unless it appears that it will be reduced and result in taxable income in the foreseeable future. Events that would result in taxation of these reserves include failure to qualify as a bank for tax purposes or distributions in complete or partial liquidation.

The Company is subject to U.S. federal income tax as well as income tax of the states of New York, New Jersey and Connecticut. The Company's federal and state income tax returns are subject to examination for years after December 31, 2014.

At June 30, 2018 and 2017, the Company had no unrecognized tax benefits recorded. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

Note 15 . Post-Retirement Benefits

Employee Pension Plan : The Company maintains a non-contributory defined benefit pension plan that covers employees meeting specific requirements as to age and length of service. The Company's contributions to this qualified plan are determined on the basis of (i) the maximum amount that can be deducted for federal income tax purposes, and (ii) the amount determined by a consulting actuary as necessary to avoid an accumulated funding deficiency as defined by the Employee Retirement Income Security Act of 1974 (ERISA). Contributions are intended to provide not only for benefits attributed to service to date, but also those expected to be earned in the future. On February 15, 2017, the Board of Directors approved the freezing of the defined benefit pension plan effective May 1, 2017. As a result, during the year ended June 30, 2017 the Company recorded a \$919,000 curtailment gain, which is included in earnings as a reduction to salaries and employee benefits expense.

The following is a summary of the plan's funded status as of June 30, 2018 and 2017 (the measurement date for financial reporting purposes) (in thousands):

	2018	2017
Change in benefit obligation:		
Beginning benefit obligation	\$ 25,614	\$ 28,670
Service Cost	-	602
Interest Cost	968	1,002
Actuarial Loss	8	(2,013)
Benefits Paid	(868)	(828)
Settlements	(958)	(1,301)
Curtailment	-	(518)
Ending benefit obligation	<u>24,764</u>	<u>25,614</u>
Change in plan assets, at fair value:		
Beginning plan assets	27,444	23,215
Actual return	2,357	3,358
Employer contributions	-	3,000
Benefits paid	(868)	(828)
Settlements	(958)	(1,301)
Ending Plan assets	<u>27,975</u>	<u>27,444</u>
Funded Status	<u>\$ 3,211</u>	<u>\$ 1,830</u>
Accumulated Benefit Obligation	<u>\$ 24,764</u>	<u>\$ 25,614</u>

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

	2018	2017
Net period pension cost	\$ (321)	\$ (224)
Employer contributions	-	3,000
Benefits paid	868	828

Pre-tax amounts recognized in accumulated other comprehensive loss was \$6.5 million and \$7.6 million for the years ended June 30, 2018 and 2017 respectively.

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

	2018	2017	2016
Service cost	\$ -	\$ 602	\$ 626
Interest cost	968	1,002	1,086
Expected return on plan assets	(2,014)	(1,917)	(1,796)
Amortization of prior net loss	725	1,200	854
Amortization of prior service cost	-	(192)	(287)
Gain on curtailment	-	(919)	-
New past service liability	-	-	-
Net periodic cost	<u>\$ (321)</u>	<u>\$ (224)</u>	<u>\$ 483</u>

The estimated net loss and past service cost for the pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit costs during the year ending June 30, 2019, are \$580,000 and \$0, respectively.

Contributions: The Company made no contributions to the defined benefit plan during the year ended June 30, 2018 and does not expect to make any contributions for the year ending June 30, 2019.

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

2019	\$	1,232
2020		1,259
2021		1,303
2022		1,347
2023		1,365
Following five years		7,202

Assumptions: Discount rates of 4.14% and 3.87% were used to determine pension benefit obligation as of June 30, 2018 and 2017, respectively.

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

	Year ended June 30,	
	2018	2017
Discount Rate	3.87%	4.04%
Expected return on plan assets	7.50%	7.50%

Plan Assets

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

The weighted average expected long-term rate of return is estimated based on current trends in the plan assets as well as projected future rates of returns on those assets. The long-term rate of return assumption was set based on historical returns earned by equities and fixed income securities, adjusted to reflect expectations of future returns as applied to the plan’s target allocation of asset classes. Equities and fixed income securities were assumed to earn real rates of return in the ranges of 6% to 8% and 3% to 5%, respectively. The long-term inflation rate was estimated to be 2.5%. When these overall return expectations are applied to the plan’s target allocation, the result is an expected rate of return of 7.50%.

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

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

Asset Category	Target Allocation	Percentage of Plan Assets at Year-End	
		2018	2017
Equity mutual funds and common/collective trusts	65%	67%	65%
Fixed income common/collective trusts	34%	32%	34%
Cash equivalents	1%	1%	1%
Total	100%	100%	100%

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

The fair value of the plan assets at June 30, 2018 and 2017, by asset category, is as follows (in thousands):

	Carrying Value	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Plan assets				
Equity mutual funds and common/collective trusts	\$ 18,914	\$ -	\$ 18,914	\$ -
Fixed income common/collective trusts	8,893	-	8,893	-
Cash equivalents	168	168	-	-
Total	<u>\$ 27,975</u>	<u>\$ 168</u>	<u>\$ 27,807</u>	<u>\$ -</u>
June 30, 2017				
Plan assets				
Equity mutual funds and common/collective trusts	\$ 17,704	\$ -	\$ 17,704	\$ -
Fixed income common/collective trusts	9,451	-	9,451	-
Cash equivalents	289	289	-	-
Total	<u>\$ 27,444</u>	<u>\$ 289</u>	<u>\$ 27,155</u>	<u>\$ -</u>

Defined Contribution Retirement Plan: The Company maintained a defined contribution plan for eligible employees hired after October 1, 2012. All full-time employees who have attained age twenty-one and have a minimum of one year of service received a contribution to their 401(k) account equal to 5% of their salary. On February 15, 2017, the Board of Directors approved the freezing of this plan effective May 1, 2017. As a result, the Company had no expense for the year ended June 30, 2018. The Plan expense was \$120,000 and \$162,000 for years ended June 30, 2017 and 2016, respectively.

401(k) Plan: The Company maintains a defined contribution plan for eligible employees under Section 401(k) of the Internal Revenue Code. All full-time employees who have attained age twenty-one and have a minimum of one year of service may elect to participate in the plan, by making contributions ranging from 2% to 10% of their compensation. The Company makes matching contributions equal to 75% of the participant's contributions up to 6% of compensation. Savings plan expense was \$414,000, \$418,000 and \$410,000 for the years ended June 30, 2018, 2017 and 2016, respectively. On June 20, 2018, the Board of Directors approved the suspension of the Company match effective July 1, 2018.

Acquired Pension Plan: As part of the CMS acquisition, the Company acquired the pension plan of CMS Bank, which was frozen prior to and in the process of termination as of the acquisition date, a process which was not complete as of the acquisition date. During the year ended June 30, 2016, the CMS pension plan was terminated, resulting in a \$629,000 charge to earnings, included on the income statement in merger and acquisition related expenses.

Supplemental Retirement Plan

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

The accrued benefit cost for the supplemental plans was approximately \$3.4 million and \$3.0 million at June 30, 2018 and 2017 (included in other liabilities in the consolidated statements of financial condition). Included in accumulated other comprehensive income were pre-tax net losses of \$335,000 and \$379,000 for the supplemental retirement plans as of June 30, 2018 and 2017, respectively. The projected benefit obligation and accumulated benefit obligation were \$3.4 million as of the June 30, 2018 measurement date and \$3.0 million as of June 30, 2017 measurement date.

Pension expense for the supplemental plans was \$655,000, \$615,000 and \$539,000 for the years ended June 30, 2018, 2017 and 2016, respectively.

Supplemental retirement plan benefits of \$272,000 were paid in each of the years ended June 30, 2018, 2017 and 2016.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Service cost	\$ 518	\$ 398	\$ 322
Interest cost	103	124	133
Amortization of prior net loss	34	93	84
Net periodic cost	<u>\$ 655</u>	<u>\$ 615</u>	<u>\$ 539</u>

The estimated net loss for the supplemental plans that will be amortized from accumulated other comprehensive income into net periodic benefit costs during the year ending June 30, 2019, is \$37,000.

