UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____________ to _____________

Commission File Number: 001-41808

SR Bancorp, Inc.
(Exact Name of Registrant as Specified in its Charter)

Maryland	**92-2601722**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
220 West Union Avenue Bound Brook, New Jersey	**08805**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (732) 560-1700

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

As of February 14, 2024, the registrant had 9,507,930 shares of common stock, $0.01 par value per share, outstanding.

Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

SR Bancorp, Inc. and Subsidiaries

Consolidated Statements of Financial Condition
December 31, 2023 (Unaudited) and June 30, 2023
(Dollars in Thousands)

	December 31, 2023 (Unaudited)	June 30, 2023
Assets		
Cash and due from banks	$ 15,160	$ 8,657
Interest-bearing deposits at other banks	68,737	33,792
Federal funds sold	6,341	—
Total cash and cash equivalents	90,238	42,449
Securities available-for-sale, at fair value	34,783	36,076
Securities held-to-maturity, at amortized cost	165,190	171,185
Equity securities, at fair value	26	24
Loans receivable, net of allowance for credit losses of $5,218 and $1,116, respectively	695,751	362,252
Premises and equipment, net	5,131	3,546
Right-of-use asset	3,057	19
Restricted equity securities, at cost	1,274	726
Accrued interest receivable	2,548	1,189
Bank owned life insurance	36,594	28,714
Goodwill and intangible assets	29,032	—
Other assets	11,316	5,306
Total assets	$ 1,074,940	$ 651,486
Liabilities and Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 120,808	$ 40,687
Interest-bearing	722,503	463,230
Total deposits	843,311	503,917
Borrowings	20,000	20,000
Advance payments by borrowers for taxes and insurance	4,161	4,313
Accrued interest payable	907	—
Lease liability	3,137	19
Other liabilities	5,443	1,153
Total liabilities	876,959	529,402
Equity		
Common stock, $0.01 par value, 55,000,000 authorized; 9,507,930 and — shares issued, respectively	95	—
Additional paid-in capital	91,449	—
Retained earnings	118,174	127,099
Unearned compensation ESOP	(7,226)	—
Accumulated other comprehensive loss	(4,511)	(5,015)
Total stockholders' equity	197,981	122,084
Total liabilities and stockholders' equity	$ 1,074,940	$ 651,486

See notes to consolidated financial statements

SR Bancorp, Inc. and Subsidiaries

Consolidated Statements of Income (Loss)
For Three and Six Months Ended December 31, 2023 and 2022 (Unaudited)
(Dollars in Thousands)

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022	Six Months Ended December 31, 2023	Six Months Ended December 31, 2022
	(Unaudited)		(Unaudited)	
Interest Income				
Loans, including fees	$ 10,186	$ 2,739	$ 13,941	$ 5,338
Securities:			—	
Taxable	852	934	1,710	1,882
Non-taxable	—	—	—	—
Federal funds sold	71	—	81	—
Interest bearing deposits at other banks	1,177	220	2,097	390
Total interest income	12,286	3,893	17,829	7,610
Interest Expense				
Deposits:				
Demand	335	25	382	48
Savings and time	2,692	417	3,803	684
Borrowings	240	—	480	—
Total interest expense	3,267	442	4,665	732
Net Interest Income	9,019	3,451	13,164	6,878
Provision Expense (Credit) for Credit Losses	(107)	—	4,055	—
Net Interest (Expense) Income After Provision (Credit) For Credit Losses	9,126	3,451	9,109	6,878
Noninterest Income				
Service charges and fees	212	182	383	345
Increase in cash surrender value of bank owned life insurance	233	162	408	328
Fees and service charges on loans	6	6	11	11
Unrealized gain on equity securities	5	2	2	2
Realized gain on sale of investments	31	—	14	—
Other	(122)	1	60	15
Total noninterest income	365	353	878	701
Noninterest Expense				
Salaries and employee benefits	3,875	2,022	8,419	4,006
Occupancy	665	175	902	362
Furniture and equipment	228	132	389	270
Data Processing	634	297	1,441	598
Advertising	72	57	129	108
FDIC premiums	145	39	228	78
Directors fees	97	76	185	177
Professional fees	564	253	1,418	556
Insurance	108	43	224	85
Telephone, postage and supplies	97	80	181	156
Other	991	155	6,897	309
Total noninterest expense	7,476	3,329	20,413	6,705
Income (Loss) Before Income Tax Expense	2,015	475	(10,426)	874
Income Tax Expense (Benefit)	408	76	(1,535)	121
Net Income (Loss)	1,607	399	(8,891)	753
Basic earnings per share	$ 0.18	$ —	$ (1.81)	$ —
Diluted earnings per share	$ 0.18	$ —	$ (1.81)	$ —
Weighted average number of common shares outstanding - basic	8,767,897	—	4,907,229	—
Weighted average number of common shares outstanding - diluted	8,767,897	—	4,907,229	—

SR Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)
For Three and Six Months Ended December 31, 2023 and 2022 (Unaudited)
(Dollars in Thousands)

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022	Six Months Ended December 31, 2023	Six Months Ended December 31, 2022
	(Unaudited)			
Net Income (Loss)	$ 1,607	$ 399	$ (8,891)	$ 753
Other Comprehensive Income (Loss)				
Unrealized holding gains (losses) on securities available-for-sale, net of income tax (expense) benefit of $(448), $(183), $(297) and $376, respectively	1,274	520	827	(1,073)
Change in defined pension plan for unrealized actuarial gains (losses) net of income tax (expense) benefit of $(114), $258, $126 and $(62), respectively	293	(659)	(323)	160
Total other comprehensive income (loss)	1,567	(139)	504	(913)
Total comprehensive income (loss)	$ 3,174	$ 260	$ (8,387)	$ (160)

See notes to consolidated financial statements

Consolidated Statements of Changes in Stockholders' Equity
For Three and Six Months Ended December 31, 2023 and 2022 (Unaudited)
(Dollars in Thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings	Unearned ESOP Compensation	Accumulated Other Comprehensive Loss	Total
Balance, July 1, 2022	$ —	$ —	$ 125,546		$ (7,315)	$ 118,231
Net income	—	—	354	—	—	354
Other comprehensive loss, net of tax	—	—	—	—	(774)	(774)
Balance, September 30, 2022	**$ —**	**$ —**	**$ 125,900**	**$ —**	**$ (8,089)**	**$ 117,811**
Net income	$ —	$ —	$ 399	$ —	$ —	$ 399
Other comprehensive loss, net of tax	—	—	—	—	(139)	(139)
Balance, December 31, 2022	**$ —**	**$ —**	**$ 126,299**	**$ —**	**$ (8,228)**	**$ 118,071**
Balance, July 1, 2023	$ —	$ —	$ 127,099	$ —	$ (5,015)	$ 122,084
Net loss	—	—	(10,498)	—	—	(10,498)
Cumulative adjustment for change in accounting principle (ASU No. 2016-13)	—	—	(34)	—	—	(34)
Common stock issued, 9,507,930 shares	95	91,491	—	—	—	91,586
Unearned ESOP shares, 760,634 shares	—	—	—	(7,606)	—	(7,606)
ESOP shares committed for allocation to participants, 1,162 shares	—	(1)	—	11	—	10
Other comprehensive loss, net of tax	—	—	—	—	(1,063)	(1,063)
Balance, September 30, 2023	**$ 95**	**$ 91,490**	**$ 116,567**	**$ (7,595)**	**$ (6,078)**	**$ 194,479**
Net income	—	—	1,607	—	—	1,607
ESOP shares committed for allocation to participants, 36,870 shares	—	(41)	—	369	—	328
Other comprehensive income, net of tax	—	—	—	—	1,567	1,567
Balance, December 31, 2023	**$ 95**	**$ 91,449**	**$ 118,174**	**$ (7,226)**	**$ (4,511)**	**$ 197,981**

See notes to consolidated financial statements

SR Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
For the Six Months Ended December 31, 2023 and 2022 (Unaudited)
(Dollars in Thousands)

	Six Months Ended December 31, 2023	2022
Cash Flows from Operating Activities		
Net (loss) income	$ (8,891)	$ 753
Adjustments to reconcile net (loss) income to net cash (used in) provided by by operating activities:		
Provision for credit losses	4,055	—
Depreciation	299	206
Deferred income tax benefit	(2,030)	(319)
Accretion of acquisition fair value adjustments, net	(2,091)	—
Amortization of core deposit intangible asset	509	—
Net amortization of premiums and discounts on securities	148	334
Net amortization of deferred loan fees, costs and discounts	250	319
Income from cash surrender value of bank owned life insurance	(408)	(328)
Stock-based compensation expense	338	—
Unrealized gain on equity securities	(2)	(2)
Realized gain on sale of investments	(14)	—
(Increase) decrease in:		
Accrued interest receivable	(145)	(116)
Other assets	200	(745)
Other liabilities	767	625
Net cash (used in) provided by operating activities	(7,015)	727
Cash Flows from Investing Activities		
Proceeds from sales, maturities and principal repayments of securities available-for-sale	14,889	5,324
Proceeds from maturities and principal repayments of securities held-to-maturity	8,437	9,732
Purchase of securities held-to-maturity	—	(894)
Proceeds from time deposits in other financial institutions	8,810	—
Net increase in loans receivable	(13,564)	(23,377)
Purchase of premises and equipment	(314)	(360)
Cash paid for acquisition	(69,538)	—
Cash received from acquisition	55,294	—
Net cash provided by (used in) investing activities	4,014	(9,575)
Cash Flows from Financing Activities		
Net (decrease) increase in interest bearing deposits	(27,068)	1,866
Net decrease in non-interest bearing deposits	(5,970)	(1,176)
Net increase in advance payments by borrowers for taxes and insurance	(152)	(51)
Proceeds from issuance of common stock	83,980	—
Net cash provided by financing activities	50,790	639
Net increase (decrease) in cash and cash equivalents	47,789	(8,209)
Cash and Cash Equivalents, Beginning of Period	42,449	35,344
Cash and Cash Equivalents, End of Period	$ 90,238	$ 27,135
Supplementary Cash Flow Information		
Cash paid during the period for:		
Interest paid	$ 3,576	$ 732
Income taxes paid	$ 475	$ 90
Acquisition:		
Fair value of assets acquired, net of cash and cash equivalents acquired	$ 372,739	$ —
Goodwill recorded at merger	$ 20,477	$ —
Fair value of liabilities assumed	$ 378,972	$ —

See notes to consolidated financial statements

1.Summary of Significant Accounting Policies

Conversion, Stock Offering and Merger

The conversion of Somerset Savings Bank, SLA from the mutual to stock form of organization and related stock offering by SR Bancorp, Inc. (the "Company"), the holding company for Somerset Savings Bank, SLA, was completed on September 19, 2023. The Company's common stock began trading on the Nasdaq Capital Market under the trading symbol "SRBK" on September 20, 2023.

The Company sold 9,055,172 shares of its common stock at a price of $10.00 per share, which included 760,634 shares sold to Somerset Regal Bank's Employee Stock Ownership Plan. Additionally, the Company contributed 452,758 shares and $905,517 in cash to the Somerset Regal Charitable Foundation, Inc., a charitable foundation formed in connection with the conversion. Upon the completion of the conversion and offering, 9,507,930 shares of Company common stock were outstanding.

Promptly following the completion of the conversion and related stock offering, Regal Bancorp, Inc., a New Jersey corporation ("Regal Bancorp"), merged with and into the Company, with the Company as the surviving entity (the "Merger"). Immediately following the Merger, Regal Bank, a New Jersey chartered commercial bank headquartered in Livingston, New Jersey and the wholly-owned subsidiary of Regal Bancorp, merged with and into Somerset Bank, which had converted into a commercial bank charter, and was renamed Somerset Regal Bank (the "Bank"). In connection with the Merger, each outstanding share of Regal Bancorp common stock converted into the right to receive $23.00 in cash. The Merger was completed on September 19, 2023.

Business

SR Bancorp, Inc., a Maryland corporation, is the holding company for Somerset Regal Bank. The Bank, which was formed in 1887, serves Essex, Hunterdon, Middlesex, Morris, Somerset and Union counties in New Jersey. The Bank is a New Jersey chartered commercial bank subject to the laws and regulations of federal and state agencies. As a locally managed community bank, the Bank provides customary retail and commercial banking services to individuals, businesses and local municipalities through its 17 full-service branch locations.

Principles of Consolidation

The consolidated financial statements include the accounts of SR Bancorp, Inc. and its wholly owned subsidiary the Bank, and its wholly-owned subsidiaries Somerset Investment Co. (the "Investment Co."), RB Properties, LLC and Somerset Consumer Service Corp. ("SCS"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Investment Co. is a special purpose entity subject to the investment company provisions of the New Jersey Corporation Business Tax Act whose activities are limited to holding investment securities and recognizing income and other gains/losses thereon. RB Properties, LLC was formed to own and manage real estate property acquired through foreclosure or in lieu of foreclosure in connection with loans. RB Properties, LLC is currently inactive. SCS has had limited activity.

Basis of Presentation and Use of Estimates

The financial information contained in this Quarterly Report on Form 10-Q as of and for the three and six months ended December 31, 2023 is for the Company and the Bank, unless indicated otherwise. However, due to the timing of the Merger, the income statement only includes operations of the combined entity since September 19, 2023. Financial information as of June 30, 2023 and for the three and six months ended December 31, 2022 is for Somerset Savings Bank, SLA, on a stand-alone basis.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates. Prior period amounts have been reclassified when necessary to conform to the current year’s presentation. Such reclassifications did not have a material impact on the operating results or financial position of the Company.

Material estimates that are particularly susceptible to significant changes relate to the allowance for credit losses and the valuation of our deferred tax assets. Management believes that the evaluation of the allowance for credit losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance for credit losses may be necessary based on changes in economic conditions in the market area.

Concentrations of Credit Risk

The Company's lending activity is concentrated in loans secured by real estate located primarily in the State of New Jersey. Credit risk exposure in this area of lending is mitigated by adhering to conservative underwriting practices and policies, and close monitoring of the loan portfolio. The Company does not have any significant concentrations to any one industry or customer.

