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, 2019**

OR

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

Commission File No. 001-38065

PCSB FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Maryland **(State of Other Jurisdiction of Incorporation or Organization)**	**81-4710738** **(I.R.S. Employer Identification No.)**
2651 Strang Blvd., Suite 100, Yorktown Heights, New York **(Address of Principal Executive Offices)**	**10598** **(Zip Code)**

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

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

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

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

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

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☒	Smaller reporting company ☒
Non-accelerated filer ☐		Emerging growth company ☒

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

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

As of December 31, 2018, 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 $312.4 million. The registrant does not have any non-voting common equity.

As of September 6, 2019, there were 17,655,539 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2019 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.

PART I

Item 1. Business

PCSB Financial Corporation

PCSB Financial Corporation (“PCSB Financial” or the “Company”), a Maryland corporation, is the bank holding company for PCSB Bank (the “Bank”). On April 20, 2017, the Company completed its initial public offering in connection with the Bank’s conversion from a mutual savings bank to a stock savings bank, 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, 2019, we had consolidated assets of $1.64 billion, consolidated deposits of $1.23 billion and consolidated equity of $281.3 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.

PCSB Bank

PCSB Bank is a New York-chartered commercial bank, having converted from a savings bank charter effective January 1, 2019. We serve the banking needs of customers in the Lower Hudson Valley of New York State through 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 “NYSDFS”) and by the Federal Deposit Insurance Corporation (the “FDIC”).

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

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. We also compete with Fintech companies, which can digitally deliver banking products and services without the expenses associated with physical branch offices and without the regulatory compliance obligations and expenses to which banks are subject.

Lending Activities

Commercial Real Estate Loans. At June 30, 2019, commercial real estate loans were $651.4 million, or 59.4%, 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, 2019, multi-family residential real estate loans, which are described below, totaled $153.0 million. Excluding multi-family loans, $84.5 million of our commercial real estate portfolio was owner occupied real estate and $413.9 million was secured by income producing, or non-owner occupied real estate.

At June 30, 2019, a substantial portion 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, 2019, we had $145.9 million in commercial real estate loan participations and whole loan purchases, which constituted 22.4% of our commercial real estate loan portfolio, as compared with $94.0 million in commercial real estate loan participations and whole loan purchases, which constituted 19.0% of our commercial real estate loan portfolio at June 30, 2018. 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 current and projected ratio of net cash flow to the loan's debt service requirement (generally requiring a minimum of 1.20x), the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Commercial real estate loans are generally originated in amounts up to 75% of the appraised value or the purchase price of the property securing the loan, whichever is lower. Generally, guarantees are obtained from commercial real estate customers. In addition, the borrower's and guarantor's financial information on such loans is monitored on an ongoing basis by requiring periodic financial statement updates. We encourage our commercial business borrowers to maintain their primary deposit accounts with us, which would enhance our interest rate spread and overall profitability.

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

At June 30, 2019, our largest commercial real estate loan had an outstanding balance of $26.6 million and is secured by a non-owner-occupied industrial property. At June 30, 2019, this loan was performing according to its original terms.

Multi-Family Residential Real Estate Loans. At June 30, 2019, multi-family real estate loans were $153.0 million, or 13.9%, 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, 2019, we had $68.1 million in multi-family residential real estate loan purchases and participations, which constituted 44.5% of our multi-family residential real estate loan portfolio, as compared with $63.4 million in multi-family residential real estate loan participations, which constituted 61.5% of our multi-family residential real estate loan portfolio at June 30, 2018. 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 current and projected ratio of net cash flow to the loan's debt service requirement (generally requiring a minimum of 1.20x), the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Multi-family residential real estate loans are generally originated in amounts up to 75% of the appraised value or the purchase price of the property securing the loan, whichever is lower. Generally, guarantees are obtained from multi-family residential real estate customers. In addition, the borrower's and guarantor's financial information on such loans is monitored on an ongoing basis by requiring periodic financial statement updates. We encourage our commercial business borrowers to maintain their primary deposit accounts with us, which would enhance our interest rate spread and overall profitability.

At June 30, 2019, our largest multi-family residential real estate loan had an outstanding balance of $23.5 million and is secured by a 76-unit apartment complex. At June 30, 2019, this loan was performing according to its original terms.

Commercial Loans. We originate commercial term loans and adjustable rate lines of credit to a variety of small and medium sized businesses in our market area. These loans are generally secured by business assets, and we may support this collateral with junior liens on real property. At June 30, 2019, commercial business loans were $133.6 million, or 12.2% 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 fixed or adjustable rates of interest. Adjustable rates are based on the prime rate, plus a margin. Commercial loans typically have shorter terms to maturity, higher interest rates than commercial real estate loans, and may involve more credit risk because of the type and nature of the collateral.

When originating 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, 2019, our largest commercial loan had an outstanding balance of $27.7 million and is secured by 338 individual loans to medical professionals. At June 30, 2019, 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, 2019, construction and land development loans were $13.2 million, or 1.2% of total loans receivable, consisting of $4.5 million of one- to four-family residential

construction loans and $8.7 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 an adjustable rate based on the prime rate, plus a margin. At the end of the construction phase, the loan may convert to a permanent mortgage loan or the loan may be payable in full. Loans generally can be made with a maximum loan-to-value ratio of 75% of the appraised market value upon completion of the project. Before making a commitment to fund a construction loan, we generally require an appraisal of the property by an independent licensed appraiser. We also generally require an inspection of the property before disbursement of funds during the term of the construction loan. Loan proceeds are disbursed periodically in increments as construction progresses and as inspection by our approved inspectors warrant.

At June 30, 2019, our largest construction and land development loan had an outstanding balance of $5.8 million and is secured by a medical office building. At June 30, 2019, 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, 2019, one- to four-family residential real estate loans were $265.2 million, or 24.2% of total loans receivable, consisting of $233.1 million of fixed-rate loans and $32.1 million of adjustable-rate loans. In addition to originating these loans, we also purchase and participate in residential mortgage loans from other financial institutions. At June 30, 2019, purchased and participated loans totaled $64.5 million, or 24.3% of the residential mortgage loan portfolio, as compared to $56.3 million, or 22.5% of the residential mortgage loan portfolio as of June 30, 2018.

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 service does not exceed 45% of the borrower’s monthly cash flow. To encourage lending to low- and moderate-income home buyers, we have several in-house developed programs which can include low down payments, lender-paid PMI, a lower than market interest rate, or a grant to be used towards closing costs.

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

Home Equity Lines of Credit. At June 30, 2019, the outstanding balance owed on home equity lines of credit was $33.2 million, or 3.0% 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, 2019, other loans were $365,000, and included $254,000 of personal loans and $111,000 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 $5.0 million depending on the officer's experience. Loans approved under these officer authorities require dual signatures of the loan officer assigned to the loan and the officer with the appropriate approval authority. Loans in excess of $5.0 million and up to $15.0 million require approval of the Loan Committee of the Board of Directors, as do any extensions of credit to classified borrowers in excess of $2.0 million or loans up to $5.0 million that involve an exception to policy. Loans greater than $15.0 million and loans greater than $5.0 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, 2019, our investment portfolio had a fair value of $418.5 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.

We also have the authority under applicable law to invest in derivative securities. Derivatives may be used to manage the Company's exposure to interest rate movements or to provide service to customers. The Company executes interest rate swaps with commercial lending customers to facilitate their respective risk management strategies. These interest rate swaps with customers are simultaneously offset by interest rate swaps that the Company executes with a third party in order to minimize the net risk exposure resulting from such transactions. The notional amount of all derivatives to which we are a party is $68.5 million as of June 30, 2019.

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

Sources of Funds

General. Deposits have traditionally been our primary source of funds for our lending and investment activities. To a lesser degree, we also use borrowings, primarily FHLBNY advances and brokered deposits, to supplement cash flow needs, 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, 2019, our deposits totaled $1.23 billion and included $77.5 million of brokered time deposits, as well as $40.1 million of municipal deposits.

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

Borrowings. We primarily utilize advances from the FHLBNY to supplement our supply of investable funds. The FHLBNY functions as a central reserve bank providing credit for its member financial institutions. As a member, we are required to own capital stock in the FHLBNY and are authorized to apply for advances on the security of such stock and securities which are obligations of, or guaranteed by, the United States. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the FHLBNY's assessment of the institution's creditworthiness. At June 30, 2019, we had the ability to borrow up to $291.2 million with the FHLBNY and had $111.2 million in advances outstanding. All of our borrowings from the FHLBNY are secured by investment securities. At June 30, 2019, we also had an available line of credit with the

Federal Reserve Bank of New York's ("FRB") discount window program of $118.0 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, 2019, we had 160 full-time and 22 part-time employees.

Subsidiaries

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

As a registered bank holding company, PCSB Financial is regulated by the 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.

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

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

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

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

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

Loans to One Borrower Limitations. Under the New York Banking Law, PCSB Bank's total loans or extensions of credit to a single borrower or group of related borrowers cannot exceed, with specified exceptions, 15% of its capital stock, surplus fund and undivided profits. The Bank's lending limit as of June 30, 2019 was $32.3 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, 2019, PCSB Bank complied with these loans-to-one-borrower limitations. At June 30, 2019, PCSB Bank's largest aggregate amount of loans to one borrower was $31.4 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. As of and during the year ended June 30, 2019, we have made no loans to executive officers or directors.

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

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

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

- The New York Legislature has enacted legislation to address "zombie properties", meaning residential property abandoned by a homeowner after the initiation, but prior to the completion of, a foreclosure proceeding. Under this law, a mortgagee bank has a duty to maintain and secure a residential real property where there is a reasonable basis to believe it is vacant and abandoned, and faces civil penalties up to $500 per violation, per property, per day for failing to do so. As enacted, the legislation does not apply to PCSB Bank because we originate, own, service and maintain our own mortgages and we originate less than 0.3 percent of one- to four-family real property mortgages in New York. However, there can be no assurance that any future amendments to this law will not include us.
- The NYSDFS has adopted a regulation that requires New York chartered banks to maintain programs to monitor and filter transactions for potential Bank Secrecy Act and anti-money laundering violations and prevent transactions with sanctioned entities. The regulation requires regulated institutions annually to submit a board resolution or senior officer compliance finding confirming steps taken to ascertain compliance with the regulation. Under the regulation, banks are required to review their transaction-monitoring and filtering programs and ensure that they are reasonably designed to comply with risk-based safeguards. The institutions also must adopt (at the institution's option) an annual board resolution or senior officer compliance finding to certify compliance with the regulation. The resolution or finding must state that documents, reports, certifications and opinions of officers and other relevant parties have been reviewed by the board of directors or senior official to certify compliance with the regulation.

- The NYSDFS has adopted a regulation which requires New York chartered banks to establish and maintain a cybersecurity program designed to protect consumers and ensure the safety and soundness of the commercial bank. The regulation, which is similar to guidance issued by the federal bank regulators, requires regulated financial institutions to establish a cybersecurity program; adopt a written cybersecurity policy; designate a Chief Information Security Officer responsible for implementing, overseeing and enforcing its new program and policy; and have policies and procedures designed to ensure the security of information systems and nonpublic information accessible to, or held by, third-parties, along with a variety of other requirements to protect the confidentiality, integrity and availability of information systems. The regulation requires annual written certification of compliance to NYSDFS. We believe that our cybersecurity policies and procedures comply with the new regulation.
- The NYSDFS has 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 have and will continue to ensure that any incentive compensation plan we adopt will conform to this guidance. See "Management – Executive Compensation-Proposed Short-Term Incentive Plan".

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.

The FDIC and the other federal bank regulatory agencies have issued a final rule that establishes a common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), a minimum Tier 1 capital to risk-based assets requirement (6% of risk-weighted assets), sets the leverage ratio at a uniform 4% of total assets and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on non-accrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out is exercised. PCSB Bank has elected to exercise its one-time option to opt-out of the requirement under the final rule to include certain

"available-for-sale" securities holdings for purposes of calculating its regulatory capital requirements. The rule limits a banking organization's capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a "capital conservation buffer" which, as fully phased in, consists of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The "capital conservation buffer" was phased in over a four-year period through January 1, 2019. As of January 1, 2019, the conservation buffer was fully phased in.

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

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

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

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

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

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

Under FDIC regulations, an institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and

a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%. At June 30, 2019, PCSB Bank was classified as a "well capitalized" institution.

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

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

Sections 22(h) and (g) of the Federal Reserve Act place restrictions on loans to a bank's insiders, i.e., executive officers, directors and principal shareholders. Under Section 22(h) of the Federal Reserve Act, loans to a director, an executive officer and to a greater than 10.0% shareholder of a financial institution, and certain affiliated interests of these, together with all other outstanding loans to such person and affiliated interests, may not exceed specified limits. Section 22(h) of the Federal Reserve Act also requires that loans to directors, executive officers and principal shareholders be made on 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 commercial banks, including PCSB Bank. The enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations, breaches of fiduciary duty and unsafe or unsound practices. The FDIC is required, with certain exceptions, to appoint a receiver or conservator for an insured state non-member bank if that bank was "critically undercapitalized" on average during the calendar quarter beginning 270 days after the date on which the institution became "critically undercapitalized." It may also appoint itself as conservator or receiver for an insured state non-member bank under specified circumstances, including: (1) insolvency; (2) substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices; (3) existence of an unsafe or unsound condition to transact business; (4) insufficient capital; or (5) the incurrence of losses that will deplete substantially all of the institution's capital with no reasonable prospect of replenishment without federal assistance.