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

2019	\$ 272
2020	272
2021	3,336
2022	272
2023	272
Following five years	136

As of June 30, 2018, the assumed discount rates used for the supplemental plans range from 3.16% to 4.14%.

Employee Stock Ownership Plan

On January 1, 2017, the Company established an Employee Stock Ownership Plan (“ESOP”) to provide eligible employees the opportunity to own Company stock. The plan is a tax-qualified retirement plan for the benefit of Company employees. The Company granted a loan to the ESOP for the purchase of 1,453,209 shares of the Company’s common stock at a price of \$10.00 per share. The loan obtained by the ESOP from the Company to purchase the common stock is payable annually over 15 years at a rate per annum equal to the Prime Rate, reset annually on January 1st (4.50% for 2018). Loan payments are principally funded by cash contributions from the Bank. The loan is secured by the shares purchased, which are held in a suspense account for allocation among participants as the loan is repaid. The balance of the ESOP loan at June 30, 2018 was \$13.6 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.

Shares held by the ESOP include the following (dollars in thousands):

	2018	2017
Allocated to participants	144,923	26,975
Unearned	1,308,286	1,426,234
Total ESOP shares	1,453,209	1,453,209
Fair value of unearned shares	\$ 25,996	\$ 24,332

Total compensation expense recognized in connection with the ESOP for the year ended June 30, 2018 and June 30, 2017 was \$2.2 million and \$454,000, respectively.

Note 16 . Regulatory Matters

The following is a summary of the Company's and Bank's actual capital amounts and ratios as of June 30, 2018 and June 30, 2017, compared to the required ratios for minimum capital adequacy and for classification as well capitalized (dollars in thousands):

	Bank Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2018:						
PCSB Bank						
Leverage (Tier 1)	\$ 200,488	13.6%	\$ 58,924	4.0%	\$ 73,655	5.0%
Risk-based:						
Common Tier 1	200,488	21.1	42,745	4.5	61,743	6.5
Tier 1	200,488	21.1	56,994	6.0	75,991	8.0
Total	205,392	21.6	75,991	8.0	94,989	10.0
PCSB Financial Corporation						
Leverage (Tier 1)	\$ 287,991	19.5%	\$ 58,948	4.0%	N/A	N/A
Risk-based:						
Common Tier 1	287,991	30.3	42,783	4.5	N/A	N/A
Tier 1	287,991	30.3	57,044	6.0	N/A	N/A
Total	292,895	30.8	76,058	8.0	N/A	N/A
June 30, 2017:						
PCSB Bank						
Leverage (Tier 1)	\$ 190,990	13.7%	\$ 55,949	4.0%	\$ 69,936	5.0%
Risk-based:						
Common Tier 1	190,990	21.7	39,631	4.5	57,245	6.5
Tier 1	190,990	21.7	52,841	6.0	70,455	8.0
Total	196,140	22.3	70,455	8.0	88,069	10.0
PCSB Financial Corporation						
Leverage (Tier 1)	\$ 278,528	20.0%	\$ 55,839	4.0%	N/A	N/A
Risk-based:						
Common Tier 1	278,528	31.6	39,631	4.5	N/A	N/A
Tier 1	278,528	31.6	52,841	6.0	N/A	N/A
Total	283,678	32.2	70,455	8.0	N/A	N/A

In addition to the ratios above, the Basel III Capital Rules established that community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonus payments to executive officers. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

Management believes that as of June 30, 2018 and June 30, 2017, the Bank and Company each met all capital adequacy requirements to which they were subject, including the capital conservation buffer of 1.875% as of June 30, 2018 and 1.250% as of June 30, 2017. 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 17 . Related Party Disclosures

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

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

For the year ended June 30, 2018 and 2017, the Company and the Bank had no insider loans.

Note 18 . Parent Company Only Financial Statements

The following are the financial statements of the Company (Parent only) as of and for the years ended June 30, 2018 and June 30, 2017 (in thousands). The Company was established as of December 9, 2016; therefore, financial information prior to that date is not available.

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 72,140	\$ 71,273
Investment in Bank	200,058	192,308
ESOP Loan receivable	13,563	14,532
Other Assets	1,798	1,888
Total Assets	<u>\$ 287,559</u>	<u>\$ 280,001</u>
Liabilities and stockholders' equity		
Other Liabilities	\$ -	\$ 155
Stockholders' equity	287,559	279,846
Total Liabilities and stockholders' equity	<u>\$ 287,559</u>	<u>\$ 280,001</u>

	Years Ended June 30,	
	2018	2017
Interest Income	\$ 668	\$ 125
Equity in income of Bank	7,188	1,055
Contribution to PCSB Foundation	—	5,000
Other non-interest expenses	689	105
Income (loss) before income tax	7,167	(3,925)
Income tax expense (benefit)	563	(1,693)
Net Income (loss)	<u>\$ 6,604</u>	<u>\$ (2,232)</u>

	Year Ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income (loss)	\$ 6,604	\$ (2,232)
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in income of Bank	(7,188)	(1,055)
Issuance of common stock to PCSB Foundation	—	3,387
Deferred tax expense (benefit)	733	(1,482)
Net increase in accrued interest receivable	(230)	(113)
Other adjustments, principally net changes in other assets and liabilities	(569)	(138)
Net cash used in operating activities	<u>(650)</u>	<u>(1,633)</u>
Cash Flows from Investing Activities:		
Investment in PCSB Bank	—	(87,350)
Decrease (increase) in ESOP loan	969	(14,532)
Net cash provided by (used in) investing activities	<u>969</u>	<u>(101,882)</u>
Cash Flows from Financing Activities:		
Common stock dividends declared	(504)	—
Allocation of ESOP shares	1,069	184
Issuance of common stock	(17)	174,604
Net cash provided by financing activities	<u>548</u>	<u>174,788</u>
Net increase in cash and cash equivalents	867	71,273
Cash and cash equivalents at beginning of year	71,273	—
Cash and cash equivalents at end of year	<u>\$ 72,140</u>	<u>\$ 71,273</u>

Note 19 . Quarterly Financial Information (unaudited)

<i>In thousands, except per share amounts</i>	2018				2017			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Interest income	\$ 13,358	\$ 11,648	\$ 11,657	\$ 11,297	\$ 10,723	\$ 10,276	\$ 9,850	\$ 10,109
Interest expense	1,926	1,505	1,471	1,421	1,318	1,318	1,323	1,334
Net interest income	11,432	10,143	10,186	9,876	9,405	8,958	8,527	8,775
Provision for loan losses	25	54	200	135	-	235	562	26
Non-interest income (1)	601	512	692	714	647	626	2,259	552
Non-interest expense (2)	8,264	7,833	8,125	7,894	12,859	6,580	7,794	7,198
Income before taxes	3,744	2,768	2,553	2,561	(2,807)	2,769	2,430	2,103
Income tax expense (3)	1,075	591	2,551	805	(1,017)	878	758	647
Net Income (loss)	\$ 2,669	\$ 2,177	\$ 2	\$ 1,756	\$ (1,790)	\$ 1,891	\$ 1,672	\$ 1,456
Earnings per share								
Basic	\$ 0.16	\$ 0.13	\$ -	\$ 0.10	N/A	N/A	N/A	N/A
Diluted	\$ 0.16	\$ 0.13	\$ -	\$ 0.10	N/A	N/A	N/A	N/A

- (1) Non-interest income for the second quarter of 2017 includes a \$1.6 million settlement on a loan charged-off by CMS Bank before the 2015 merger.
- (2) Non-interest expense for the fourth quarter of 2017 includes a \$5.0 million contribution expense related to Company's establishment of the PCSB Community Foundation.
- (3) Income tax expense for the second quarter of 2018 includes \$1.6 million charge reflecting a re-measurement of our deferred tax assets resulting from a decrease in the corporate income tax rate from 34% to 21%.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure

a) Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of June 30, 2018. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

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

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

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2018 utilizing the framework established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of June 30, 2018 is effective.

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

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

c) Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. As an emerging growth company, management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report .

d) Changes in Internal Control Over Financial Reporting

There were no significant changes made in the Company's internal control over financial reporting during the fourth quarter of the year ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The “Proposal I—Election of Directors” and “Corporate Governance” sections of the Company’s definitive proxy statement for the Company’s 2018 Annual Meeting of Stockholders (the “2018 Proxy Statement”) is incorporated herein by reference.