Notes 4 and 5 discuss the types of investment securities in which the Company invests. Credit risk as it relates to investment activities is mitigated through the monitoring of ratings and the purchase of government-sponsored agency securities, backed by the full faith and credit of the United States.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks and interest-earning deposits in other banks with original maturities of three months or less. The Company maintains accounts at other financial institutions with balances in excess of federal deposit insurance limits. The Company has not experienced any loss in such accounts.

Adoption of Accounting Standards Codification Topic 326: Financial Instruments - Credit Losses ("ASC 326")

On July 1, 2023, the Company adopted ASC 326 ("CECL"), which requires the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that was in use through June 30, 2023. Under this guidance, an entity measures all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The CECL model applies to loans and leases, unfunded lending commitments, held-to-maturity debt securities and other debt instruments measured at amortized cost. The Company recorded the effect of implementing CECL using a modified-retrospective approach through a cumulative effect adjustment through retained earnings as of July 1, 2023, the beginning of the reporting period in which CECL became effective. The adoption of the new standard resulted in an increase to the allowance for credit losses on loans of $34. No allowances were recorded for investment securities or unfunded lending commitments, as the estimates of those losses were de minimus. At December 31, 2023 and June 30, 2023, the Company had only one nonaccrual loan of $145 that was originated in 2006, respectively.

Securities

Investments in debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally to sell in the near term are classified as trading securities and reported at fair value, with unrealized holding gains and losses included in earnings.

Debt and equity securities not classified as trading securities or as held-to-maturity securities are classified as available-for-sale securities and reported at fair value, with unrealized holding gains or losses, net of deferred income taxes, reported in the accumulated other comprehensive income/loss component of equity.

Premiums/discounts on all securities are amortized/accreted to maturity by use of the level yield method. Gain or loss on sales of securities is based on the specific identification method.

Sales or dispositions of securities whose fair value exceed amortized cost are recognized in earnings. On a quarterly basis, the Company assesses investments with unrealized losses in its available-for-sale and held-to-maturity portfolios regarding its ability and intent to hold those investments until fair value equals or exceeds amortized cost.

Equity securities with readily determinable fair values are measured at fair value. Any realized or unrealized gains or losses are recognized in earnings. Dividends are included in interest income.

In compliance with ASC 326, the Company conducted a review of its investment portfolio to determine the appropriate level of credit losses to reserve for. A determination was made that for certain classes of securities it would be appropriate to assume the expected credit loss to be zero. This zero-credit loss assumption applies to debt issuances of the U.S. Treasury and agencies and instrumentalities of the United States government that are backed by the full faith and credit of the U.S. Government, and its agencies. As of the date of adoption, the Company's estimated allowance for credit losses on securities available-for-sale and held-to-maturity under ASC 326 was deemed immaterial due to the composition of the underlying securities in these portfolios, which consist primarily of U.S. government agency mortgage-backed securities. Therefore, the Company did not recognize a cumulative effect adjustment through retained earnings related to these securities.

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for credit losses and any deferred fees and costs. Interest income is accrued on the unpaid principal balance and credited to income. Loan origination fees and costs are deferred and recognized over the life of the loans as an adjustment to yield (interest income). Discounts and premiums on purchased loans are amortized to income using the interest method over the expected lives of the loans.

Following the completion of the Merger, the loans receivable portfolio was segmented as follows: multi-family real estate loans, owner occupied commercial real estate loans, other commercial real estate loans, commercial and industrial loans, residential mortgage loans and consumer loans.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even when the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for credit losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management’s judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Credit Losses

The allowance for credit losses ("ACL") is a significant accounting estimate used in the preparation of the Company's consolidated financial statements. Upon adoption of ASU 2016-13 on July 1, 2023, the Company replaced the incurred loss impairment model with a requirement to recognize lifetime expected credit losses on loans and other financial instruments immediately when a financial asset is originated or purchased. The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the allowance when they are deemed uncollectible. The allowance is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis. Arriving at an appropriate level of ACL involves a high degree of judgment. While management uses available information to recognize losses on loans, changing economic conditions and the economic prospects of the borrowers may necessitate future additions or reductions to the allowance.

The Company estimates expected credit losses using a combination of the cohort method and weighted average remaining maturities method. The loan portfolio is segmented into pools of loans by similar attributes and risk characteristics, as of a particular point in time, to which expected losses are calculated over their remaining lives, or until sufficiently attrited (i.e., have reached an acceptable stage at which a significant majority of all losses are expected to have been recognized). Each model factors historical loss rates into quantitative adjustments, to which management applies qualitative adjustments.

The ACL is increased by the provision for credit losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the ACL, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for credit losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all credit losses.

Mortgage loans are secured by the borrower’s residential or non-residential real estate in a first lien position. Mortgage loans have varying loan rates depending on the financial condition of the borrower and the loan to value ratio. Commercial real estate loans consist of multi-family real estate, owner-occupied, mixed use and other commercial real estate, as well as other commercial loans. Commercial and industrial loans are extended to businesses as either unsecured or secured by various types of collateral, such as accounts receivable, inventory, equipment and/or real estate. Consumer loans are primarily home equity loans and are generally secured by the borrower’s personal residence in a second lien position.

Prior to the adoption of ASU 2016-13 on July 1, 2023, a loan was individually evaluated when the loan was considered impaired. A loan is considered individually impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining whether a loan is individually impaired 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 individually impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral if the loan is collateral dependent.

With the adoption of ASU 2016-13, loans that do not share risk characteristics with existing pools are evaluated on an individual basis, such as collateral dependent loans. The Company considers a loan to be collateral dependent when management has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and repayment of the financial asset is expected to be provided substantially through the operation or sale of the collateral. When repayment is expected to be from the operation of the collateral, the specific credit loss reserve is calculated as the amount by which the amortized cost basis of the financial asset exceeds the net present value from the operation of the collateral. When repayment is expected to be from the sale of the collateral, the specific credit loss reserve is calculated as the amount by which the amortized cost basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The allowance may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

In addition, Federal and state regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit losses and may require the Company to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for credit losses is adequate.

Upon adoption of ASU 2016-13 on July 1, 2023, the Company made the following elections regarding accrued interest receivable: (i) present accrued interest receivable balances separately on the consolidated statements of condition; (ii) exclude accrued interest from the measurement of the ACL, including investments and loans; and (iii) continue to write-off accrued interest receivable by reversing interest income when a loan is placed on non-accrual. The Company's policy is to write-off accrued interest when a loan is placed on non-accrual. Historically, the Company has not experienced uncollectible accrued interest receivable on investment debt securities.

The exposure for unfunded commitments is a component of other liabilities on the Company's consolidated statement of financial condition and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include unused portions of lines of credit, unfunded loan commitments, availability on construction and land development loans and standby and commercial letters of credit. The process used to determine the ACL for these exposures is consistent with the process for determining the allowance for loans, as adjusted for estimated funding probabilities or loan equivalency factors. A charge (credit) to provision for unfunded commitments on the consolidated statements of income is made to account for the change in the ACL on unfunded commitment exposures between reporting periods.

Premises and Equipment, net

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Routine maintenance and repairs are expensed as incurred, while significant expenditures for improvements are capitalized. Gains or losses upon disposition are reflected in earnings as realized. Bank premises and equipment are reviewed by management for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable.

Leases

The lease liability for operating leases is measured and recognized as the present value of all future lease payment obligations. The right-of-use asset for operating leases is measured as the amount of the lease liability, plus any unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized.

The discount rate used to compute the lease liability is the implicit rate in the lease contract, if readily determinable, or the Company's incremental borrowing rate. The implicit rates of our operating leases are not readily determinable, therefore the Company uses its incremental borrowing rate at the commencement date of each lease. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment.

For all underlying classes of assets, the Company has elected to not recognize right-of-use assets and lease liabilities for leases that have a term of 12 months or less at lease commencement. Leases containing termination clauses in which either party may terminate the lease without cause and the notice period is less than 12 months are also deemed short-term leases. The Company recognizes short-term lease costs on a straight-line basis over the lease term.

Leases acquired in a business combination are evaluated as of the acquisition date to determine if the terms of the acquired leases are more or less favorable than the market terms of similar agreements on the acquisition date. If the lease terms are favorable as compared to the market, the Company records an asset. If the lease terms are unfavorable as compared to the market, the Company records a liability. The Company acquired $3.4 million of operating leases in the acquisition of Regal Bancorp and is currently evaluating the lease terms compared to market.

Restricted Equity Securities

Restricted stock, which represents a required investment in the capital stock of correspondent banks related to available credit facilities, was carried at cost as of December 31, 2023 and June 30, 2023. As of those dates, restricted stock consisted of investments in the capital stock of the Federal Home Loan Bank of New York (the “FHLB”), Atlantic Community Bankers Bank (“ACBB”) and Bankers Compliance Group (“BCG”).

At December 31, 2023 and June 30, 2023, the Company held $1.3 million and $726, in stock of the FHLB of New York, respectively. At December 31, 2023 and June 30, 2023, the Company held $120 and $0, in stock of ACBB, respectively. At December 31, 2023 and June 30, 2023, the Company held $428 and $0, in stock of the BCG.

Management evaluates the stock for impairment in accordance with guidance on accounting by certain entities that lend or finance the activities of others. Management’s determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted; (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB; and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge was necessary related to the FHLB stock as of December 31, 2023 (unaudited) or June 30, 2023.

Bank Owned Life Insurance

The Company invests in bank owned life insurance (“BOLI”) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is the owner and beneficiary of the policies. This investment is carried as an asset in the consolidated statement of financial condition at the cash surrender value of the underlying policies. Increases in the cash surrender value of the policies, as well as proceeds, are recorded as income in the consolidated statement of income.

Goodwill and Other Intangible Assets

The Company acquired goodwill through the acquisition of Regal Bancorp that is tested for impairment and adjusted as conditions warrant. At December 31, 2023, goodwill was $20.5 million. No impairment loss was recognized during the six months ended December 31, 2023.

The Company acquired a core deposit premium intangible through the acquisition of Regal Bancorp that is amortized on an accelerated basis over ten years. At December 31, 2023, the core deposit premium intangible asset had a gross carrying amount of $9.1 million and accumulated amortization of $505.

Revenue Recognition

The Company earns income from various sources, including loans, investment securities, bank-owned life insurance, deposit accounts, and sales of assets. The revenue is recognized as it is earned and when collectability is reasonably assured.

Interest income on loans is accrued on the unpaid principal balance and recorded daily. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment to the related loan yield using the interest method. Other loan fees, including late charges, are recognized as the transactions occur.

Interest income on debt securities, including purchase premiums and discounts, is also accrued using the interest method over the term of the securities. Income from dividends on equity securities are recorded when declared.

Noninterest income is accounted for under ASC 606, *Revenue from Contracts with Customers*, and is discussed in greater detail below. Fees and service charges related to deposit accounts are largely based on contracts with customers that are short-term in nature and where the performance obligations are satisfied as services are rendered. Fees are either fixed at a specific amount or assessed as a percentage of the transaction amount. No judgments or estimates are required by management to determine the amount and timing of the related revenue. Descriptions of the primary revenue contracts included as components of noninterest income are as follows:

- Monthly service charges - general service fees for monthly account maintenance. These fees are charged as earned within the monthly statement period that the transactions occurred.
- Account fees and charges - activity or transaction-based fees for deposit related services including, but not limited to, account overdraft fees, wire transfer fees and stop payment fees. Fees are received at the time of transaction execution concurrent with the fulfillment of performance obligations.
- ATM debit card fees - include interchange fees from debit cardholder transactions or ATM surcharges for non-customer usage of Somerset Regal Bank ATMs. These fees are recognized as earned at the time of the transaction occurrence.

Other income items are transactional in nature and are recorded as they occur.

Gains or losses on sales of assets are generally recognized when the asset has been legally transferred to the buyer and the Company has no continuing involvement with the asset. The Company does not generally finance the sale of foreclosed assets.

Comprehensive Income (Loss)

U.S. GAAP requires comprehensive income (loss) and its components to be reported when a company presents a full set of financial statements. The term comprehensive income (loss) refers to net income (loss) plus other comprehensive income, that is, certain revenues, expenses, gains, and losses that are reported as separate components of equity instead of net income. For the Company, the primary component of other comprehensive income (loss) is the unrealized holding gains or losses on available-for-sale investment securities. The Company has elected to report these effects on the consolidated statement of comprehensive income (loss).

Advertising Costs

Advertising costs are expensed in the period in which they are incurred and recorded as a non-interest expense in the consolidated statement of income. Advertising expense was approximately $129 and $108 for the six months ended December 31, 2023 and 2022, respectively.

Income Taxes

SR Bancorp, Inc. and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to SR Bancorp, Inc. and its subsidiaries based on their respective income or loss included in the consolidated income tax return. Separate state income tax returns are filed by SR Bancorp, Inc. and its subsidiaries.

Federal and state income taxes have been provided on the basis of reported income. The amounts reflected on SR Bancorp, Inc. and subsidiaries' tax returns differ from these provisions due principally to temporary differences in the reporting of certain items for financial reporting and income tax reporting purposes.

The Company accounts for income taxes using the asset and liability method in accordance with accounting guidance ASC Topic 740, *Income Taxes*. Under this guidance, deferred income tax expense or benefit is determined by recognizing deferred tax assets and liabilities for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. The realization of deferred tax assets is assessed and a valuation allowance provided, when necessary, for that portion of the asset that is not likely to be realized. Management believes, based upon current facts, that it is more likely than not that there will be sufficient taxable income in future years to realize the deferred tax assets.

The Company accounts for uncertainty in income taxes recognized in the consolidated financial statements in accordance with accounting guidance which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the Company's evaluation, no significant income tax uncertainties were identified. Therefore, the Company recognized no adjustment for unrecognized tax benefits at December 31, 2023 or June 30, 2023.

The Company's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the consolidated statement of income. No interest and penalties were recorded during the six months ended December 31, 2023 or 2022.