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

The 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 1 $^{1}/_{2}$ to 30 basis points of each institution's total assets less tangible capital. The FDIC may increase or decrease the scale uniformly, except that no adjustment can deviate by more than two basis points from the base scale without notice and comment rulemaking. 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 sought to achieve the 1.35% ratio by September 30, 2020, with the increase to be funded by insured institutions with assets of $10 billion or more. Upon reaching a fund ratio of 1.35% as of December 31, 2018, smaller institutions were awarded assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15% to 1.35%, to be applied when the reserve ratio is at least 1.38%. As of March 31, 2019, the fund ratio was 1.36%. 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 last bonds issued by the FICO will mature in September 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 NYSDFS to consider a bank's record of performance under New York law in considering any application by the bank to establish a branch or other deposit-taking facility, to relocate an office or to merge or consolidate with or acquire the assets and assume the liabilities of any other banking institution. PCSB Bank's most recent rating under New York law was "Satisfactory."

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

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

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 2019, the regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for that portion of transaction accounts aggregating $124.2 million or less (which may be adjusted by the Federal Reserve Board) the reserve requirement is 3.0% and the amounts greater than $124.2 million require a 10.0% reserve (which may be adjusted annually by the Federal Reserve Board between 8.0% and 14.0%). The first $16.3 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 FHLB System, which consists of 12 regional Federal Home Loan Banks. The FHLB provides a central credit facility primarily for member institutions. Members of the FHLB are required to acquire and hold shares of capital stock in the FHLB. PCSB Bank complied with this requirement at June 30, 2019. 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, 2019, no impairment has been recognized.

At its discretion, the FHLBNY may declare dividends on the stock. The Federal Home Loan Banks are required to provide funds for affordable housing programs, which could reduce the amount of dividends that the 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-bank subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary bank.

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

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

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

The Federal Reserve Board has issued 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.

PCSB Financial loses emerging growth company status on the earlier of: (i) the last day of the fiscal year during which it had total annual gross revenues of $1.0 billion (adjusted for inflation) or more; (ii) the last day of its fiscal year following the fifth anniversary of the date of the first sale of the Company's common equity securities pursuant to an effective registration statement under the Securities Act of 1933, which will be June 30, 2022; (iii) the date on which it has, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; or (iv) the date on which it 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).

Smaller Reporting Company Status

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

Sarbanes-Oxley Act of 2002

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

Change in Control Regulations

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

Federal regulations provide that no company may acquire control (as defined in the Bank Holding Company Act) of a bank holding company without the prior approval of the Federal Reserve Board. Any company that acquires such control becomes a "bank holding company" subject to registration, examination and regulation by the Federal Reserve Board. 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 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 Cuts and Jobs Act was enacted, which among other changes reduced 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, 2019, PCSB Bank had no alternative minimum tax credit carryforwards.

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

Charitable Contributions Carryovers. Generally, charitable contributions are limited to 10% of taxable income, however financial institutions may carryforward unused contributions for up to 5 years. At June 30, 2019 the Company has charitable contributions carryforwards totaling $2.7 million, for which we expect to fully realize the benefit. See Note 13 to Consolidated Financial Statements for additional information.

Capital Loss Carryovers. Generally, a financial institution may carry back capital losses to the preceding three taxable years and forward to the succeeding five taxable years. Any capital loss carryback or carryover is treated as a short-term capital loss for the year to which it is carried. As such, it is grouped with any other capital losses for the

year to which carried and is used to offset any capital gains. Any not deducted loss remaining after the five-year carryover period is not deductible. At June 30, 2019, 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 various state income tax returns have not been audited in the last three years.

State Taxation

Taxable income is apportioned to New York State based on the location of the taxpayer's customers, with special rules for income from certain financial transactions. The location of the taxpayer's offices and branches are not relevant to the determination of income apportioned to New York State. The statutory tax rate is currently 6.5%. An alternative tax of 0.05% 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, becoming fully phased out beginning January 1, 2021. 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 taxed in Connecticut and New Jersey, primarily as a result of income earned on loans where the borrower or the real estate collateral underlying the loan is located in these states.

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, 2019, our commercial real estate and commercial business loans totaled $785.0 million, or 71.6% 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, 2019, the Bank's ADC loans and total commercial real estate loans represented 11% and 292% 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.

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

The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL") model. Under the CECL model, we will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held to maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current U.S. GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, the Company expects that the adoption of the CECL model will materially affect how we determine the allowance for loan losses and could require the Company to increase our allowance significantly. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses. If the Company is required to materially increase our level of allowance for loan losses for any reason, such increase could adversely affect the Company's business, financial condition and results of operations. In June 2019, the FASB voted to propose a delay for the implementation of the standard until January 2023 for certain companies, including small reporting companies (as defined by the SEC), non-SEC public companies and private companies. The Company currently qualifies as a small reporting company and would be subject to the proposed delay if approved.

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, 2019, and assuming a 200 basis point increase in market interest rates, we estimate that our net portfolio value of equity would decrease by $39.6 million, or 12.1%. 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.

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 implemented policies and procedures designed to assist in compliance with these laws

and regulations, these policies and procedures may not be effective in preventing violations of these laws and regulations.

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

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 FHLB 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.

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

Our business requires the collection and retention of large volumes of customer data, including personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services. We are subject to complex and evolving laws and regulations governing the privacy and protection of personal information of individuals (including customers, employees, suppliers and other third parties). For example, our business is subject to the Gramm-Leach-Bliley Act which, among other things: (i) imposes certain limitations on our ability to share nonpublic personal information about our customers with nonaffiliated third parties; (ii) requires that we provide certain disclosures to customers about our information collection, sharing and security practices and afford customers the right to “opt out” of any information sharing by us with nonaffiliated third parties (with certain exceptions); and (iii) requires that we develop, implement and maintain a written comprehensive information security program containing appropriate safeguards based on our size and complexity, the nature and scope of our activities, and the sensitivity of customer information we process, as well as plans for responding to data security breaches. Various state and federal banking regulators and states have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Ensuring that our collection, use, transfer and storage of personal information complies with all applicable laws and regulations can increase our costs. Furthermore, we may not be able to ensure that all of our customers, suppliers, counterparties

and other third parties have appropriate controls in place to protect the confidentiality of the information that they exchange with us, particularly where such information is transmitted by electronic means. If personal, confidential or proprietary information of customers or others were to be mishandled or misused, we could be exposed to litigation or regulatory sanctions under personal information laws and regulations. Concerns regarding the effectiveness of our measures to safeguard personal information, or even the perception that such measures are inadequate, could cause us to lose customers or potential customers for our products and services and thereby reduce our revenues. Accordingly, any failure or perceived failure to comply with applicable privacy or data protection laws and regulations may subject us to inquiries, examinations and investigations that could result in requirements to modify or cease certain operations or practices or in significant liabilities, fines or penalties, and could damage our reputation and otherwise adversely affect our operations and financial condition.

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

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

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 may have a future impact on the banking industry, borrowers and the market for single-family residential real estate. Included in this legislation was a reduction of the corporate income tax rate from 34% to 21%. In addition, other changes included (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 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 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 or to repurchase our common stock 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. If the Bank is unable to pay dividends to us or we are required to contribute capital to the Bank, we may not be able to pay dividends on or repurchase our common stock.

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

On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next several years. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities and variable rate loans, subordinated debentures, or other securities or financial arrangements, given LIBOR's role in determining market interest rates globally.

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

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

The manner and impact of this transition, as well as the effects of these developments on the Company's funding costs, loan and investment and trading securities portfolios, asset-liability management, and business, are uncertain.

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

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

At June 30, 2019, we conducted business through our executive offices/headquarters 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, 2019, the net book value of our land, buildings, furniture, fixtures and equipment was $11.8 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 shareholders of record of the Company's common stock as of June 30, 2019 was 1,369.

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

None.

Securities Authorized for Issuance under Equity Compensation Plans

The following information is presented for the PCSB Financial Corporation 2018 Equity Incentive Plan as of June 30, 2019:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders	1,339,293	$ 19.04	656,637
Equity compensation plans not approved by shareholders	n/a	n/a	n/a
Total	1,339,293	$ 19.04	656,637

Issuer Purchases of Equity Securities

On October 24, 2018, the Board of Directors authorized the repurchase of up to 908,256 shares, or 5.0% of the Company's common stock. As of February 6, 2019, the repurchase was completed, with the Company repurchasing $18.3 million or 908,256 shares at an average price of $20.15 per share of its common stock.

Additionally, on June 20, 2019, a second repurchase program was authorized by the Board of Directors to repurchase up to 890,021 shares, or 5.0% of the Company's common stock, none of which had been repurchased as of June 30, 2019.

The following table sets forth certain information with respect to stock repurchases during the quarter ended June 30, 2019:

Period	Total Shares of Common Stock Repurchased	Average Price Paid Per Common Share	Total Cost
	(Dollars in thousands, except per share data)		
April 1, 2019 through April 30, 2019	-	-	-
May 1, 2019 through May 31, 2019	-	-	-
June 1, 2019 through June 30, 2019	-	-	-
Total	-	$ -	$ -

Item 6. Selected Financial Data

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

	At June 30,				
	2019	2018	2017	2016	2015
	(in thousands)				
Selected Financial Condition Data:					
Total Assets	$ 1,637,579	$ 1,480,187	$ 1,426,458	$ 1,262,071	$ 1,200,750
Cash and cash equivalents	60,029	62,145	60,486	41,578	77,761
Securities held to maturity	345,545	353,183	383,551	270,679	269,913
Securities available for sale	72,228	105,504	111,889	112,351	84,943
Loans receivable, net	1,093,121	902,336	809,648	782,336	727,134
Goodwill and other intangible assets	6,429	6,539	6,665	6,808	6,703
Total Liabilities	1,356,272	1,192,628	1,146,612	1,152,122	1,090,479
Deposits	1,225,821	1,157,457	1,088,461	1,112,695	1,060,505
FHLB advances	111,216	18,841	42,598	20,081	14,000
Total shareholders' equity (total equity before June 30, 2017)	281,307	287,559	279,846	109,949	110,271

	For the Year Ended June 30,				
	2019	2018	2017	2016	2015
	(Dollars in thousands, except per share data)				
Selected Operating Data:					
Interest and dividend income	$ 53,447	$ 47,960	$ 40,958	$ 39,044	$ 28,827
Interest expense	10,743	6,323	5,293	4,812	3,884
Net interest income	42,704	41,637	35,665	34,232	24,943
Provision for loan losses	808	414	823	1,859	1,326
Net interest income after provision	41,896	41,223	34,842	32,373	23,617
Non-interest income (1)	3,102	2,519	4,084	1,951	1,567
Non-interest expense (2)(3)	33,994	32,116	34,431	30,265	23,974
Income before income tax expense	11,004	11,626	4,495	4,059	1,210
Income tax expense (4)	2,686	5,022	1,266	1,133	702
Net income	$ 8,318	$ 6,604	$ 3,229	$ 2,926	$ 508
Earnings per share:					
Basic	$ 0.50	$ 0.39	N/A	N/A	N/A
Diluted	$ 0.50	$ 0.39	N/A	N/A	N/A

(1) Non-interest income for the year ended June 30, 2017 includes a $1.6 million settlement on an acquired loan.

(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 federal corporate income tax rate from 34% to 21%.

	At or For the Year Ended June 30,				
	2019	2018	2017	2016	2015
Selected Financial Ratios:					
Return on average assets (1)	0.55%	0.46%	0.25%	0.24%	0.05%
Return on average equity (2)	2.92	2.33	2.14	2.59	0.45
Noninterest income to average assets	0.21	0.18	0.31	0.16	0.15
Noninterest expense to average assets	2.26	2.24	2.64	2.48	2.34
Interest rate spread	2.70	2.86	2.79	2.84	2.41
Net interest margin (3)	2.96	3.03	2.88	2.92	2.50
Efficiency ratio (4)	74.21	72.73	86.62	83.64	90.43
Dividend payout ratio (5)	26.24	7.63	n/a	n/a	n/a
Average interest-earning assets to average interest-bearing liabilities	134.34	135.94	122.32	120.01	122.55
Loans to deposits	89.17	77.96	74.38	70.31	68.56
Equity to assets (6)	19.00	19.80	11.59	9.27	11.03
Book value per common share	$ 15.80	$ 15.83	$ 15.41	n/a	n/a
Tangible book value per common share (4)	$ 15.44	$ 15.47	$ 15.04	n/a	n/a
Capital Ratios (PCSB Bank only):					
Tier 1 capital (to adjusted total assets)	13.81%	19.54%	19.95%	8.92%	8.88%
Tier 1 capital (to risk-weighted assets)	17.96	30.29	31.63	13.47	15.47
Total capital (to risk-weighted assets)	17.96	30.29	31.63	13.96	16.03
Common equity Tier 1 capital (to risk-weighted assets)	18.45	30.81	32.21	13.47	15.47
Asset Quality Ratios:					
Allowance for loan losses as a percent of total gross loans	0.52	0.54	0.63	0.51	0.54
Allowance for loan losses as a percent of non-performing loans	207.70	81.71	42.66	32.17	18.69
Net charge-offs (recoveries) to average outstanding loans during the period	0.01	0.08	(0.04)	0.23	0.27
Non-performing loans as a percent of total loans	0.25	0.66	1.48	1.60	2.87
Non-performing assets as a percent of total assets	0.24	0.44	0.92	1.07	1.78
Other Data:					
Number of offices	15	15	15	15	15
Number of full-time equivalent employees	172	170	171	169	174

(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) See “Non-GAAP Financial Measures” for a reconciliation of this measure
(5) Dividends declared per share divided by net income per share.
(6) Represents average equity divided by average total assets.