Item 11. Executive Compensation

The “Executive Compensation” section of the Company’s 2018 Proxy Statement is incorporated herein by reference.

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

The “Stock Ownership” section of the Company’s 2018 Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The “Transactions with Certain Related Persons” section of the Company’s 2018 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The “Proposal II – Ratification of Appointment of Independent Registered Public Accounting Firm” Section of the Company’s 2018 Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

The following are filed as a part of this Form 10-K under Item 8:

- (A) Report of Independent Registered Public Accounting Firm
- (B) Consolidated Balance Sheets - June 30, 2018 and 2017
- (C) Consolidated Statements of Income - Years ended June 30, 2018, 2017 and 2016
- (D) Consolidated Statements of Comprehensive Income – Years ended June 30, 2018, 2017 and 2016
- (E) Consolidated Statements of Changes in Shareholders’ Equity – Years ended June 30, 2018, 2017 and 2016
- (F) Consolidated Statements of Cash Flows – Years ended June 30, 2018, 2017 and 2016
- (G) Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

None .

(a)(3) Exhibits

- 3.1 [Articles of Incorporation of PCSB Financial Corporation](#) (1)
- 3.2 [Bylaws of PCSB Financial Corporation](#) (2)
- 4.0 [Form of Common Stock Certificate of PCSB Financial Corporation](#) (3)
- 10.1 [Employment Agreement between PCSB Bank and Joseph D. Roberto](#) (4)
- 10.2 [Employment Agreement between PCSB Bank and Scott D. Nogles](#) (5)
- 10.3 [Employment Agreement between PCSB Bank and Michael P. Goldrick](#) (6)
- 10.4 [Employment Agreement between PCSB Financial Corporation and Joseph D. Roberto](#) (7)
- 10.5 [Employment Agreement between PCSB Financial Corporation and Scott D. Nogles](#) (8)
- 10.6 [Employment Agreement between PCSB Financial Corporation and Michael P. Goldrick](#) (9)
- 10.7 [Supplemental Executive Retirement Plan for Joseph D. Roberto](#) (10)
- 10.8 [Supplemental Life Insurance Agreement for Joseph D. Roberto](#) (11)
- 10.9 [Supplemental Life Insurance Plan for Senior Executives](#) (12)
- 10.10 [Supplemental Executive Retirement Plan for Senior Executives](#) (13)
- 10.11 [Amended and Restated PCSB Bank Director Fee Deferral Plan](#)
- 10.12 [PCSB Bank Director Supplemental Life Insurance Plan](#) (14)
- 10.13 [PCSB Bank Death Benefit Plan for Michael T. Weber](#) (15)
- 10.14 [PCSB Bank Incentive Compensation Plan Policy](#) (16)
- 10.15 [PCSB Financial Corporation Compensation Clawback Policy](#) (17)
- 10.16 [PCSB Bank Death Benefit Plan for Willard I. Hill, Jr](#)
- 21 [Subsidiaries of PCSB Financial Corporation](#) (18)
- 23 [Consent of Crowe LLP](#)
- 31.1 [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32 [Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101 The following financial statements for the year ended June 30, 2018, formatted in XBRL, which are furnished, and not filed: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity (v) Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

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- (1) Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the Securities and Exchange Commission on December 12, 2016, as amended.
 - (2) Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the Securities and Exchange Commission on December 12, 2016, as amended.
 - (3) Incorporated by reference to Exhibit 4 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the Securities and Exchange Commission on December 12, 2016, as amended.
 - (4) Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the Securities and Exchange Commission on September 27, 2017.

- (5) Incorporated by reference to Exhibit 10.2 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the Securities and Exchange Commission on September 27, 2017.
- (6) Incorporated by reference to Exhibit 10.3 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the Securities and Exchange Commission on September 27, 2017.
- (7) Incorporated by reference to Exhibit 10.4 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the Securities and Exchange Commission on September 27, 2017.
- (8) Incorporated by reference to Exhibit 10.5 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the Securities and Exchange Commission on September 27, 2017.
- (9) Incorporated by reference to Exhibit 10.6 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the Securities and Exchange Commission on September 27, 2017.
- (10) Incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the Securities and Exchange Commission on December 12, 2016, as amended.
- (11) Incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the Securities and Exchange Commission on December 12, 2016, as amended.
- (12) Incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the Securities and Exchange Commission on December 12, 2016, as amended.
- (13) Incorporated by reference to Exhibit 10.10 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the Securities and Exchange Commission on September 27, 2017.
- (14) Incorporated by reference to Exhibit 10.15 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the Securities and Exchange Commission on December 12, 2016, as amended.
- (15) Incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the Securities and Exchange Commission on December 12, 2016, as amended.
- (16) Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form 10-Q (File No. 001-38065), filed with the Securities and Exchange Commission on November 9, 2017.
- (17) Incorporated by reference to Exhibit 10.2 to the Registration Statement on Form 10-Q (File No. 001-38065), filed with the Securities and Exchange Commission on November 9, 2017.
- (18) Incorporated by reference to Exhibit 21 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the Securities and Exchange Commission on December 12, 2016, as amended.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PCSB FINANCIAL CORPORATION

Date: September 13, 2018

By: /s/ Joseph D. Roberto
Joseph D. Roberto
Chairman, President and Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Joseph D. Roberto</u> Joseph D. Roberto	Chairman, President and Chief Executive Officer (Principal Executive Officer)	September 13, 2018
<u>/s/ Scott D. Nogles</u> Scott D. Nogles	Executive Vice President and Chief Financial Officer (Principal Accounting and Financial Officer)	September 13, 2018
<u>/s/ William V. Cuddy, Jr.</u> William V. Cuddy, Jr.	Director	September 13, 2018
<u>/s/ Kevin B. Dwyer</u> Kevin B. Dwyer	Director	September 13, 2018
<u>/s/ Willard I. Hill, Jr.</u> Willard I. Hill, Jr.	Director	September 13, 2018
<u>/s/ Jeffrey D. Kellogg</u> Jeffrey D. Kellogg	Director	September 13, 2018
<u>/s/ Robert C. Lusardi</u> Robert C. Lusardi	Director	September 13, 2018
<u>/s/ Matthew G. McCrosson</u> Matthew G. McCrosson	Director	September 13, 2018
<u>/s/ Karl A. Thimm</u> Karl A. Thimm	Director	September 13, 2018
<u>/s/ Michael R. Weber</u> Michael R. Weber	Director	September 13, 2018
<u>/s/ Richard F. Weiss</u> Richard F. Weiss	Director	September 13, 2018

**PCSB BANK
AMENDED AND RESTATED
DIRECTOR FEE DEFERRAL PLAN**

**ARTICLE I
PURPOSE**

The purpose of this Amended and Restated Director Fee Deferral Plan (the “Plan,” and formerly the “Trustee Fee Deferral Plan”) is for PCSB Bank (the “Bank”) to provide current tax planning opportunities as well as supplemental funds for retirement for Directors. The Plan shall be effective December 16, 2015 for deferrals commencing January 1, 2016. The Plan is being amended and restated effective July 1, 2018. The Plan is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”) and the regulations promulgated thereunder. The Plan is also intended to qualify as a “top hat” plan for purposes of the Employee Retirement Income Security Act of 1974, as amended.

**ARTICLE II
DEFINITIONS**

For the purposes of this Plan, the following terms may have the meanings indicated, unless the context clearly indicates otherwise:

Account. “Account” means the account maintained under the Plan by the Bank in the Participant’s name.

Account Balance. “Account Balance” means the balance of the Participant’s Account as of the applicable distribution date.

Bank. “Bank” means PCSB Bank, or any successor to the business thereof, and any affiliated or subsidiary corporations designated by the Board.

Beneficiary. “Beneficiary” means the person or persons (and their heirs) designated as Beneficiary by the Participant to whom the deceased Participant’s benefits are payable. If no Beneficiary is so designated, then the Participant’s spouse, if living, will be deemed the Beneficiary. If the Participant’s spouse is not living, then the children of the Participant will be deemed the Beneficiaries and will take on a per stirpes basis. If there are no living children, then the estate of the Participant will be deemed the Beneficiary.