Retirement Benefits

The Bank has a funded noncontributory defined benefit pension plan that covered substantially all employees meeting certain eligibility requirements as of April 30, 2023. The cost of the pension plan is based on actuarial computations of current and future benefits for employees. The Bank froze the pension plan with respect to participation and benefit accounts effective as of April 30, 2023.

The Bank follows the accounting guidance applicable to a defined benefit pension plan that requires an employer to: (a) recognize in its statement of financial condition an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur.

The Bank also maintains a 401(k) Plan. Eligible employees who are at least 21 years old become participants in the 401(k) Plan after they have been employed for six consecutive months. Under the 401(k) Plan, a participant may elect to defer, on a pre-tax basis, between 2% and 100% of their eligible compensation. In addition to salary deferral contributions, the Bank makes contributions equal to 3% of the participant's plan compensation. A participant is immediately 100% vested in his or her salary deferral contributions and employer contributions.

Employee Stock Ownership Plan (the "ESOP")

As part of the Conversion and stock offering, the Bank established the Somerset Regal Bank Employee Stock Ownership Plan to provide eligible employees of the Bank the opportunity to own Company stock. The ESOP is a tax-qualified retirement plan for the benefit of Bank employees. The ESOP was funded through the purchase of 760,634 shares through a loan from the Company. The cost of shares issued to the ESOP, but not yet allocated to participants, is shown as a reduction of stockholders' equity. The Company records compensation expense for the ESOP equal to fair market value of shares when they are committed to be released from the suspense account to participants' accounts under the plan.

Accounting Pronouncements Adopted

In February 2016, the FASB issued ASU 2016-02 *Leases (Topic 842),* which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with lease terms of more than 12 months. Consistent with current U.S. GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by the lessee will primarily depend on its classification as a finance or operating lease. However, unlike previous U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, the new ASU will require both types of leases to be recognized on the balance sheet. ASU 2016-02 will also require disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The new disclosures will include both qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. ASU 2016-02 and all subsequent amendments (collectively, "ASC 842") required adoption by the Company on July 1, 2022, though early adoption was permitted. The Company adopted ASC 842 during the first quarter of the fiscal year ended June 30, 2023, at which time the Company maintained only one equipment lease with an initial term greater than 12 months and had determined that the impact on its consolidated financial statements was not material. Upon completion of the Merger, the Company acquired 10 operating leases for office space. As of December 31, 2023, the Company had not entered into any material leases that have not yet commenced.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments.* ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The Company adopted ASU No. 2016-13 on July 1, 2023. The transition to the new ASU resulted in a cumulative effect adjustment to the allowance for credit losses of $47, an increase in deferred tax assets of $13, and a decrease in retained earnings of $34 as of the adoption date. The impact of the reserve for unfunded liabilities to the consolidated financial statements was not material. The Company did not record an allowance for available-for-sale securities on July 1, 2023 as the investment portfolio consists almost entirely of debt securities implicitly backed by the full faith of the U.S. Government for which credit risk is deemed negligible. The impact of this ASU could change in the future depending on the composition, characteristics, and credit quality of the securities portfolio as well as the economic conditions at future reporting periods.

The following table below presents the impact of ASU 2016-13 on the consolidated balance sheet:

	July 1, 2023		
	As reported under ASU 2016-13	Pre-ASU 2016-13	Impact of ASU 2016-13
	(Dollars in thousands)		
Assets			
ACL on loans:			
Owner occupied commercial real estate	$ —	$ —	$ —
Other commercial real estate	(6)	(4)	(2)
Multi-family	—	—	—
Commercial and industrial	—	—	—
Residential	(1,125)	(1,039)	(86)
Consumer	(32)	(73)	41
Unallocated	—	—	—
Total ACL on loans	$ (1,163)	$ (1,116)	$ (47)
Deferred income taxes	$ 1,945	$ 1,958	$ (13)
Liabilities			
Liability for credit losses for unfunded commitments	$ 1	$ —	$ 1
Shareholders' equity			
Retained earnings	$ 127,065	$ 127,099	$ (34)

In March 2022, the FASB issued ASU No. 2022-02, Financial Instruments—Credit Losses—Troubled Debt Restructurings and Vintage Disclosures. This standard eliminates the recognition and measurement guidance for troubled debt restructurings (TDRs) by creditors and enhances disclosure requirements for certain loan restructurings when a borrower is experiencing financial difficulty. For public business entities, these amendments require that an entity disclose current-period gross charge-offs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. Gross charge-off information must be included in the vintage disclosures required for public business entities in accordance with paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. ASU No. 2022-02 is effective for the Company on July 1, 2023.

Subsequent Events

The Company has evaluated subsequent events for recognition or disclosure through February 14, 2024, the date the financial statements were available to be issued.

2.Business Combination

On September 19, 2023, the Company completed its acquisition of Regal Bancorp, Inc. and its wholly-owned subsidiary Regal Bank. Pursuant to the terms of the Merger Agreement, Regal Bancorp merged with and into the Company, with the Company as the resulting entity. Immediately following the Merger, Regal Bank merged with and into Somerset Bank, which had converted to a commercial bank charter, with Somerset Bank as the surviving entity, and was renamed Somerset Regal Bank. In connection with the Merger, each outstanding share of Regal Bancorp common stock converted into the right to receive $23.00 in cash.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their fair values as of September 19, 2023 based on management's best estimate using the information available as of the merger date. The application of the acquisition method of accounting resulted in the recognition of goodwill of $20.5 million and a core deposit intangible of $9.1 million. Accounting guidance provides that an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period, which runs through September 19, 2024. The acquirer must record in the financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the changes to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Items that could be subject to adjustment include credit fair value adjustments on loans, core deposit intangible and the deferred income tax assets resulting from the acquisition.

Merger-related expenses of $3,856 for the three months ended September 30, 2023 are recorded in the consolidated statements of income and are expensed as incurred. The following table sets forth assets acquired and liabilities assumed in the acquisition of Regal Bancorp, at their estimated fair values as of the closing date of the transaction:

	As recorded by Regal Bancorp	Fair value adjustments		As recorded at acquisition
Consideration paid (3,023,369 Regal Bancorp shares at $23.00 per share)				69,538
Assets Acquired				
Cash and cash equivalents	$ 55,294	$ —		$ 55,294
Time deposits in other financial institutions	8,810			8,810
Securities available-for-sale, at fair value	12,487			12,487
Securities held-to-maturity, at amortized cost	2,587			2,587
Federal Home Loan Bank stock and other restricted stock	548			548
Loans receivable, net	335,971	(14,371)	(a)	321,600
Allowance for credit losses	(4,076)	4,076	(b)	—
Accrued interest receivable	1,214			1,214
Premises and equipment, net	1,570			1,570
Right-of-use asset	3,416			3,416
Goodwill	1,047	(1,047)	(c)	—
Core deposit intangible	26	9,038	(d)(e)	9,064
Deferred costs	224	(224)	(f)	—
Bank owned life insurance	7,470			7,470
Net deferred tax asset	1,766	(91)	(g)	1,675
Other assets	2,298			2,298
Total assets acquired	$ 430,652	$ (2,619)		$ 428,033
Liabilities assumed				
Deposits	$ 373,174	$ (1,299)	(h)	$ 371,875
Lease liability	3,444			3,444
Deferred compensation	1,521			1,521
Accrued expenses and other liabilities	2,132			2,132
Total liabilities assumed	$ 380,271	$ (1,299)		$ 378,972
Net assets acquired				$ 49,061
Goodwill recorded at merger				20,477

(a)Adjustment for interest rate and credit risk to reduce loans to fair value, to be amortized as an increase to interest income over their remaining term

(b)Elimination of Regal Bank allowance for loan losses.

(c)Elimination of pre-existing goodwill.

(d)Recording of new intangible asset for the fair value of core deposits, to be amortized on an accelerated basis over the estimated average life of the deposit base.

(e)Elimination of pre-existing intangible asset for the fair value of core deposits.

(f)Elimination of deferred costs

(g)Recording of the deferred income tax effects of fair value adjustments.

(h)Adjustment to reduce time deposits to fair value, to be amortized as an increase to interest expense over their remaining term.

During the three months ended September 30, 2023, the Company recorded one-time merger-related expenses of $3.9 million, consisting of $2.6 million for change in control payments, $612 for investment banking services, $414 related to the termination of a data processing contract, $99 for legal related expenses, $42 for severance payments, $17 in other professional services and $30 in other miscellaneous expenses. In addition, the Company recorded a $5.4 million charitable contribution expense for the establishment of the Somerset Regal Charitable Foundation, as well as a $4.2 million provision for estimated credit losses in connection with the acquired loan portfolio.

The fair value of loans acquired from Regal Bank was estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. There was no carryover of Regal Bank's allowance for credit losses associated with the loans that were acquired. The core deposit intangible asset recognized is being amortized over its estimated useful life of approximately 10 years utilizing the sum-of-the-years digits method. The acquisition was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. Accordingly, the Company recognizes amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair value. Due to the complexity in valuing the assets acquired and liabilities assumed and the significant amount of data inputs required, the valuation of the assets and liabilities acquired is not yet final. Fair value estimates are based on the information available, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to the closing date fair values becomes available.

The fair value of retail demand and interest-bearing deposit accounts was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. The fair value of time deposits was estimated by discounting the contractual future cash flows using market rates offered for time deposits of similar remaining maturities. The fair value of borrowings was based on the FHLB calculation to prepay borrowings with associated penalties.

3.Earnings Per Share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding. Unallocated ESOP shares are not deemed outstanding for earnings per share calculations. There were no potentially dilutive common stock equivalents outstanding for the three and six months ended December 31, 2023. Earnings per share data is not applicable for the three and six months ended December 31, 2022 because the Company had not yet been formed and had no shares outstanding.

The following table presents the composition of the weighted average common shares used in the earnings per share calculation:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Net income (loss) applicable to common shares	$ 1,607	$ —	$ (8,891)	$ —
Weighted average number of common shares outstanding	9,507,930	—	5,322,374	—
Less: Average unallocated ESOP shares	(740,033)	—	(415,145)	—
Weighted average number of common shares outstanding, net	8,767,897	—	4,907,229	—
Basic and diluted earnings per common share	$ 0.18	$ —	$ (1.81)	$ —

4.Securities Available-for-Sale

The amortized cost and approximate fair value of securities available-for-sale at December 31, 2023 and June 30, 2023 are as follows:

	December 31, 2023 (Unaudited)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal National Mortgage Association	$ 21,974	$ 102	$ (2,073)	$ 20,003
Government National Mortgage Association	193	12	—	205
Federal Home Loan Mortgage Corporation	16,399	—	(1,824)	14,575
Total securities available-for-sale	$ 38,566	$ 114	$ (3,897)	$ 34,783

	June 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal National Mortgage Association	$ 22,981	$ —	$ (2,575)	$ 20,406
Federal Home Loan Mortgage Corporation	18,003	—	(2,333)	15,670
Total securities available-for-sale	$ 40,984	$ —	$ (4,908)	$ 36,076

The amortized cost and fair value of debt securities available-for-sale by contractual maturity at December 31, 2023 are shown in the following table. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities are assigned to categories based on contractual maturity except for mortgage-backed securities and collateralized mortgage obligations ("CMOs"), which are based on the estimated average life of the securities.

	December 31, 2023 (Unaudited)	
	Amortized Cost	Fair Value
Due within 1 year	$ —	$ —
Due after 1 but within 5 years	—	—
Due after 5 but within 10 years	—	—
Due after 10 years	—	—
Mortgage-backed securities	38,566	34,783
Total securities available-for-sale	$ 38,566	$ 34,783

The unrealized losses as of December 31, 2023 and June 30, 2023, categorized by the length of time of continuous loss position, and the fair value of related available-for-sale are as follows:

	December 31, 2023 (Unaudited)					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal National Mortgage Association	$ —	$ —	$ 18,437	$ (2,015)	$ 18,437	$ (2,015)
Government National Mortgage Association	—	—	—	—	—	—
Federal Home Loan Mortgage Corporation	—	—	14,573	(1,882)	14,573	(1,882)
Total	$ —	$ —	$ 33,010	$ (3,897)	$ 33,010	$ (3,897)

	June 30, 2023					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal National Mortgage Association	$ —	$ —	$ 20,406	$ (2,575)	$ 20,406	$ (2,575)
Federal Home Loan Mortgage Corporation	—	—	15,670	(2,333)	15,670	(2,333)
Total	$ —	$ —	$ 36,076	$ (4,908)	$ 36,076	$ (4,908)

All mortgage-backed securities are U.S. Government agency backed and collateralized by residential mortgages. During the six months ended December 31, 2023, the Company acquired $21.3 million of available-for-sale securities from the Regal Bancorp acquisition. The Company did not purchase any other available-for-sale securities during the three and six months ended December 31, 2023. Following the completion of the Merger, the Company sold $19.2 million of its available-for-sale portfolio, which resulted in a realized gain of $17. During the six months ended December 31, 2023, there were no sales of securities available-for-sale.

5.Securities Held-to-Maturity

The amortized cost and approximate fair values of securities held-to-maturity at December 31, 2023 (unaudited) and June 30, 2023 are as follows:

	December 31, 2023 (Unaudited)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal National Mortgage Association	$ 99,512	$ 4	$ (15,894)	$ 83,622
Federal Home Loan Mortgage Corporation	52,424	9	(7,798)	44,635
Government National Mortgage Association	300	—	(2)	298
Subordinated Debt	7,750	—	(1,547)	6,203
CMO	2,623	—	(215)	2,408
Foreign Government Bonds	300	—	—	300
Annuities	2,281	—	—	2,281
Total securities held-to-maturity	$ 165,190	$ 13	$ (25,456)	$ 139,747

	June 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal National Mortgage Association	$ 104,612	$ —	$ (18,459)	$ 86,153
Federal Home Loan Mortgage Corporation	55,624	101	(9,014)	46,711
Government National Mortgage Association	332	—	(9)	323
Subordinated Debt	7,750	—	(1,450)	6,300
CMO	2,867	—	(279)	2,588
Total securities held-to-maturity	$ 171,185	$ 101	$ (29,211)	$ 142,075

The amortized cost and fair value of securities held-to-maturity by contractual maturity at December 31, 2023 are shown in the following table. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities are assigned to categories based on contractual maturity except for mortgage-backed securities and CMOs, which are based on the estimated average life of the securities.