Non-GAAP Financial Measures

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

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

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

Efficiency ratio is a non-GAAP measure and is defined as noninterest expense, divided by operating revenue, which is equal to net interest income plus non-interest income. In our judgment, it allows investors and analysts to better understand our ability to turn resources into revenue. The lower the ratio, the better. An increase in the efficiency ratio indicates either increasing costs or decreasing revenues.

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

	For the Year Ended June 30,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Computation of Efficiency Ratio					
Noninterest expense	$ 33,994	$ 32,116	$ 34,431	$ 30,265	$ 23,974
Net interest income	$ 42,704	$ 41,637	$ 35,665	$ 34,232	$ 24,943
Noninterest income	3,102	2,519	4,084	1,951	1,567
Total revenue	$ 45,806	$ 44,156	$ 39,749	$ 36,183	$ 26,510
Efficiency ratio	74.21%	72.73%	86.62%	83.64%	90.43%

	For the Year Ended June 30,				
	2019	2018	2017	2016	2015
	(Amounts in thousands, except share and per share data)				
Computation of Tangible Book Value per Common Share					
Total shareholders' equity	$ 281,307	$ 287,559	$ 279,846	$ 109,949	$ 110,271
Adjustments:					
Preferred stock	-	-	-	-	-
Common shareholders' equity	281,307	287,559	279,846	109,949	110,271
Adjustments:					
Goodwill	(6,106)	(6,106)	(6,106)	(6,106)	(5,843)
Other intangible assets	(323)	(433)	(559)	(702)	(860)
Tangible common shareholders' equity	$ 274,878	$ 281,020	$ 273,181	$ 103,141	$ 103,568
Common shares outstanding	17,804,039	18,165,110	18,165,110	n/a	n/a
Book value per share (GAAP)	$ 15.80	$ 15.83	$ 15.41	n/a	n/a
Adjustments:					
Effects of intangible assets	(0.36)	(0.36)	(0.37)	n/a	n/a
Tangible book value per common share (Non-GAAP)	$ 15.44	$ 15.47	$ 15.04	n/a	n/a

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, 2019 and 2018 and our results of operations for the years ended June 30, 2019 and 2018. 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.

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 have started to recognize additional annual employee compensation expenses stemming from the adoption of new equity benefit plans, which was previously approved by shareholders.

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

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

Loan Portfolio

General. Loans are our primary interest-earning asset. At June 30, 2019, net loans represented 66.8% of our total assets. The following tables set forth certain information about our loan portfolio.

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

	At June 30,									
	2019		2018		2017		2016		2015	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Mortgage loans:										
Residential	$ 265,167	24.17%	$ 250,578	27.67%	$ 217,778	26.77%	$ 226,073	28.79%	$ 240,448	32.93%
Commercial	651,396	59.38	495,265	54.70	437,651	53.80	385,827	49.14	324,574	44.46
Construction	13,231	1.21	17,352	1.92	22,404	2.75	25,050	3.19	11,886	1.63
Total	929,794	84.76	763,195	84.29	677,833	83.32	636,950	81.12	576,908	79.02
Commercial loans	133,614	12.18	104,135	11.50	93,631	11.50	106,738	13.60	112,092	15.36
Home equity lines of credit	33,204	3.03	37,395	4.13	41,927	5.15	41,180	5.24	40,605	5.56
Consumer and overdrafts	365	0.03	745	0.08	233	0.03	338	0.04	465	0.06
Total loans receivable	1,096,977	100.00%	905,470	100.00%	813,624	100.00%	785,206	100.00%	730,070	100.00%
Plus: net deferred loans origination costs and fees	1,808		1,770		1,174		1,172		985	
Less: allowance for loan losses	(5,664)		(4,904)		(5,150)		(4,042)		(3,921)	
Loans receivable, net	$ 1,093,121		$ 902,336		$ 809,648		$ 782,336		$ 727,134	

Loan Maturity. The following tables set forth certain information at June 30, 2019 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, 2019						
	Residential Mortgage Loans	Commercial Mortgage Loans	Construction Loans	Commercial Loans	Home equity Lines of Credit	Consumer and Overdrafts	Total Loans
				(in thousands)			
Amounts due in:							
One year or less	$ 9	$ 9,326	$ 10,554	$ 43,932	$ -	$ 215	$ 64,036
More than one year through two years	258	9,355	2,677	11,553	-	4	23,847
More than two years through three years	349	10,346	-	12,922	-	15	23,632
More than three years through five years	2,401	45,961	-	17,855	39	131	66,387
More than five years through ten years	18,094	253,568	-	37,537	534	-	309,733
More than ten years through fifteen years	29,759	169,736	-	7,636	6,393	-	213,524
More than fifteen years	214,297	153,104	-	2,179	26,238	-	395,818
Total	$ 265,167	$ 651,396	$ 13,231	$ 133,614	$ 33,204	$ 365	$ 1,096,977

The following table sets forth the dollar amount of all loans at June 30, 2019 that are due after June 30, 2020 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	$ 233,093	87.91%	$ 32,065	12.09%	$ 265,158
Commercial mortgage loans	203,413	31.68	438,657	68.32	642,070
Construction loans	2,677	100.00	-	-	2,677
Commercial loans	78,426	87.45	11,256	12.55	89,682
Home equity lines of credit	215	0.65	32,989	99.35	33,204
Consumer and overdrafts	150	100.00	-	-	150
Total	$ 517,974	50.15%	$ 514,967	49.85%	$ 1,032,941

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, 2019, we had $244.1 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 Loan Committee of the Board of Directors monthly of the amount of loans delinquent more than 30 days and the Board of Directors monthly of the amount of loans delinquent 90 days or more.

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

	At June 30, 2019					
	30-89 Days			90 Days or More		
	Number of Loans		Carrying Amount	Number of Loans		Carrying Amount
	(Dollars in thousands)					
Residential mortgage loans	2	$	336	3	$	795
Commercial mortgage loans	-		-	1		568
Construction	-		-	-		-
Commercial loans	1		150	-		-
Home equity lines of credit	2		411	3		608
Consumer and overdrafts	-		-	1		1
Total	5	$	897	8	$	1,972

	At June 30, 2018					
	30-89 Days			90 Days or More		
	Number of Loans		Carrying Amount	Number of Loans		Carrying Amount
	(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
Consumer and overdrafts	-		-	-		-
Total	4	$	656	16	$	6,491

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,				
	2019	**2018**	**2017**	**2016**	**2015**
	(Dollars in thousands)				
Non-accrual loans:					
Residential mortgage loans	$ 1,331	$ 1,911	$ 4,357	$ 5,881	$ 4,389
Commercial mortgage loans	568	794	497	300	6,308
Construction loans	-	2,260	3,661	144	2,020
Commercial loans	150	788	2,959	5,048	7,011
Home equity lines of credit	677	349	598	602	424
Consumer and overdrafts	-	-	-	584	310
Total	2,726	6,102	12,072	12,559	20,462
Accruing loans past due 90 days or more:					
Residential mortgage loans	-	-	-	-	-
Commercial mortgage loans	-	-	-	-	-
Construction loans	-	-	-	-	-
Commercial loans	-	-	-	-	514
Home equity lines of credit	-	-	-	-	-
Consumer and overdrafts	1	-	-	4	4
Total	1	-	-	4	518
Total non-performing loans	2,727	6,102	12,072	12,563	20,980
Foreclosed real estate	1,158	460	977	905	368
Total non-performing assets	$ 3,885	$ 6,562	$ 13,049	$ 13,468	$ 21,348
Total non-performing loans to total loans	0.25%	0.67%	1.48%	1.60%	2.87%
Total non-performing assets to total assets	0.24%	0.44%	0.91%	1.07%	1.78%

Interest income that would have been recorded for the year ended June 30, 2019 had non-accruing loans been current according to their original terms, amounted to $85,000.

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, 2019, other potential problem loans totaled $13.7 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,	
	2019	2018
	(in thousands)	
Special mention	$ 11,716	$ 1,984
Substandard	8,460	15,378
Doubtful	-	-
Loss	-	-
Total	$ 20,176	$ 17,362

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,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Allowance for loan losses at beginning of period	$ 4,904	$ 5,150	$ 4,042	$ 3,921	$ 4,057
Provision for loan losses	808	414	823	1,859	1,326
Charge-offs:					
Residential mortgage loans	-	136	275	400	175
Commercial mortgage loans	129	-	-	10	361
Construction loans	-	997	108	-	327
Commercial loans	-	54	743	1,677	1,285
Home equity lines of credit	-	60	-	24	43
Consumer and overdrafts	34	23	3	22	-
Total charge-offs	$ 163	$ 1,270	$ 1,129	$ 2,133	$ 2,191
Recoveries:					
Residential mortgage loans	10	1	70	-	5
Commercial mortgage loans	-	370	19	178	8
Construction loans	96	-	-	192	-
Commercial loans	2	220	1,321	25	710
Home equity lines of credit	-	19	-	-	6
Consumer and overdrafts	7	-	4	-	-
Total recoveries	115	610	1,414	395	729
Net charge-offs (recoveries)	48	660	(285)	1,738	1,462
Allowance for loan losses at end of period	$ 5,664	$ 4,904	$ 5,150	$ 4,042	$ 3,921
Allowance for loan losses to non-performing loans at end of period	207.70%	80.37%	42.66%	32.17%	18.69%
Allowance for loan losses to total loans outstanding at end of period	0.52%	0.54%	0.63%	0.51%	0.54%
Net charge-offs (recoveries) to average loans outstanding during period	0.01%	0.08%	(0.04)%	0.23%	0.27%

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,					
	2019			2018		
	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	$ 446	7.87%	24.17%	$ 459	9.36%	27.67%
Commercial mortgage loans	3,853	68.03	59.38	3,073	62.66	54.70
Construction loans	159	2.81	1.21	505	10.30	1.92
Commercial loans	1,130	19.95	12.18	780	15.91	11.50
Home equity lines of credit	65	1.15	3.03	80	1.63	4.13
Consumer and overdrafts	11	0.19	0.03	7	0.14	0.08
Total	$ 5,664	100.00%	100.00%	$ 4,904	100.00%	100.00%

	At June 30,								
	2017			2016			2015		
	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	$ 386	7.50%	26.77%	$ 237	5.86%	28.79%	$ 193	4.92%	32.93%
Commercial mortgage loans	2,589	50.26	53.80	2,149	53.17	49.14	1,766	45.04	44.46
Construction loans	1,150	22.33	2.75	269	6.66	3.19	100	2.55	1.63
Commercial loans	949	18.43	11.50	1,313	32.48	13.60	1,793	45.73	15.36
Home equity lines of credit	76	1.48	5.15	73	1.81	5.24	69	1.76	5.56
Consumer and overdrafts	-	-	0.03	1	0.02	0.04	-	-	0.06
Total	$ 5,150	100.00%	100.00%	$ 4,042	100.00%	100.00%	$ 3,921	100.00%	100.00%

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

Securities Portfolio

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

	At June 30,					
	2019		2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)					
Securities held to maturity:						
U.S. Government and agency obligations	$ 96,545	$ 96,491	$ 122,048	$ 119,774	$ 155,559	$ 155,008
Corporate and other debt securities	34,033	33,753	4,000	3,874	999	999
Mortgage-backed securities – residential	133,602	134,048	140,478	135,664	143,452	143,783
Mortgage-backed securities – collateralized mortgage obligations	52,940	53,104	53,547	51,732	59,476	59,387
Mortgage-backed securities – commercial	28,425	28,847	33,110	32,144	24,065	24,411
Total	$ 345,545	$ 346,243	$ 353,183	$ 343,188	$ 383,551	$ 383,588
Securities available for sale:						
U.S. Government and agency obligations	$ 37,027	$ 36,911	$ 64,389	$ 63,430	$ 63,630	$ 63,445
Corporate and other debt securities	8,349	8,360	8,406	8,235	8,460	8,482
Mortgage-backed securities – residential	27,115	26,957	34,619	33,807	39,710	39,930
Total	$ 72,491	$ 72,228	$ 107,414	$ 105,472	$ 111,800	$ 111,857

At June 30, 2019, 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, 2019. 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, 2019, 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	$ 38,550	1.51%	$ 57,995	2.01%	$ -	-%	$ -	-%	$ 96,545	$ 96,491	1.81%
Corporate and other debt securities	-	-	5,000	4.25	25,033	5.15	4,000	2.85	34,033	33,753	4.75
Mortgage-backed securities – residential	-	-	12,174	2.31	30,815	2.08	90,613	2.68	133,602	134,048	2.51
Mortgage-backed securities – collateralized mortgage obligations	-	-	-	-	7,400	2.11	45,540	2.55	52,940	53,104	2.49
Mortgage-backed securities – commercial	1,469	1.63	16,805	2.43	5,840	2.68	4,311	2.87	28,425	28,847	2.51
Total	$ 40,019	1.51%	$ 91,974	2.25%	$ 69,088	3.25%	$ 144,464	2.65%	$ 345,545	$ 346,243	2.53%
Securities available for sale:											
U.S. Government and agency obligations	$ 25,015	1.51%	$ 12,012	1.63%	$ -	-%	$ -	-%	$ 37,027	$ 36,911	1.55%
Corporate and other debt securities	-	-	8,349	2.61	-	-	-	-	8,349	8,360	2.61
Mortgage-backed securities – residential	-	-	-	-	3,041	2.31	24,074	1.86	27,115	26,957	1.91
Total	$ 25,015	1.51%	$ 20,361	2.03%	$ 3,041	2.31%	$ 24,074	1.86%	$ 72,491	$ 72,228	1.81%

Other-than-temporary Impairment. Each reporting period, we evaluate all securities with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other-than-temporary. Other-than-temporary impairment ("OTTI") is required to be recognized if (1) we intend to sell the security; (2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For impaired debt securities that we intend to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI, resulting in a realized loss that is a 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, 2019 or 2018.