Beneficiary Designation Form. The “Beneficiary Designation Form” shall mean the Beneficiary Designation Form attached hereto as Exhibit C.

Board. “Board” means the Board of Directors of the Bank.

Cash Account. “Cash Account” means the sub-account of a Participant’s Account which is maintained in cash and to which earnings is credited in accordance with Section 4.5 hereof.

Change in Control. “Change in Control” shall mean (a) a change in the ownership of the Bank, (b) a change in the effective control of the Bank, or (c) a change in the ownership of a substantial portion of the assets of the Bank as defined in accordance with Code Section 409A.

(a) A change in the ownership of a corporation occurs on the date that any one person, or more than one person acting as a group (as defined in Treasury Regulation 1.409A-3(i)(5)(v)(B)), acquires ownership of stock of the Bank that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of such corporation.

(b) A change in the effective control of the Bank occurs on the date that either (i) any one person, or more than one person acting as a group (as defined in Treasury Regulation 1.409A-3(i)(5)(vi)(D)) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Bank possessing 30 percent or more of the total voting power of the stock of the Bank, or (ii) a majority of the members of the Board is replaced during any 12-month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election, provided that this subsection “(ii)” is inapplicable where a majority shareholder of the Bank is another corporation.

(c) A change in a substantial portion of the Bank’s assets occurs on the date that any one person or more than one person acting as a group (as defined in Treasury Regulation 1.409A-3(i)(5)(vii)(C)) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Bank that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of (i) all of the assets of the Bank, or (ii) the value of the assets being disposed of, either of which is determined without regard to any liabilities associated with such assets. For all purposes hereunder, the definition of Change in Control shall be construed to be consistent with the requirements of Treasury Regulation 1.409A-3(i)(5), except to the extent that such regulations are superseded by subsequent guidance.

Code. “Code” means the Internal Revenue Code of 1986, as amended.

Committee. “Committee” means the Committee appointed to administer the Plan pursuant to Section 6.1 below.

Company. “Company” means PCSB Financial Corporation.

Deferral Contribution. “Deferral Contribution” means the amount of Director Fees a Participant elects to defer under Article IV of the Plan.

Director. “Director” means a non-employee Director of the Bank.

Director Fees. “Director Fees” means the annual and periodic fees paid to the Participant for services rendered on the Board or any Board committee.

Disability. “Disability” means the Participant:

(a) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death, or last for a continuous period of not less than 12 months; or

(b) by reason of any medically determinable physical or mental impairment which can be expected to result in death, or last for a continuous period of not less than 12 months, is receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Participant’s employer; or

(c) is determined to be disabled by the Social Security Administration.

Election Form. “Election Form” means the election form attached to this Plan as Exhibit A and incorporated herein by reference.

Employer Stock. “Employer Stock” means PCSB Financial Corporation common stock.

Notice of Adjustment of Deferral Contribution. “Notice of Adjustment of Deferral Contribution” means the election form attached to this Plan as Exhibit B and incorporated herein by reference. _

One-Time Election Form. “One-Time Election Form” means the election form attached to this Plan as Exhibit D and incorporated herein by reference that would allow a Director to convert all or a portion of his or her existing Account and ongoing Deferral Contributions to Employer Stock as of July 1, 2018.

Participant. “Participant” means any member of the Board who completes an Election Form.

Plan Year. “Plan Year” means the period from January 1 to December 31.

Separation from Service. “Separation from Service” or “Separates from Service” means the Participant’s death, retirement or termination from service from the Board of the Bank following the Participant’s resignation or a failure to be reappointed or reelected to the Board. For these purposes, a Participant shall not be deemed to have a Separation from Service until the Participant no longer serves on the Board of the Bank, the Bank’s holding company, or any member of a controlled group of corporations with the Bank or holding company within the meaning of Treasury Regulation §1.409A-1(a)(3). Whether a Participant has had a Separation from Service shall be determined in accordance with the requirements of Treasury Regulation 1.409A-1(h).

Stock Account. “Stock Account” means the sub-account of a Participant’s Account that is to be maintained in shares of Employer Stock.

Unforeseeable Emergency. “Unforeseeable Emergency” means a severe hardship to the Participant resulting from:

(a) an illness or accident of –

(i) the Participant,

(ii) the Participant’s spouse, or

(iii) the Participant’s “dependent” (as defined in Code Section 152(a));

(b) loss of the Participant’s property due to casualty; or

(c) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Participant’s control. The term “Unforeseeable Emergency” shall be construed consistent with Code Section 409A and the Treasury Regulations and other guidance issued thereunder.

ARTICLE III
ELIGIBILITY AND VESTING

3.1 Eligibility. The Plan is available to non-employee members of the Board. Each Director who is eligible to participate in the Plan shall enroll in the Plan by completing the Election Form. A Director's participation in the Plan shall commence as of the date specified in the Election Form.

3.2 Vesting. Each Participant shall be 100% vested in his or her Account Balance.

ARTICLE IV
DEFERRAL CONTRIBUTIONS AND ACCOUNT

4.1 Initial Deferral Election. Each Participant shall have the right to elect to defer a fixed percentage of the Director Fees to which the Participant would otherwise be entitled, with such Deferral Contribution to be deferred and paid at the times and in the manner herein stated. Commencing on or after July 1, 2018, each new Participant electing to make a Deferral Contribution shall execute and deliver to the Bank the Election Form. Each Participant shall elect on the Election Form the proportions of the Deferral Contribution which are to be in cash and shares of Employer Stock. Such election shall be applicable only to Director Fees earned for services rendered after the date of such election. A Participant's deferral election shall be made no later than December 16th of the year prior to the year for which such election is effective, or with respect to a Participant who first becomes eligible during a Plan Year, within 30 days following the Participant's initial eligibility date. In the latter case, the election shall be applicable only to Director Fees earned for services rendered after the date of such election. In the event a Participant fails to elect in the Election Form the form of investment for the Deferral Contributions for a Plan Year, the entire Deferral Contribution for such Plan Year shall be credited to the Participant's Cash Account.

4.2 Changes to Deferral Election. Each Participant's Deferral Contribution shall continue in effect until revoked, provided, however, that every election to defer Director Fees shall be irrevocable as to Director Fees earned for services performed prior to the date of such revocation. Changes or revocation of the Participant's Deferral Contribution shall be made in writing in the form of Notice of Adjustment of Deferral Contribution attached hereto as Exhibit B, which shall be effective upon the January 1st of the year stated therein, provided this form is executed and delivered to the Bank by December 16th of the previous calendar year.

4.3 One-Time Election to Convert All or Part of Account to Employer Stock. Each Participant may make a one-time irrevocable election to convert all or part of the Participant's Account to Employer Stock. The election under this Section 4.3 should be made after May 23, 2018 and on or before June 19, 2018, on the One-Time Election Form.

4.4 Account. The Bank shall maintain for each Participant an Account to which the Participant's Deferral Contributions shall be credited thereto as of the last day of the month during which the Director Fees would have been paid to the Participant, if not deferred.

On or after July 1, 2018, a Participant's Account may be sub-divided into a Cash Account and a Stock Account, if applicable. Deferral Contributions made in the form of cash shall be credited to Participants' Cash Accounts, and Deferral Contributions that are converted to shares of Employer Stock shall be credited to Participants' Stock Accounts, respectively. The Bank shall credit earnings to each Participant's Account on an annual basis. The Earnings Rate credited to a Participant's Cash Account each year shall be as described Section 4.5. Any dividends paid on shares of Employer Stock held in Participants' Stock Accounts shall be immediately reinvested in additional shares of Employer Stock and credited to

Participants' Stock Accounts as soon as administratively practicable thereafter. A Participant's Account balance shall be equal to the sum of (i) cash Deferral Contributions and interest earnings credited to such Participant's Cash Account, plus (ii) the value of shares of Employer Stock credited to such Participant's Stock Account.