	December 31, 2023 (Unaudited)	
	Amortized Cost	Fair Value
Due within 1 year	$ 100	$ 100
Due after 1 but within 5 years	200	200
Due after 5 but within 10 years	7,750	6,203
Due after 10 years	—	—
Mortgage-backed securities	157,140	133,244
Total securities held-to-maturity	$ 165,190	$ 139,747

The unrealized losses as of December 31, 2023 and June 30, 2023, categorized by the length of time of continuous loss position, and the fair value of related securities held-to-maturity are as follows:

	December 31, 2023 (Unaudited)					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal National Mortgage Association	$ —	$ —	$ 83,622	$ (15,894)	$ 83,622	$ (15,894)
Federal Home Loan Mortgage Corporation	—	—	44,224	(7,798)	44,224	(7,798)
Government National Mortgage Association	—	—	298	(2)	298	(2)
Subordinated Debt	—	—	6,203	(1,547)	6,203	(1,547)
CMO	—	—	2,408	(215)	2,408	(215)
Foreign Government Bonds	—	—	—	—	—	—
Annuities	—	—	—	—	—	—
Total	$ —	$ —	$ 136,755	$ (25,456)	$ 136,755	$ (25,456)

	June 30, 2023					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal National Mortgage Association	$ 1,480	$ (7)	$ 84,673	$ (18,452)	$ 86,153	$ (18,459)
Federal Home Loan Mortgage Corporation	21,016	(3,917)	24,885	(5,097)	45,901	(9,014)
Government National Mortgage Association	322	(9)	—	—	322	(9)
Subordinated Debt	—	—	6,300	(1,450)	6,300	(1,450)
CMO	—	—	2,588	(279)	2,588	(279)
Total	$ 22,818	$ (3,933)	$ 118,446	$ (25,278)	$ 141,264	$ (29,211)

Upon adoption of ASU 2016-13, management no longer evaluates securities for other than temporary impairment. On a quarterly basis, management evaluates whether there is a credit loss associated with any declines in fair value. Management considers the nature of the collateral, default rates, delinquency rates, credit ratings and interest rate changes, among other factors. However, the Company has determined that the following securities have a zero expected credit loss as they are all backed by the full faith and credit of the United States Government, or one of its agencies: U.S. government agencies and mortgage-backed securities of U.S. government and government-sponsored agencies.

At December 31, 2023 and June 30, 2023, the Company had $26 and 24, respectively, in equity securities recorded at fair value. The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities for the six months ended December 31, 2023 and 2022:

	Six Months Ended December 31,	
	2023	2022
Net gains recognized on equity securities	$ 2	$ 2
Less: Net gains (losses) recognized on equity securities sold/acquired	—	—
Net unrealized gains recognized on equity securities	$ 2	$ 2

At December 31, 2023 and June 30, 2023, mortgage-backed securities with a carrying value of approximately $2,136 and $1, respectively, were pledged as collateral to secure public funds on deposit. At December 31, 2023, mortgage-backed securities with a total carrying value of $31.5 million were pledged as collateral to secure a $20.0 million advance under the Federal Reserve's Bank Term Funding Program.

During the six months ended December 31, 2023 and 2022, there were no sales of securities held-to-maturity.

6.Loans Receivable

Loans at December 31, 2023 and June 30, 2023 are summarized as follows:

	December 31, 2023	June 30, 2023
Owner occupied commercial real estate loans	$ 60,497	$ 144
Other commercial real estate loans	74,469	296
Multi-family loans	165,643	10
Commercial and industrial loans	12,767	—
Total commercial loans	313,376	450
Residential mortgage loans	373,758	353,624
Consumer and other loans	11,844	7,349
Total loans	698,978	361,423
Allowance for credit losses	(5,218)	(1,116)
Deferred loan costs, net	1,991	1,945
Loans receivable, net	$ 695,751	$ 362,252

The Company engages primarily in the lending of fixed-rate and adjustable-rate real estate commercial and residential loans. Lending activities are targeted to individuals within the Company's geographic footprint. Risks associated with lending activities include economic conditions and changes in interest rates, which can adversely impact both the ability of borrowers to repay their loans and the value of the associated collateral. Credit risk exposure in this area of lending is minimized by the evaluation of the credit worthiness of the borrower, including debt-to-income ratios, credit scores and conservative underwriting standards that emphasize conservative loan-to-value ratios of generally no more than 75% for commercial loans and 80% for residential loans. Residential mortgage loans granted in excess of the 80% loan-to-value ratio criterion are generally insured by private mortgage insurance. The real estate home equity portfolio consists of fixed-rate home equity loans and variable-rate home equity lines of credit. Risks associated with second lien loans secured by residential properties are generally lower than commercial loans and include general economic risks, such as the strength of the job market, employment stability and the strength of the housing market.

At December 31, 2023, commercial loans represent 44.8% of total loans receivable, net, while residential mortgage, consumer and other loans represent 55.2%, nearly all of which is concentrated within our primary market area in New Jersey. The Company holds 95.9% of its commercial loan portfolio in commercial real estate, consisting of multi-family, mixed use and owner occupied loans, with less than 1% secured by office building collateral. At December 31, 2023, the Company had no commercial loans in nonaccrual or nonperforming status.

The Company adopted ASU 2016-13 on July 1, 2023. All disclosures are presented in accordance with ASU 2016-13 as of December 31, 2023. The following tables summarize the activity in the allowance for credit losses by loan class for three and six months ended December 31, 2023 and 2022, prior to the adoption of ASU 2016-13, and information in regards to the allowance for credit losses and the recorded investment in loans receivable by loan class as of December 31, 2023 and June 30, 2023, prior to the adoption of ASU 2016-13:

	Three Months Ended December 31, 2023						
	Owner Occupied Commercial Real Estate	Other Commercial Real Estate	Multi-Family	Commercial and Industrial	Residential Mortgage	Consumer and Other	Total
Allowance for Credit Losses:							
Beginning balance	$ 1,403	$ 544	$ 1,936	$ 154	$ 1,241	$ 47	$ 5,325
Charge-offs	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—
Provisions (credits)	(39)	(11)	(67)	(8)	44	(26)	(107)
Ending balance	$ 1,364	$ 533	$ 1,869	$ 146	$ 1,285	$ 21	$ 5,218
Ending balance, Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance, Collectively evaluated for impairment	$ 1,364	$ 533	$ 1,869	$ 146	$ 1,285	$ 21	$ 5,218
Loans Receivable:							
Ending balance	$ 60,497	$ 74,469	$ 165,643	$ 12,767	$ 373,758	$ 11,844	$ 698,978
Ending balance, Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ 145	$ —	$ 145
Ending balance, Collectively evaluated for impairment	$ 60,497	$ 74,469	$ 165,643	$ 12,767	$ 373,613	$ 11,844	$ 698,833

	Three Months Ended December 31, 2022						
	Owner Occupied Commercial Real Estate	Other Commercial Real Estate	Multi-Family	Commercial and Industrial	Residential Mortgage	Consumer and Other	Total
Allowance for Credit Losses:							
Beginning balance	$ —	$ —	$ —	$ —	$ 1,035	$ 81	$ 1,116
Charge-offs	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—
Provisions (credits)	—	—	—	—	1	(1)	—
Ending balance	$ —	$ —	$ —	$ —	$ 1,036	$ 80	$ 1,116
Ending balance, Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance, Collectively evaluated for impairment	$ —	$ —	$ —	$ —	$ 1,036	$ 80	$ 1,116
Loans Receivable:							
Ending balance	$ —	$ —	$ —	$ 449	$ 348,795	$ 7,448	$ 356,692
Ending balance, Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ 150	$ —	$ 150
Ending balance, Collectively evaluated for impairment	$ —	$ —	$ —	$ 449	$ 348,645	$ 7,448	$ 356,542

	Six Months Ended December 31, 2023						
	Owner Occupied Commercial Real Estate	Other Commercial Real Estate	Multi-Family	Commercial and Industrial	Residential Mortgage	Consumer and Other	Total
Allowance for Credit Losses:							
Beginning balance	$ —	4	$ —	$ —	$ 1,039	$ 73	$ 1,116
Impact of ASU 2016-13	—	—	—	—	27	20	47
Charge-offs	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—
Provisions (credits)	1,364	529	1,869	146	219	(72)	4,055
Ending balance	$ 1,364	$ 533	$ 1,869	$ 146	$ 1,285	$ 21	$ 5,218
Ending balance, Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance, Collectively evaluated for impairment	$ 1,364	$ 533	$ 1,869	$ 146	$ 1,285	$ 21	$ 5,218
Loans Receivable:							
Ending balance	$ 60,497	$ 74,469	$ 165,643	$ 12,767	$ 373,758	$ 11,844	$ 698,978
Ending balance, Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ 145	$ —	$ 145
Ending balance, Collectively evaluated for impairment	$ 60,497	$ 74,469	$ 165,643	$ 12,767	$ 373,613	$ 11,844	$ 698,833

	Six Months Ended December 31, 2022						
	Owner Occupied Commercial Real Estate	Other Commercial Real Estate	Multi-Family	Commercial and Industrial	Residential Mortgage	Consumer and Other	Total
Allowance for Credit Losses:							
Beginning balance	$ —	$ —	$ —	$ 0	$ 1,036	$ 80	$ 1,116
Charge-offs	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—
Provisions (credits)	—	—	—	—	—	—	—
Ending balance	$ —	$ —	$ —	$ —	$ 1,036	$ 80	$ 1,116
Ending balance, Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance, Collectively evaluated for impairment	$ —	$ —	$ —	$ —	$ 1,036	$ 80	$ 1,116
Loans Receivable:							
Ending balance	$ —	$ —	$ —	$ 449	$ 348,795	$ 7,448	$ 356,692
Ending balance, Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ 150	$ —	$ 150
Ending balance, Collectively evaluated for impairment	$ —	$ —	$ —	$ 449	$ 348,645	$ 7,448	$ 356,542

The following table presents the credit risk profile of loans by class and fiscal year of origination as of December 31, 2023:

	December 31, 2023 (Unaudited)							
	2024	2023	2022	2021	2020	Prior	Revolving	Total
Owner Occupied Commercial Real Estate								
Risk Rating								
Pass	$ 6,383	$ 7,579	$ 7,561	$ 5,640	$ 2,011	$ 31,323	$ —	$ 60,497
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total Owner Occupied Commercial Real Estate	$ 6,383	$ 7,579	$ 7,561	$ 5,640	$ 2,011	$ 31,323	$ —	$ 60,497
Other Commercial Real Estate								
Risk Rating								
Pass	$ 173	$ 4,016	$ 2,963	$ 1,769	$ 11,041	$ 54,507	$ —	$ 74,469
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total Other Commercial Real Estate	$ 173	$ 4,016	$ 2,963	$ 1,769	$ 11,041	$ 54,507	$ —	$ 74,469
Multi-Family								
Risk Rating								
Pass	$ 1,500	$ 29,437	$ 25,999	$ 16,999	$ 9,085	$ 82,623	$ —	$ 165,643
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total Multi-Family	$ 1,500	$ 29,437	$ 25,999	$ 16,999	$ 9,085	$ 82,623	$ —	$ 165,643
Commercial and Industrial								
Risk Rating								
Pass	$ 291	$ 2,026	$ 2,863	$ 1,398	$ 2,393	$ 3,796	$ —	$ 12,767
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total Commercial and Industrial	$ 291	$ 2,026	$ 2,863	$ 1,398	$ 2,393	$ 3,796	$ —	$ 12,767
Residential Mortgage								
Risk Rating								
Pass	$ 33,603	$ 56,948	$ 78,708	$ 393	$ 109,593	$ 94,368	$ —	$ 373,613
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	145	—	145
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total Residential Mortgage	$ 33,603	$ 56,948	$ 78,708	$ 393	$ 109,593	$ 94,513	$ —	$ 373,758
Consumer and Other								
Risk Rating								
Pass	$ 262	$ 358	$ 203	$ —	$ 305	$ 1,369	$ 9,347	$ 11,844
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total Consumer and Other	$ 262	$ 358	$ 203	$ —	$ 305	$ 1,369	$ 9,347	$ 11,844
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

The following table presents the recorded investment in loans receivable by major category and credit quality indicators at December 31, 2023:

	December 31, 2023 (Unaudited)				
	Pass	Special Mention	Substandard	Doubtful	Total
Owner occupied commercial real estate	$ 60,497	$ —	$ —	$ —	$ 60,497
Other commercial real estate	74,469	—	—	—	$ 74,469
Multi-family	165,643	—	—	—	$ 165,643
Commercial and industrial	12,767	—	—	—	$ 12,767
Residential Mortgage	373,613	—	145	—	$ 373,758
Consumer and Other	11,844	—	—	—	$ 11,844
Total	$ 698,833	$ —	$ 145	$ —	$ 698,978

The following table presents the recorded investment in loans receivable by major category and credit quality indicators at June 30, 2023, prior to the adoption of ASU 2016-13:

	June 30, 2023				
	Pass	Special Mention	Substandard	Doubtful	Total
Owner occupied commercial real estate	$ 144	$ —	$ —	$ —	$ 144
Other commercial real estate	296	—	—	—	296
Multi-family	10	—	—	—	10
Commercial and industrial	—	—	—	—	—
Residential Mortgage	353,479	—	145	—	353,624
Consumer and Other	7,349	—	—	—	7,349
Total	$ 361,278	$ —	$ 145	$ —	$ 361,423

The following tables present a distribution of the recorded investment and unpaid principal balance of impaired loans and the related allowance as of December 31, 2023 and June 30, 2023, prior to the adoption of ASU 2016-13.