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,			
	2019		2018	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Non-interest bearing demand accounts	$ 141,379	11.53%	$ 131,883	11.39%
NOW Accounts	123,069	10.04	117,875	10.18
Money market accounts	148,134	12.08	49,885	4.31
Savings accounts	357,844	29.20	465,441	40.22
Time deposits				
Less than $100,000	183,607	14.98	169,517	14.65
Greater than or equal to $100,000	271,788	22.17	222,856	19.25
Total	$ 1,225,821	100.00%	$ 1,157,457	100.00%

At June 30, 2019 and 2018, we had municipal deposits of $40.1 million and $39.1 million, respectively. Additionally, as of June 30, 2019 and 2018, deposits included $77.5 million and $60.0 million, respectively, of brokered time deposits with remaining maturities of between 9 and 36 months.

The following table indicates the amount of jumbo time deposits by time remaining until maturity at June 30, 2019. Jumbo time deposits require minimum deposits of $100,000.

Maturity Period	Dollar Amount
	(in thousands)
Three months or less	$ 13,219
Over three through six months	24,387
Over six through twelve months	89,325
Over twelve months	144,857
Total	$ 271,788

The following tables set forth time deposit accounts classified by rate and maturity at June 30, 2019.

	Amount Due					
	Less Than One Year	More Than One Year to Two Years	More Than Two Years to Three Years	More Than Three Years	Total	Percent of Total Time Deposit Accounts
	(Dollars in thousands)					
0.00 - 1.00%	$ 21,695	$ 4,942	$ 4,666	$ 88	$ 31,391	6.89%
1.01 - 2.00%	82,049	34,529	26,472	27,164	170,214	37.38
2.01 - 3.00%	118,088	72,923	10,073	52,509	253,593	55.69
3.01 - 4.00%	-	-	-	197	197	0.04
Total	$ 221,832	$ 112,394	$ 41,211	$ 79,958	$ 455,395	100.00%

Borrowings

We primarily utilize advances from the FHLB of New York to supplement our supply of investable funds. At June 30, 2019 and 2018, we had the ability to borrow up to $291.2 million and $314.9 million from the FHLB of New York, respectively, of which $111.2 million and $18.8 million was outstanding as of June 30, 2019 and 2018, respectively. We also had an available line of credit with the FHLB of New York's discount window program of $118.0 million and $122.1 million as of June 30, 2019 and 2018, respectively, none of which was outstanding at either date. The following table sets forth information concerning our borrowings at the dates and for the periods indicated.

	Year Ended June 30,	
	2019	2018
	(Dollars in thousands)	
Maximum balance outstanding at any month-end during period:		
FHLB advances	$ 111,216	$ 83,861
Average balance outstanding during period:		
FHLB advances	24,117	42,719
Weighted average interest rate during period:		
FHLB advances	2.34%	1.80%
Balance outstanding at end of period:		
FHLB advances	$ 111,216	$ 18,841
Weighted average interest rate at end of period:		
FHLB advances	2.36%	1.91%

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,					
	2019			2018		
	Average Balance	Interest/ Dividends	Average Rate	Average Balance	Interest/ Dividends	Average Rate
	(dollars in thousands)					
Assets:						
Loans receivable	$ 924,182	$ 41,619	4.50%	$ 846,353	$ 37,798	4.47%
Investment securities	444,024	10,022	2.26	474,201	9,266	1.95
Other interest-earning assets	76,950	1,806	2.35	54,528	896	1.64
Total interest-earning assets	1,445,156	53,447	3.70	1,375,082	47,960	3.49
Non-interest-earning assets	56,075			57,696		
Total assets	$ 1,501,231			$ 1,432,778		
Liabilities and equity:						
NOW accounts	$ 118,286	210	0.18	$ 113,952	197	0.17
Money market accounts	107,449	1,216	1.13	36,917	163	0.44
Savings accounts and escrow	411,251	1,019	0.25	502,310	1,223	0.24
Time deposits	414,676	7,732	1.86	315,652	3,971	1.26
Total interest-bearing deposits	1,051,662	10,177	0.97	968,831	5,554	0.57
FHLB advances	24,117	566	2.34	42,719	769	1.80
Total interest-bearing liabilities	1,075,779	10,743	1.00	1,011,550	6,323	0.63
Non-interest-bearing deposits	132,057			130,196		
Other non-interest-bearing liabilities	8,108			7,360		
Total liabilities	1,215,944			1,149,106		
Total shareholders' equity	285,287			283,672		
Total liabilities and shareholders' equity	$ 1,501,231			$ 1,432,778		
Net interest income		$ 42,704			$ 41,637	
Interest rate spread			2.70			2.86
Net interest margin			2.96			3.03
Average interest-earning assets to interest-bearing liabilities	134.34%			135.94%		

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, 2019 Compared to 2018		
	Increase (Decrease) Due to		
	Rate	Volume	Net
	(in thousands)		
Interest income:			
Loans receivable	$ 449	$ 3,372	$ 3,821
Investment securities	985	(229)	756
Other interest-earning assets	457	453	910
Total interest-earning assets	1,891	3,596	5,487
Interest expense:			
NOW accounts	6	7	13
Money market accounts	473	580	1,053
Savings and escrow accounts	71	(275)	(204)
Time deposits	2,279	1,482	3,761
FHLB advances	191	(394)	(203)
Total interest-bearing liabilities	3,020	1,400	4,420
(Decrease) increase in net interest income	$ (1,129)	$ 2,196	$ 1,067

Comparison of Financial Condition at June 30, 2019 and June 30, 2018

Total Assets. Total assets increased $157.4 million, or 10.6%, to $1.64 billion at June 30, 2019 from $1.48 billion at June 30, 2018. The increase is primarily the result of increases of $190.8 million in net loans, $4.2 million in FHLB stock, and $3.8 million in other assets, partially offset by decreases of $33.2 million in securities available for sale, $7.6 million in held to maturity securities, and $2.1 million in cash and cash equivalents.

Cash and Cash Equivalents. Cash and cash equivalents decreased $2.1 million, or 3.4%, to $60.0 million at June 30, 2019 from $62.1 million at June 30, 2018. The decrease is due primarily to utilization of cash and cash equivalents to partially fund the $190.8 million increase in loans receivable.

Securities Held-to-Maturity. Total securities held to maturity decreased $7.7 million, or 2.2%, to $345.5 million at June 30, 2019 from $353.2 million at June 30, 2018. This decrease was caused primarily by $25.5 million of maturities net of purchases of US government and agency obligations and $12.2 million of amortization net of purchases of mortgage-backed securities, partially offset by a purchase of $30.0 million of corporate and debt securities.

Securities Available for Sale. Total securities available for sale decreased $33.3 million, or 31.5%, to $72.2 million at June 30, 2019 from $105.5 million at June 30, 2018. This decline was due primarily to $15.4 million in calls and maturities, and $12.0 million in sales of U.S. government and agency obligations, $7.5 million of amortization of mortgage backed securities, and a $56,000 decrease in corporate and other debt securities, partially offset by a $1.7 million increase in net unrealized gain.

Net Loans Receivable. Net loans receivable increased $190.8 million, or 21.1%, to $1.09 billion at June 30, 2019 from $902.3 million at June 30, 2018. The increase is due primarily to increases of $156.1 million in commercial mortgage loans, $29.5 million in commercial loans and $14.6 million in residential mortgage loans, partially offset by decreases of $4.2 million in home equity credit lines and $4.1 million in construction loans. The

Company purchased $80.8 million of residential mortgage loans and $20.2 million of commercial mortgage loans during the year ended June 30, 2019.

Deposits. Total deposits increased $68.4 million, or 5.9%, to $1.23 billion at June 30, 2019 from $1.16 billion at June 30, 2018. This increase primarily reflects increases of $98.2 million in money market accounts, $63.0 million in time deposits, and $14.7 million in demand deposits and NOW accounts, partially offset by a decrease of $107.6 million in savings accounts.

Federal Home Loan Bank Advances. FHLB advances increased $92.4 million, to $111.2 million at June 30, 2019 from $18.8 million at June 30, 2018, due primarily to $60.0 million of additional short-term advances and $42.5 million of additional long-term advances, partially offset by $10.1 million of long-term maturities net of repayments.

Total Shareholder's Equity. Total shareholders' equity decreased $6.3 million, or 2.2%, to $281.3 million at June 30, 2019 from $287.6 million at June 30, 2018. This decrease was due primarily to the repurchase of $18.3 million in common stock and $2.2 million of cash dividends declared, partially offset by net income of $8.3 million, $4.1 million of stock-based compensation and reduction in unearned ESOP shares for plan shares earned during the period, and other comprehensive income of $1.9 million. In June 2019, the Company announced its second stock repurchase plan, under which up to 890,021 shares may be repurchased, representing 5% of its outstanding shares of common stock, none of which had been repurchased as of June 30, 2019. At June 30, 2019, the Company's book value per share and tangible book value per share were $15.80 and $15.44, respectively, compared to $15.83 and $15.47, respectively, at June 30, 2018. At June 30, 2019, the Bank was considered "well capitalized" under applicable regulatory guidelines.

Comparison of Operating Results for the Years Ended June 30, 2019 and June 30, 2018

General. Net income increased $1.7 million, or 26.0%, to $8.3 million for the year ended June 30, 2019 compared to $6.6 million for the year ended June 30, 2018. The increase was due primarily to a $1.1 million increase in net interest income, a $2.3 million decrease in income tax expense, and a $583,000 increase in noninterest income, partially offset by a $1.9 million increase in noninterest expense and a $394,000 increase in the provision for loan losses.

Net Interest Income. Net interest income increased $1.1 million, or 2.6%, to $42.7 million for the year ended June 30, 2019 compared to $41.6 million for the year ended June 30, 2018. The increase primarily reflects a $5.8 million increase in average net interest-earning assets, partially offset by a 7 basis point decrease in the net interest margin to 2.96% for the year ended June 30, 2019 compared to 3.03% for the year ended June 30, 2018. The increase in average net interest-earning assets reflects a $70.1 million increase in interest-earning assets, partially offset by a $64.2 million increase in average interest-bearing liabilities. Despite continued asset growth and a higher yielding asset mix, which resulted in a 21 basis point increase in the yield on interest earning assets, the margin has been impacted by rising funding costs due to higher short-term interest rates along with competitive pricing, which caused a 37 basis point increase in the average cost of interest bearing liabilities.

Interest and Dividend Income. Interest and dividend income increased $5.4 million, or 11.4%, to $53.4 million for the year ended June 30, 2019 compared to $48.0 million for the year ended June 30, 2018. The increase primarily reflects a $70.1 million increase in total average interest-earning assets and a 21 basis point increase in the yield on total interest-earning assets.

Interest income on loans receivable increased $3.8 million, or 10.1%, due primarily to a $77.8 million increase in the average balance of loans receivable to $924.2 million for the year ended June 30, 2019 from $846.4 million for the same period last year, and a 3 basis point increase in the average yield on loans to 4.50% for the year ended June 30, 2019 from 4.47% for the same period last year.

Interest income on securities increased $756,000, or 8.2%, due primarily to a 31 basis point increase in the average yield on securities to 2.26% for the year ended June 30, 2019 from 1.95% for the same period last year, partially offset by a $30.2 million decrease in the average balance of securities. 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 corporate and mortgage-backed securities.

Interest income on other interest-earning assets, primarily consisting of cash balances at correspondent banks including the Federal Reserve, increased $910,000, or 101.6%, due primarily to a 71 basis point increase in the average yield on other interest-earning assets to 2.35% for the year ended June 30, 2019 from 1.64% for the same period last year, and a $22.4 million increase 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 $4.4 million, or 69.9%, to $10.7 million for the year ended June 30, 2019 compared to $6.3 million for the year ended June 30, 2018. The increase primarily reflects a 37 basis point increase in the average cost of interest-bearing liabilities to 1.00% for the year ended June 30, 2019 from 0.63% for the same period last year, and a $64.2 million increase in the average balance on interest-bearing liabilities.

Interest expense on interest-bearing deposits increased $4.6 million or 83.2%, due primarily to a 40 basis point increase in the average cost of deposits to 0.97% for the year ended June 30, 2019 from 0.57% for the same period last year, and an $82.8 million increase in the average balance to $1.05 billion for the year ended June 30, 2019 from a $968.8 million for the year ended June 30, 2018. The increase in the average rate paid on interest-bearing deposits was primarily caused by rising funding costs due to higher short-term interest rates along with competitive pricing. The Company has experienced a shift in deposit mix as customers in lower costing saving products moved funds to higher rate money market accounts and time deposits. The average interest rate paid on money market accounts and time deposits increased 69 and 60 basis points, respectively, as the Bank offered increased rates on these deposits due to the increase in market interest rtes.

Interest expense on FHLB advances decreased $203,000, or 26.4%, due primarily to an $18.6 million decrease in the average balance to $24.1 million for the year ended June 30, 2019 from $42.7 million for the same period last year, partially offset by a 54 basis point increase in the average cost to 2.34% for the year ended June 30, 2019 from 1.80% 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 increased by $394,000 to $808,000 for the year ended June 30, 2019, compared to $414,000 for the year ended June 30, 2018 due primarily to the Bank establishing reserves on the $190.8 million increase in the loan portfolio. Charge-offs, net of recoveries were $48,000 and $660,000 for the year ended June 30, 2019 and 2018, respectively.