4.5 Earnings Rate. As of the last day of the Plan Year, the Bank shall credit each Participant's Cash Account with interest equal to the prime rate as reported in The Wall Street Journal on the first business day of the Plan Year, compounded annually, provided however, such crediting rate shall never be less than three percent (3%) or greater than ten percent (10%).

4.6 Unsecured Creditor. The Participant's interest in his or her Account is limited to the right to receive payments under the Plan, and the Participant's position is that of a general unsecured creditor of the Bank.

ARTICLE V

DISTRIBUTION OF BENEFITS

5.1 Distribution of Account Balance. The Participant's Account Balance shall be distributed to the Participant in accordance with this Article V, and shall commence or be paid within 30 days following the event that triggers distribution. All subsequent payments of the Participant's Account Balance shall be paid in the manner specified in the Plan. All distributions from the Cash Account shall be made in cash, and all distributions from the Stock Account shall be made in the form of Employer Stock.

5.2 Election of Time and Form of Distribution.

(a) Time of Payment. Subject to Section 5.1, the Participant may elect for the payment of his or her Account Balance to be triggered upon either: (i) the Participant's Separation from Service; or (ii) a specified date by completing the Election Form. If the Participant does not designate a time of payment pursuant to this Section 5.2(a), then the distribution of the Participant's Account Balance shall be triggered upon his or her Separation from Service.

(b) Form of Payment. Subject to Section 5.1, the Participant may elect for his or her Account Balance to be distributed following his or her Separation from Service or specified date in either a lump sum or equal monthly installments over a designated period by completing the Election Form. If the Participant does not designate the manner in which his or her Account Balance will be paid, the Account Balance shall be distributed to the Participant in a lump sum.

5.3 Death, Disability and Change in Control. In the event of the earlier of: (i) the Participant's death; (ii) the Participant's Disability or (iii) a Change in Control prior to the Participant's Separation from Service or specified date elected by the Participant pursuant to Section 5.2, the Participant (or the Participant's Beneficiary) shall be paid his or her Account Balance in a lump sum within 30 days thereafter.

5.4 Hardship Distributions. Upon a finding that the Participant has suffered an Unforeseeable Emergency, the Committee may, in its sole discretion, make distributions from the Participant's Account prior to the time specified for payment of benefits under the Plan. The amount of such distribution shall be limited to the amount necessary to satisfy the Unforeseeable Emergency, plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution. The amounts necessary to satisfy the Unforeseeable Emergency will be determined after taking into account the extent to which the hardship is, or can be, relieved through reimbursement or compensation by insurance or otherwise, or by liquidation of the Participant's assets, to the extent that the asset liquidation would not itself cause severe

financial hardships. If a hardship distribution is approved, it shall be paid in a lump-sum within 30 days following the Unforeseeable Emergency event which triggers payment, and the Participant's Account Balance shall be reduced by an amount equal to the hardship distribution.

5.5 Modification of Time and Form of Payment of Account Balance. In the event a Participant desires to modify the time or form of payment of his or her Account Balance, the Participant may do so on a written form provided by the Bank, provided that:

- (a) the subsequent election shall not be effective for at least 12 months after the date on which the subsequent election is made;
- (b) except for payments upon the Participant's death, Disability, the first of a stream of payments for which the subsequent election is made shall be deferred for a period of not less than five (5) years from the date on which such payment would otherwise have been made; and
- (c) for payments scheduled to be made on a specified date or to commence under a fixed schedule, the subsequent election must be made at least 12 months before the date of the first scheduled payment.

5.6 Code Section 409A. The Plan shall be interpreted to comply with or be exempt from Code Section 409A, and all provisions of the Plan shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A. Each payment that is payable pursuant to this Plan is intended to constitute a "separate payment" for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii).

ARTICLE VI ADMINISTRATION

6.1 Committee; Duties. This Plan shall be administered by the Committee, which, unless otherwise provided by the Board, shall be the Benefits Committee. The Committee shall have the authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and decide or resolve any and all questions, including interpretations of this Plan, as may arise in connection with the Plan. A majority vote of the Committee members shall control any decision.

6.2 Agents. The Committee may, from time to time, employ other agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with counsel who may be counsel to the Bank.

6.3 Binding Effect of Decisions. The decision or action of the Committee in respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules of regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Plan.

6.4 Indemnity of Committee. The Bank shall indemnify and hold harmless the members of the Committee against any and all claims, loss, damage, expense or liability arising from any action or failure to act with respect to this Plan, except in the case of gross negligence or willful misconduct.

ARTICLE VII CLAIMS PROCEDURE

7.1 Claim. Any person claiming a benefit, requesting an interpretation or ruling under the Plan, or requesting information under the Plan shall present the request in writing to the Committee, which shall respond in writing within 30 days.

7.2 Denial of Claim. If the claim or request is denied, the written notice of denial shall state:

- (a) The reasons for denial, with specific reference to the Plan provisions on which the denial is based.
- (b) A description of any additional material or information required and an explanation of why it is necessary.
- (c) An explanation of the Plan's claim review procedure.

7.3 Review of Claim. Any person whose claim or request is denied or who has not received a response within 30 days may request review by notice given in writing to the Committee. The claim or request shall be reviewed by the Committee who may, but shall not be required to, grant the claimant a hearing. On review, the claimant may have representation, examine pertinent documents, and submit issues and comments in writing.

7.4 Final Decision. The decision on review shall normally be made within 60 days. If an extension of time is required for a hearing or other special circumstance, the claimant shall be notified and the time limit shall be 120 days. The decision shall be in writing and shall state the reasons and the relevant Plan provisions.

7.5 Arbitration. If a claimant continues to dispute the benefit denial based upon completed performance of this Plan or the meaning and effect of the terms and conditions thereof, then the claimant may submit the dispute to mediation, administered by the American Arbitration Association ("AAA") (or a mediator selected by the parties) in accordance with the AAA's Commercial Mediation Rules. If mediation is not successful in resolving the dispute, it shall be settled by arbitration administered by the AAA under its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

ARTICLE VIII AMENDMENT AND TERMINATION OF PLAN

8.1 Amendment. Notwithstanding anything herein contained to the contrary, the Board reserves the exclusive right to freeze or to amend the Plan at any time, provided that no amendment to the Plan shall be effective to decrease or to restrict the amount accrued to the date of such amendment.

8.2 Complete Termination. Subject to the requirements of Code Section 409A, in the event of complete termination of the Plan, the Plan shall cease to operate and the Bank shall pay out to the Participant his or her entire Account Balance as of the date of termination of the Plan. Such complete termination of the Plan shall occur only under the following circumstances and conditions:

- (a) The Board may terminate the Plan within 12 months of a corporate dissolution taxed under Code Section 331, or with approval of a bankruptcy court pursuant to 11 U.S.C. §503(b)(1)(A), provided that the amounts deferred under the Plan are included in the Participant's gross income in the latest of: (i) the calendar year in which the Plan terminates; (ii) the calendar year in which the amount is no longer subject to a substantial risk of forfeiture; or (iii) the first calendar year in which the payment is administratively practicable.

(b) The Board may terminate the Plan by irrevocable action within the 30 days preceding, or 12 months following, a Change in Control, provided that the Plan shall only be treated as terminated if all substantially similar arrangements sponsored by the Bank are terminated so that the Participant and all participants under substantially similar arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within 12 months of the date of the irrevocable termination of the arrangements. For these purposes, "Change in Control" shall be defined in accordance with the Treasury Regulations under Code Section 409A.

(c) The Board may terminate the Plan provided that: (i) the termination and liquidation does not occur proximate to a downturn in the financial health of the Bank, (ii) all arrangements sponsored by the Bank that would be aggregated with this Plan under Treasury Regulations Section 1.409A-1(c) if the Participant covered by this Plan was also covered by any of those other arrangements are also terminated; (iii) no payments other than payments that would be payable under the terms of the arrangement if the termination had not occurred are made within 12 months of the termination of the arrangement; (iv) all payments are made within 24 months of the termination of the arrangements; and (v) the Bank does not adopt a new arrangement that would be aggregated with any terminated arrangement under Treasury Regulations Section 1.409A-1(c) if the Participant participated in both arrangements, at any time within three years following the date of termination of the arrangement.