	December 31, 2023				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Owner occupied commercial real estate	$ —	$ —	$ —	$ —	$ —
Other commercial real estate	—	—	—	—	—
Multi-family	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Residential Mortgage	145	145	—	145	—
Consumer and Other	—	—	—	—	—
Total	145	145	—	145	—
With an allowance recorded:					
Owner occupied commercial real estate	$ —	$ —	$ —	$ —	$ —
Other commercial real estate	—	—	—	—	—
Multi-family	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Residential Mortgage	—	—	—	—	—
Consumer and Other	—	—	—	—	—
Total	—	—	—	—	—
Total:					
Owner occupied commercial real estate	$ —	$ —	$ —	$ —	$ —
Other commercial real estate	—	—	—	—	—
Multi-family	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Residential Mortgage	145	145	—	145	—
Consumer and Other	—	—	—	—	—
Total	$ 145	$ 145	$ —	$ 145	$ —

	June 30, 2023				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Owner occupied commercial real estate	$ —	$ —	$ —	$ —	$ —
Other commercial real estate	—	—	—	—	—
Multi-family	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Residential Mortgage	145	145	—	114	—
Consumer and Other	—	—	—	—	—
Total	145	145	—	114	—
With an allowance recorded:					
Owner occupied commercial real estate	$ —	$ —	$ —	$ —	$ —
Other commercial real estate	—	—	—	—	—
Multi-family	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Residential Mortgage	—	—	—	—	—
Consumer and Other	—	—	—	—	—
Total	—	—	—	—	—
Total:					
Owner occupied commercial real estate	$ —	$ —	$ —	$ —	$ —
Other commercial real estate	—	—	—	—	—
Multi-family	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Residential Mortgage	145	145	—	114	—
Consumer and Other	—	—	—	—	—
Total	$ 145	$ 145	$ —	$ 114	$ —

A reserve for unfunded commitments is recognized and included in other liabilities on the consolidated statements of financial condition. Periodic adjustments to either increase or decrease the reserve are recognized in non-interest expense in the consolidated statements of income. The balance for unfunded commitments was $13 at December 31, 2023. Upon the adoption of ASU 2016-13 on July 1, 2023, the Company recorded an additional reserve for unfunded commitments of $1. For the six months ended December 31, 2023, the Company recorded a provision for unfunded commitments, which resulted in an increase to the reserve for unfunded commitments of $12.

The following table presents the amortized cost of collateral-dependent non-accrual loans by portfolio segment and type of collateral as of December 31, 2023.

	December 31, 2023			
	Type of Collateral			
	Residential Property	Commercial Property	Business Assets	Total
Loans:				
Owner occupied commercial real estate	$ —	$ —	$ —	$ —
Other commercial real estate	—	—	—	—
Multi-family	—	—	—	—
Commercial and industrial	—	—	—	—
Residential Mortgage	145	—	—	145
Consumer and Other	—	—	—	—
Total collateral dependent loans	$ 145	$ —	$ —	$ 145

The following table presents the amortized cost of collateral-dependent non-accrual loans by portfolio segment and type of collateral as of June 30, 2023.

	June 30, 2023 Type of Collateral			
	Residential Property	Commercial Property	Business Assets	Total
Loans:				
Owner occupied commercial real estate	$ —	$ —	$ —	$ —
Other commercial real estate	—	—	—	—
Multi-family	—	—	—	—
Commercial and industrial	—	—	—	—
Residential Mortgage	145	—	—	145
Consumer and Other	—	—	—	—
Total collateral dependent loans	$ 145	$ —	$ —	$ 145

The following tables present the classes of loans summarized by the past due status as of December 31, 2023 and June 30, 2023:

	December 31, 2023 (Unaudited) Delinquency Status						
	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Loans	>90 Days and Accruing	Non-Accrual
Owner occupied commercial real estate	$ 60,497	$ —	$ —	$ —	$ 60,497	$ —	$ —
Other commercial real estate	74,469	—	—	—	74,469	—	—
Multi-family	165,643	—	—	—	165,643	—	—
Commercial and industrial	12,767	—	—	—	12,767	—	—
Residential Mortgage	372,618	1,140	—	—	373,758	—	145
Consumer and Other	11,804	40	—	—	11,844	—	—
Total	$ 697,798	$ 1,180	$ —	$ —	$ 698,978	$ —	$ 145

	June 30, 2023 Delinquency Status						
	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Loans	>90 Days and Accruing	Non-Accrual
Owner occupied commercial real estate	$ 144	$ —	$ —	$ —	$ 144	$ —	$ —
Other commercial real estate	296	—	—	—	296	—	—
Multi-family	10	—	—	—	10	—	—
Commercial and industrial	—	—	—	—	—	—	—
Residential Mortgage	353,041	383	—	200	353,624	—	145
Consumer and Other	7,349	—	—	—	7,349	—	—
Total	$ 360,840	$ 383	$ —	$ 200	$ 361,423	$ —	$ 145

If nonaccrual loans had performed in accordance with their contractual terms, the Company would have recognized additional income of $5 and $3 for the six months ended December 31, 2023 and 2022, respectively.

At December 31, 2023 and June 30, 2023, the Company had no foreclosed real estate owned.

7.Premises and Equipment

Premises and equipment at December 31, 2023 and June 30, 2023 are summarized as follows:

	December 31, 2023 (Unaudited)	June 30, 2023
Land	$ 926	$ 926
Buildings and leasehold improvements	9,154	7,796
Furniture, fixtures and equipment	5,133	4,608
Total	15,213	13,330
Accumulated depreciation	(10,082)	(9,784)
Net	$ 5,131	$ 3,546

Depreciation expense amounted to $299 and $206 for the six months ended December 31, 2023 and 2022, respectively.

8.Leases

The Company accounts for its leases in accordance with ASC Topic 842. The Company's right-of-use asset and operating lease liability are recognized at lease commencement based on the present value of the remaining lease payment obligations using discount rates that represent the Company’s incremental borrowing rate as of the lease commencement dates. The Company leases only office space and equipment under operating leases, with original lease terms ranging from five to ten years. The Company elected not to include short-term leases with initial terms of twelve months or less on the Consolidated Statements of Financial Condition. The operating lease agreements recognized on the Consolidated Statements of Financial Condition as a right-of-use asset and a corresponding lease liability, as well as other information related to the Company's operating leases, are summarized in the table below.

	Six Months Ended December 31, 2023	2022
	(Dollars in thousands)	
Cash paid for amounts included in the measurement of lease liabilities	$ 587	$ 3
Weighted-average remaining lease term, in years	3.1	3.4
Weighted-average discount rate	1.8	3.3

Future undiscounted minimum lease payments for operating leases with initial terms of one year or more as of December 31, 2023 are as follows:

December 31, 2023	(Dollars in thousands)
2024	$ 1,000
2025	839
2026	504
2027	393
2028	278
Thereafter	176
Total future minimum lease payments	3,190
Less: imputed interest	(53)
Total	$ 3,137

9.Deposits

Deposits at December 31, 2023 and June 30, 2023 consisted of the following:

	December 31, 2023 (Unaudited)	June 30, 2023
Demand accounts:		
Interest-bearing	$ 199,333	$ 137,496
Noninterest-bearing	120,808	40,687
Total demand accounts	320,141	178,183
Savings and club	251,540	166,253
Certificates of deposit	271,630	159,481
Total	$ 843,311	$ 503,917

Certificates of deposit with balances in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit of $250 at December 31, 2023 (unaudited) and June 30, 2023 amounted to approximately $19.9 million and $13.4 million, respectively.

At December 31, 2023, the scheduled maturities of certificates of deposit are as follows:

2024	$ 235,871
2025	26,154
2026	4,214
2027	3,398
2028	1,993
Total	$ 271,630

10.Borrowings

At December 31, 2023 and June 30, 2023, there were no borrowings from the FHLB-NY.

At December 31, 2023 and June 30, 2023, the Company can borrow overnight funds from the FHLB-NY under a redesigned overnight advance program up to the Company's maximum borrowing capacity based on the Company's ability to collateralize such borrowings. At December 31, 2023 and June 30, 2023, the Company's maximum borrowing capacity was $100.0 million.

At December 31, 2023 and June 30, 2023, the Company's Board of Directors has authorized borrowings of up to $25.0 million from the Federal Reserve Bank of New York ("FRB-NY"). All borrowings are secured by pledges of the Company's qualifying loan portfolio and are generally on overnight terms with an interest rate quoted at the time of the borrowing.

In March 2023, the Federal Reserve established the Bank Term Funding Program ("BTFP") to make available funding to eligible depository institutions in order to help ensure they have the ability to meet the needs of their depositors following the events that occurred in the banking industry earlier in 2023. The program allows for advances for up to one year secured by eligible high-quality securities at par value extended at the one-year overnight index swap ("OIS") rate, plus 10 basis points, as of the day the advance is made. The interest rate is fixed for the term of the advance and there are no prepayment penalties. At December 31, 2023 and June 30, 2023, the Company had a $20.0 million advance under the BTFP at a borrowing rate of 4.76% with a maturity date of March 29, 2024.

11.Commitments and Contingencies

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2023, total unfunded loan related commitments, including lines of credit, amounted to $39.0 million, including $35.5 million for unused equity lines of credit and $3.5 million to originate and purchase loans, expiring within three months.

At June 30, 2023, total unfunded loan related commitments, including lines of credit, amounted to $30.4 million, including $23.7 million for unused equity lines of credit and $6.7 million to originate and purchase loans, expiring within three months.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The 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 counterparty.

12.Regulatory Capital

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the following table) of total capital, Tier 1 capital (as defined in the regulations) and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. A capital conservation buffer of 2.50%, comprised of common equity Tier I capital, is also established above the regulatory minimum capital requirements and must be maintained to avoid limitations on capital distributions.

In 2021, the Bank adopted the new community bank leverage ratio framework. This framework simplifies the regulatory capital requirements by requiring the Bank to meet only the Tier 1 capital to average assets (leverage) ratio. The Bank must only maintain a leverage ratio greater than the 9% required minimum to be considered well capitalized under this framework. The Bank can opt out of the new framework and return to the risk-weighting framework at any time.

Market risk, credit risk, operational risk and deposit outflows are some of the factors that can impact the capital adequacy ratio and in turn, adversely affect the performance of the Bank. As of December 31, 2023, management believes that the Bank meets all capital adequacy requirements to which they are subject. As of December 31, 2023, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum ratios as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios are as follows:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollar Amounts in Thousands)			
December 31, 2023 (Unaudited):						
Tier 1 capital (to average total assets)	$ 170,228	16.19%	$ 42,050	4.00%	$ 94,611	9.00%
June 30, 2023:						
Tier 1 capital (to average total assets)	$ 127,099	19.48%	$ 26,104	4.00%	$ 58,735	9.00%

13.Fair Value Measurements and Disclosures

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company's securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets or liabilities on a non-recurring basis. These non-recurring fair value adjustments involve the application of lower-of-cost-or-market accounting or write-downs of individual assets.

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as an exit price representing the amount that would be received to sell an asset or settle a liability in an orderly transaction between market participants. A three-level hierarchy has been established for fair value measurements based upon the inputs to the valuation of an asset or liability.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities;

Level 2 - Valuation is determined from quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 - Valuation is derived from model-based and other techniques in which at least one significant input is unobservable and which may be based on the Company's own estimates about the assumptions that a market participant would use to value the asset or liability.

The Bank's available-for-sale portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income or loss. The securities available-for-sale portfolio consists of U.S. government-sponsored enterprise and mortgage-backed securities. The fair values of these securities were obtained from an independent nationally recognized pricing service. The independent pricing service provided prices categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the securities.

For financial assets measured at fair value on a recurring basis as of December 31, 2023 and June 30, 2023, the fair value measurements by level within the fair value hierarchy used are as follows:

	December 31, 2023 (Unaudited)			
Description	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Total**
Securities available-for-sale:				
Federal National Mortgage Association	$ —	$ 20,003	$ —	$ 20,003
Government National Mortgage Association	—	$ 205	—	205
Federal Home Loan Mortgage Corporation	—	14,575	—	14,575
Equity securities	26	—	—	26
Total	$ 26	$ 34,783	$ —	$ 34,809

	June 30, 2023			
Description	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Total**
Securities available-for-sale:				
Federal National Mortgage Association	$ —	$ 20,406	$ —	$ 20,406
Federal Home Loan Mortgage Corporation	—	15,670	—	15,670
Equity securities	24	—	—	24
Total	$ 24	$ 36,076	$ —	$ 36,100

The classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Other securities are measured at fair value using quoted market prices in an active market for identical assets and are classified as Level 1 in the hierarchy. The estimated fair values of equity securities are determined by obtaining quoted prices on nationally recognized exchanges (Level 1 inputs).

All debt securities are measured at fair value using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices and are classified as Level 2 in the hierarchy.

There were no transfers between levels within the fair value hierarchy during the six months ended December 31, 2023 and 2022.

Fair Value on a Nonrecurring Basis

The Company discloses fair value information about financial assets, whether or not recognized in the statements of financial condition, for which it is practicable to estimate that value. The fair value of financial assets that are not measured at fair value in the financial statements were based on the exit price notion. The following estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, the estimates below are not necessarily indicative of amounts that could be realized in the marketplace. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2023 and June 30, 2023 were as follows:

	December 31, 2023 (Unaudited)			
Description	**Total**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Financial Assets:				
Cash and cash equivalents	$ 90,238	$ 90,238	$ —	$ —
Securities held-to-maturity, at amortized cost	165,190	—	139,966	—
Restricted equity securities, at cost	1,274	—	1,274	—
Loans receivable, net	695,751	—	—	663,827
Accrued interest receivable	2,548	—	2,548	—
Financial Liabilities:				
Deposits	843,311	—	729,133	—
Borrowings	20,000	—	19,965	—

	June 30, 2023			
Description	**Total**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Financial Assets:				
Cash and cash equivalents	$ 42,449	$ 42,449	$ —	$ —
Securities held-to-maturity, at amortized cost	171,185	—	143,611	—
Restricted equity securities, at cost	726	—	726	—
Loans receivable, net	362,252	—	—	314,886
Accrued interest receivable	1,189	—	1,189	—
Financial Liabilities:				
Deposits	503,917	—	429,279	—
Borrowings	20,000	—	19,883	—

Loans

The fair values of performing loans was estimated by segregating the portfolio into its primary loan categories—owner occupied commercial real estate, other commercial real estate, multi-family, commercial and industrial, residential and consumer. These categories were further disaggregated based upon significant financial characteristics such as type of interest rate (fixed/variable). The Company discounts the contractual cash flows for each loan category using interest rates currently being offered for loans with similar terms to borrowers of similar quality and incorporates estimates of future loan prepayments.