Noninterest Income. Noninterest income increased $583,000, or 23.1% to $3.1 million for the year ended June 30, 2019 compared to $2.5 million for the year ended June 30, 2018. The increase was caused primarily by a $507,000 increase in swap income, a $234,000 increase in fees and service charges (deposit fees and loan processing fees), partially offset by a $174,000 decrease in gains on the sale of securities.

Noninterest Expense. Noninterest expense increased $1.9 million, or 5.8%, to $34.0 million for the year ended June 30, 2019 compared to $32.1 million for the year ended June 30, 2018. The increase was caused primarily by a $2.2 million increase in salaries and employee benefits, partially offset by $314,000 decrease in other noninterest expenses. The increase in salaries and employee benefits was due primarily to $2.1 million in stock-based compensation expense recorded in the current year, compared to none in the previous year, as well as $797,000 increase in salaries as a result of additional staffing, partially offset by lower retirement costs and medical benefits.

Income Tax Expense. Income tax expense decreased $2.3 million, or 46.5%, to $2.7 million for the year ended June 30, 2019 from $5.0 million for the year ended June 30, 2018. The decrease was caused primarily by a $1.6 million tax re-measurement charge recorded in the prior year, and a lower effective tax rate in the current year, both as a result of federal tax reform legislation enacted in December 2017 (the reduction of the corporate federal income tax rate from 34% to 21%). The effective income tax rate was 24.4% for the year ended June 30, 2019 as compared to 43.2% (29.7% excluding the effects of the current year re-measurement charge) for the year ended June 30, 2018.

Management of Market Risk

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

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

Net Portfolio Value Simulation. We analyze our sensitivity to changes in interest rates through a net portfolio value of equity (“NPV”) model. NPV represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities. The NPV ratio represents the dollar amount of our NPV divided by the present value of our total assets for a given interest rate scenario. NPV attempts to quantify our economic value using a discounted cash flow methodology while the NPV ratio reflects that value as a form of equity ratio. We estimate what our NPV would be at a specific date. We then calculate what the NPV would be at the same date throughout a series of interest rate scenarios representing immediate and permanent, parallel shifts in the yield curve. We currently calculate NPV under the assumptions that interest rates increase 100 and 200 basis points from current market rates and that interest rates decrease 100 and 200 basis points from current market rates. Based on recent increases in the fed funds rate, as of June 30, 2019 we have removed the 150 basis point decrease scenario in favor of a 200 basis point decrease to evaluate NPV.

The following table presents the estimated changes in our NPV that would result from changes in market interest rates at June 30, 2019 and 2018. All estimated changes presented in the table are within the policy limits approved by our Board of Directors.

	NPV (dollars in thousands)			NPV as Percent of Portfolio Value of Assets	
Basis Point Change in Interest Rates	**Dollar Amount**	**Dollar Change**	**Percent Change**	**Ratio**	**Change (in bps)**
June 30, 2019:					
200	$ 286,711	$ (39,593)	(12.1) %	18.52%	(143)
100	309,974	(16,330)	(5.0)	19.45	(50)
-	326,304	-	-	19.95	-
(100)	330,749	4,445	1.4	19.79	(16)
(200)	329,929	3,625	1.1	19.39	(56)
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

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, 2019, cash and cash equivalents totaled $60.0 million, a decrease from $62.1 million as of June 30, 2018. Securities classified as available-for-sale, which provide an additional source of liquidity, totaled $72.2 million at June 30, 2019, a decrease from $105.5 million as of June 30, 2018.

We had the ability to borrow up to $291.2 million and $314.9 million from the FHLB of New York, at June 30, 2019 and 2018, respectively, of which $111.2 million and $18.8 million was outstanding as of June 30, 2019 and 2018, respectively. We also had an available line of credit with the Federal Reserve Bank of New York's discount window program of $118.0 million and $122.1 million as of June 30, 2019 and 2018, 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 FHLB of New York or the Federal Reserve Bank of New York.

We had $136.8 million and $102.6 million of loan commitments outstanding as of June 30, 2019 and 2018, respectively, and $52.6 million and $56.6 million as of June 30, 2019 and 2018, respectively, of approved, but unadvanced, funds to borrowers. We also had $1.7 million and $1.4 million in outstanding letters of credit at June 30, 2019 and 2018, respectively.

Time deposits due within one year of June 30, 2019 totaled $221.8 million, an increase of $38.6 million from $183.3 million as of June 30, 2018. If these deposits do not remain with us, we will be required to seek other sources of funds, including other time deposits and FHLB of New York advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the time deposits at June 30, 2019. 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,	
	2019	2018
	(in thousands)	
Investing activities:		
Loan purchases	$ (101,011)	$ (93,166)
Disbursement for loan originations, net of principal repayments	(91,856)	(818)
Proceeds from maturities and calls of securities held to maturity	64,988	80,997
Proceeds from maturities and calls of securities available for sale	20,711	24,202
Proceeds from sales of securities available for sale	14,021	7,511
Purchases of securities held to maturity	(57,925)	(51,218)
Purchases of securities available for sale	-	(27,498)
Financing activities:		
Net increase in deposits	68,276	69,019
Increase (decrease) in FHLB advances	92,375	(23,757)
Issuance of common stock	-	(17)
Repurchase of common stock	(18,305)	-

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, 2019, the Company (on an unconsolidated, stand-alone basis) had liquid assets of $55.6 million.

Capital Resources. PCSB Bank is subject to various regulatory capital requirements administered by the NYSDFS and the FDIC. At June 30, 2019, PCSB Bank exceeded all applicable regulatory capital requirements, and the Bank was considered "well capitalized" under applicable regulatory guidelines. See Note 15 of Notes to the Consolidated Financial Statements.

Off-Balance Sheet Arrangements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

Shareholders and 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, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the years then ended, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the years then ended, 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. 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.

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 Company's auditor since 2007.

New York, New York
September 10, 2019

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

	June 30, 2019	June 30, 2018
ASSETS		
Cash and due from banks	$ 58,756	$ 60,684
Federal funds sold	1,273	1,461
Total cash and cash equivalents	60,029	62,145
Investment securities:		
Held to maturity investment securities, at amortized cost (fair value of $346,243 and $343,188, respectively)	345,545	353,183
Available for sale securities, at fair value	72,228	105,472
Total investment securities	417,773	458,655
Loans receivable, net of allowance for loan losses of $5,664 and $4,904, respectively	1,093,121	902,336
Accrued interest receivable	4,797	4,358
FHLB stock	6,255	2,050
Premises and equipment, net	11,802	11,598
Deferred tax asset, net	2,478	2,622
Foreclosed real estate	1,158	460
Bank-owned life insurance	24,291	23,747
Goodwill	6,106	6,106
Other intangible assets	323	433
Other assets	9,446	5,677
Total assets	$ 1,637,579	$ 1,480,187
LIABILITIES AND SHAREHOLDERS' EQUITY		
Interest bearing deposits	$ 1,084,442	$ 1,025,574
Non-interest bearing deposits	141,379	131,883
Total deposits	1,225,821	1,157,457
Mortgage escrow funds	9,355	8,803
Advances from FHLB	111,216	18,841
Other liabilities	9,880	7,527
Total liabilities	1,356,272	1,192,628
Commitments and contingencies (Notes 1 and 9)	-	-
Shareholders' equity:		
Preferred stock ($0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding as of June 30, 2019 and June 30, 2018)	-	-
Common stock ($0.01 par value, 200,000,000 shares authorized, 18,712,295 and 18,165,110 shares issued, and 17,804,039 and 18,165,110 shares outstanding as of June 30, 2019 and June 30, 2018, respectively)	187	182
Additional paid in capital	182,129	179,045
Retained earnings	134,500	128,365
Unearned compensation - ESOP	(12,114)	(13,083)
Accumulated other comprehensive loss, net of income taxes	(5,090)	(6,950)
Treasury stock, at cost (908,256 shares as of June 30, 2019 and no shares as of June 30, 2018)	(18,305)	-
Total shareholders' equity	281,307	287,559
Total liabilities and shareholders' equity	$ 1,637,579	$ 1,480,187

See accompanying notes to the consolidated financial statements

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

	Year Ended June 30,	
	2019	2018
Interest and dividend income		
Loans	$ 41,619	$ 37,798
Investment securities	10,022	9,266
Federal funds and other	1,806	896
Total interest and dividend income	53,447	47,960
Interest expense		
Deposits and escrow interest	10,177	5,554
FHLB advances	566	769
Total interest expense	10,743	6,323
Net interest income	42,704	41,637
Provision for loan losses	808	414
Net interest income after provision for loan losses	41,896	41,223
Noninterest income		
Fees and service charges	1,763	1,529
Bank-owned life insurance	544	568
Swap income	507	-
Gains on sales of securities	62	236
Other	226	186
Total noninterest income	3,102	2,519
Noninterest expense		
Salaries and employee benefits	21,611	19,419
Occupancy and equipment	5,185	5,193
Communications and data processing	1,953	1,974
Professional fees	1,551	1,709
Postage, printing, stationary and supplies	586	578
FDIC assessment	421	328
Advertising	349	456
Amortization of intangible assets	110	126
Loss on other receivable	90	570
Other operating expenses	2,138	1,763
Total noninterest expense	33,994	32,116
Net income before income tax expense	11,004	11,626
Income tax expense	2,686	5,022
Net income	$ 8,318	$ 6,604
Earnings per common share:		
Basic	$ 0.50	$ 0.39
Diluted	$ 0.50	$ 0.39
Weighted average common shares:		
Basic	16,492,760	16,802,894
Diluted	16,527,117	16,802,894

See accompanying notes to the consolidated financial statements

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

	Year Ended June 30,	
	2019	**2018**
Net Income	$ 8,318	$ 6,604
Other comprehensive income (loss):		
Unrealized gains (losses) on available for sale securities:		
Net change in unrealized gains/losses before reclassification adjustment	1,741	(1,835)
Reclassification adjustment for gains realized in net income	(62)	(164)
Net change in unrealized gains/losses	1,679	(1,999)
Tax effect	(352)	558
Net of tax	1,327	(1,441)
Defined benefit pension plan:		
Net (loss) gain arising during the period	(486)	335
Reclassification adjustment for amortization of prior service cost and net gain included in net periodic pension cost	1,144	725
Net change in unrealized gains/losses	658	1,060
Tax effect	(139)	(270)
Net of tax	519	790
Supplemental retirement plans:		
Net (loss) gain arising during the period	(19)	10
Reclassification adjustment for amortization of prior service cost and net gain included in net periodic pension cost	36	34
Net change in unrealized gains/losses	17	44
Tax effect	(3)	(11)
Net of tax	14	33
Total other comprehensive income (loss)	1,860	(618)
Comprehensive income	$ 10,178	$ 5,986

See accompanying notes to the consolidated financial statements

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

	Number of Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Unallocated Common Stock of ESOP	Treasury Stock, at cost	Accumulated Other Comprehensive Loss	Total Equity
Balance at July 1, 2017	18,165,110	$ 182	$ 177,993	$ 121,148	$ (14,262)	$ -	$ (5,215)	$ 279,846
Net Income	-	-	-	6,604	-	-	-	6,604
Other comprehensive loss	-	-	-	-	-	-	(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	18,165,110	$ 182	$ 179,045	$ 128,365	$ (13,083)	$ -	$ (6,950)	$ 287,559
Net Income	-	-	-	8,318	-	-	-	8,318
Other comprehensive income	-	-	-	-	-	-	1,860	1,860
Common stock dividends declared ($0.13 per share)	-	-	-	(2,183)	-	-	-	(2,183)
Repurchase of common stock	(908,256)	-	-	-	-	(18,305)	-	(18,305)
Restricted stock awards granted	547,185	5	(5)	-	-	-	-	-
Stock-based compensation	-	-	2,140	-	-	-	-	2,140
ESOP shares committed to be released (96,881 shares)	-	-	949	-	969	-	-	1,918
Balance at June 30, 2019	17,804,039	$ 187	$ 182,129	$ 134,500	$ (12,114)	$ (18,305)	$ (5,090)	$ 281,307

(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 13 - Income Taxes 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,	
	2019	2018
OPERATING ACTIVITIES		
Net income	$ 8,318	$ 6,604
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan loss	808	414
Depreciation and amortization	1,178	1,432
Amortization of net premiums on securities and deposits, and net deferred loan origination costs	1,277	1,679
Deferred income tax (credit) expense, net of valuation reserves	(350)	2,425
Net increase in accrued interest receivable	(439)	(665)
Net (gain) loss on sales of foreclosed real estate	(24)	7
Net gains on sale of securities	(62)	(236)
Net gain on sale of bank premises	(156)	-
Write-downs on foreclosed real estate	21	-
Stock-based compensation	2,140	-
ESOP compensation	1,918	2,248
Earnings from cash surrender value of BOLI	(544)	(568)
Net accretion of purchase account adjustments	(357)	(563)
Other adjustments, principally net changes in other assets and liabilities	(741)	1,834
Net cash provided by operating activities	12,987	14,611
INVESTING ACTIVITIES		
Purchases of investment securities:		
Held to maturity	(57,925)	(51,218)
Available for sale	-	(27,498)
Sales of investment securities available for sale	14,021	7,511
Maturities and calls of investment securities:		
Held to maturity	64,988	80,997
Available for sale	20,711	24,202
Loan principal disbursement, net	(112,034)	(818)
Purchase of loans	(80,833)	(93,166)
Net (purchase) redemption of FHLB stock	(4,205)	1,082
Purchase of bank premises and equipment, net of sales	(1,116)	(753)
Proceeds from sales of foreclosed real estate	487	1,249
Net cash used in investing activities	(155,906)	(58,412)
FINANCING ACTIVITIES		
Net increase in deposits	68,364	69,019
Net increase (decrease) in short-term FHLB advances	60,000	(23,636)
Proceeds from long-term FHLB advances	42,500	-
Repayment of long-term FHLB advances	(10,125)	(121)
Net increase in mortgage escrow funds	552	719
Common stock dividends paid	(2,183)	(504)
Issuance of common stock	-	(17)
Repurchase of common stock	(18,305)	-
Net cash provided by financing activities	140,803	45,460
Net (decrease) increase in cash and cash equivalents	(2,116)	1,659
Cash and cash equivalents at beginning of period	62,145	60,486
Cash and cash equivalents at end of period	$ 60,029	$ 62,145

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	$	10,688	$	6,204
Income taxes (net of refunds)		2,933		2,766
Loans transferred to foreclosed real estate and other assets		1,182		739

See accompanying notes to the 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, 2019, the significant assets of the Holding Company were the capital stock of the Bank, investments retained by the Holding Company, and a loan to the PCSB Bank Employee Stock Ownership Plan ("ESOP"). The liabilities of the Holding Company were insignificant. The Company is subject to the financial reporting requirements of the Securities Exchange Act of 1934, as amended. The Company is subject to regulation and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board").