ARTICLE IX MISCELLANEOUS

9.1 Unfunded Plan. This Plan is intended to be an unfunded plan maintained primarily to provide deferred compensation benefits for members of the Board. This Plan is not intended to create an investment contract, but to provide tax planning opportunities and retirement benefits to eligible individuals who have elected to participate in the Plan. Participants are members of the Board who, by virtue of their position, are uniquely informed as to the Bank's operations and have the ability to materially affect the Bank's profitability and operations.

9.2 Trust Fund. The Bank shall be responsible for the payment of all benefits provided under the Plan. At its discretion, the Bank may establish one or more grantor trusts within the meaning of Code Sections 671 through 679, and in accordance with Revenue Procedures 92-64 and 92-65 with such trustees as the Board may approve, for the purpose of providing for the payment of such benefits. Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of the Bank's creditors. To the extent any benefits provided under the Plan are actually paid from any such trust, the Bank shall have no further obligation with respect thereto, but to the extent not so paid, such benefits shall remain the obligation of, and shall be paid by, the Bank.

9.3 Payment to Participant, Legal Representative or Beneficiary. Any payment to any Participant or the legal representative, Beneficiary, or to any guardian or committee appointed for such Participant or Beneficiary in accordance with the provisions hereof, shall, to the extent thereof, be in full satisfaction of all claims hereunder against the Bank, which may require the Participant, legal representative, Beneficiary, guardian or committee, as a condition precedent to such payment, to execute a receipt and release thereof in such form as shall be determined by the Bank.

9.4 Nonassignability. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and nontransferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed

by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

9.5 Validity. In case any provision of this Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal and invalid provision had never been inserted herein.

9.6 Notice. Any notice or filing required or permitted to be given to the Committee under the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to any member of the Committee or the Secretary of the Bank. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

9.7 Successors. The provisions of this Plan shall bind and inure to the benefit of the Bank and its successors and assigns. The term "successors" as used herein shall include any corporate or other business entity which shall, whether by merger, consolidation, purchase or otherwise acquire all or substantially all of the business and assets of the Bank, and successors of any such corporation or other business entity.

9.8 Payment of Employment and Code Section 409A Taxes. Any distribution under this Plan shall be reduced by the amount of any taxes required to be withheld from such distribution, if any. This Plan shall permit the acceleration of the time or schedule of a payment to pay employment related taxes as permitted under Treasury Regulation Section 1.409A-3(j) or to pay any taxes that may become due at any time that the arrangement fails to meet the requirements of Code Section 409A and the regulations and other guidance promulgated thereunder. In the latter case, such payments shall not exceed the amount required to be included in income as the result of the failure to comply with the requirements of Code Section 409A.

9.9 Acceleration of Payments. Except as specifically permitted herein or in other sections of this Plan, no acceleration of the time or schedule of any payment may be made hereunder. Notwithstanding the foregoing, payments may be accelerated hereunder by the Bank, in accordance with the provisions of Treasury Regulation Section 1.409A-3(j)(4) and any subsequent guidance issued by the United States Department of the Treasury. Accordingly, payments may be accelerated, in accordance with requirements and conditions of the Treasury Regulations (or subsequent guidance) in the following circumstances: (i) as a result of certain domestic relations orders; (ii) in compliance with ethics agreements with the federal government; (iii) in compliance with ethics laws or conflicts of interest laws; (iv) in limited cash-outs (but not in excess of the limit under Code Section 402(g)(1)(B)); (v) to apply certain offsets in satisfaction of a debt of the Participant to the Bank; (vi) in satisfaction of certain bona fide disputes between the Participant and the Bank; or (vii) for any other purpose set forth in the Treasury Regulations and subsequent guidance.

9.10 12 U.S. C. § 1828(k). Any payments made to the Participant pursuant to this Plan or otherwise are subject to and conditioned upon compliance with 12 U.S.C. § 1828(k) and 12 C.F.R. Part 359 *Golden Parachute and Indemnification Payments* or any other rules and regulations promulgated thereunder.

9.11 Governing Law. The Plan is established under, and will be construed according to, the laws of the State of New York, to the extent such laws are not preempted by the ERISA or Code and regulations published thereunder.

[Signature Page to Follow]

IN WITNESS WHEREOF , the Bank, acting through its authorized officer, has adopted this Plan.

PCSB BANK

6/18/2018 _____
Date

By: /s/ Joseph D. Roberto _____

PCSB BANK
TRUSTEE FEE DEFERRAL PLAN
ELECTION FORM

Instructions: Use this form to elect to defer receipt of Director Fees that are ordinarily payable to you during the Plan Year as such compensation is earned, and to designate how you wish to receive your benefits from the PCSB Bank Director Fee Deferral Plan (the "Plan").

Individuals who first participate in the Plan during a Plan year must complete this form within 30 days after the date that he or she became eligible to participate in the Plan. For other participants, this election form must be completed no later than December 16th of the Plan Year immediately preceding the Plan Year for which such deferrals will be made.

Any capitalized terms used in this Election Form but not otherwise defined herein shall have the meanings set forth in the Plan.

Participant Name:

Date of Participation:

PART I : DEFERRAL CONTRIBUTION (Directors to Complete) :

I hereby elect to make an irrevocable election to defer the receipt of Director Fees (which includes both board and committee fees) earned following the date of this Election Form as follows:

_____ % of my Director Fees

Of the amounts deferred pursuant to this Election Form, I elect such deferrals to be allocated as follows:

_____ % to be allocated to my Cash Account

_____ % to be allocated to my Stock Account

I understand that my election to defer receipt of Director Fees shall continue for subsequent years in accordance with this Election Form until such time as I submit a "Notice of Adjustment of Deferral Contribution (Exhibit B hereto) to the Committee at least 15 days prior to January 1 of any Plan Year. Such adjustment will only take effect January 1 of the calendar year following the year in which such notice is executed.

PART II : DISTRIBUTION ELECTIONS (Directors to Complete)

Except as provided in Section 5.3 of the Plan, I understand and agree that my Account Balance shall be paid at the time and in the manner that I select in my Election Form from time to time (i.e., the distribution election made in this Part II of the Election Form will govern the amounts deferred pursuant to this Election Form and any distribution election that I make in a subsequent Election Form for a different plan year will govern the amounts deferred pursuant to that Election Form), and that such election(s) shall be irrevocable, unless modified in accordance with Section 5.5 of the Plan. I also understand and agree that if I fail to select a time and form of benefit payment for the amounts deferred under this or a subsequent

Election Form, such amounts will be distributed pursuant to the election made in my immediately prior Election Form. If I have never made an election as to the form of distribution of my Account, I will be deemed to have elected that my Account Balance will be distributed in a lump sum within 30 days after my Separation from Service for purposes of Section 5.2 of the Plan.

Note, if you do not make a selection below, that portion of your Account deferred pursuant to this Election Form will be distributed in accordance with your last completed Election Form. If you have never made an election as to the form of distribution of your Account, your Account will be distributed in a lump sum within 30 days after your Separation from Service.

Please Select either (A) or (B) below :

(A) Separation from Service Election

Pursuant to Section 5.2 of the Plan, in the event of my Separation from Service, I hereby elect to receive my Account Balance in the following form: (check one):

_____ lump sum distribution

_____ substantially equal monthly installments over a period of _____ years

(B) Specified Date Election

Pursuant to Section 5.2 of the Plan, I hereby elect to receive (or begin to receive) my Account Balance on _____ (enter month, day and year).

Further, I hereby elect to receive my Account Balance in the following form (check one):

_____ lump sum distribution

_____ substantially equal monthly installments over a period of _____ years

[Signature Page to Follow]

I understand that I am entitled to review or obtain a copy of the Plan, at any time, and may do so by contacting the Committee.

This Election Form shall become effective upon execution (below) by both the Participant and a duly authorized officer of the Bank.

Dated this _____ day of _____, 20__.