Deposits

The fair value of deposits with no defined maturities (e.g. demand deposits, interest-bearing demand accounts, money market accounts and savings accounts) is the amount payable on demand of the liabilities at the reporting date (i.e. their carrying amounts). This approach to estimating fair value excludes the significant benefit that results from the low -cost funding provided by such deposit liabilities, as compared to alternative sources of funding. Deposits with stated maturities (time deposits) have been valued using the present value of cash flows discounted at rates approximating the current market for similar deposits.

Borrowed Funds

The fair value of federal funds purchased is equal to the amount borrowed. The fair value of FRB-NY advances represents contractual repayments discounted using interest rates currently available for borrowings with similar characteristics and remaining maturities. The discount rates used are representative of approximate rates currently offered on borrowings with similar characteristics and maturities.

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

Overview; Completed Stock Offering and Merger

Our principal business is to acquire deposits from individuals and businesses in the communities surrounding our offices and to use these deposits to fund loans.

As previously announced, the conversion of Somerset Savings Bank, SLA from the mutual to stock form of organization and related stock offering by the Company was completed on September 19, 2023. The Company's common stock began trading on the Nasdaq Capital Market under the trading symbol "SRBK" on September 20, 2023.

The Company sold 9,055,172 shares of its common stock at a price of $10.00 per share, which included 760,634 shares sold to Somerset Regal Bank's Employee Stock Ownership Plan. Additionally, the Company contributed 452,758 shares and $905,517 in cash to the Somerset Regal Charitable Foundation, Inc., a charitable foundation formed in connection with the conversion. Upon the completion of the conversion and offering, 9,507,930 shares of Company common stock were outstanding.

Promptly following the completion of the conversion and related stock offering, Regal Bancorp, Inc., a New Jersey corporation ("Regal Bancorp"), merged with and into the Company, with the Company as the surviving entity (the "Merger"). Immediately following the Merger, Regal Bank, a New Jersey chartered commercial bank headquartered in Livingston, New Jersey and the wholly-owned subsidiary of Regal Bancorp, merged with and into Somerset Bank, which converted to a commercial bank charter, and was renamed Somerset Regal Bank. In connection with the Merger, each outstanding share of Regal Bancorp common stock converted into the right to receive $23.00 in cash. The Merger was completed on September 19, 2023.

The financial information contained in this Form 10-Q as of and for the three and six months ended December 31, 2023 is for SR Bancorp and Somerset Regal Bank, unless indicated otherwise. However, due to the timing of the merger noted above, the income statement only includes operations of the combined entity since September 20, 2023. Financial information as of June 30, 2023 and for the three and six months ended December 31, 2022 is for Somerset Savings Bank, SLA, on a stand-alone basis.

Cautionary Note Regarding Forward-Looking Statements

This quarterly report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "assume," "plan," "seek," "expect," "will," "may," "should," "indicate," "would," "believe," "contemplate," "continue," "target" 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 our current beliefs and expectations 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. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this report.

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, including potential recessionary conditions;
- inflation and changes in the interest rate environment that reduce our margins and yields, the fair value of financial instruments or our level of loan originations, or increase the level of defaults, losses and prepayments on loans we have made and make;
- our ability to integrate the operations of Regal Bank into Somerset Regal Bank in a timely and cost efficient manner;
- our inability to successfully integrate acquired employees or operations or achieve the expected level of synergies or cost savings;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for credit losses;
- our ability to access cost-effective funding;
- changes in liquidity, including the size and composition of our deposit portfolio, including the percentage of uninsured deposits in the portfolio;
- 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 implement and change our business strategy;
- competition among depository and other financial institutions;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees, capital requirements and insurance premiums or changes in the fiscal or monetary policies of the U.S. Treasury or Board of Governors of the Federal Reserve System;
- changes in the quality or composition of our loan or investment portfolios;
- technological changes that may be more difficult or expensive than expected;
- the inability of third-party providers to perform as expected;
- a failure or breach of our operational or security systems or infrastructure, including cyberattacks;
- our ability to manage market risk, credit risk and operational risk;
- 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;
- the current or anticipated impact of military conflict, terrorism or other geopolitical event;
- a potential government shutdown;
- 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 a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Critical Accounting Policies

Certain of our accounting policies are important to the presentation of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances that could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers. Our significant accounting policies are discussed in detail in Note 1 to our Consolidated Financial Statements included elsewhere in this Form 10-Q.

The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an “emerging growth company” we plan to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, our consolidated financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

Management believes our most critical accounting policies, which involve the most complex or subjective decisions or assessments, are as follows: allowance for credit losses and the valuation of our deferred tax assets.

Allowance for Credit Losses: The allowance for credit losses (“allowance” or “ACL”), calculated in accordance with ASC 326, is deducted from the amortized cost basis of loans. The ACL represents an amount that, in management’s judgment, is adequate to absorb the lifetime expected credit losses that may be experienced on outstanding loans at the balance sheet date based on the evaluation of the size and current risk characteristics of the loan portfolio, past events, current conditions, reasonable and supportable forecasts of future economic conditions and prepayment experience. The allowance for credit losses is measured and recorded upon the initial recognition of a financial asset. Determination of the adequacy of the allowance is inherently complex and requires the use of significant and highly subjective estimates. Loans are charged-off against the allowance when deemed uncollectible by management. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Adjustments to the allowance are reported in our income statement as a component of the provision for credit losses.

In calculating the allowance for credit losses, loans are segmented into pools based upon similar characteristics and risk profiles. Common characteristics and risk profiles include the type of loan, underlying collateral, geographical similarity and historical or expected credit loss patterns. The Company applies two methodologies to estimate the allowance on its pooled portfolio segments: a cohort method based on common characteristics and the weighted average remaining life method. The models related to these methodologies utilize the Company’s historical default and loss experience adjusted for future economic forecasts. The reasonable and supportable forecast period represents a one-year economic outlook for the applicable economic variables.

In some cases, management may determine that an individual loan exhibits unique risk characteristics that differentiate the loan from other loans within our loan pools. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific allocations of the allowance for credit losses are determined by analyzing the borrower’s ability to repay amounts owed, collateral deficiencies, the relative risk rating of the loan and economic conditions affecting the borrower, among other things.

Management qualitatively adjusts model results for risk factors that are not considered within our modeling processes but are nonetheless relevant in assessing the expected credit losses within our loan pools. These qualitative factor adjustments may increase or decrease management's estimate of expected credit losses by a calculated percentage or amount based upon the estimated level of risk. The various risks that may be considered in making qualitative factor adjustments include, among other things: the impact of changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries; actual and expected changes in national, regional, and local economic and business conditions and developments that affect the collectability of the loan pools; changes in the composition and size of a loan or the loan pools and in the terms of the underlying loans; changes in the experience, ability, and depth of our lending management and staff; changes in volume and severity of past due and nonaccrual assets; changes to the quality of our internal loan review system; the existence, growth, and effect of any concentrations of credit; and other factors such as the regulatory, legal and environmental events. Management believes it uses relevant information available to make determinations about the allowance and that it has established the existing allowance in accordance with GAAP. However, the determination of the allowance requires significant judgment, and estimates of expected lifetime losses in the loan portfolio can vary significantly from the amounts actually observed. While management uses available information to recognize expected losses, future additions to the allowance may be necessary based on changes in the loans comprising the portfolio, changes in the current and forecasted economic conditions, changes to the interest rate environment and changes in the financial condition of borrowers.

Income Taxes: Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced by a valuation allowance for the amount of the deferred tax asset that is more likely than not to be realized.

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.

We recognize interest and/or penalties related to income tax matters in other operating expenses.

Comparison of Financial Condition at December 31, 2023 and June 30, 2023

Total Assets. Total assets increased $423.5 million, or 65.0%, to $1.07 billion at December 31, 2023 from $651.5 million at June 30, 2023. The increase was primarily the result of the acquisition of Regal Bancorp, and its wholly-owned subsidiary Regal Bank, on September 19, 2023, which had $428.0 million of assets at the time of the acquisition. The increase was also due to net proceeds of $86.9 million obtained from the completion of the Company's stock offering on the same date.

Cash and Cash Equivalents. Cash and cash equivalents increased $47.8 million, or 112.6%, to $90.2 million at December 31, 2023 from $42.4 million at June 30, 2023 due to $55.3 million of cash and cash equivalents acquired from the Regal Bancorp acquisition and the net proceeds of $86.9 million retained from the stock offering, partially offset by $69.5 million paid for the acquisition of Regal Bancorp.

Securities Available-for-Sale. Securities available-for-sale decreased $1.3 million, or 3.6% to $34.8 million at December 31, 2023 from $36.1 million at June 30, 2023. The Company acquired $21.3 million of available-for-sale securities from the Regal Bancorp acquisition. Following the completion of the Merger, the Company sold $19.2 million of its available-for-sale portfolio, which resulted in a gain of $17,000. The remainder of the decrease was due to maturities and repayment of securities.

Securities Held-to-Maturity. Securities held-to-maturity decreased $6.0 million, or 3.5%, to $165.2 million at December 31, 2023 from $171.2 million at June 30, 2023 as the maturities of securities during the period more than offset the acquisition of $2.6 million of held-to-maturity securities from the Regal Bancorp acquisition.

Loans. Loans receivable, net, increased $333.5 million, or 92.1%, to $695.8 million at December 31, 2023 from $362.3 million at June 30, 2023. The Company acquired $336.0 million of loans from the Regal Bancorp acquisition, primarily consisting of $320.7 million of multi-family and commercial real estate loans and $13.4 million of commercial and industrial loans. As a result of the acquisition, the composition of the loan portfolio changed significantly from June 30, 2023. The percentage of residential mortgage loans to total loans decreased from 97.8% at June 30, 2023 to 53.47% at December 31, 2023. Commercial loans (consisting of multi-family and commercial real estate loans and commercial and industrial loans) accounted for 44.83% of loans at December 31, 2023.

Bank Owned Life Insurance. Bank owned life insurance increased $7.9 million, or 27.4%, to $36.6 million at December 31, 2023 from $28.7 million at June 30, 2023. The increase was primarily the result of the Regal Bancorp acquisition, which had $7.5 million of bank owned life insurance at the time of acquisition.

Goodwill and Intangible Assets. The Company acquired goodwill and a core deposit premium intangible through the acquisition of Regal Bancorp. At the time of acquisition, goodwill was $20.5 million and the core deposit premium intangible asset was $9.1 million. No impairment loss was recognized on goodwill during thesix months ended December 31, 2023. The carrying amount of the core deposit premium intangible, net of accumulated amortization, was $8.5 million at December 31, 2023.

Total Liabilities. Total liabilities increased $347.6 million, or 65.7%, to $877.0 million at December 31, 2023 from $529.4 million at June 30, 2023. The increase was primarily the result of the Regal Bancorp acquisition, which had $379.0 million of liabilities at the time of the acquisition.

Deposits. Deposits increased $339.4 million, or 67.4%, to $843.3 million at December 31, 2023 from $503.9 million at June 30, 2023 due primarily to the $373.2 millionof deposits assumed from the Regal Bank acquisition. At the time of the acquisition, Regal Bank's deposits consisted of $90.8 million of noninterest-bearing deposits, $162.4 million in NOW, money market and savings accounts and $119.9 million of certificates of deposit.

Borrowings. We had $20.0 million of borrowings at December 31, 2023 and June 30, 2023, respectively.

Total Equity. Total equity increased $75.9 million, or 62.2%, to $198.0 million at December 31, 2023 from $122.1 million at June 30, 2023. The increase resulted from $84.0 million in stockholders' equity from the Regal Bancorp acquisition and the net proceeds from the Company's stock offering, other comprehensive income of $504,000, offset by a net loss of $8.9 million for the period.

Comparison of Operating Results for the Three Months Ended December 31, 2023 and 2022

General. Net income increased $1.2 million to $1.6 million for the three months ended December 31, 2023 from net income of $399,000 for the three months ended December 31, 2022. The increase was caused primarily by $1.4 million of net accretion income related to the fair value adjustments recorded in connection with the acquisition of Regal Bancorp. Excluding $32,000 of merger-related costs, offset by the aforementioned $1.4 million of net accretion income, net income would have been $605,000 for the three months ended December 31, 2023.

Interest Income. Interest income increased $8.4 million, or 215.6%, to $12.3 million for the three months ended December 31, 2023 from $3.9 million for the three months ended December 31, 2022. The increase resulted primarily from a $7.4 million, or 271.9%, increase in interest income on loans and a $1.0 million increase in interest income on other assets, offset by a $82,000, or 8.8%, decrease in interest income on securities. The average balance of loans increased $359.6 million, or 102.3%, to $711.2 million for the three months ended December 31, 2023, compared to $351.6 million for the three months ended December 31, 2022. In addition, the average yield on the loan portfolio increased 261 basis points to 5.73% for the three months ended December 31, 2023 from 3.12% for the three months ended December 31, 2022, which reflected the higher interest rate environment and the greater composition of commercial loans in the portfolio.

The average balance of securities decreased $26.6 million, or 11.6%, to $201.7 million for the three months ended December 31, 2023, compared to $228.3 million for the three months ended December 31, 2022. This decrease was offset by an increase of five basis points in the average yield of securities to 1.69% for the three months ended December 31, 2023 from 1.64% for the three months ended December 31, 2022.

The increase in the interest income on other assets was due to a 158 basis point increase in the average yield of other assets from 3.43% for the three months ended December 31, 2022 to 5.01% for the three months ended December 31, 2023 and a $74.1 million, or 289.2%, increase in the average balance of other assets from $25.6 million for the three months ended December 31, 2022 to $99.7 million for the three months ended December 31, 2023.