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

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

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

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

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

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

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 debt securities are determined based on the amortized cost of the specific securities sold.

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

must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

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

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

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

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

Such purchased credit impaired loans are accounted for individually or aggregated into pools of loans based on common risk characteristics, such as credit score, loan type, and date of origination. The Company estimates the amount and timing of expected cash flows for each loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (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. If the fair value of an impaired loan is less than its recorded investment, an impairment allowance is recognized and included in the allowance for loan losses.

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

The general component of the allowance covers non-impaired loans and is based on historical loss experience adjusted for 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 our primary market area. These loans generally will not exceed a combined (i.e., first and second mortgage) loan-to-value ratio of 75% percent at origination.

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

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

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

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

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

Goodwill and Other Intangible Assets: Goodwill resulting from business combinations is determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. 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 exists 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.

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

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

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

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still

expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 2. Recent Accounting Pronouncements

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

Accounting Standards Adopted in the Period

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 the Company'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. Additional disclosures required under ASU 2014-09 are contained in Note 18.

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 adoption of ASU 2016-01, and subsequent amendments, on July 1, 2018 did not have a material 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. The adoption of ASU 2017-07 resulted in non-service costs (credits) of $250,000 and $(184,000) to be included in other operating expense for the year ended June 30, 2019 and 2018, respectively.

In November 2016, the FASB issued ASU 2016-18 "Statement of Cash Flows - Restricted Cash." This ASU provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The adoption of ASU 2016-18 on July 1, 2018 did not have a material impact on the Company's consolidated financial statements.

Future Application of Accounting Pronouncements Previously Issued

In February 2016, the FASB issued ASU 2016-02 “Leases.” ASU 2016-02 affects any entity that enters into a lease and is intended to increase the transparency and comparability of financial statements among organizations. The ASU requires, among other changes, a lessee to recognize on its balance sheet a lease asset and a lease liability for those leases longer than 12 months previously classified as operating leases. The lease asset would represent the right to use the underlying asset for the lease term and the lease liability would represent the discounted value of the required lease payments to the lessor. The ASU would also require entities to disclose key information about leasing arrangements. The Company currently leases eleven branches and two administrative offices. The Company adopted this standard and the related amendments (collectively "ASC 842") on July 1, 2019 and utilized the modified retrospective approach provided by ASU 2018-11, "Leases (Topic 842): Targeted Improvements," that allowed for a cumulative effect adjustment in the period of adoption. Under this method of adoption, the comparative information in the consolidated financial statements has not been revised and continues to be reported under the previously applicable lease accounting guidance (ASC 840). We also utilized the package of practical expedients permitted under the transition guidance which included the carry-forward of historical lease classification. We anticipate the adoption of ASU 2016-02 on July 1, 2019 will result in the establishment of a right to use asset and a corresponding lease obligation of no more than 1% of consolidated assets. There will be no impact on the Company’s consolidated results of operations as a result of this adoption.

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 June 2019, the FASB voted to propose a delay for the implementation of the standard until January 2023 for certain companies, including small reporting companies (as defined by the SEC), non-SEC public companies and private companies. The Company currently qualifies as a small reporting company and would be subject to the proposed delay if approved.

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

In March 2017, the FASB issued ASU 2017-08 "Receivables - Non-Refundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." The ASU requires premiums on callable debt securities to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. Management elected to adopt ASU 2017-08 on July 1, 2019 which will result in no material impacts on the Company’s consolidated financial statements.

Note 3. Investment Securities

The amortized cost, gross unrealized/unrecognized gains and losses and fair value of available for sale and held to maturity securities at June 30, 2019 and 2018 were as follows:

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

	June 30, 2018			
	Amortized	Gross Unrealized/Unrecognized		Fair
	Cost	Gains	Losses	Value
	(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
Total available for sale	$ 107,414	$ 81	$ (2,023)	$ 105,472
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	$ 353,183	$ 43	$ (10,038)	$ 343,188

For the year ended June 30, 2019, the Company sold $14.0 million of securities resulting in $62,000 of gross realized gains. For the year ended June 30, 2018, the Company sold securities with a carrying amount of $8.6 million, resulting in $236,000 of gross realized gains, which included the disposal of $1.3 million of securities classified as held to maturity, resulting in $72,000 of gross realized gains. These held to maturity securities were comprised of seasoned mortgage-backed securities where the Company collected a substantial portion (at least 85%) of the principal outstanding at acquisition due to prepayments or scheduled payments payable in equal installments, comparing both principal and interest over terms.

The following table presents the fair value and carrying amount of debt securities at June 30, 2019 by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Held to maturity		Available for sale	
	Carrying Amount	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
1 year or less	$ 38,550	$ 38,429	$ 25,015	$ 24,950
1 to 5 years	62,995	63,055	20,361	20,321
5 to 10 years	25,033	24,701	-	-
Mortgage-backed securities and other	218,967	220,058	27,115	26,957
Total	$ 345,545	$ 346,243	$ 72,491	$ 72,228

Securities pledged had carrying amounts of $166.4 million and $140.5 million at June 30, 2019 and 2018, 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, 2019 and 2018:

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

	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
	(in thousands)					
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	$ 61,417	$ (1,096)	$ 38,363	$ (927)	$ 99,780	$ (2,023)
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	$ 205,419	$ (5,801)	$ 133,338	$ (4,237)	$ 338,757	$ (10,038)

For the year ended June 30, 2019, the Company's securities portfolio consisted of $417.8 million in securities, of which 135 securities with a fair value of $229.2 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, 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.

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, 2019 and 2018. 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, 2019 and 2018.

Note 4. Loans Receivable

Loans receivable are summarized as follows (in thousands):

	June 30, 2019	June 30, 2018
Mortgage loans:		
Residential	$ 265,167	$ 250,578
Commercial	651,396	495,265
Construction	13,231	17,352
Net deferred loan origination costs	1,031	1,041
Total mortgages	930,825	764,236
Commercial and consumer loans:		
Commercial loans	133,614	104,135
Home equity lines of credit	33,204	37,395
Consumer and overdrafts	365	745
Net deferred loan origination costs	777	729
Total commercial and consumer loans	167,960	143,004
Total loans receivable	1,098,785	907,240
Allowance for loan losses	(5,664)	(4,904)
Loans receivable, net	$ 1,093,121	$ 902,336

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, 2019 and 2018 (in thousands):

	For the year ended June 30, 2019				
	Beginning Allowance	Provision (Credit)	Charge-offs	Recoveries	Ending Allowance
Originated:					
Residential	$ 386	$ (33)	$ -	$ 10	$ 363
Commercial	3,073	894	(114)	-	3,853
Construction	505	(442)	-	96	159
Commercial loans	780	348	-	2	1,130
Home equity lines of credit	80	(15)	-	-	65
Consumer and overdrafts	7	31	(34)	7	11
Acquired:					
Residential	73	10	-	-	83
Commercial	-	15	(15)	-	-
Total	$ 4,904	$ 808	$ (163)	$ 115	$ 5,664

	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

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, 2019 and 2018 (in thousands):

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

	June 30, 2018							
	Loans				Allowance for loan losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired With Deteriorated Credit Quality	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired With Deteriorated Credit Quality	Total
Residential	$ 2,360	$ 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

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, 2019 and 2018 (in thousands):

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

	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

	For the year ended June 30, 2019		For the year ended June 30, 2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Residential	$ 1,377	$ 20	$ 3,041	$ 184
Commercial	1,496	51	2,350	248
Construction	-	-	93	17
Commercial loans	2,064	200	3,457	1,049
Home equity lines of credit	577	7	507	22
With an allowance recorded:				
Residential	753	14	453	15
Construction	869	-	2,720	-
Commercial loans	50	11	1,491	66
Home equity lines of credit	11	-	11	-
Total	$ 7,197	$ 303	$ 14,123	$ 1,601

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, 2019 and 2018 (in thousands):

	Nonaccrual		Loans Past Due Over 90 Days and Still Accruing	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Originated:				
Residential	$ 536	$ 604	$ -	$ -
Commercial	-	262	-	-
Construction	-	2,260	-	-
Commercial loans	150	788	-	-
Home equity lines of credit	383	45	-	-
Consumer and overdrafts	-	-	1	-
Acquired:				
Residential	795	1,308	-	-
Commercial	568	532	-	-
Home equity lines of credit	294	303	-	-
Total	$ 2,726	$ 6,102	$ 1	$ -

Nonperforming loans include both smaller-balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. The table above excludes acquired loans that are accounted for as purchased credit impaired loans totaling $501,000 and $1.8 million as of June 30, 2019 and 2018, 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, 2019 and 2018 (in thousands):

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

	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
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

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, 2019 and 2018, the Company had 14 and 12 loans classified as troubled debt restructurings totaling $4.1 million and $3.8 million, respectively, including $3.2 million and $3.0 million, respectively, of loans still accruing. The Company has allocated $135,000 and $139,000, respectively, of specific reserves to customers whose

loan terms have been modified in troubled debt restructurings as of June 30, 2019 and 2018, 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, 2019 and 2018 (dollars in thousands):

	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Year Ended June 30, 2019			
Residential mortgage	3	$ 1,115	$ 1,110
Home equity lines of credit	1	73	73
Total	4	$ 1,188	$ 1,183
Year Ended June 30, 2018			
Commercial loans	1	$ 275	$ 289
Total	1	$ 275	$ 289

The Company had no troubled debt restructurings for which there was a payment default in the year ended June 30, 2019 that were modified in the twelve months prior to default. There were 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 in the allowance for loan loss.

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

	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
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

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 follows (in thousands):

	June 30,	
	2019	2018
Residential	$ 1,186	$ 1,232
Commercial	890	1,477
Home equity lines of credit	156	168
Carrying amount, net of allowance of $83 and $73, respectively	$ 2,232	$ 2,877

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

	Year ended June 30,	
	2019	2018
Beginning balance	$ 245	$ 403
New loans acquired	-	-
Accretion income	(53)	(70)
Reclassification from non-accretable difference	-	5
Disposals	-	(93)
Ending balance	$ 192	$ 245

Note 5. Premises and Equipment

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

	2019	2018
Land	$ 1,997	$ 1,997
Building and Leasehold improvements	13,753	13,430
Furniture, fixtures and equipment	6,808	6,096
Construction and improvements in process	15	355
	22,573	21,878
Less: accumulated depreciation and amortization	(10,771)	(10,280)
Total Bank premises and equipment, net	$ 11,802	$ 11,598

Depreciation expense was $1.1 million and $1.3 million for the years ended June 30, 2019 and 2018, respectively.

Note 6. Goodwill and Intangible Assets

The change in goodwill during the years ended June 30, 2019 and 2018 are as follows (in thousands):

	2019	2018
Balance at July 1,	$ 6,106	$ 6,106
Impairment	-	-
Total at June 30,	$ 6,106	$ 6,106

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. The Company tests for goodwill impairment on an annual basis as of June 30th. No impairment was recorded on goodwill for the years ended June 30, 2019 or 2018.

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

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangible	$ 887	$ (564)	$ 887	$ (454)

Aggregate amortization expense was $110,000 and $126,000 for the years ended June 30, 2019 and 2018, respectively.

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

2020	$ 94
2021	78
2022	62
2023	46
2024 and after	43

Note 7. Deposits

Deposit balances are summarized as follows at June 30, 2019 and 2018 (in thousands):

	2019	2018
Demand	$ 141,379	$ 131,883
NOW Accounts	123,069	117,875
Money market accounts	148,134	49,885
Savings	357,844	465,441
Time deposits	455,395	392,373
Total	$ 1,225,821	$ 1,157,457

Time deposits that meet or exceed the FDIC insurance limit of $250,000 were $149.0 million and $116.0 million at June 30, 2019 and 2018, respectively.

Scheduled maturities of time deposits were as follows as of June 30, 2019 and 2018 (in thousands):

	2019	2018
Within 1 year	$ 221,832	$ 183,276
1 year to 2 years	112,394	49,350
2 years to 3 years	41,211	56,746
3 years to 4 years	33,538	56,458
4 years to 5 years	46,420	46,339
Thereafter	-	204
Total	$ 455,395	$ 392,373

Deposits of local governments held by PCSB Bank were $40.1 million and $39.1 million at June 30, 2019 and 2018, respectively. Additionally, as of June 30, 2019 and 2018, deposits included $77.5 million and $60.0 million of brokered time deposits with remaining maturities between 9 and 36 months.