(Bank's duly authorized officer)

Participant's Signature

**PCSB BANK
TRUSTEE FEE DEFERRAL PLAN
NOTICE OF ADJUSTMENT OF DEFERRAL CONTRIBUTION**

The undersigned Participant of the PCSB Bank Director Fee Deferral Plan (the "Plan") does hereby adjust the deferral of his or her Director Fees under the Plan. The undersigned Participant acknowledges that this election is only revocable with respect to compensation earned for services in the subsequent calendar year following the date of this notice.

Any capitalized terms used in this form but not otherwise defined herein shall have the meanings set forth in the Plan.

Adjustment of Deferral Contribution to take effect as of January 1 of the calendar year immediately following the date of this election.

Directors (Complete this Section):

I hereby elect to make an irrevocable election to defer the receipt of Director Fees earned following the date of this Election Form as follows (to discontinue deferral, enter "0"):

_____ % of my Director Fees

_____ % in cash

_____ % in Employer Stock

Dated this _____ day of _____, 20__.

(Bank's duly authorized officer)

Participant's Signature

**PCSB BANK
TRUSTEE FEE DEFERRAL PLAN
BENEFICIARY DESIGNATION FORM**

PART III : BENEFICIARY DESIGNATION

In accordance with the terms of the Plan, I hereby designate the following Beneficiary(ies) to receive any death benefits under the Agreement:

PRIMARY BENEFICIARY:

Name: _____ % of Benefit: _____

Name: _____ % of Benefit: _____

Name: _____ % of Benefit: _____

SECONDARY BENEFICIARY (if all Primary Beneficiaries pre-decease the Participant):

Name: _____ % of Benefit: _____

Name: _____ % of Benefit: _____

Name: _____ % of Benefit: _____

This Beneficiary Designation hereby revokes any prior Beneficiary Designation which may have been in effect and this Beneficiary Designation is revocable.

Date Participant's Signature

**PCSB BANK
TRUSTEE FEE DEFERRAL PLAN
ONE-TIME ELECTION FORM
TO CONVERT ALL OR A PORTION OF ACCOUNT TO EMPLOYER STOCK**

Instructions: Use this form to elect to convert all or a portion of your current Account Balance in the PCSB Bank Director Fee Deferral Plan (the "Plan") to Employer Stock.

Individuals who participate in the Plan must complete this form between May 23, 2018 and June 19, 2018 and it will be effective, initially, as of July 1, 2018.

Any capitalized terms used in this Election Form but not otherwise defined herein shall have the meanings set forth in the Plan.

Participant Name:

Percentage of Account to Convert to Employer Stock (Director to Complete):

I hereby elect to make an irrevocable election to transfer _____ % of my Account to my Stock Account to be invested in Employer Stock.

I understand that my election to convert all or a portion of my existing Account to Employer Stock is a one-time irrevocable election.

I also understand that I may make a one-time mid-year election to have a percentage of my current year's Deferral Contribution invested in Employer Stock. I elect to have (check one):

- _____ none of my future 2018 Deferral Contributions invested in Employer Stock
- _____ % (specify percentage, up to 100%, in whole percentages) invested in Employer Stock

Hereafter, I may elect to have all or a portion of each calendar year's deferral invested in Employer Stock.

I also understand that any amount I elect to invest in Employer Stock shall remain in Employer Stock for the entire deferral period and will be distributed to me in Employer Stock at the time of distribution unless a distribution in Employer Stock is not possible (i.e., in the event of a distribution following a Change in Control of the Company where the merger consideration is cash or cash and stock).

I understand that I am entitled to review or obtain a copy of the Plan, at any time, and may do so by contacting the Committee.

This Election Form shall become effective upon execution (below) by both the Participant and a duly authorized officer of the Bank.

Dated this _____ day of _____, 20__.

(Bank's duly authorized officer)

Participant's Signature

PCSB BANK**DEATH BENEFIT ONLY PLAN****ARTICLE I
PURPOSE AND SPECIFICATIONS**

The purpose of this Death Benefit Only Plan (the "Plan") is to provide the selected Director (as defined below) of PCSB Bank (the "Bank") with a death benefit payable to his named Beneficiary in the event of the Director's death while in the service of the Bank. The Plan is effective as of June 4th, 2018.

**ARTICLE II
DEFINITIONS**

2.1 **"Beneficiary"** shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article IV, that are entitled to receive a benefit under the Plan after the death of the Director.

2.2 **"Board"** shall mean the Board of Directors of the Bank, as from time to time constituted.

2.3 **"Code"** shall mean the U.S. Internal Revenue Code of 1986, as amended from time to time. Reference to any section or subsection of the Code includes reference to any comparable or succeeding provisions of any legislation that amends, supplements or replaces such section or subsection.

2.4 **"Director"** shall mean Willard I Hill Jr., who serves as a Director of the Bank.

2.5 **"ERISA"** shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time. Reference to any section or subsection of ERISA includes reference to any comparable or succeeding provisions of any legislation that amends, supplements or replaces such section or subsection.

2.6 **"Plan"** shall mean the PCSB Bank Death Benefit Only Plan, which shall be evidenced by this instrument.

2.7 **"Plan Administrator"** shall mean the Compensation Committee of the Bank or its designee. The Director may not vote in any Bank decision relating solely to his individual benefits under this Plan.

2.8 **"Pre-Termination Death Benefit"** shall mean a total benefit equal to One Hundred Fifty-Three Thousand Eight Hundred Fifty Dollars (\$153,850).

**ARTICLE III
PARTICIPATION**

3.1 **Commencement of Participation.** The Director shall participate under the Plan upon the later of the adoption of this Plan document or upon satisfaction of the requirements of Section 3.3 below.

3.2 **Cessation of Participation.** The Director shall cease to participate in the Plan if he or she terminates service with the Bank or if the Plan is terminated under the circumstances set forth in Article VII.

3.3 **Required Documentation and Related Conditions of Eligibility.** In no event shall the Director commence participation before filling out all documentation and taking any other steps required by the Plan Administrator as a condition of participating in the Plan. If the Bank purchases a life insurance policy to informally fund the Director's benefit under this Plan, such steps may include the filling out of a life insurance consent form (as defined in Code Section 101(j)) and may include the taking of a physical examination or such other steps as are required as a condition to the Bank's purchase of life insurance on the life of the Director.

**ARTICLE IV
BENEFICIARIES**

4.1 **Designation.** The Director shall have the right to designate, on a form provided by the Plan Administrator, a Beneficiary to receive the benefits provided under the Plan in the event of the Director's death and shall have the right at any time to revoke such designation or to substitute another such Beneficiary. Any such change shall be effective on the date of written notice from the Director naming a new or additional Beneficiary. Such notice shall be delivered to the Plan Administrator.

4.2 **Absence of Valid Designation.** If, upon the death of the Director, there is no valid designation of Beneficiary on file with the Plan Administrator, the Plan Administrator shall designate the Director's surviving spouse as Beneficiary, or if there is no surviving spouse, the Director's children, in equal shares *per stirpes* or if none, the Director's estate.

4.3 **Facility of Payment.** If a benefit is payable to a minor, to a person declared incompetent, or to a person incapable of handling the disposition of his or her property, the Bank may pay such benefit to the guardian, legal representative, or person having the care or custody of such minor, incompetent person or incapable person. The Bank may require proof of incompetence, minority, or guardianship as it may deem appropriate prior to distribution of benefit. Such distribution shall completely discharge the Bank from all liability with respect to such benefit.

**ARTICLE V
PLAN BENEFITS**

5.1 **Pre-Termination Death Benefit.** If the Director dies before otherwise terminating service with the Bank, the Bank shall pay to Director's Beneficiary the Pre-Termination Death Benefit in a single lump sum payment within ninety (90) days following the Director's date of death, notwithstanding anything herein to the contrary, the death benefit shall be paid no later than March 15 of the year following the year in which the Director dies.

5.2 **Suicide or Misstatement.** The Bank shall not pay any benefits under this Plan if the Director commits suicide within two (2) years after the date of this Plan. In addition, the Bank shall not pay any benefits under this Plan if the Director has made any material misstatement of fact on any application for any benefits provided by the Bank to the Director under this Plan.