Interest Expense. Interest expense increased $2.8 million or 639.1%, to $3.3 million for the three months ended December 31, 2023 from $442,000 for the three months ended December 31, 2022. The increase in interest expense resulted primarily from an increase in interest expense on certificates of deposits. The average rate on certificates of deposit increased 279 basis points to 3.86% for the three months ended December 31, 2023 from 1.07% for the three months ended December 31, 2022 and the average balance of certificates of deposit increased $129.3 million, or 89.2%, to $274.1 million for the three months ended December 31, 2023 from $144.8 million for the three months ended December 31, 2022. This average balance of savings and club accounts increased $65.8 million, or 35.8%, to $249.2 million for the three months ended December 31, 2023 from $183.4 million for the three months ended December 31, 2022. The average balance of interest-bearing demand deposits increased $47.1 million, or 32.0%, to $194.1 million for the three months ended December 31, 2023 from $147.0 million for the three months ended December 31, 2022. The average rate on interest-bearing demand deposits increased 62 basis points to 0.69% for the three months ended December 31, 2023 from 0.07% for the three months ended December 31, 2022.

Net Interest Income. Net interest income increased $5.6 million, or 161.3%, to $9.0 million for the three months ended December 31, 2023 from $3.5 million for the three months ended December 31, 2022. Our net interest rate spread increased 88 basis points to 3.08% for the three months ended December 31, 2023 from 2.20% for the three months ended December 31, 2022 while our net interest margin increased 128 basis points to 3.56% for the three months ended December 31, 2023 from 2.28% for the three months ended December 31, 2022. Net interest-earning assets increased $145.0 million, or 111.4%, to $275.2 million for the three months ended December 31, 2023 from $130.2 million for the three months ended December 31, 2022. The increases in our net interest rate spread and our net interest margin were a result of both the acquisition of Regal Bancorp and the increasing yield on interest-earning assets outpacing the increasing cost of interest-bearing liabilities.

Average Balances and Yields

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense. Deferred loan fees totaled $134,000 and $197,000 for the three months ended December 31, 2023 and 2022, respectively.

	Three Months Ended December 31,					
	2023			2022		
	Average Outstanding Balance	Interest	Average Yield/Rate(1)	Average Outstanding Balance	Interest	Average Yield/Rate(1)
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ 711,154	$ 10,186	5.73 %	$ 351,550	$ 2,739	3.12 %
Securities	201,719	852	1.69 %	228,310	934	1.64 %
Other	99,737	1,248	5.01 %	25,626	220	3.43 %
Total interest-earning assets	1,012,610	12,286	4.85 %	605,486	3,893	2.57 %
Noninterest-earning assets	67,661			40,332		
Total assets	$ 1,080,271			$ 645,818		
Interest-bearing liabilities:						
Savings and club accounts	$ 249,167	45	0.07 %	$ 183,414	28	0.06 %
Interest-bearing demand accounts	194,102	335	0.69 %	147,009	25	0.07 %
Certificates of deposit	274,110	2,647	3.86 %	144,847	389	1.07 %
Total interest-bearing deposits	717,379	3,027	1.69 %	475,270	442	0.37 %
Federal Home Loan Bank advances	—	—	—	11	—	—
Other borrowings	20,011	240	4.80 %	22	—	—
Total interest-bearing liabilities	737,390	3,267	1.77 %	475,303	442	0.37 %
Noninterest-bearing deposits	132,867			42,368		
Other noninterest-bearing liabilities	18,969			12,612		
Total liabilities	889,226			530,283		
Equity	191,045			115,535		
Total liabilities and equity	$ 1,080,271			$ 645,818		
Net interest income		$ 9,019			$ 3,451	
Net interest rate spread (1)			3.08 %			2.20 %
Net interest-earning assets (2)	$ 275,220			$ 130,183		
Net interest margin (3)			3.56 %			2.28 %
Average interest-earning assets to interest-bearing liabilities	137.32 %			127.39 %		

(1)Annualized.

(2)Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(3)Net interest margin represents net interest income divided by average total interest-earning assets.

Rate/Volume Analysis

The following tables present the effects of changing rates and volumes on our net interest income for the periods indicated. 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 total column represents the sum of the prior columns. For purposes of these tables, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume. There were no out-of-period items or adjustments required to be excluded from the tables below.

	Three Months Ended December 31, 2023 vs. 2022 Increase (Decrease)		
	Volume	Rate	Total Change
		(In thousands)	
Interest-earning assets:			
Loans	$ 11,207	$ (3,760)	$ 7,447
Securities	(435)	353	(82)
Other	624	404	1,028
Total interest-earning assets	11,396	(3,003)	8,393
Interest-bearing liabilities:			
Savings and club accounts	40	(23)	17
Interest-bearing accounts	(604)	914	310
Certificates of deposit	1,388	870	2,258
Federal Home Loan Bank advances	—	—	—
Other borrowings	240	—	240
Total interest-bearing liabilities	1,064	1,761	2,825
Change in net interest income	$ 10,332	$ (4,764)	$ 5,568

Provision for Credit Losses. We establish provisions for credit losses, which are charged to operations in order to maintain the allowance for credit losses at a level we consider necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for credit losses, we consider, among other things, past and current loss experience, evaluations of real estate collateral, current and reasonably supportable economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan and the levels of delinquent loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for credit losses and make provisions for credit losses on a monthly basis.

Based on our evaluation of the above factors, we reduced our provision for credit losses by $107,000 for the three months ended December 31, 2023 compared to having no change in our provision for the three months ended December 31, 2022. The reduction to our provision for credit losses for the three months ended December 31, 2023 reflected that we had no charge-offs for the period, one classified loan in the amount of $145,000 at December 31, 2023and $145,000 of non-performing loans for the three months ended December 31, 2023. The absence of a provision for credit losses for the three months ended December 31, 2022 reflected that we had no charge-offs for the period, no classified loans at December 31, 2022 and only $145,000 of non-performing loans for the three months ended December 31, 2022. Our allowance for credit losses as a percentage of total loans was 0.74% at December 31, 2023 compared to 0.31% at December 31, 2022, reflecting the establishment of a general credit reserve for the acquired loan portfolio. To the best of our knowledge, we have provided for all losses that are both probable and reasonable to estimate at December 31, 2023 and December 31, 2022.

Noninterest Income. Noninterest income was as follows:

	Three Months Ended December 31,		Change	
	2023	2022	Amount	Percent
	(Dollars in thousands)			
Service charges and fees on deposit	$ 212	$ 182	$ 30	16.5%
Increase in cash surrender value of bank-owned life insurance	233	162	71	43.8%
Fees and service charges on loans	6	6	—	0.0%
Unrealized gain on equity securities	5	2	3	150.0%
Other	(91)	1	(92)	(9200.0)%
Total noninterest income	$ 365	$ 353	$ 12	3.4%

Noninterest income increased $12,000, or 3.4%, to $365,000 for the three months ended December 31, 2023 from $353,000 for the three months ended December 31, 2022, primarily as a result of an increase of $71,000 in the cash surrender value of bank-owned life insurance and an increase of $30,000 in service charges and fees on deposit accounts, offset by a decrease of $92,000 in other income.

Noninterest Expense. Noninterest expense was as follows:

	Three Months Ended December 31,		Change	
	2023	2022	Amount	Percent
	(Dollars in thousands)			
Salaries and employee benefits	$ 3,875	$ 2,022	$ 1,853	91.6%
Occupancy	665	175	490	280.0%
Furniture and equipment	228	132	96	72.7%
Data processing	634	297	337	113.5%
Advertising	72	57	15	26.3%
Federal deposit insurance premiums	145	39	106	271.8%
Directors fees	97	76	21	27.6%
Professional fees	564	253	311	122.9%
Insurance	108	43	65	151.2%
Telephone, postage and supplies	97	80	17	21.3%
Other expenses	991	155	836	539.4%
Total noninterest expense	$ 7,476	$ 3,329	$ 4,147	124.6%

Noninterest expense increased $4.1 million, or 124.6%, to $7.5 million for the three months ended December 31, 2023 from $3.3 million for the three months ended December 31, 2022, primarily as a result of an increase in salaries and employee benefits, occupancy expenses, data processing expenses, professional fees and other miscellaneous expenses, all related to the Merger.

Income Tax Expense. The provision for income taxes was $408,000 for the three months ended December 31, 2023, compared to a tax provision of $76,000 for the three months ended December 31, 2022. Our effective tax rate was 20.2% and 16.0% for the three months ended December 31, 2023 and 2022, respectively, reflecting lower state income tax liabilities due to the application of net operating loss carryforwards and a lower state income tax rate applied to the net investment income derived by Somerset Regal Bank’s investment company subsidiary.

Comparison of Operating Results for the Six Months Ended December 31, 2023 and 2022

General. Net income decreased $9.6 million to a loss of $8.9 million for the six months ended December 31, 2023 from net income of $753,000 for the six months ended December 31, 2022. The decrease was caused primarily by a $5.4 million charitable contribution to the Somerset Regal Charitable Foundation established in connection with its conversion to the stock form of organization, which was funded with 452,758 shares of SR Bancorp common stock and $906,000 in cash.

The decrease was also due to a $4.2 million provision for credit losses and $3.9 million in noninterest expenses incurred during the three months ended September 30, 2023 related to the acquisition of Regal Bancorp. These expenses were partially offset by $1.6 million of net accretion income related to the fair value adjustments recorded in connection with the Merger during the six months ended December 31, 2023. Excluding the merger-related expenses totaling $3.9 million, the $4.2 million provision for credit losses and the charitable contribution of $5.4 million on an after-tax basis, offset by the $1.6 million of net accretion income in connection with the Merger, the Company would have reported net income of $1.2 million for the six months ended December 31, 2023.

Interest Income. Interest income increased $10.2 million, or 134.3%, to $17.8 million for the six months ended December 31, 2023 from $7.6 million for the six months ended December 31, 2022. The increase resulted primarily from a $8.6 million, or 161.2%, increase in interest income on loans and a $1.8 million increase in interest income on other assets, offset by a $172,000, or 9.1%, decrease in interest income on securities. The average balance of loans increased $212.9 million, or 61.6%, to $558.4 million for the six months ended December 31, 2023, compared to $345.5 million for the six months ended December 31, 2022. In addition, the average yield on the loan portfolio increased 190 basis points to 4.99% for the six months ended December 31, 2023 from 3.09%for the six months ended December 31, 2022, which reflected the higher interest rate environment and the greater composition of commercial loans in the portfolio. The average balance of securities decreased $29.1 million, or 12.5%, to $203.8 million for the six months ended December 31, 2023, compared to $232.9 million for the six months ended December 31, 2022. This decrease was offset by an increase of six basis points in the average yield of securities to 1.68% for the six months ended December 31, 2023 from 1.62% for the six months ended December 31, 2022. The increase in the interest income on other assets was due to a 169 basis point increase in the average yield of other assets from 3.25% for the six months ended December 31, 2022 to 4.94% for the six months ended December 31, 2023 and a $64.2 million, or 267.6%, increase in the average balance of other assets from $24.0 million for the six months ended December 31, 2022 to $88.2 million for the six months ended December 31, 2023.

Interest Expense. Interest expense increased $3.9 million, or 537.3%, to $4.7 million for the six months ended December 31, 2023 from $732,000 for the six months ended December 31, 2022. The increase in interest expense resulted primarily from an increase in interest expense on certificates of deposit. The average rate on certificates of deposit increased 244 basis points to 3.31% for the six months ended December 31, 2023 from 0.87% for the six months ended December 31, 2022 and the average balance of certificates of deposit increased $81.8 million, or 56.9%, to $225.5 million for the six months ended December 31, 2023 from $143.7 million for the six months ended December 31, 2022. The average balance of savings and club accounts increased $23.6 million, or 12.7%, to $209.5 million for the six months ended December 31, 2023 from $185.9 million for the six months ended December 31, 2022. The average balance of interest-bearing demand deposits increased $21.1 million, or 14.4%, to $167.2 million for the six months ended December 31, 2023 from $146.2 million for the six months ended December 31, 2022. The average rate on interest-bearing demand deposits increased 39 basis points to 0.46% for the six months ended December 31, 2023 from 0.07% for the six months ended December 31, 2022.

Net Interest Income. Net interest income increased $6.3 million, or 91.4%, to $13.2 million for the six months ended December 31, 2023 from $6.9 million for the six months ended December 31, 2022. Our net interest rate spread increased 47 basis points to 2.69% for the six months ended December 31, 2023 from 2.22% for the six months ended December 31, 2022 while our net interest margin increased 82 basis points to 3.10% for the six months ended December 31, 2023 from 2.28% for the six months ended December 31, 2022. Net interest-earning assets increased $101.4 million, or 80.0%, to $228.0 million for the six months ended December 31, 2023 from $126.6 million for the six months ended December 31, 2022. The increases in our net interest rate spread and our net interest margin were a result of both the acquisition of Regal Bancorp and the increasing yield on interest-earning assets outpacing the increasing cost of interest-bearing liabilities.

Average Balances and Yields

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense. Deferred loan fees totaled $250,000 and $319,000 for the six months ended December 31, 2023 and 2022, respectively.

	Six Months Ended December 31,					
	2023			2022		
	Average Outstanding Balance	Interest	Average Yield/Rate(1)	Average Outstanding Balance	Interest	Average Yield/Rate(1)
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ 558,385	$ 13,941	4.99 %	$ 345,513	$ 5,338	3.09 %
Securities	203,793	1,710	1.68 %	232,912	1,882	1.62 %
Other	88,234	2,178	4.94 %	24,001	390	3.25 %
Total interest-earning assets	850,412	17,829	—	602,426	7,610	2.53 %
Noninterest-earning assets	62,707			44,807		
Total assets	$ 913,119			$ 647,233		
Interest-bearing liabilities:						
Savings and club accounts	$ 209,493	69	0.07 %	$ 185,895	57	0.06 %
Interest-bearing demand accounts	167,221	382	0.46 %	146,163	48	0.07 %
Certificates of deposit	225,529	3,734	3.31 %	143,708	627	0.87 %
Total interest-bearing deposits	602,243	4,185	1.39 %	475,766	732	0.31 %
Federal Home Loan Bank advances	5	—	—	5	—	4.27 %
Other borrowings	20,153	480	4.76 %	11	—	2.04 %
Total interest-bearing liabilities	622,402	4,665	1.50 %	475,782	732	0.31 %
Noninterest-bearing deposits	106,154			43,296		
Other noninterest-bearing liabilities	17,479			10,447		
Total liabilities	746,035			529,525		
Equity	167,084			117,708		
Total liabilities and equity	$ 913,119			$ 647,233		
Net interest income		$ 13,164			$ 6,878	
Net interest rate spread (1)			2.69 %			2.22 %
Net interest-earning assets (2)	$ 228,010			$ 126,644		
Net interest margin (3)			3.10 %			2.28 %
Average interest-earning assets to interest-bearing liabilities	136.63 %			126.62 %		

(1)Annualized.