Note 8. FHLB and Other Borrowings

Borrowings consist of advances from the FHLBNY. As of June 30, 2019, FHLB advances consisted of $107.5 million of short and long-term advances with original maturities ranging from 3 to 54 months, as well as a $3.7 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):

	2019		2018	
	Amount Due	Weighted Avg. Rate	Amount Due	Weighted Avg. Rate
Within 1 year	$ 65,128	2.29%	$ 10,125	1.70%
1 year to 2 years	30,131	2.10	5,128	1.81
2 years to 3 years	7,635	3.22	131	2.62
3 years to 4 years	138	2.62	135	2.62
4 years to 5 years	5,142	3.31	138	2.62
Thereafter	3,042	2.62	3,184	2.62
Total	$ 111,216	2.36%	$ 18,841	1.91%

As a member of the FHLBNY, the Bank had access to funds in the form of FHLB advances of approximately $291.2 million and $314.9 million at June 30, 2019 and 2018, of which $111.2 million and $18.8 million was outstanding as of each respective period. 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, 2019, the Bank also had access to funds of approximately $118.0 million in the form of secured borrowings through the discount window of the FRB. 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, 2019 or 2018.

Note 9. Commitments and Contingencies

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

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

The contract amounts of credit-related financial instruments at June 30, 2019 and 2018, are summarized below (in thousands):

	2019	2018
Commitments to originate loans	$ 136,770	$ 102,644
Unused lines of credit	52,644	56,553
Standby letter of credit	1,688	1,420

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, 2019 and 2018.

Operating Lease Commitments: The Company leases certain branch properties under operating leases. Rent expense was $2.1 million and $1.9 million for the years ended June 30, 2019 and 2018, respectively. Rent commitments, before considering renewal options that generally are present, were as follows as of June 30, 2019 (in thousands):

Within 1 year	$	1,733
1 year to 2 years		1,794
2 year to 3 years		1,770
3 year to 4 years		1,683
4 year to 5 years		1,313
Thereafter		5,647
Total	$	13,940

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 10. Accumulated Other Comprehensive Loss

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

	Net unrealized gain (loss) on available for sale securities(1)	Unrealized loss on pension benefits(2)	Unrealized loss on SERP benefits(2)	Total
Balance at July 1, 2018	$ (1,536)	$ (5,150)	$ (264)	$ (6,950)
Other comprehensive income (loss) before reclassifications	1,741	(486)	(19)	1,236
Amounts reclassified from accumulated other comprehensive (loss) income	(62)	1,144	36	1,118
Tax effect	(352)	(139)	(3)	(494)
Net other comprehensive income	1,327	519	14	1,860
Balance at June 30, 2019	$ (209)	$ (4,631)	$ (250)	$ (5,090)

	Net unrealized gain (loss) on available for sale securities(1)	Unrealized loss on pension benefits(2)	Unrealized loss on SERP benefits(2)	Total
Balance at July 1, 2017	$ 37	$ (5,002)	$ (250)	$ (5,215)
Other comprehensive (loss) income before reclassifications	(1,835)	335	10	(1,490)
Amounts reclassified from accumulated other comprehensive (loss) income	(164)	725	34	595
Tax effect	558	(270)	(11)	277
Net other comprehensive (loss) income	(1,441)	790	33	(618)
Reclassification of certain tax effects on other comprehensive (loss)(3)	(132)	(938)	(47)	(1,117)
Balance at June 30, 2018	$ (1,536)	$ (5,150)	$ (264)	$ (6,950)

(1) Amounts reclassified from accumulated other comprehensive income are recorded in the Statement of Operations as part of "gains on sales of securities"
(2) Amounts reclassified from accumulated other comprehensive income are recorded in the Statement of Operations as part of "other operating expenses"
(3) 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.

Note 11. Earnings Per Share

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

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

The following table provides factors used in the earnings per share computation for the years ended June 30, 2019 and 2018.

	Year Ended June 30,	
	2019	2018
	(amounts in thousands, except share and per share data)	
Net income applicable to common stock	$ 8,318	$ 6,604
Average number of common shares outstanding	17,752,473	18,165,110
Less: Average unallocated ESOP shares	(1,259,713)	(1,362,216)
Average number of common shares outstanding used to calculate basic earnings per common share	16,492,760	16,802,894
Effect of equity-based awards	34,357	-
Average number of common shares outstanding used to calculate diluted earnings per common share	16,527,117	16,802,894
Earnings per Common share:		
Basic	$ 0.50	$ 0.39
Diluted	$ 0.50	$ 0.39

Stock options for 1,339,293 shares of common stock were not considered in computing dilutive earnings per common share for the year ended June 30, 2019 because they were antidilutive. There were no potentially dilutive common stock equivalents during the year ended June 30, 2018.

Note 12. Fair Value of Financial Instruments

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

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

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

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

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

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

Impaired Loans: The fair value of collateral-dependent impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. Appraisals are generally obtained annually and may

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

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

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

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

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

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

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

	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
Total assets at fair value	$ -	$ 105,472	$ -	$ 105,472
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	$ -	$ -	$ 3,984	$ 3,984

Impaired loans in the table above had a carrying amount of $937,000 and a remaining valuation allowance of $173,000 at June 30, 2019, incurred no net charge-offs and resulted in an additional provision for loan losses of $40,000 during the year ended June 30, 2019. Impaired loans in the table above had a carrying amount of $3.9 million and a remaining valuation allowance of $451,000 at June 30, 2018, and incurred $1.1 million of net charge-offs and resulted in an additional provision for loan losses of $435,000 during the year ended June 30, 2018.

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, 2019 and 2018 (dollars in thousands):

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range or Rate Used
June 30, 2019				
Impaired loans - residential mortgages	$ 616	Discounted cash flow	Discount rate	5.4% to 6.3%
Impaired loans - commercial loans	141	Discounted cash flow	Discount rate	6.0% to 7.0%
Impaired loans - home equity lines of credit	7	Discounted cash flow	Discount rate	6.2%
Foreclosed real estate	653	Sales comparison	Adjustments for differences in sales comparables	-8.0% to 45.0%
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%

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

	Carrying Amount	Fair Value Measurements			
		Level 1	Level 2	Level 3	Total
June 30, 2019					
Financial assets:					
Cash and cash equivalents	$ 60,029	$ 60,029	$ -	$ -	$ 60,029
Investment securities held to maturity	345,545	-	346,243	-	346,243
Investment securities available for sale	72,228	-	72,228	-	72,228
Loans receivable, net	1,093,121	-	-	1,092,878	1,092,878
Accrued interest receivable	4,797	-	1,330	3,467	4,797
FHLB stock	6,255	N/A	N/A	N/A	N/A
Derivative assets - interest rate contracts	1,339	-	1,339	-	1,339
Financial liabilities:					
Demand, NOW, money market deposits and savings accounts	770,426	770,426	-	-	770,426
Accrued interest payable	209	16	193		209
Time deposits	455,395	-	460,554	-	460,554
Mortgage escrow funds	9,355	9,355	-	-	9,355
FHLB advances	111,216	-	111,818	-	111,818
Derivative liabilities - interest rate contracts	1,339	-	1,339	-	1,339
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
FHLB 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
Accrued interest payable	154	7	147		154
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

In connection with the adoption of ASU 2016-01 on July 1, 2018, we refined our methodology to estimate the fair value of our loan portfolio using an exit price notion resulting in prior periods no longer being comparable. The exit price notion requires determination of the price at which willing market participants would transact at the measurement date under current market conditions depending on facts and circumstances, such as origination rates, credit risk, transaction costs, liquidity, national and regional market trends and other adjustments, utilizing publicly available rates and indices. The application of an exit price notion requires the use of significant judgment. The prior period estimate of loans receivable, net was determined using an entrance price methodology based only on the discounted value of contracted cash flows based on prevailing interest rates.

Note 13. Income Taxes

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

	2019	2018
Current tax expense (benefit)		
Federal	$ 2,624	$ 2,577
State	412	20
	3,036	2,597
Deferred tax expense (benefit)		
Federal	(329)	2,414
State	(91)	313
	(420)	2,727
State tax valuation allowances, net of federal benefit	70	(302)
Total	$ 2,686	$ 5,022

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 was required to re-measure as of the date the law was 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 the year ended June 30, 2018, based on the daily weighted average statutory rate effective throughout the fiscal year. Effective tax rates differ from the federal statutory rate applied to income before income taxes due to the following (dollars in thousands):

	2019	2018
Federal statutory rate	21.00%	28.06%
Tax at federal statutory rate	$ 2,311	$ 3,262
State Taxes, net of federal benefit	310	24
Tax-exempt income	(66)	(61)
BOLI income	(114)	(157)
ESOP Compensation	199	300
Deferred tax re-remeasurement charge	-	1,570
Other, net	46	84
Total	$ 2,686	$ 5,022
Effective tax rate	24.41%	43.20%

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

	2019	2018
Deferred Tax Assets:		
Allowance for Loan Losses	$ 1,419	$ 1,222
Other comprehensive loss (defined benefit plans)	1,298	1,439
Deferred compensation	879	836
Charitable contribution carryforward	671	949
Stock based compensation	498	-
Depreciation of premises and equipment	416	413
Other comprehensive loss (securities)	55	408
Other	544	611
Total deferred tax assets	5,780	5,878
Deferred Tax Liabilities:		
Prepaid pension costs	2,416	2,424
Deferred loan costs and fees, net	466	451
Other	-	31
Total deferred tax liabilities	2,882	2,906
Deferred tax asset valuation allowance	(420)	(350)
Net deferred tax asset	$ 2,478	$ 2,622

The Company has an apportioned New York State net operating loss carryforward of approximately $1.7 million which will begin to expire in 2034. In addition, the Company has approximately $2.7 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 greater of a calculated income tax liability, a tax liability based upon average equity capital or a fixed minimum fee. As a result of the Company’s ability to deduct a portion of the dividends paid by its captive REIT subsidiary, PCSB Funding Corp., it is more likely than not the Company will generate New York tax losses in future years and therefore calculate its New York tax liability on the basis of average equity capital or a fixed minimum fee. Consequently, the Company maintains a valuation allowance against its net New York deferred tax asset, as it is unlikely this deferred tax asset will impact the Company's New York tax liability in future years.

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

Retained earnings at June 30, 2019 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, 2015.

At June 30, 2019 and 2018, the Company had no unrecognized tax benefits recorded. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

Note 14. Post-Retirement Benefits

Employee Pension Plan

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

The following is a summary of the plan's funded status as of June 30, 2019 and 2018 (the measurement date for financial reporting purposes) (in thousands):

	2019	2018
Change in benefit obligation:		
Beginning benefit obligation	$ 24,764	$ 25,614
Interest Cost	1,000	968
Actuarial Loss	(327)	8
Benefits Paid	(929)	(868)
Settlements	(2,152)	(958)
Ending benefit obligation	22,356	24,764
Change in plan assets, at fair value:		
Beginning plan assets	27,975	27,444
Actual return	1,239	2,357
Benefits paid	(929)	(868)
Settlements	(2,152)	(958)
Ending Plan assets	26,133	27,975
Funded Status	$ 3,777	$ 3,211
Accumulated Benefit Obligation	$ 22,356	$ 24,764

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

	2019	2018
Net period pension cost (benefit)	$ 92	$ (321)
Benefits paid	929	868

Pre-tax amounts recognized in accumulated other comprehensive loss were $5.9 million and $6.5 million for the years ended June 30, 2019 and 2018 respectively.

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

	2019	2018
Interest cost	$ 1,000	$ 968
Expected return on plan assets	(2,052)	(2,014)
Amortization of prior net loss	1,144	725
Net periodic cost (benefit)	$ 92	$ (321)

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, 2020, are $528,000 and $0, respectively.

Contributions: The Company made no contributions to the defined benefit plan during the year ended June 30, 2019 and does not expect to make any contributions for the year ending June 30, 2020.

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

2020	$ 1,217
2021	1,239
2022	1,275
2023	1,312
2024	1,315
Following five years	6,027

Assumptions: Discount rates of 3.31% and 4.14% were used to determine pension benefit obligation as of June 30, 2019 and 2018, respectively.

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

	Year ended June 30,	
	2019	2018
Discount Rate	3.31%	3.87%
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 2019	Percentage of Plan Assets at Year-End 2018
Equity mutual funds and common/collective trusts	65%	60%	67%
Fixed income common/collective trusts	34%	37%	32%
Cash equivalents	1%	3%	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, 2019 and 2018, by asset category, is as follows (in thousands):

		Fair Value Measurements Using		
	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2019				
Plan assets				
Equity mutual funds and common/collective trusts	$ 15,837	$ -	$ 15,837	$ -
Fixed income common/collective trusts	9,618	-	9,618	-
Cash equivalents	678	678	-	-
Total	$ 26,133	$ 678	$ 25,455	$ -
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	$ 27,975	$ 168	$ 27,807	$ -

Defined Contribution Retirement Plan

The Company maintains a defined contribution plan for eligible employees hired after October 1, 2012. 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, 2019 or 2018.

401(k) Plan

The Company maintains a defined contribution plan for eligible employees under Section 401(k) of the Internal Revenue Code. All full-time employees who have attained age twenty-one and have a minimum of one year of service may elect to participate in the plan, by making contributions ranging from 1% to 25% of their compensation. On June 20, 2018, the Board of Directors approved the suspension of the Company match effective July 1, 2018. Prior to July 1, 2018, the Company made matching contributions equal to 75% of the participant's contributions up to 6% of compensation. Savings plan expense was $0 and $414,000 for the years ended June 30, 2019 and 2018, respectively.