**ARTICLE VI
ADMINISTRATION OF THE PLAN**

6.1 **Power and Duties of the Plan Administrator.** The Plan Administrator shall have the duty to manage and administer the Plan in accordance with the terms and provisions of this Article, and shall have the power:

- (a) To construe and interpret the terms and provisions of the Plan; and
- (b) To establish rules and prescribe any forms necessary or desirable to administer the Plan.

All constructions, interpretations, and determinations made by the Bank in connection with the administration of this Plan shall be final, binding and conclusive subject, however, to timely request for review pursuant to the terms and conditions of that Section hereof entitled "Claims Procedure and Review."

6.2 **Named Fiduciary.** The Plan Administrator shall be the named fiduciary under the Plan. The named fiduciary may delegate to others certain aspects of the management and operation responsibilities of the Plan including the employment of advisors and the delegation of ministerial duties to qualified individuals.

6.3 **Record and Reports.** The Plan Administrator shall keep a record of all actions taken and shall keep all other books of account, records, and other data that may be necessary for proper administration of the Plan and shall be responsible for supplying all information and reports to the Internal Revenue Service, Department of Labor, Directors, Beneficiaries, and others as required by law.

6.4 Payment of Expenses. All expenses of administration shall be paid by the Bank. Such expenses shall include any expenses incident to the functioning of the Plan Administrator, including, but not limited to, fees of accountants, legal counsel, and other specialists and their agents, and other costs of administering the Plan.

6.5 Claims Procedure and Review. Claims for benefits under the Plan shall be filed on forms supplied by the Bank. Written or electronic notice of the disposition of a claim shall be furnished to the claimant within ninety (90) days after the application therefore is filed, unless special circumstances require an extension of time (not to exceed 90 additional days) for processing the claim. In the event the claim is denied, the reasons for the denial shall be specifically set forth, pertinent provisions of the Plan shall be cited and, where appropriate, an explanation as to how the claimant can perfect the claim and whether further material or information is necessary.

If a Beneficiary has been denied a benefit or feels aggrieved by any other action of the Bank, the Beneficiary shall be entitled upon written request to the Bank, to receive a written or electronic notice of such action, together with a full and clear statement of the reason for the action.

If the claimant wishes further consideration of his or her position, he or she may obtain a form from the Bank on which to request a hearing. Such form, together with a written statement of the claimant's position, shall be filed with the Bank no later than sixty (60) days after receipt of the written notification provided for in the paragraph above and in the paragraph preceding it. The claimant or his or her duly authorized representative may review pertinent documents and submit issues and comments in writing.

The decisions on review shall be furnished to the claimant within the time limit described in the preceding paragraph. It shall include specific reasons for the decision, expressed in a manner calculated to be understood by the claimant and shall specifically refer to pertinent Plan provisions on which it is based. The claimant shall be advised that if he or she wishes to pursue his or her claim further, he or she may file suit in federal or state court and that the court will decide who should pay court costs and legal fees.

This Section 6.5 is based on Section 2560.503-1 of the Department of Labor Regulations. If any provision of this Section 6.5 conflicts with the requirements of those regulations, the requirements of those regulations will prevail.

ARTICLE VII AMENDMENT AND TERMINATION

7.1 The Board reserves the right to amend or terminate this Plan at any time, for any or no reason, in its sole discretion; provided, however, that any change to the Plan shall be prospective only in its operation if it would diminish or eliminate any benefit payable to the Director's Beneficiary. The Plan shall automatically terminate without notice upon the occurrence of any of the following events: (1) the total cessation of the business of the Bank; (2) the bankruptcy, receivership or dissolution of the Bank; (3) upon the date of the Director's termination of service with the Bank, other than due to the Director's death; or (4) while the Director is living and in service with the Bank, by written notice thereof by either the Bank or the Director to the other .

ARTICLE VIII MISCELLANEOUS PROVISIONS

8.1 **Binding Effect.** This Plan shall bind the Director and the Bank and their respective beneficiaries, survivors, executors, administrators, successors, transferees, and assigns.

8.2 **Information to be Furnished.** The Director and his Beneficiary shall provide the Plan Administrator with such information and evidence, and shall sign such documents, as may reasonably be requested from time to time for the purpose of administration of the Plan.

8.3 **Limitation on Director's Rights.** Participation in the Plan shall not give the Director the right to continue to serve as a Director, or any right or interest in the benefits provided under the Plan other than as herein provided. The Bank reserves the right to fail or refuse to nominate the Director to service on the Board without any liability for any claim either against the Plan, except to the extent herein provided, or against the Bank.

8.4 **Applicable Law.** The Plan shall be construed, administered and enforced according to the laws of the State of New York, except to the extent the law of such state is superseded by ERISA or other federal laws.

8.5 **Receipt and Release.** Any payment to any Beneficiary in accordance with the provisions of the Plan shall be, to the extent thereof, in full satisfaction of all claims against the Plan Administrator and the Bank; and the Bank may require such Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect.

8.6 **Nonassignability.** None of the benefits, payments, proceeds or claims of the Director or Beneficiary shall be subject to any claim of any creditor of the Director or Beneficiary and, in particular, the same shall not be subject to attachment or garnishment or other legal process by any creditor of such person, nor shall the Director or Beneficiary have any right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits or payments or proceeds which may be payable under the Plan.

8.7 **Benefits Solely from General Assets.** The benefits provided by the Plan shall be paid solely from the general assets of the Bank. No Director, Beneficiary or other person shall have any claim against, right to, or security or other interest in, any specific fund, account, insurance policy, or other asset of the Bank with respect to benefits under the Plan.

8.8 **Notices.** Any notice, consent or demand required or permitted to be given under the provisions of this Plan by one party to another shall be in writing, shall be signed by the party giving or making the same, and may be given either by delivering the same to such other party, or by mailing the same, by United States certified mail, postage prepaid, to such party, addressed to his or her last known address as shown on the records of the Bank. The date of such mailing shall be deemed the date of such mailed notice, consent or demand.

8.9 **Tax Withholding.** Any benefits payable to a Beneficiary under the Plan shall be reduced to the extent of any withholding of the Beneficiary's income taxes by the Bank as required by law.

8.10 **Entire Agreement.** This Plan constitutes the entire agreement between the Bank and the Director as to the subject matter hereof and supersedes any and all other oral and written agreements heretofore made, including, without limitation, the prior Death Benefit Only Plan effective June 4, 2018. No rights are granted to the Director by virtue of this Plan other than those specifically set forth herein.

IN WITNESS WHEREOF, the parties hereto have executed this Plan as of the date first written above.

ATTEST:

/s/ Jeffrey M. Helf

PCSB Bank

/s/ Joseph D. Roberto

Joseph D. Roberto
Chairman, President and Chief Executive Officer

WITNESS:

/s/ Scott D. Nogles

DIRECTOR:

/s/ Willard I. Hill, Jr.

Willard I. Hill, Jr.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-217399 on Form S-8 of PCSB Financial Corporation and Subsidiaries of our report dated September 13, 2018, relating to the consolidated financial statements, appearing in this Annual Report on Form 10-K.

Crowe LLP

New York, New York

September 13, 2018

CERTIFICATION

I, Joseph D. Roberto, certify that:

1. I have reviewed this annual report on Form 10-K 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 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 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 annual 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 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 registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weakness 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: September 13, 2018

/s/ Joseph D. Roberto

Joseph D. Roberto

Chairman, President and Chief Executive Officer

CERTIFICATION

I, Scott D. Nogles, certify that:

1. I have reviewed this annual report on Form 10-K 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 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 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 annual 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 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 registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weakness 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: September 13, 2018

/s/ Scott D. Nogles

Scott D. Nogles

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Joseph D. Roberto, Chairman, President and Chief Executive Officer and Scott D. Nogles, Executive Vice President and Chief Financial Officer of PCSB Financial Corporation (the "Company") each certify in their capacity as an officer of the Company that they have reviewed the annual report of the Company on Form 10-K for the fiscal year ended June 30, 2018 and that to the best of their knowledge:

- (1) the report fully complies with the requirements of Section 13(a) 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.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

Date: September 13, 2018

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

Date: September 13, 2018

/s/ Scott D. Nogles
Scott D. Nogles
Executive Vice President and Chief Financial Officer