(2)Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(3)Net interest margin represents net interest income divided by average total interest-earning assets.

Rate/Volume Analysis

The following tables present the effects of changing rates and volumes on our net interest income for the periods indicated. 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 total column represents the sum of the prior columns. For purposes of these tables, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume. There were no out-of-period items or adjustments required to be excluded from the tables below.

	Six Months Ended December 31, 2023 vs. 2022 Increase (Decrease)		
	Volume	Rate	Total Change
		(In thousands)	
Interest-earning assets:			
Loans	6,578	2,025	8,603
Securities	(472)	300	(172)
Other	1,383	405	1,788
Total interest-earning assets	7,489	2,730	10,219
Interest-bearing liabilities:			
Savings and club accounts	14	(2)	12
Interest-bearing accounts	(231)	565	334
Certificates of deposit	712	2,395	3,107
Federal Home Loan Bank advances	0	—	—
Other borrowings	240	240	480
Total interest-bearing liabilities	735	3,198	3,933
Change in net interest income	6,754	(468)	6,286

Provision for Credit Losses. We recorded a provision for credit losses of $4.1 million in connection with the Merger for the six months ended December 31, 2023, whereas we recorded no provision for the six months ended December 31, 2022. The absence of a provision for credit losses for the six months ended December 31, 2022 reflects that we had no charge-offs for the period, no classified loans at December 31, 2022 and only $145,000 of non-performing loans for the six months ended December 31, 2022. Our allowance for credit losses as a percentage of total loans was 0.74% at December 31, 2023 compared to 0.31% at December 31, 2022, reflecting the establishment of a general credit reserve for the acquired loan portfolio. To the best of our knowledge, we have provided for all losses that are both probable and reasonable to estimate at December 31, 2023 and December 31, 2022.

Noninterest Income. Noninterest income was as follows:

	Six Months Ended December 31,		Change	
	2023	2022	Amount	Percent
		(Dollars in thousands)		
Service charges and fees on deposit	$ 383	$ 345	$ 38	11.0%
Increase in cash surrender value of bank-owned life insurance	408	328	80	24.4%
Fees and service charges on loans	11	11	—	—
Unrealized gain on equity securities	2	2	—	—
Other	74	15	59	393.3%
Total noninterest income	$ 878	$ 701	$ 177	25.2%

Noninterest income increased $177,000, or 25.2%, to $878,000 for the six months ended December 31, 2023 from $701,000 for the six months ended December 31, 2022, as a result of an increase of $80,000 in the cash surrender value of bank-owned life insurance, an increase of $38,000 in service charges and fees on deposit accounts and an increase of $59,000 in other noninterest income.

Noninterest Expense. Noninterest expense was as follows:

	Six Months Ended December 31, 2023	Six Months Ended December 31, 2022	Change Amount	Change Percent
	(Dollars in thousands)			
Salaries and employee benefits	$ 8,419	$ 4,006	$ 4,413	110.2%
Occupancy	902	362	540	149.2%
Furniture and equipment	389	270	119	44.1%
Data processing	1,441	598	843	141.0%
Advertising	129	108	21	19.4%
Federal deposit insurance premiums	228	78	150	192.3%
Directors fees	185	177	8	4.5%
Professional fees	1,418	556	862	155.0%
Insurance	224	85	139	163.5%
Telephone, postage and supplies	181	156	25	16.0%
Other expenses	6,897	309	6,588	2132.0%
Total noninterest expense	$ 20,413	$ 6,705	$ 13,708	204.4%

Noninterest expense increased $13.7 million, or 204.4%, to $20.4 million for the six months ended December 31, 2023 from $6.7 million for the six months ended December 31, 2022, primarily as a result of a $5.4 million charitable contribution, captured within other expenses, as the Company established the Somerset Regal Charitable Foundation in connection with its conversion to the stock form of organization and funded it with 452,758 shares of SR Bancorp common stock and $906,000 in cash. The increase was also due to an increase in salaries and employee benefits for change in control payments totaling $2.6 million related to the Merger, an increase in professional fees for merger expenses totaling $760,000, an increase in data processing expenses primarily due to the payment of a $414,000 early termination fee related to the acquisition of Regal Bancorp, and additional miscellaneous expenses related to the Merger totaling $72,000.

Income Tax Expense. The benefit for income taxes was $1.5 million for the six months ended December 31, 2023, compared to a tax expense of $121,000 for the six months ended December 31, 2022. Our effective tax rate was 14.7%and 13.8% for the six months ended December 31, 2023 and 2022, respectively, reflecting lower state income tax liabilities due to the application of net operating loss carryforwards and a lower state income tax rate applied to the net investment income derived by Somerset Regal Bank’s investment company subsidiary.

Market Risk

General. Our most significant form of market risk is interest rate risk because, as a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our financial condition and results of operations to changes in market interest rates. Our ALCO/Investment Committee, which consists of members of management, is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the policy and guidelines approved by our Board of Directors. We currently utilize a third-party modeling program, prepared on a quarterly basis, to evaluate our sensitivity to changing interest rates, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the 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:

•growing target deposit accounts;

- rebalancing our loan portfolio through the Merger to include higher-yielding, shorter-term commercial real estate and C&I loans;
- utilizing our investment securities portfolio as part of our balance sheet asset and liability and interest rate risk management strategy to reduce the impact of movements in interest rates on net interest income and economic value of equity, which can create temporary valuation adjustments to equity in Accumulated Other Comprehensive Income; and
- continuing to price our one-to-four family residential real estate loan products in a way that encourages borrowers to select our adjustable-rate loans as opposed to longer-term, fixed-rate loans.

By following these strategies, we believe that we are better positioned to react to increases and decreases in market interest rates.

We generally do not engage in hedging activities, such as engaging in futures or options, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage-backed securities.

Economic Value of Equity. We compute amounts by which the net present value of our cash flow from assets, liabilities and off-balance sheet items (economic value of equity "EVE") would change in the event of a range of assumed changes in market interest rates. We measure potential change in our EVE through the use of a financial model. This model uses a discounted cash flow analysis and an option-based pricing approach to measure the interest rate sensitivity of net portfolio value. Historically, the model estimated the economic value of each type of asset, liability and off-balance sheet contract under the assumption that the United States Treasury yield curve increases or decreases instantaneously by 100 to 300 basis points in 100 basis point increments. However, given the current level of market interest rates, an EVE calculation for an interest rate decrease of greater than 100 basis points has not been prepared. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100-basis point increase in the "Basis Point Change in Interest Rates" column below.

The table below sets forth, as of December 31, 2023, the calculation of the estimated changes in our EVE that would result from the designated immediate changes in the United States Treasury yield curve.

At December 31, 2023			
Change in Interest Rates (basis points)[1]	Estimated EVE[2]	Estimated Increase (Decrease) in EVE Amount	Estimated Increase (Decrease) in EVE Percent
	(Dollars in thousands)		
+400	$ 127,360	$ (77,536)	(37.84)%
+300	145,514	(59,382)	(28.98)%
+200	168,617	(36,279)	(17.71)%
+100	189,599	(15,297)	(7.47)%
—	204,896	—	—
-100	215,006	10,110	4.93%
-200	220,598	15,702	7.66%

(1)Assumes an immediate uniform change in interest rates at all maturities.

(2)EVE is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

The table above indicates that at December 31, 2023, in the event of an instantaneous parallel 200 basis point increase in interest rates, we would experience a 17.71% decrease in EVE, and in the event of an instantaneous 200 basis point decrease in interest rates, we would experience a 7.66% increase in EVE.

Change in Net Interest Income. The following table sets forth, at December 31, 2023, the calculation of the estimated changes in our net interest income ("NII") that would result from the designated immediate changes in the United States Treasury yield curve.

	At December 31, 2023			
Change in Interest Rates (basis points)[(1)]	**Net Interest Income Year 1 Forecast**	**Year 1 Change From Level**	**Net Interest Income Year 2 Forecast**	**Year 2 Change From Level**
+400	$ 22,512	$ (5,212)	$ 24,640	$ (5,835)
+300	23,783	(3,940)	26,059	(4,417)
+200	25,896	(1,828)	29,058	(1,418)
+100	28,248	524	31,360	884
—	27,724	—	30,476	—
-100	26,544	(1,180)	28,209	(2,266)
-200	25,284	(2,439)	25,672	(4,804)

The table above indicates that at December 31, 2023, we would have experienced an 6.59% decrease in NII in the event of an instantaneous parallel 200 basis point increase in market interest rates and an 8.80% decrease in NII in the event of an instantaneous 200 basis point decrease in market interest rates.

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 is the ability to fund assets and meet obligations as they come due. Our primary sources of funds consist of deposit inflows, loan repayments, and repayments from investment securities. In addition, we have the ability to borrow in the wholesale markets or from the Federal Home Loan Bank of New York. 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. Our Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We seek to maintain a ratio of liquid assets (including cash and federal funds sold) as a percentage of total deposits ranging between 4% and 30%. At December 31, 2023, this ratio was 10.7%. We believe that we have sufficient sources of liquidity to satisfy our short- and long-term liquidity needs as of December 31, 2023.

We regularly adjust our investments in liquid assets based upon our assessment of:

(i)expected loan demand;

(ii)expected deposit flows;

(iii)yields available on interest-earning deposits and securities; and

(iv)the objectives of our asset/liability management program.

Excess cash is 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 depend on our operating, financing and investing activities during any given period. At December 31, 2023, cash and cash equivalents totaled

$90.2 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $34.8 million at December 31, 2023.

At December 31, 2023, we had $3.5 million in outstanding loan commitments and $35.5 million of unused lines of credit. Certificates of deposit due within one year of December 31, 2023 totaled $235.9 million, or 28.0% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including loan sales, other deposit products, including replacement certificates of deposit, securities sold under agreements to repurchase (repurchase agreements) or advances from the Federal Home Loan Bank of New York and other borrowing sources. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or after December 31, 2023. We believe, however, based on past experience that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our Consolidated Financial Statements.

Our primary investing activities are originating and purchasing loans and purchasing mortgage-backed securities. During the six months ended December 31, 2023, we originated $21.6 million of loans and purchased $22.4 million. We had no purchases of securities classified as held to maturity during the six months ended December 31, 2023.

Financing activities consist primarily of activity in deposit accounts. Deposits increased $339.4 million, or 67.4%, to $843.3 million at December 31, 2023 from $503.9 million at June 30, 2023. At the time of the acquisition, Regal Bank's deposits consisted of $90.8 million of noninterest-bearing deposits, $162.4 million in NOW, money market and savings accounts and $119.9 million of certificates of deposit. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors.

We had a $20.0 million outstanding borrowing with the Federal Reserve Bank at December 31, 2023 and June 30, 2023.

Somerset Regal Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2023 Somerset Regal Bank exceeded all regulatory capital requirements. Somerset Regal Bank is considered "well capitalized" under regulatory guidelines. See "*Regulation and Supervision—Federal Banking Regulation—Capital Requirements*" and Note 12 of the Notes to the Consolidated Financial Statements.

The net proceeds from the offering significantly increase our liquidity and capital resources. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering are used for general corporate purposes, including the funding of loans. Our financial condition and results of operations will be enhanced by the net proceeds from the offering, resulting in increased net interest-earning assets and net interest income. However, due to the increase in equity resulting from the net proceeds raised in the offering, our return on equity will be adversely affected following the offering until such excess funds can be deployed.

Recent Accounting Pronouncements

For a discussion of the impact of recent accounting pronouncements, see Note 1 of the Notes to the Consolidated Financial Statements.

Impact of Inflation and Changing Prices

Our consolidated financial statements and related notes have been prepared in accordance with generally accepted accounting principles ("GAAP"). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on our performance than the effects of inflation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For information regarding material risk, see “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operation—Market Risk.”

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Management is responsible for the disclosure controls and procedures of the Company. Disclosure controls and procedures are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods required by the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be so disclosed by an issuer is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer), of the effectiveness of the design and operation of the Corporation’s disclosure controls and procedures. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of December 31, 2023.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f)) during the quarter ended December 31, 2023 that materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. 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 1A. Risk Factors.

There have been no material changes in risk factors applicable to the Company from those disclosed in “Risk Factors” in Item 1A of the Company’s Annual Report on Form 10-K for the year ended June 30, 2023.

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

None

Item 3. Defaults Upon Senior Securities.

Not applicable

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

None

Item 6. Exhibits.

Exhibit Number	Description
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SR Bancorp, Inc.	
Date: February 14, 2024	By:	/s/ William P. Taylor William P. Taylor Chief Executive Officer
Date: February 14, 2024	By:	/s/ Harris M. Faqueri Harris M. Faqueri Vice President and Chief Financial Officer

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William P. Taylor, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of SR Bancorp, Inc.;

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

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

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

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

(b)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

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

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

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

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

Date: February 14, 2024	By:	/s/ William P. Taylor William P. Taylor Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Harris M. Faqueri, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of SR Bancorp, Inc.;

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

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

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

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

(b)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

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

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

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

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

Date: February 14, 2024	By:	/s/ Harris M. Faqueri Harris M. Faqueri Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of SR Bancorp, Inc. (the “Company”) on Form 10-Q for the period ending December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: February 14, 2024	By:	/s/ William P. Taylor William P. Taylor Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of SR Bancorp, Inc. (the “Company”) on Form 10-Q for the period ending December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: February 14, 2024

By: /s/ Harris M. Faqueri
Harris M. Faqueri
Vice President and Chief Financial Officer