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 $3.7 million and $3.4 million at June 30, 2019 and 2018, respectively, (included in other liabilities in the consolidated statements of financial condition). Included in accumulated other comprehensive income were pre-tax net losses of $318,000 and $335,000 for the supplemental retirement plans as of June 30, 2019 and 2018, respectively. The projected benefit obligation and accumulated benefit obligation were $3.7 million and $3.4 million as of the June 30, 2019 and 2018, respectively.

Pension expense for the supplemental plans was $613,000 and $655,000 for the years ended June 30, 2019 and 2018, respectively.

Supplemental retirement plan benefits of $272,000 were paid in each of the years ended June 30, 2019 and 2018.

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

	2019	2018
Service cost	$ 455	$ 518
Interest cost	122	103
Amortization of prior net loss	36	34
Net periodic cost	$ 613	$ 655

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, 2020, is $45,000.

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

2020	$ 272
2021	272
2022	3,180
2023	272
2024	136
Following five years	-

As of June 30, 2019, the assumed discount rates used for the supplemental plans range from 3.31% to 4.24%.

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 (5.50% for 2019). 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, 2019 was $12.6 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):

	2019	2018
Allocated to participants	241,804	144,923
Unearned	1,211,405	1,308,286
Total ESOP shares	1,453,209	1,453,209
Fair value of unearned shares	$ 24,531	$ 25,996

Total compensation expense recognized in connection with the ESOP for the year ended June 30, 2019 and 2018 was $1.9 million and $2.2 million, respectively.

Note 15. Regulatory Matters

The following is a summary of the Bank's actual capital amounts and ratios as of June 30, 2019 and 2018, compared to the required ratios for minimum capital adequacy and for classification as well capitalized (dollars in thousands). As a result of the Economic Growth, Regulatory Relief, and Consumer Protection Act passed by Congress in 2018, the Company is no longer subject to consolidated capital requirements, as the Company's total consolidated assets do not exceed $3 billion.

	Bank Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2019:						
PCSB Bank						
Leverage (Tier 1)	$ 209,885	13.8%	$ 60,774	4.0%	$ 75,968	5.0%
Risk-based:						
Common Tier 1	209,885	18.0	52,579	4.5	75,948	6.5
Tier 1	209,885	18.0	70,105	6.0	93,474	8.0
Total	215,549	18.4	93,474	8.0	116,842	10.0
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

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 was phased in over a four-year period through January 1, 2019. As of January 1, 2019, the conservation buffer was fully phased in.

Management believes that as of June 30, 2019 and 2018, the Bank met all capital adequacy requirements to which it was subject, including the capital conservation buffer of 2.5% as of June 30, 2019 and 1.875% as of June 30, 2018. Further, the most recent FDIC notification categorized the Bank as a well-capitalized institution under the prompt corrective action regulations. There have been no conditions or events since that notification that management believes have changed the Bank's capital classification.

Note 16. Related Party Disclosures

The Company's authority to extend credit to its directors, executive officers, and 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 years ended June 30, 2019 and 2018, the Company and the Bank had no insider loans.

Note 17. Derivatives and Hedging

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

The Company had no interest rate swaps as of June 30, 2018. The following table presents summary information about the interest rate swaps as of June 30, 2019:

	June 30, 2019	
	(dollars in thousands)	
Notional amounts	$	68,535
Weighted average pay rates		3.89%
Weighted average receive rates		3.89%
Weighted average maturity		9.84 years
Fair value of combined interest rate swaps	$	-

Note 18. Revenue From Contracts With Customers

The Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, on July 1, 2018. Under ASC 2014-09, an entity is required to recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires disclosure of sufficient information to enable users of financial statements to

understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, as well as qualitative and quantitative disclosure related to contracts with certain customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract.

In accordance with ASU 2014-09, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services. The Company applies the following five steps to properly recognize revenue:

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

The Company's revenue streams that are within the scope of the accounting standard are: (1) fees and service charges on deposit accounts (including interchange fees), which, are included on the Consolidated Statements of Operations as "Fees and service charges" and (2) gains on the sale of foreclosed real estate. For the years ended June 30, 2019 and 2018, fees and services charges totaled $1.8 million and $1.5 million, respectively, of which and $1.6 million and $1.3 million, respectively, were revenue streams within the scope of the accounting standard.

Fees and Service Charges on Deposit Accounts. The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payments, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing the period over which the Company satisfied the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance. For the years ended June 30, 2019 and 2018, fees and service charges on deposit accounts were $1.2 million and $882,000, respectively.

Interchange Income. The Company earns interchange fees from debit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. For the years ended June 30, 2019 and 2018, interchange income was $432,000 and $390,000, respectively.

Gain/Losses on Sales of Foreclosed Real Estate. The Company records a gain or loss from the sale of foreclosed real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed real estate asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. For the year ended June 30, 2019, the Company recorded $24,000 gain on sale of foreclosed real estate, compared to $7,000 loss on sale of foreclosed real estate recorded in the prior year.

Note 19. Stock-Based Compensation

On October 24, 2018, the Company's shareholders approved the PCSB Financial Corporation 2018 Equity Incentive Plan (the "Plan"), which permits the grant of stock options and restricted stock and/or restricted stock units. The total number of shares that may be granted under the Plan is 2,543,115, of which 1,816,511 shares may be granted as stock options and 726,604 shares may be granted as restricted stock and restricted stock units. Total compensation cost that has been charged against income for the Plan was $2.1 million for the year ended June 30, 2019. No compensation cost was incurred for the year ended June 30, 2018.

Restricted Stock Awards

RSAs provide for the issuance of shares to both employees and non-employee directors. These awards vest over a 5-year period, with 20% vesting each year on the anniversary of the award. All awards were made at the fair value of common stock on the grant date. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at grant date. The fair value of the stock was determined to be the closing price of the stock on the NASDAQ exchange. Total shares available for grant under the Plan are 726,604, of which 547,185 shares were issued as of June 30, 2019.

The following table presents a summary of RSA activity during the period ended June 30, 2019.

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested allocated shares outstanding at July 1, 2018	-	$ -
Shares granted	547,185	19.02
Shares vested	-	-
Shares forfeited	-	-
Unvested allocated shares at June 30, 2019	547,185	$ 19.02

As of June 30, 2019, there was $9.1 million of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 4.4 years.

Stock Option Awards

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

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

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

Risk-free interest rate	3.03%
Expected term (in years)	6.5
Expected stock price volatility	18.26%
Dividend yield	0.63%
Weighted average fair value of options granted	$ 4.61

As of June 30, 2019, there was $5.4 million of total unrecognized compensation cost related to non-vested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 4.4 years.

Total shares available for grant under the Plan are 1,816,511, of which 1,339,293 shares were issued as of June 30, 2019. The following table presents a summary of activity related to stock options granted under the Plan, and changes during the period then ended:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Years	Aggregate Intrinsic Value
	(dollars in thousands, except share and per share data)			
Options outstanding at July 1, 2018	-	$ -		$ -
Options granted	1,339,293	19.04		
Options expired	-	-		
Options exercised	-	-		
Options outstanding at June 30, 2019	1,339,293	$ 19.04	9.4	$ 1,625
Exercisable at June 30, 2019	-	$ -		$ -

Note 20. 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, 2019 and 2018 (in thousands).

	June 30,	
	2019	2018
Assets		
Cash and cash equivalents	$ 55,626	$ 72,140
Investment in Bank	211,205	200,058
ESOP loan receivable	12,594	13,563
Other assets	1,936	1,798
Total assets	$ 281,361	$ 287,559
Liabilities and shareholders' equity		
Other liabilities	$ 54	$ -
Shareholders' equity	281,307	287,559
Total liabilities and shareholders' equity	$ 281,361	$ 287,559

	Years Ended June 30,	
	2019	2018
Interest income	$ 715	$ 668
Equity in income of Bank	8,318	7,188
Other non-interest expenses	715	689
Income before income tax	8,318	7,167
Income tax expense	-	563
Net income	$ 8,318	$ 6,604

	Year Ended June 30,	
	2019	2018
Cash Flows from Operating Activities:		
Net income	$ 8,318	$ 6,604
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in income of Bank	(8,318)	(7,188)
Deferred tax expense	213	733
Net increase in accrued interest receivable	(89)	(230)
Other adjustments, principally net changes in other assets and liabilities	1,932	(569)
Net cash provided by (used in) operating activities	2,056	(650)
Cash Flows from Investing Activities:		
Decrease in ESOP loan	969	969
Net cash provided by investing activities	969	969
Cash Flows from Financing Activities:		
Common stock dividends declared	(2,183)	(504)
Allocation of ESOP shares	949	1,069
Issuance of common stock	-	(17)
Repurchase of common stock	(18,305)	-
Net cash (used in) provided by financing activities	(19,539)	548
Net (decrease) increase in cash and cash equivalents	(16,514)	867
Cash and cash equivalents at beginning of year	72,140	71,273
Cash and cash equivalents at end of year	$ 55,626	$ 72,140

Note 21. Subsequent Events

Subsequent to June 30, 2019, and through September 6, 2019, the Company repurchased 148,500 shares of common stock, at an average cost of $19.54 per share.

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 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, 2019. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

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, 2019 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, 2019 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 is not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

d) Changes in Internal Control Over Financial Reporting

There were no significant changes made in the Company's internal control over financial reporting during the fourth quarter of the year ended June 30, 2019 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 2019 Annual Meeting of Stockholders (the “2019 Proxy Statement”) is incorporated herein by reference.

Item 11. Executive Compensation

The “Executive Compensation” section of the Company’s 2019 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 2019 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 2019 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 2019 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, 2019 and 2018

(C) Consolidated Statements of Income - Years ended June 30, 2019 and 2018

(D) Consolidated Statements of Comprehensive Income – Years ended June 30, 2019 and 2018

(E) Consolidated Statements of Changes in Shareholders’ Equity – Years ended June 30, 2019 and 2018

(F) Consolidated Statements of Cash Flows – Years ended June 30, 2019 and 2018

(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 (14)
10.12	PCSB Bank Director Supplemental Life Insurance Plan (15)
10.13	PCSB Bank Death Benefit Plan for Michael T. Weber (16)
10.14	PCSB Bank Incentive Compensation Plan Policy (17)
10.15	PCSB Financial Corporation Compensation Clawback Policy (18)
10.16	PCSB Bank Death Benefit Plan for Willard I. Hill, Jr (19)
10.17	PCSB Financial Corporation 2018 Equity Incentive Plan (20)
21	Subsidiaries of PCSB Financial Corporation (21)
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, 2019, 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 10.11 to the Registration Statement on Form 10-K (File No. 001-38065), filed with the Securities and Exchange Commission on September 13, 2018.
(15) Incorporated by reference to Exhibit 10.15 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the Securities and Exchange Commission on December 12, 2016, as amended.
(16) Incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-1 (File No. 333-215052), originally filed with the Securities and Exchange Commission on December 12, 2016, as amended.
(17) Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form 10-Q (File No. 001-38065), filed with the Securities and Exchange Commission on November 9, 2017.
(18) Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (File No. 001-38065), filed with the Securities and Exchange Commission on November 9, 2017.
(19) Incorporated by reference to Exhibit 10.16 to the Annual Report on Form 10-K (File No. 001-38065), filed with the Securities and Exchange Commission on September 13, 2018.
(20) Incorporated by reference to Appendix A to the Definitive 2018 Annual Meeting Proxy Solicitation Materials (File No. 001-38065), filed with the Securities and Exchange Commission on September 20, 2018.
(21) 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 10, 2019

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

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

Signatures	Title	Date
/s/ Joseph D. Roberto Joseph D. Roberto	Chairman, President and Chief Executive Officer (Principal Executive Officer)	September 10, 2019
/s/ Jeffrey M. Helf Jeffrey M. Helf	Senior Vice President and Chief Financial Officer (Principal Accounting and Financial Officer)	September 10, 2019
/s/ William V. Cuddy, Jr. William V. Cuddy, Jr.	Director	September 10, 2019
/s/ Kevin B. Dwyer Kevin B. Dwyer	Director	September 10, 2019
/s/ Marsha Gordon Marsha Gordon	Director	September 10, 2019
/s/Willard I. Hill, Jr. Willard I. Hill, Jr.	Director	September 10, 2019
/s/ Jeffrey D. Kellogg Jeffrey D. Kellogg	Director	September 10, 2019
/s/ Robert C. Lusardi Robert C. Lusardi	Director	September 10, 2019
/s/ Matthew G. McCrosson Matthew G. McCrosson	Director	September 10, 2019
/s/ Karl A. Thimm Karl A. Thimm	Director	September 10, 2019
/s/ Michael T. Weber Michael T. Weber	Director	September 10, 2019
/s/ Richard F. Weiss Richard F. Weiss	Director	September 10, 2019

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-217399 and No. 333-228299 on Form S-8 of PCSB Financial Corporation and Subsidiaries of our report dated September 10, 2019, relating to the consolidated financial statements, appearing in this Annual Report on Form 10-K.

Crowe LLP

New York, New York

September 10, 2019

Exhibit 31.1

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 10, 2019

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

Exhibit 31.2

CERTIFICATION

I, Jeffrey M. Helf, 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 10, 2019

/s/ Jeffrey M. Helf

Jeffrey M. Helf

Senior Vice President and Chief Financial Officer

Exhibit 32

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, 2019 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 10, 2019

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

Date: September 10, 2019

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